

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-33169



Creative Realities, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota

State or Other Jurisdiction of
Incorporation or Organization

41-1967918

I.R.S. Employer
Identification No.

13100 Magisterial Drive, Suite 100, Louisville KY

Address of Principal Executive Offices

40223

Zip Code

(502) 791-8800

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	CREX	The Nasdaq Stock Market LLC
Warrants to purchase Common Stock	CREXW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 11, 2020, the registrant had 10,924,287 shares of common stock outstanding.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

CREATIVE REALITIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 855	\$ 2,534
Accounts receivable, net of allowance of \$1,318 and \$617, respectively	3,468	4,663
Unbilled receivables	57	86
Work-in-process and inventories, net of reserve of \$108 and \$134, respectively	2,662	379
Prepaid expenses and other current assets	419	320
Total current assets	<u>7,461</u>	<u>7,982</u>
Operating lease right-of-use assets	730	1,728
Property and equipment, including depreciable software, net	1,454	1,553
Intangibles, net	3,929	4,407
Goodwill	7,525	18,171
Other assets	2	135
TOTAL ASSETS	<u>\$ 21,101</u>	<u>\$ 33,976</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term seller note payable	\$ 1,637	\$ 1,637
Short-term related party convertible loans payable, at fair value	2,825	2,000
Short-term related party loans payable, net of \$253 and \$0 discount, respectively	\$ 4,244	-
Accounts payable	1,948	1,849
Accrued expenses	2,087	2,751
Deferred revenues	1,016	772
Customer deposits	875	755
Current maturities of operating leases	345	646
Current maturities of finance leases	7	21
Total current liabilities	<u>14,984</u>	<u>10,431</u>
Long-term Paycheck Protection Program loans payable	1,552	-
Long-term related party loans payable, net of \$0 and \$507 discount, respectively	-	3,757
Long-term obligations under operating leases	385	1,100
Long-term obligations under finance leases	1	-
Deferred tax and other long-term liabilities	-	180
TOTAL LIABILITIES	<u>16,922</u>	<u>15,468</u>
SHAREHOLDERS' EQUITY		
Common stock, \$0.01 par value, 200,000 shares authorized; 10,443 and 9,775 shares issued and outstanding, respectively	104	98
Additional paid-in capital	55,944	54,052
Accumulated deficit	(51,869)	(35,642)
Total shareholders' equity	<u>4,179</u>	<u>18,508</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 21,101</u>	<u>\$ 33,976</u>

See accompanying notes to condensed consolidated financial statements

CREATIVE REALITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2020	2019	2020	2019
Sales				
Hardware	\$ 2,850	\$ 2,034	\$ 5,818	\$ 5,329
Services and other	2,257	4,689	6,649	20,192
Total sales	<u>5,107</u>	<u>6,723</u>	<u>12,467</u>	<u>25,521</u>
Cost of sales				
Hardware	1,882	1,484	4,161	4,200
Services and other	781	1,933	2,438	10,106
Total cost of sales	<u>2,663</u>	<u>3,417</u>	<u>6,599</u>	<u>14,306</u>
Gross profit	2,444	3,306	5,868	11,215
Operating expenses:				
Sales and marketing expenses	411	523	1,209	1,830
Research and development expenses	229	306	787	1,073
General and administrative expenses	1,849	2,113	7,170	6,824
Depreciation and amortization expense	377	278	1,123	872
Goodwill impairment	-	-	10,646	-
Total operating expenses	<u>2,866</u>	<u>3,220</u>	<u>20,935</u>	<u>10,599</u>
Operating income/(loss)	(422)	86	(15,067)	616
Other income/(expenses):				
Interest expense	(265)	(199)	(752)	(616)
Change in fair value of warrant liability	-	-	-	21
Change in fair value of Special Loan	-	-	(702)	-
Gain on settlement of obligations	114	406	155	419
Loss on disposal of assets	(13)	-	(13)	-
Total other income/(expense)	<u>(164)</u>	<u>207</u>	<u>(1,312)</u>	<u>(176)</u>
Income/(loss) before income taxes	(586)	293	(16,379)	440
Benefit from / (provision for) income taxes	1	(51)	152	35
Net income/(loss)	<u>\$ (585)</u>	<u>242</u>	<u>(16,227)</u>	<u>475</u>
Basic earnings/(loss) per common share	<u>\$ (0.06)</u>	<u>\$ 0.02</u>	<u>\$ (1.63)</u>	<u>\$ 0.05</u>
Diluted earnings/(loss) per common share	<u>\$ (0.06)</u>	<u>\$ 0.02</u>	<u>\$ (1.63)</u>	<u>\$ 0.05</u>
Weighted average shares outstanding - basic	<u>10,312</u>	<u>9,756</u>	<u>9,977</u>	<u>9,739</u>
Weighted average shares outstanding - diluted	<u>10,312</u>	<u>9,756</u>	<u>9,977</u>	<u>9,739</u>

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
Operating Activities:		
Net income/(loss)	\$ (16,227)	\$ 475
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	1,123	847
Amortization of debt discount	254	419
Stock-based compensation	442	395
Change in warrant liability	-	(21)
Change in fair value of Special Loan	702	
Deferred tax benefit	(175)	(29)
Allowance for doubtful accounts	701	194
Increase in notes due to in-kind interest	356	-
Loss on goodwill impairment	10,646	-
Loss on disposal of assets	13	-
Gain on settlement of obligations	(135)	(419)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled revenues	523	1,739
Inventories	(2,283)	(212)
Prepaid expenses and other current assets	(99)	1,295
Operating lease right of use asset, net	411	409
Other assets	133	23
Accounts payable	214	(235)
Deferred revenue	244	(5,527)
Accrued expenses	(664)	2,491
Deposits	120	(990)
Operating lease liabilities	(409)	(395)
Other liabilities	-	(3)
Net cash provided by/(used in) operating activities	<u>(4,110)</u>	<u>456</u>
Investing activities		
Purchases/additions of property and equipment and software development	(559)	(652)
Proceeds from net working capital settlement	-	210
Net cash used in investing activities	<u>(559)</u>	<u>(442)</u>
Financing activities		
Principal payments on finance leases	(18)	-
Proceeds from Payroll Protection Program loan	1,552	-
Proceeds from issuance of common stock via at-the-market offering	1,335	30
Proceeds from warrant holder exercise of common stock	121	-
Repayment of seller note	-	(498)
Other financing activities, net, including principal payments on finance leases	-	(24)
Net cash provided by / (used in) financing activities	<u>2,990</u>	<u>(492)</u>
Increase/(decrease) in Cash and Cash Equivalents	<u>(1,679)</u>	<u>(478)</u>
Cash and Cash Equivalents, beginning of period	<u>2,534</u>	<u>2,718</u>
Cash and Cash Equivalents, end of period	<u>\$ 855</u>	<u>\$ 2,240</u>

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except shares)
(Unaudited)

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
<i>Three months ended September 30, 2020</i>					
Balance as of June 30, 2020	9,854,623	\$ 98	\$ 54,342	\$ (51,284)	\$ 3,156
Shares issued to directors as compensation	10,044	-	25	-	25
Stock-based compensation	-	-	248	-	248
Shares issued through at-the-market offering	578,183	6	1,329	-	1,335
Net loss	-	-	-	(585)	(585)
Balance as of September 30, 2020	10,442,850	\$ 104	\$ 55,944	\$ (51,869)	\$ 4,179

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
<i>Nine months ended September 30, 2020</i>					
Balance as of December 31, 2019	9,774,546	\$ 98	\$ 54,052	\$ (35,642)	\$ 18,508
Shares issued to directors as compensation	62,521	-	74	-	74
Stock-based compensation	-	-	368	-	368
Shares issued through at-the-market offering	578,183	6	1,329	-	1,335
Exercise of warrants	27,600	-	121	-	121
Net loss	-	-	-	(16,227)	(16,227)
Balance as of September 30, 2020	10,442,850	\$ 104	\$ 55,944	\$ (51,869)	\$ 4,179

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
<i>Three months ended September 30, 2019</i>					
Balance as of June 30, 2019	9,742,786	\$ 97	\$ 53,937	\$ (36,447)	\$ 17,587
Shares issued to directors as compensation	13,590	1	31	-	32
Stock-based compensation	-	-	31	-	31
Net income	-	-	-	242	242
Balance as of September 30, 2019	9,756,376	\$ 98	\$ 53,999	\$ (36,205)	\$ 17,892

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
<i>Nine months ended September 30, 2019</i>					
Balance as of December 31, 2018	9,724,826	\$ 97	\$ 53,575	\$ (36,851)	\$ 16,821
Adoption of ASU 2016-02	-	-	-	171	171
Shares issued for services	17,960	-	30	-	30
Shares issued to directors as compensation	13,590	1	31	-	32
Stock-based compensation	-	-	113	-	113
Vesting of performance shares previously granted to CEO	-	-	250	-	250
Net income	-	-	-	475	475
Balance as of September 30, 2019	9,756,376	\$ 98	\$ 53,999	\$ (36,205)	\$ 17,892

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(all currency in thousands, except per share amounts)
(unaudited)

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

Unless the context otherwise indicates, references in these Notes to the accompanying condensed consolidated financial statements to “we,” “us,” “our” and “the Company” refer to Creative Realities, Inc. and its subsidiaries.

Nature of the Company’s Business

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology and solutions to retail companies, individual retail brands, enterprises and organizations throughout the United States and in certain international markets. The Company has expertise in a broad range of existing and emerging digital marketing technologies, as well as the related media management and distribution software platforms and networks, device management, product management, customized software service layers, systems, experiences, workflows, and integrated solutions. Our technology and solutions include: digital merchandising systems and omni-channel customer engagement systems, interactive digital shopping assistants, advisors and kiosks, and other interactive marketing technologies such as mobile, social media, point-of-sale transactions, beaconing and web-based media that enable our customers to transform how they engage with consumers. We have expertise in a broad range of existing and emerging digital marketing technologies, as well as the following related aspects of our business: content, network management, and connected device software and firmware platforms; customized software service layers; hardware platforms; digital media workflows; and proprietary processes and automation tools.

On November 20, 2018, we closed on our acquisition of Allure Global Solutions, Inc. (the “Allure Acquisition”). While the Allure Acquisition expanded our operations, geographical footprint and customer base and also enhanced our current product offerings, the core business of Allure is consistent with the existing operations of Creative Realities, Inc. and as a result of the Allure Acquisition we did not add different operating activities to our business.

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation, and Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries, Creative Realities, LLC, a Delaware limited liability company, and ConeXus World Global, LLC, a Kentucky limited liability company, are effectively dormant.

Liquidity and Financial Condition

The accompanying Condensed Consolidated Financial Statements have been prepared on the basis of the realization of assets and the satisfaction of liabilities and commitments in the normal course of business and do not include any adjustments to the recoverability and classifications of recorded assets and liabilities as a result of uncertainties.

We produced net income for the year ended December 31, 2019 but incurred a net loss for the year ended December 31, 2018 and had negative cash flows from operating activities for both the year-ended December 31, 2019 and the nine months ended September 30, 2020.

For the three and nine months ended September 30, 2020 we incurred net losses of \$585 and \$16,227, respectively. As of September 30, 2020, we had cash and cash equivalents of \$855 and working capital deficit of \$7,523. Excluding debt classified as current liabilities based on having maturity dates within twelve months of the Condensed Consolidated Balance Sheet date, we have a working capital surplus of \$1,183 as of September 30, 2020.

While our outlook for the digital signage industry over the long term remains strong, we have experienced rapid and immediate deterioration in our short term core digital signage business as a result of the COVID-19 pandemic, generating increased uncertainty across our customer base in many of our key vertical markets. The elective and forced closures of businesses across the United States and Canada has resulted in reduced demand for our services, which primarily assist business in engaging with their end customers in a physical space through digital technology. The elimination and minimizing of public gatherings have materially impacted demand for products and services in our movie theater, sports arena and large entertainment markets. These conditions have resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows. The effective halting of pending and anticipated projects caused our projected incoming cash to be delayed, and consequently cash flows have slowed, including a slowdown in payments by customers for previously completed projects, which has further limited cash collections. We have implemented various cost cutting measures, including slowing our payments of accounts payable and accrued liabilities, negotiated extensions for certain currently and past due payments to key vendors, and implemented compensation reductions for most personnel retained following the reduction-in-force activities taken by the Company in mid-March 2020.

On April 28, 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the Thermal Mirror with our partner, InReality, LLC (“InReality”), for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. Although we have experience in providing customers digital integration solutions, our launch of the Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality. The product also uses hardware and technologies that have not been used with our other customers. Although we believe this product and our launch will be successful, there are a number of risks involved in such launch, including investing significant time and resources in the launch, which may ultimately not be successful. While market response has been encouraging, we remain in the early stages of this product launch as of the date of this report, as the hardware and software solution, in addition to the related services, continue to evolve based on customer feedback and requests. Revenue recognized from the sale of hardware and services associated with the Thermal Mirror product, including software activation, configuration, and software-as-a-service (“SaaS”) revenues generated via software subscriptions to the platform, were approximately \$2,033 and \$2,560 for the three and nine months ended September 30, 2020, respectively.

On June 19, 2020, the Company entered into a Sales Agreement (the “Agreement”) with Roth Capital Partners, LLC (“Roth”) under which the Company may offer and sell, from time to time at its sole discretion, shares of its common stock, par value \$0.01 per share (the “Common Stock”), having an aggregate offering price of up to \$8,000,000 through Roth as the Company’s sales agent. Roth may sell the Common Stock by any method permitted by law deemed to be an “at the market offering” as defined in Rule 415 of the Securities Act of 1933, as amended. Subject to the terms of the Agreement, Roth will use its commercially reasonable efforts to sell the Common Stock from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company or Roth may suspend the offering of the Common Stock being made through Roth under the Agreement upon proper notice to the other party. The Company will pay Roth a commission of 3.0% of the gross sales proceeds of any Common Stock sold through Roth under the Agreement, and also has provided Roth with customary indemnification rights. The sale of Common Stock under the Agreement is registered on a Form S-3 registration statement (Registration No. 333-238275) and related prospectus supplement filed with the SEC on June 19, 2020, and pursuant to the “baby shelf” rules that apply to such registration statement, we cannot sell our common stock in a public primary offering (including under the Agreement) with a value exceeding more than one-third of our public float in any 12 calendar month period so long as our public float remains below \$75.0 million.

The Company is not obligated to make any sales of Common Stock under the Agreement. The offering of shares of Common Stock pursuant to the Agreement will terminate upon the earlier of (i) the sale of all Common Stock subject to the Agreement or (ii) termination of the Agreement in accordance with its terms.

Through September 30, 2020, the Company received gross proceeds under the Agreement of \$1,336 from the issuance of 578,183 shares of our common stock, and paid an aggregate of \$38 to Roth in commissions, yielding net proceeds of \$1,298 after commissions and net proceeds of \$1,158 after other offering-related expenses.

Through November 11, 2020, the Company received gross proceeds under the Agreement of \$1,831 from the issuance of 1,034,068 shares of our common stock, and paid an aggregate of \$53 to Roth in commissions, yielding net proceeds of \$1,778 after commissions, and net proceeds of \$1,636 after other offering-related expenses.

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the “Promissory Note”), which provided for an unsecured loan of \$1,552 pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note has a term of two years with a 1% per annum interest rate. While the Promissory Note currently has a two-year term, the amended law permits the Company to request a five-year maturity from Old National Bank. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days. Forgiveness of the Promissory Note will be determined in accordance with the provisions of the CARES Act and applicable regulations. Any principal and interest amount outstanding after the determination of amounts forgiven will be repaid on a monthly basis. The Company is in process of finalizing their calculation of amounts forgivable in accordance with guidance issued by the Small Business Administration and anticipates applying for forgiveness during the fourth quarter of 2020. No assurance is provided that we will be able to obtain forgiveness of the Promissory Note in whole or in part.

On November 6, 2019, Slipstream Communications, LLC (“Slipstream”) extended the maturity date of our term loan and revolver loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of our term loan and revolver loan with the Secured Disbursed Escrow Promissory Note.

On December 30, 2019, we entered into the Secured Convertible Special Loan Promissory Note (“Special Loan”) as part of the Seventh Amendment of the Loan and Security Agreement with Slipstream, under which we obtained \$2,000, with interest thereon at 8% per annum payable 6% in cash and 2% via the issuance of paid-in-kind (“SLPIK”) interest, provided however that upon occurrence of an event of default the interest rate shall automatically be increased by 6% per annum payable in cash. The entry into the Seventh Amendment adjusted the interest rate on the Company’s Term Loan and Revolving Loan to 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan exceeds \$4,100 then the Loan Rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional PIK.

Upon the earlier to occur of an Event of Default or October 1, 2020, if any of the principal amount of the Special Loan is then outstanding, the principal and accrued but unpaid interest of the Special Loan and the outstanding SLPIK shall be automatically converted into shares of a new series of Senior Convertible Preferred Stock of CRI (“New Preferred”) having an Appraised Value equal to three times the then outstanding principal amount and accrued but unpaid interest of the Special Loan and the outstanding SLPIK and having the following terms and conditions, as reasonably determined by CRI and the Lender, the New Preferred shall:

- be the most senior equity security of CRI, including with respect to the payment of dividends and other distributions;
- be on substantially the same terms and conditions as CRI’s Series A-1 6% Convertible Preferred Stock as set forth in its Certificate of Designation immediately before the same was cancelled pursuant to a Certificate of Cancellation dated as of March 13, 2019;
- not be subject to a right of redemption upon the part of a holder thereof;
- accrue and pay quarterly dividends at the rate of twelve percent (12%) per annum which shall be payable in cash;
- have a Stated Value that is an amount mutually agreed by CRI and the Lender at the time of issuance;
- Conversion Price shall be an amount equal to 80% of the average for the 30-day period ending two days prior to the required conversion date of the daily average of the range of CRI’s common stock (calculated pursuant to information on The Wall Street Journal Online Edition), subject to appropriate adjustments; and
- neither section 6(e) of the Series A-1 Certificate of Designation nor any similar provision shall apply to the New Preferred.

On April 1, 2020, the Company entered into an Eighth Amendment to Loan and Security Agreement (the “Eighth Amendment”) with its subsidiaries and Slipstream to amend the terms of the payments and interest accruing on the Company’s Term Loan, Secured Revolving Promissory Note, and Special Loan. The Eighth Amendment increased the interest rates of these loans from 8% to 10%, effective April 1, 2020. Until January 1, 2021, rather than cash payments of accrued interest under the term and revolving loans, interest will be paid by the issuance of and treated as additional principal thereunder. Commencing January 2, 2021, such interest will be payable in cash. Interest on the special loan will no longer be paid in cash, but by the issuance of and treated as additional principal thereunder.

On September 29, 2020, the Company entered into a Ninth Amendment to Loan and Security Agreement (the “Ninth Amendment”) with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. The Ninth Amendment changed the automatic conversion date of the Special Loan into the defined new class of senior preferred stock of the Company from October 1, 2020 to November 30, 2020 (or upon an earlier event of default). The Company paid no fees in exchange for this extension.

Management believes that, based on (i) our receipt of approximately \$1,552 of funding through the Paycheck Protection Program on April 27, 2020, of which a significant portion we believe will ultimately be forgiven, (ii) our operational forecast through 2021, (iii) our access to capital markets through the Agreement with Roth, and (iv) a commitment of continued support from Slipstream, we can continue as a going concern through at least November 12, 2021. However, given our history of net losses, cash used in operating activities and working capital deficit, each of which continued as of and for the nine months ended September 30, 2020, we can provide no assurance that our ongoing operational efforts or ability to access the public markets for capital will be successful, particularly in consideration of the business interruptions and uncertainty generated as a result of the COVID-19 pandemic, which has materially adversely affected our results of operations and cash flows.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company’s debt obligations.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying Condensed Consolidated Financial Statements follows:

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the applicable instructions to Form 10-Q and Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America (“GAAP”) for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2019, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2020.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. Management believes the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including normal recurring items, considered necessary for a fair statement of results for the interim periods presented.

2. Revenue Recognition

We recognize revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, applying the five-step model.

If an arrangement involves multiple performance obligations, the items are analyzed to determine the separate units of accounting, whether the items have value on a standalone basis and whether there is objective and reliable evidence of their standalone selling price. The total contract transaction price is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The standalone selling price is based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost plus margin approach.

The Company estimates the amount of total contract consideration it expects to receive for variable arrangements by determining the most likely amount it expects to earn from the arrangement based on the expected quantities of services it expects to provide and the contractual pricing based on those quantities. The Company only includes some or a portion of variable consideration in the transaction price when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company considers the sensitivity of the estimate, its relationship and experience with the client and variable services being performed, the range of possible revenue amounts and the magnitude of the variable consideration to the overall arrangement. The Company receives variable consideration in very few instances.

Revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company does not have any material extended payment terms as payment is due at or shortly after the time of the sale, typically ranging between thirty and ninety days. Observable prices are used to determine the standalone selling price of separate performance obligations or a cost plus margin approach when one is not available. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

The Company recognizes contract assets or unbilled receivables related to revenue recognized for services completed but not yet invoiced to the clients. Unbilled receivables are recorded as accounts receivable when the Company has an unconditional right to contract consideration. A contract liability is recognized as deferred revenue when the Company invoices clients in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when the Company has satisfied the related performance obligation.

The Company uses the practical expedient for recording an immediate expense for incremental costs of obtaining contracts, including certain design/engineering services, commissions, incentives and payroll taxes, as these incremental and recoverable costs have terms that do not exceed one year.

3. Inventories

Inventories are stated at the lower of cost or market (net realizable value), determined by the first-in, first-out (FIFO) method, and consist of the following:

	September 30, 2020	December 31, 2019
Raw materials, net of reserve of \$108 and \$134, respectively	\$ 2,157	\$ 200
Inventory on consignment with distributors	336	-
Work-in-process	169	179
Total inventories	<u>\$ 2,662</u>	<u>\$ 379</u>

Inventories on consignment with distributors are relieved from inventory and recognized in revenue when sold by distributors to their customers, not at time of shipment or delivery to the distributor.

4. Impairment of Long-Lived Assets

We review the carrying value of all long-lived assets, including property and equipment, for impairment in accordance with ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under ASC 360, impairment losses are recorded whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

If the impairment tests indicate that the carrying value of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment loss would be recognized. The impairment loss is determined as the amount by which the carrying value of such asset exceeds its fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such assets using an appropriate discount rate. Assets to be disposed of are carried at the lower of their carrying value or fair value less costs to sell. Considerable management judgment is necessary to estimate the fair value of assets, and accordingly, actual results could vary significantly from such estimates.

5. Basic and Diluted Income/(Loss) per Common Share

Basic and diluted income/(loss) per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method. Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 7,229,998 and 5,021,888 at September 30, 2020 and 2019, respectively were excluded from the computation of income/(loss) per share as all options and warrants were anti-dilutive due to the net loss in each period. In calculating diluted earnings per share for the three and nine months ended September 30, 2020, in accordance with ASC 260 *Earnings per share*, we excluded the dilutive effect of the potential issuance of common stock upon an assumed conversion of the Special Loan.

6. Income Taxes

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in basis of intangibles, stock-based compensation, reserves for uncollectible accounts receivable and inventory, differences in depreciation methods, and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company accounts for uncertain tax positions utilizing an established recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We had no uncertain tax positions as of September 30, 2020 and December 31, 2019.

7. Goodwill

We follow the provisions of ASC 350, Goodwill and Other Intangible Assets. Pursuant to ASC 350, goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually. The Company uses a measurement date of September 30 (see Note 7 *Intangible Assets and Goodwill*).

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Our significant estimates include: the allowance for doubtful accounts, valuation allowances related to deferred taxes, the fair value of acquired assets and liabilities, the fair value of liabilities reliant upon the appraised fair value of the Company, valuation of stock-based compensation awards and other assumptions and estimates used to evaluate the recoverability of long-lived assets, goodwill and other intangible assets and the related amortization methods and periods. Actual results could differ from those estimates.

9. Leases

We account for leases in accordance with ASU No. 2016-02, *Leases* (Topic 842), as amended.

We determine if an arrangement is a lease at inception. Right of use (“ROU”) assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, we consider only payments that are fixed and determinable at the time of commencement. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our incremental borrowing rate is a hypothetical rate based on our understanding of what our credit rating would be. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

Operating leases are included in operating lease right-of-use assets, current maturities of operating leases, and long-term obligations under operating leases on our condensed consolidated balance sheets. Finance leases are included in property and equipment, net, current maturities of financing leases, and long-term obligations under financing leases on our condensed consolidated balance sheets.

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently adopted

On January 1, 2020, we adopted ASU 2018-15 *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which provide guidance on evaluating the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The adoption of this guidance had no material impact on our Condensed Consolidated Financial Statements.

On January 1, 2020, we adopted ASU No. 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820)*, which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removed, modified, and added certain disclosure requirements. The adoption of this guidance had no material impact on our Condensed Consolidated Financial Statements.

Not yet adopted

In August 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (ASU 2020-06)*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be effective for us in the first quarter of 2022 on a full or modified retrospective basis, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes. This guidance will be effective for us in the first quarter of 2021 on a prospective basis, and early adoption is permitted. We are currently evaluating the impact of the new guidance on our Condensed Consolidated Financial Statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses*. The main objective is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments in this update replace the incurred loss methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. For trade receivables and loans, entities will be required to estimate lifetime expected credit losses. The amendments are effective for public business entities that qualify as smaller reporting companies for fiscal years and interim periods beginning after December 15, 2022. We are currently evaluating the disclosure requirements related to adopting this guidance.

NOTE 4: REVENUE RECOGNITION

The Company applies ASC 606 for revenue recognition. The following table disaggregates the Company's revenue by major source for the three and nine months ended September 30, 2020 and 2019:

<i>(in thousands)</i>	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Hardware	\$ 2,850	\$ 2,034	\$ 5,818	\$ 5,329
Services:				
Installation Services	674	2,143	2,006	6,306
Software Development Services	248	695	427	8,930
Managed Services	1,335	1,851	4,216	4,956
Total Services	<u>2,257</u>	<u>4,689</u>	<u>6,649</u>	<u>20,192</u>
Total Hardware and Services	<u>\$ 5,107</u>	<u>\$ 6,723</u>	<u>\$ 12,467</u>	<u>\$ 25,521</u>

System hardware sales

System hardware revenue is recognized generally upon shipment of the product or customer acceptance depending upon contractual arrangements with the customer in instances in which the sale of hardware is the sole performance obligation. Shipping charges billed to customers are included in hardware sales and the related shipping costs are included in hardware cost of sales. The cost of freight and shipping to the customer is recognized in cost of sales at the time of transfer of control to the customer. System hardware revenues are classified as "Hardware" within our disaggregated revenue.

Installation services

The Company performs outsourced installation services for customers and recognizes revenue upon completion of the installations. Installation services also includes engineering services performed as part of an installation project.

When system hardware sales include installation services to be performed by the Company, the goods and services in the contract are not distinct, so the arrangement is accounted for as a single performance obligation. Our customers control the work-in-process and can make changes to the design specifications over the contract term. Revenues are recognized over time as the installation services are completed based on the relative portion of labor hours completed as a percentage of the budgeted hours for the installation. Installation services revenues are classified as "Installation Services" within our disaggregated revenue.

The aggregate amount of the transaction price allocated to installation service performance obligations that are partially unsatisfied as of September 30, 2020 and 2019 were \$0 and \$1,428, respectively.

Software design and development services

Software and software license sales are revenue when a fixed fee order has been received and delivery has occurred to the customer. Revenue is recognized generally upon customer acceptance (point-in-time) of the software product and verification that it meets the required specifications. Software is delivered to customers electronically. Software design and development revenues are classified as "Software Development Services" within our disaggregated revenue.

Software as a service

Software as a service includes revenue from software licensing and delivery in which software is licensed on a subscription basis and is centrally hosted. These services often include software updates which provide customers with rights to unspecified software product upgrades and maintenance releases and patches released during the term of the support period. Contracts for these services are generally 12-36 months in length. We account for revenue from these services in accordance with ASC 985-20-15-5 and recognize revenue ratably over the performance period. Software as a service revenues are classified as “Managed Services” within our disaggregated revenue.

Maintenance and support services

The Company sells support services which include access to technical support personnel for software and hardware troubleshooting. The Company offers a hosting service through our network operations center, or NOC, allowing the ability to monitor and support its customers’ networks 7 days a week, 24 hours a day. These contracts are generally 12-36 months in length. Revenue is recognized over the term of the agreement in proportion to the costs incurred in fulfilling performance obligations under the contract. Maintenance and Support revenues are classified as “Managed Services” within our disaggregated revenue.

Maintenance and support fees are based on the level of service provided to end customers, which can range from monitoring the health of a customer’s network to supporting a sophisticated web-portal to managing the end-to-end hardware and software of a digital marketing system. These agreements are renewable by the customer. Rates for maintenance and support, including subsequent renewal rates, are typically established based upon a fee per location, per device, or a specified percentage of net software license fees as set forth in the arrangement. These contracts are generally 12-36 months in length. Revenue is recognized ratably and evenly over the service period.

The Company also performs time and materials-based maintenance and repair work for customers. Revenue is recognized at a point in time when the performance obligation has been fully satisfied.

NOTE 5: FAIR VALUE MEASUREMENT

We measure certain financial assets, including cash equivalents, at fair value on a recurring basis. In accordance with ASC 820-10-30, fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820-10-35 establishes a three-level hierarchy that prioritizes the inputs used in measuring fair value. The three hierarchy levels are defined as follows:

Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets.

Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and involve management judgment and the reporting entity’s own assumptions about market participants and pricing.

The Company previously recorded warrant liabilities that were measured at fair value on a recurring basis using a binomial option pricing model. The fair value of the warrant liabilities had decreased to \$0 as of June 30, 2019. All of the Company’s outstanding warrants classified as liabilities expired during the three months ended September 30, 2019.

As part of the Allure Acquisition, the Purchase Agreement contemplated additional consideration of \$2,000 to be paid by us to Christie Digital Systems, USA (“Seller”) in the event that acquiree revenue exceeds \$13,000, as defined in the underlying agreement, for any of the trailing twelve-month periods measured as of December 31, 2019, March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020. The fair value of the earnout liability was determined to be \$250 at the time of acquisition. As part of our finalization of opening balance sheet accounting at the close of the measurement period in November 2019, we recorded an adjustment to reflect the earnout liability to \$0. The fair value estimate remains at \$0 as of September 30, 2020. The liability is deemed to be Level 3 as the valuation is based on revenue projections and estimates developed by management as informed by historical results.

As discussed in Note 7 *Intangible Assets, Including Goodwill*, the calculation of the weighted average cost of capital and management’s forecast of future financial performance utilized within our discounted cash flow model for the impairment of goodwill contains inputs which are unobservable and involve management judgment and are considered Level 3 estimates.

As discussed in Note 8 *Loans Payable*, the Special Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. As of September 30, 2020, we updated our fair value analysis of the Special Loan, which was originally evaluated at March 31, 2020 utilizing the assistance of a third-party valuation specialist, resulting in recognition of a \$0 and \$702 loss during the three and nine months ended September 30, 2020, respectively, from the change in fair value of the liability and a corresponding increase in the debt balance recorded in the Condensed Consolidated Balance Sheet.

NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Nine Months Ended September 30,	
	2020	2019
Supplemental Cash Flow Information		
Non-cash Investing and Financing Activities		
Right of offset settlement of Amended and Restated Seller Note	\$ -	\$ 498
Cash paid during the period for:		
Interest	\$ -	\$ 108
Income taxes, net	\$ 17	\$ -

NOTE 7: INTANGIBLE ASSETS, INCLUDING GOODWILL

Intangible Assets

Intangible assets consisted of the following at September 30, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	\$ 4,635	3,337	\$ 4,635	3,147
Customer relationships	5,330	2,822	5,330	2,679
Trademarks and trade names	1,020	897	1,020	752
	<u>10,985</u>	<u>7,056</u>	<u>10,985</u>	<u>6,578</u>
Accumulated amortization	7,056		6,578	
Net book value of amortizable intangible assets	<u>\$ 3,929</u>		<u>\$ 4,407</u>	

For the three months ended September 30, 2020 and 2019, amortization of intangible assets charged to operations was \$161 and \$147, respectively. For the nine months ended September 30, 2020 and 2019 amortization of intangible assets charged to operations was \$478 and \$451, respectively.

Goodwill

The following is a rollforward of the Company's goodwill since December 31, 2019:

	Total
Balance as of December 31, 2019	\$ 18,171
Adjustments due to impairment loss	(10,646)
Balance as of September 30, 2020	<u>\$ 7,525</u>

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is subject to an impairment review at a reporting unit level, on an annual basis as of the end of September of each fiscal year, or when an event occurs, or circumstances change that would indicate potential impairment. The Company has only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit.

Interim Impairment Assessment – March 31, 2020

Despite the excess fair value identified in our 2019 annual impairment assessment, we determined that the reduced cash flow projections and the significant decline in our market capitalization as a result of the COVID-19 pandemic during the three months ended March 31, 2020 indicated that an impairment loss may have been incurred during the first quarter. Therefore, we qualitatively assessed whether it was more likely than not that the goodwill was impaired as of March 31, 2020. We reviewed our previous forecasts and assumptions based on our current projections that are subject to various risks and uncertainties, including: (1) forecasted revenues, expenses and cash flows, including the duration and extent of impact to our business and our alliance partners from the COVID-19 pandemic, (2) current discount rates, (3) the reduction in our market capitalization, (5) changes to the regulatory environment and (6) the nature and amount of government support that will be provided. As a result of this qualitative assessment, we concluded that indicators of impairment were present and that a quantitative interim impairment assessment of our goodwill was necessary as of March 31, 2020.

As a result of the adoption of ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* the impairment test consists solely of comparing the carrying value of the reporting unit with its fair value and recording impairment, if identified.

The fair value of the reporting unit was estimated via the income approach. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for our industry. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and by analyzing published rates relevant to our business to estimate the cost of equity financing. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. We utilized a discount rate of 15.3% in our valuation completed as of March 31, 2020.

While our outlook for the digital signage industry over the long term remains strong, we have experienced rapid and immediate deterioration in our short term business as a result of the COVID-19 pandemic, generating increased uncertainty across our customer base in many of our key vertical markets. The elective and forced closures of businesses across the United States has resulted in reduced demand for our services, which primarily assist business in engaging with their end customers in a physical space through digital technology. The elimination and minimization of public gatherings has materially impacted demand for products and services in our movie theater, sports arena and large entertainment markets. These conditions resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows, leading to an implied fair value of goodwill substantially below the carrying value. Therefore, during the three months ended March 31, 2020, we recorded a non-cash impairment loss of \$10,646. We recorded the estimated impairment losses in the caption “Goodwill impairment” in our Condensed Consolidated Statement of Operations. Following the impairment loss, there remained \$7,525 goodwill as of March 31, 2020.

Interim Impairment Assessment – June 30, 2020

As of June 30, 2020, we performed a qualitative impairment assessment in accordance with ASU 2011-08 *Testing Goodwill for Impairment* to determine whether any indicators of impairment of intangible assets were present as of the balance sheet date. Our analysis included evaluating events and circumstances impacting the Company, including the continued closure of numerous businesses through the second quarter as a result of the COVID-19 pandemic and the Company’s previously goodwill impairment. As a result of our analysis, we concluded that the Company’s actual and forecasted financial results remain in-line with estimates made during our impairment assessment as of March 31, 2020 and that the factors analyzed support an assertion that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount. As a result, no further impairment was recorded during the three months ended June 30, 2020.

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit was estimated using a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur, specifically, the Company gave significant consideration to actual historic financial results, including revenue growth rates in the preceding three years. Based on the Company’s assessment, we determined that the fair value of our reporting unit exceeds its carrying value, and accordingly, the goodwill associated with the reporting unit is not considered to be impaired at September 30, 2020.

Given the proximity in time to the most recent goodwill impairment, which marked the Company’s goodwill balance down to fair value, the Company anticipated its analysis would result in a thin margin in the percentage of excess fair value over carrying value as of the assessment date. Through the analysis performed as of September 30, 2020, the excess fair value over carrying value was approximately 10%. The Company recognizes that any changes in our projected 2020 or 2021 results could potentially have a material impact on our assessment of goodwill impairment. The Company will continue to monitor the actual performance of its operations against expectations and assess further indicators of possible impairment. The valuation of goodwill and intangible assets is subject to a high degree of judgment, uncertainty and complexity. Should any indicators of impairment occur in subsequent periods, the Company will be required to perform an analysis in order to determine whether goodwill is impaired.

NOTE 8: LOANS PAYABLE

The outstanding debt with detachable warrants, as applicable, are shown in the table below. Further discussion of the notes follows.

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
A	6/30/2018	\$ 264	6/30/2021	-	0.0% interest
B	1/16/2018	1,059	6/30/2021	61,729	10.0% interest ⁽¹⁾
C	8/17/2016	3,174	6/30/2021	588,236	10.0% interest ⁽¹⁾
D	11/19/2018	1,637	2/15/2020	-	3.5% interest
E	12/30/2019	2,123	6/30/2021	-	10.0% interest ⁽²⁾
F	4/27/2020	1,552	4/27/2022	-	1.0% interest ⁽³⁾
	Total debt, gross	9,809		649,965	
	Fair value (E)	702			
	Total debt, gross	10,511			
	Debt discount	(253)			
	Total debt, net	\$ 10,258			
	Less current maturities	(8,706)			
	Long term debt	1,552			

A – Secured Disbursed Escrow Promissory Note with related party

B – Secured Revolving Promissory Note with related party

C – Term Loan with related party

D – Amended and Restated Seller Note from acquisition of Allure

E – Secured Convertible Special Loan Promissory Note, at fair value

F – Paycheck Protection Program Loan from Small Business Administration

(1) 8.0% cash interest per annum through March 31, 2020. 10.0% paid-in-kind interest (“PIK”) interest per annum from April 1, 2020 through December 31, 2020. 8.0% cash interest per annum January 1, 2021 through the maturity date.

- (2) 8.0% cash interest per annum, comprised of 6.0% cash, 2.0% PIK through March 31, 2020. 10.0% PIK interest per annum through September 30, 2020. In an event of default, the interest rate increases by 6.0% to 16.0%. Debt is automatically convertible to a new class of senior preferred stock of the Company at the earlier of an event of default or November 30, 2020. The principal, including PIK interest, as of September 30, 2020 is \$2,123; however, fair value accounting for the convertible debt instrument results in an additional \$702 of debt recorded on the Condensed Consolidated Balance Sheet as of September 30, 2020 related to this instrument.
- (3) 1.0% cash interest per annum. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days. Forgiveness of the Promissory Note will be determined in accordance with the provisions of the CARES Act and applicable regulations. Any principal and interest amounts outstanding after the determination of amounts forgiven will be repaid on a monthly basis.

SBA Paycheck Protection Program Loan

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the “Promissory Note”), which provided for an unsecured loan of \$1,552 pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note has a term of two years with a 1% per annum interest rate. While the Promissory Note currently has a two-year term, the amended law permits the Company to request a five-year maturity from Old National Bank. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days. Forgiveness of the Promissory Note will be determined in accordance with the provisions of the CARES Act and applicable regulations. Any principal and interest amount outstanding after the determination of amounts forgiven will be repaid on a monthly basis. The Company is in process of finalizing their calculation of amounts forgivable in accordance with guidance issued by the Small Business Administration and anticipates applying for forgiveness during the fourth quarter of 2020. No assurance is provided that we will be able to obtain forgiveness of the Promissory Note in whole or in part.

Loan and Security Agreement

On August 17, 2016, the Company entered into a Loan and Security Agreement with Slipstream (“Loan and Security Agreement”). Since the initial entry into the Loan and Security Agreement in 2016, the Company has entered into several financing arrangements with varying interest rates, maturity dates, and number of associated detachable warrants, each entered within the structure of the Loan and Security Agreement. The debt instruments outstanding under the Loan and Security Agreement as of March 31, 2020 include the Term Loan, Secured Revolving Promissory Note, Secured Disbursed Escrow Promissory Note, and the Special Loan.

The Loan and Security Agreement contains certain customary restrictions including, but not limited to, restrictions on mergers and consolidations with other entities, cancellation of any debt or incurring new debt (subject to certain exceptions), and other customary restrictions. Obligations under the loan and security agreement are secured by a grant of collateral security in all of the tangible assets of Creative Realities, Inc. and each of its wholly owned subsidiaries.

Ninth Amendment; Modification of Conversion Date of Special Loan under Loan and Security Agreement

On September 29, 2020, the Company entered into a Ninth Amendment to Loan and Security Agreement (the “Ninth Amendment”) with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. The Ninth Amendment changed the automatic conversion date of the Special Loan into the defined new class of senior preferred stock of the Company from October 1, 2020 to November 30, 2020 (or upon an earlier event of default). The Company paid no fees in exchange for this extension.

Eighth Amendment; Modification of Interest Rates under Loan and Security Agreement

On April 1, 2020, the Company entered into an Eighth Amendment to Loan and Security Agreement (the “Eighth Amendment”) with its subsidiaries and Slipstream to amend the terms of the payments and interest accruing on the Company’s Term Loan, Secured Revolving Promissory Note, and Special Loan. The Eighth Amendment increased the interest rates of these loans from 8% to 10%, effective April 1, 2020. Until January 1, 2021, rather than cash payments of accrued interest under the term and revolving loans, interest will be paid by the issuance of and treated as additional principal thereunder. Commencing January 2, 2021, such interest will be payable in cash. Interest on the special loan will no longer be paid in cash, but by the issuance of and treated as additional principal thereunder.

Upon entry into the Eighth Amendment, the Company completed an analysis of the changes in the Loan and Security Agreement within ASC 470 *Debt*, concluding that the changes represent a modification to the existing debt that was not a troubled debt restructuring and will account for the modified terms prospectively as yield adjustments, based on the revised terms.

Seventh Amendment; Entry into Secured Convertible Special Loan Promissory Note

On December 30, 2019, we entered into the Special Loan as part of the Seventh Amendment under which we obtained \$2,000, with interest thereon at 8% per annum payable 6% in cash and 2% via the issuance of SLPIK interest, provided however that upon occurrence of an event of default the interest rate shall automatically be increased by 6% per annum payable in cash. The entry into the Seventh Amendment adjusted the interest rate on the Company’s Term Loan and Revolving Loan to 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan exceeds \$4,100 then the Loan Rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional PIK.

Upon the earlier to occur of an Event of Default or October 1, 2020, if any of the principal amount of the Special Loan is then outstanding, the principal and accrued but unpaid interest of the Special Loan and the outstanding SLPIK shall be automatically converted into shares of a new series of Senior Convertible Preferred Stock of CRI (“New Preferred”) having an Appraised Value equal to three times the then outstanding principal amount and accrued but unpaid interest of the Special Loan and the outstanding SLPIK and having the following terms and conditions, as reasonably determined by CRI and the Lender, the New Preferred shall:

- be the most senior equity security of CRI, including with respect to the payment of dividends and other distributions;
- be on substantially the same terms and conditions as CRI’s Series A-1 6% Convertible Preferred Stock as set forth in its Certificate of Designation immediately before the same was cancelled pursuant to a Certificate of Cancellation dated as of March 13, 2019;
- not be subject to a right of redemption upon the part of a holder thereof;
- accrue and pay quarterly dividends at the rate of twelve percent (12%) per annum which shall be payable in cash;
- have a Stated Value that is an amount mutually agreed by CRI and the Lender at the time of issuance;
- Conversion Price shall be an amount equal to 80% of the average for the 30-day period ending two days prior to the required conversion date of the daily average of the range of CRI’s common stock (calculated pursuant to information on The Wall Street Journal Online Edition), subject to appropriate adjustments; and
- neither section 6(e) of the Series A-1 Certificate of Designation nor any similar provision shall apply to the New Preferred.

In entering the Seventh Amendment and Special Loan, pursuant to ASC 825-10-25-1, *Fair Value Option*, we made an irrevocable election to report the Special Loan at fair value, with changes in fair value recorded through the Company’s consolidated statements of operations in each reporting period. For the three and nine months ended September 30, 2020, we utilized the assistance of a third-party valuation specialist to assist in updating our fair value analysis of the Special Loan, resulting in recognition of a \$0 and \$702 loss, respectively, from the change in fair value of the liability.

Sixth Amendment; Extension of Maturity Dates

On November 6, 2019, Slipstream extended the maturity date of our term loan and revolver loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of our Term Loan and Secured Revolving Promissory Note with the Secured Disbursed Escrow Promissory Note.

Amended and Restated Seller Note from acquisition of Allure

The Amended and Restated Seller Note represents a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated to a reduced amount of \$900 through the Stock Purchase Agreement. At the closing date, the estimated net working capital deficit of Allure was \$801 in excess of the target net working capital as defined in the Stock Purchase Agreement. As of the acquisition date, Allure also had accounts payable to Seller for outsourced services of \$2,204. We agreed with the Seller to settle the estimated net working capital deficit through a reduction in the accounts payable to Seller as of the acquisition date and to further amend the Seller Note to include the remaining \$1,403 accounts payable due from Allure to Seller, resulting in a Seller Note of \$2,303. That debt is represented by our issuance to the Seller of a promissory note accruing interest at 3.5% per annum. The promissory note requires us to make quarterly payments of interest only through February 19, 2020, on which date the promissory note matured and all remaining amounts owing thereunder became due.

The promissory note is convertible into shares of Creative Realities common stock, at the seller's option on or after the 180th day after issuance, at an initial conversion price of \$8.40 per share, subject to customary equitable adjustments. Conversion of all amounts owing under the promissory note will be mandatory if the 30-day volume-weighted average price of our common stock exceeds 200% of the common stock trading price at the closing of the acquisition. We granted the seller customary registration rights for the shares of our common stock issuable upon conversion of the promissory note.

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Allure Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We have not paid, nor do we intend to pay, the Amended and Restated Seller Note, which is now past its maturity date, without resolution of our demand for arbitration. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. The Company continues to accrue interest on the Amended and Restated Seller Note and have included \$43 in accrued expenses in the Condensed Consolidated Financial Statements as of September 30, 2020. See Note 9 *Commitments and Contingencies* for further discussion.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Litigation

On August 2, 2019, the Company filed suit in Jefferson Circuit Court, Kentucky, against a supplier of Allure for breach of contract, breach of warranty, and negligence with respect to equipment installations performed by such supplier for an Allure customer. This case remains in the early stages of litigation, in part due to delays resulting from the COVID-19 pandemic, and, as a result, the outcome of each case is unclear, so the Company is unable to reasonably estimate the possible recovery, or range of recovery, if any.

On October 10, 2019, the Allure customer that is the basis of our claim above sent a demand to the Company for payment of \$3,200 as settlement for an alleged breach of contract related to hardware failures of equipment installations performed by Allure between November 2017 and August 2018. The suits filed by and against Allure have been adjointed in the Jefferson Circuit Court, Kentucky in January 2020. This suit remains in the early stages of litigation and, as a result, the outcome of the suit and the allocation of liability, if any, remain unclear, so the Company is unable to reasonably estimate the possible liability, recovery, or range of magnitude for either the liability or recover, if any, at the time of this filing.

The Company has notified its insurance company on notice of potential claims and continues to evaluate both the claim made by the customer and potential avenues for recovery against third parties should the customer prevail.

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller for breach of contract, indemnification, and fraudulent misrepresentation under the Allure Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We have not paid the Amended and Restated Seller Note which is now past its maturity date. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment.

Except as noted above, the Company is not party to any other material legal proceedings, other than ordinary routine litigation incidental to the business, as of November 11, 2020, and there were no other such proceedings pending during the period covered by this Report.

Employee-related Expenses

We implemented cost-control measures in light of the effect of the COVID-19 pandemic on our business, including employment compensation reductions designed to achieve preliminary cost savings. On March 19, 2020, the Company's Board of Directors approved a six-month reduction of the salaries of our Chief Executive Officer and Chief Financial Officer by twenty percent (20%), thereby reducing the salaries payable to such officers in 2020 to \$297,000 and \$224,100, respectively. The reduction of the salaries of our Chief Executive Officer and Chief Financial Officer remain active as of the date of this report.

On March 20, 2020, we completed a reduction-in-force and accrued one-time termination benefits related to severance to the affected employees of \$135, the total of which was paid during the three months ended June 30, 2020 with \$0 remaining in accrued expenses on the Condensed Consolidated Balance Sheet as of September 30, 2020.

NOTE 10: RELATED PARTY TRANSACTIONS

In addition to the financing transactions with Slipstream, a related party, discussed in Note 8 *Loans Payable*, we have the following related party transactions.

On August 14, 2018, we entered into a payment agreement with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees") outlining terms for repayment of \$2,567 of aged accounts receivable as of that date. The payment agreement stipulated a simple interest rate of 12% on aged accounts receivable to be paid on the tenth day of each month through the maturity date of December 31, 2019. As of December 31, 2019, 33 Degrees paid the note in full.

Following repayment of the note, 33 Degrees has continued to purchase additional hardware and services from the Company under normal payment terms.

For the three and nine months ended September 30, 2020, the Company had sales to 33 Degrees of \$131, or 2.6%, and \$922, or 7.4%, respectively, of consolidated revenue. For the three and nine months ended September 30, 2019, the Company had sales to 33 Degrees of \$279, or 4.2%, and \$750, or 2.9%, respectively, of consolidated revenue.

Accounts receivable due from 33 Degrees was \$5, or 0.1%, and \$1, or 0.0% of consolidated accounts receivable at September 30, 2020 and December 31, 2019, respectively.

NOTE 11: INCOME TAXES

Our deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). We have substantial NOLs that are limited in usage by IRC Section 382. IRC Section 382 generally imposes an annual limitation on the amount of NOLs that may be used to offset taxable income when a corporation has undergone significant changes in stock ownership within a statutory testing period. We have performed a preliminary analysis of the annual NOL carryforwards and limitations that are available to be used against taxable income. Based on the history of losses of the Company, there continues to be a full valuation allowance against the net deferred tax assets of the Company with a definite life.

For the three and nine months ended September 30, 2020, we reported tax benefit of \$1 and \$152, respectively. As of September 30, 2020, the net deferred tax assets totaled \$0 after valuation allowance, as compared to \$175 at December 31, 2019. The reduction is primarily the result of the impairment to goodwill, which resulted in adjusting the deferred tax impact associated with indefinite lived goodwill from a deferred tax liability to a deferred tax asset. As the indefinite-lived intangibles can no longer provide a source of income, a full valuation allowance was placed against the deferred tax assets.

NOTE 12: WARRANTS

A summary of outstanding equity warrants is included below:

	Warrants (Equity)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2020	4,733,028	\$ 4.83	3.41
Warrants issued	-	-	-
Warrants exercised	(27,600)	4.38	-
Warrants expired	(89,238)	9.49	-
Balance September 30, 2020	<u>4,616,190</u>	<u>\$ 4.71</u>	<u>2.72</u>

NOTE 13: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

Time Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.01 - \$3.00	1,525,000	9.66	\$ 2.52	-	\$ -
\$3.01 - \$7.50	184,830	5.60	\$ 6.72	168,163	\$ 6.64
\$7.51+	103,979	4.70	11.74	94,396	\$ 12.05
	<u>1,813,809</u>	<u>8.97</u>	<u>\$ 3.48</u>	<u>262,559</u>	

Performance Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.01 - \$3.00	800,000	9.67	\$ 2.53	-	\$ -
\$3.01 - \$7.50	-	-	-	-	-
\$7.51+	-	-	-	-	-
	<u>800,000</u>	<u>9.67</u>	<u>\$ 2.53</u>	<u>-</u>	

Date/Activity	Time Vesting Options		Performance Vesting Options	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2019	313,860	\$ 8.06	-	\$ -
Granted	1,580,000	2.53	800,000	2.53
Exercised	-	-	-	-
Forfeited or expired	(80,051)	2.76	-	-
Balance, September 30, 2020	<u>1,813,809</u>	<u>3.48</u>	<u>800,000</u>	<u>\$ 2.53</u>

The weighted average remaining contractual life for options exercisable is 5.0 years as of September 30, 2020.

Valuation Information for Stock-Based Compensation

For purposes of determining estimated fair value under FASB ASC 718-10, *Stock Compensation*, the Company computed the estimated fair values of stock options using the Black-Scholes model.

On June 1, 2020 the Board of Directors of the Company granted 10-year options to purchase an aggregate of 2,380,000 shares of its common stock to employees of the Company subject to shareholder approval of an increase in the reserve of shares authorized for issuance under the Company's 2014 Stock Incentive Plan (the "Plan"). On July 10, 2020, the Company held a special meeting of the Company's shareholders at which the shareholders approved the amendment to the Plan, which increased the reserve of shares authorized for issuance thereunder to 6,000,000 shares.

Of the 2,380,000 options awarded, 1,580,000 vest over 3 years and have an exercise price of \$2.53, the market value of the Company's common stock on the grant date. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. These values were calculated using the following weighted average assumptions:

Risk-free interest rate	0.66%
Expected term	6.25 years
Expected price volatility	89.18%
Dividend yield	0%

The remaining 800,000 options awarded vest in equal installments over a three-year period subject to satisfying the Company revenue target and earnings before interest, taxes, depreciation and amortization ("EBITDA") target for the applicable year. In each of calendar years 2020, 2021 and 2022, one-third of the total shares may vest (if the revenue and EBITDA targets are met), and the shares that are subject to vesting each year are allocated equally to each of the revenue and EBITDA targets for such year.

These performance options include a catch-up provision, where any options that did not vest during a prior year due to the Company's failure to meet a prior revenue or EBITDA target may vest in a subsequent vesting year if the revenue or EBITDA target, as applicable, is met in the future year. The revenue and EBITDA targets for the following three years are as follows:

Calendar Year	Revenue Target	EBITDA Target
2020	\$32 million	\$2.2 million
2021	\$35 million	\$3.1 million
2022	\$38 million	\$3.5 million

The exercise price of the foregoing options is \$2.53 per share, the closing price of the Company's common stock on the date of issuance. The options were issued from the Company's 2014 Stock Incentive Plan. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. These values were calculated using the same weighted average assumptions as the time vesting options issued. Performance against the identified revenue and EBITDA targets will be assessed quarterly by the Company in order to determine whether any compensation expense should be recorded. As of September 30, 2020, the Company had recorded no compensation expense in the Consolidated Statement of Operations with respect to these awards.

Stock Compensation Expense Information

ASC 718-10, *Stock Compensation*, requires measurement and recognition of compensation expense for all stock-based payments including warrants, stock options, restricted stock grants and stock bonuses based on estimated fair values. Under the Amended and Restated 2006 Equity Incentive Plan, the Company reserved 1,720,000 shares for purchase by the Company's employees and under the Amended and Restated 2006 Non-Employee Director Stock Option Plan the Company reserved 700,000 shares for purchase by the Company's employees. There are 12,135 options outstanding under the 2006 Equity Incentive Plan.

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. Following a 1-for-30 reverse stock split, the shares authorized for issuance under the Company's 2014 Stock Incentive Plan was reduced to 600,000. On July 10, 2020, the Company's shareholders approved an amendment to the Company's 2014 Stock Incentive Plan to increase the reserve of authorized for issuance thereunder to 6,000,000. There are 2,601,674 options outstanding under the 2014 Stock Incentive Plan.

Compensation expense recognized for the issuance of common stock and amortization of stock option awards for the three and nine months ended September 30, 2020 of \$273 and \$442, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Compensation expense recognized for the issuance of common stock and amortization of stock option awards for the three and nine months ended September 30, 2019 of \$63 and \$395, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Amounts recorded include stock compensation expense for awards granted to directors of the Company in exchange for services at fair value, including \$25 and \$74, respectively, for the three and nine months ended September 30, 2020 and \$32 and \$32, respectively, for the three and nine months ended September 30, 2019.

At September 30, 2020, there was approximately \$2,617 and \$1,499 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria, respectively. Generally, expense related to the time vesting options will be recognized over the next three years and will be adjusted for any future forfeitures as they occur. Compensation expense related to performance vesting options will be recognized if it becomes probable that the Company will achieve the identified performance metrics.

NOTE 14: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had two (2) and one (1) customers that in the aggregate accounted for 22.5% and 18.5% of accounts receivable as of September 30, 2020 and December 31, 2019, respectively.

We had one (1) and two (2) customers that accounted for 11.3% and 23.2% of revenue for the three months ended September 30, 2020 and 2019, respectively. We had one (1) and two (2) customers that accounted for 11.5% and 22.5% of revenue for the nine months ended September 30, 2020 and 2019, respectively.

Significant Vendors

We had one (1) vendor that accounted for 14% and 50% of outstanding accounts payable at September 30, 2020 and December 31, 2019, respectively.

NOTE 15: LEASES

We have entered into various non-cancelable operating lease agreements for certain of our offices and office equipment. Our leases have original lease periods expiring between 2020 and 2023. Many leases include one or more options to renew. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

During the three months ended September 30, 2020, the Company renegotiated the terms of certain of its operating lease agreements resulting in the elimination of approximately \$587 in future commitments for payments previously included in our calculations of operating right of use assets and liabilities on the Condensed Consolidated Balance Sheet. These were accounted for as non-cash adjustments to the Condensed Consolidated Balance Sheet during the three months ended September 30, 2020.

The components of lease costs, lease term and discount rate are as follows:

<i>(in thousands)</i>	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Finance lease cost		
Amortization of right-of-use assets	\$ 17	\$ 25
Interest	2	4
Operating lease cost	512	565
Total lease cost	<u>\$ 531</u>	<u>\$ 594</u>
Weighted Average Remaining Lease Term		
Operating leases	3.2 years	3.6 years
Finance leases	0.9 years	1.2 years
Weighted Average Discount Rate		
Operating leases	10.0%	10.0%
Finance leases	14.0%	13.5%

The following is a schedule, by years, of maturities of lease liabilities as of September 30, 2020:

<i>(in thousands)</i>	Operating Leases	Finance Leases
The remainder of 2020	\$ 106	\$ 4
2021	310	4
2022	214	1
2023	210	-
Thereafter	-	-
Total undiscounted cash flows	840	9
Less imputed interest	(110)	(1)
Present value of lease liabilities	<u>\$ 730</u>	<u>\$ 8</u>

Supplemental cash flow information related to leases are as follows:

<i>(in thousands)</i>	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 512	\$ 551
Operating cash flows from finance leases	2	1
Financing cash flows from finance leases	17	23

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words “anticipates,” “believes,” “expects,” “intends,” “plans,” “estimates,” “projects,” “should,” “may,” “propose,” and similar expressions (or the negative versions of such words or expressions), as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated, and many of which are beyond our control. Factors that could cause actual results to differ materially from those anticipated are set forth under the caption “Risk Factors” in the Company’s reports filed with the Securities and Exchange Commission from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on March 13, 2020, our Quarterly Reports on Form 10-Q filed with the SEC on May 14, 2020 and August 13, 2020, and this Report under Part II, Item 1A.

Our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking statements. Accordingly, we cannot be certain that any of the events anticipated by forward-looking statements will occur or, if any of them do occur, what impact they will have on us. We caution you to keep in mind the risks described in this document and to refrain from attributing undue certainty to any forward-looking statements, which speak only as of the date of the document in which they appear. We do not undertake to update any forward-looking statement.

Overview

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology solutions to a broad range of companies, individual brands, enterprises, and organizations throughout the United States and in certain international markets. We have expertise in a broad range of existing and emerging digital marketing technologies across 18 vertical markets, as well as the related media management and distribution software platforms and networks, device and content management, product management, customized software service layers, systems, experiences, workflows, and integrated solutions. Our technology and solutions include: digital merchandising systems and omni-channel customer engagement systems; content creation, production and scheduling programs and systems; a comprehensive series of recurring maintenance, support, and field service offerings; interactive digital shopping assistants, advisors and kiosks; and, other interactive marketing technologies such as mobile, social media, point-of-sale transactions, beaconing and web-based media that enable our customers to transform how they engage with consumers.

Our main operations are conducted directly through Creative Realities, Inc. and our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation, and Creative Realities Canada, Inc., a Canadian corporation. Our other wholly owned subsidiaries Creative Realities, LLC, a Delaware limited liability company, and ConeXus World Global, LLC, a Kentucky limited liability company, are effectively dormant.

We generate revenue in our business by:

- consulting with our customers to determine the technologies and solutions required to achieve their specific goals, strategies and objectives;
- designing our customers’ digital marketing experiences, content and interfaces;

- engineering the systems architecture delivering the digital marketing experiences we design – both software and hardware – and integrating those systems into a customized, reliable and effective digital marketing experience;
- managing the efficient, timely and cost-effective deployment of our digital marketing technology solutions for our customers;
- delivering and updating the content of our digital marketing technology solutions using a suite of advanced media, content and network management software products; and
- maintaining our customers’ digital marketing technology and Safe Space solutions by: providing content production and related services; creating additional software-based features and functionality; hosting the solutions; monitoring solution service levels; and responding to and/or managing remote or onsite field service maintenance, troubleshooting and support calls.

These activities generate revenue through: bundled-solution sales of both digital marketing technology and, beginning in April 2020, through the sale of a series of Safe Space Solutions products (including the Thermal Mirror); consulting services, experience design, content development and production, software development, engineering, implementation, and field services; software license fees via SaaS agreements; and maintenance and support services related to our software, managed systems and solutions.

Recent Developments

In January 2020, an outbreak of a new strain of coronavirus, COVID-19, was identified in Wuhan, China. Through the first quarter of 2020, the disease became widespread around the world, and on March 11, 2020, the World Health Organization declared a pandemic. Thereafter, state and local authorities in the United States and worldwide have forced many businesses to temporarily reduce or cease operations to slow the spread of the COVID-19 pandemic.

As a result of the COVID-19 pandemic, we have experienced rapid and immediate deterioration in our business in many of our key vertical markets. The elective and forced closures of, and implementation of social distancing policies on, businesses across the United States has resulted in materially reduced demand for our services by our customers, as our customers purchase our products and services to engage with their end customers in a physical space through digital technology, particularly in our movie theater, sports arena and large entertainment markets. The reduced demand has resulted in customer orders being delayed. These conditions resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows, a non-cash impairment loss of \$10,646 recording as of March 31, 2020, and reduced liquidity as described below.

While we are experiencing an intense curtail in current customer demand, our long-term outlook for the digital signage industry remains strong. We believe that small providers in the digital signage industry may be unwilling or unable to continue business over the course of 2020 and 20201, and the industry will experience rapid consolidation, adding scale and enhancing profitability to those companies that emerge as the enterprise-level providers within our industry after the COVID-19 pandemic and consolidations.

On April 28, 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the Thermal Mirror with our partner, InReality, LLC (“InReality”), for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. Although we have experience in providing customers digital integration solutions, our launch of the Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality. The product also uses hardware and technologies that have not been used with our other customers. Although we believe this product and our launch will be successful, there are a number of risks involved in such launch, including investing significant time and resources in the launch, which may ultimately not be successful. While market response has been encouraging, we remain in the early stages of this product launch as of the date of this report, as the hardware and software solution, in addition to the related services, continue to evolve based on customer feedback and requests. Revenue recognized from the sale of hardware and services associated with the Thermal Mirror product, including software activation, configuration, and software-as-a-service (“SaaS”) revenues generated via software subscriptions to the platform, were approximately \$2,033 and \$2,560 for the three and nine months ended September 30, 2020, respectively.

On June 19, 2020, the Company entered into a Sales Agreement (the “Agreement”) with Roth Capital Partners, LLC (“Roth”) under which the Company may offer and sell, from time to time at its sole discretion, shares of its common stock, par value \$0.01 per share (the “Common Stock”), having an aggregate offering price of up to \$8,000,000 through Roth as the Company’s sales agent. Roth may sell the Common Stock by any method permitted by law deemed to be an “at the market offering” as defined in Rule 415 of the Securities Act of 1933, as amended. Subject to the terms of the Agreement, Roth will use its commercially reasonable efforts to sell the Common Stock from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company or Roth may suspend the offering of the Common Stock being made through Roth under the Agreement upon proper notice to the other party. The Company will pay Roth a commission of 3.0% of the gross sales proceeds of any Common Stock sold through Roth under the Agreement, and also has provided Roth with customary indemnification rights. The sale of Common Stock under the Agreement is registered on a Form S-3 registration statement (Registration No. 333-238275) and related prospectus supplement filed with the SEC on June 19, 2020. Pursuant to the “baby shelf” rules that apply to such registration statement, we cannot sell our common stock in a public primary offering (including under the Agreement) with a value exceeding more than one-third of our public float in any 12 calendar month period so long as our public float remains below \$75.0 million.

The Company is not obligated to make any sales of Common Stock under the Agreement. The offering of shares of Common Stock pursuant to the Agreement will terminate upon the earlier of (i) the sale of all Common Stock subject to the Agreement or (ii) termination of the Agreement in accordance with its terms.

As of September 30, 2020, the Company received gross proceeds under the Agreement of \$1,336 from the issuance of 578,183 shares of Common Stock, and paid an aggregate of \$38 to Roth in commissions, yielding net proceeds of \$1,298 after commissions and net proceeds of \$1,158 after other offering-related expenses. Through November 11, 2020, the Company received gross proceeds under the Agreement of \$1,831 from the issuance of 1,034,068 shares of our Common Stock, and paid an aggregate of \$53 to Roth in commissions, yielding net proceeds of \$1,778 after commissions, and net proceeds of \$1,636 after other offering-related expenses.

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the “Promissory Note”), which provided for an unsecured loan of \$1,552 pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note has a term of two years with a 1% per annum interest rate. While the Promissory Note currently has a two-year term, the amended law permits the Company to request a five-year maturity from Old National Bank. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days. Forgiveness of the Promissory Note will be determined in accordance with the provisions of the CARES Act and applicable regulations. Any principal and interest amount outstanding after the determination of amounts forgiven will be repaid on a monthly basis. The Company is in process of finalizing their calculation of amounts forgivable in accordance with guidance issued by the Small Business Administration and anticipates applying for forgiveness during the fourth quarter of 2020. No assurance is provided that we will be able to obtain forgiveness of the Promissory Note in whole or in part.

Given the uncertainty around the extent and timing of the potential future spread or mitigation of the COVID-19 pandemic and around the imposition or relaxation of protective measures, we cannot reasonably estimate the impact to our future results of operations, cash flows, or financial condition at this time.

See “Termination Benefits” under Note 9 *Commitments and Contingencies* for a discussion of the Company’s cost-control measures, including employment compensation reductions designed to achieve preliminary cost savings in light of the significant economic uncertainty caused by the COVID-19 pandemic.

Our Sources of Revenue

We generate revenue through digital marketing solution sales and, beginning in April 2020, through the sale of a series of Safe Space Solutions products (including the Thermal Mirror), which include system hardware, professional and implementation services, software design and development, software licensing via SaaS agreements, deployment, and maintenance and support services.

We currently market and sell our technology and solutions primarily through our sales and business development personnel, but we also utilize agents, strategic partners, and lead generators who provide us with access to additional sales, business development and licensing opportunities.

Our Expenses

Our expenses are primarily comprised of three categories: sales and marketing, research and development, and general and administrative. Sales and marketing expenses include salaries and benefits for our sales, business development, solution management and marketing personnel, and commissions paid on sales. This category also includes amounts spent on marketing networking events, promotional materials, hardware and software to prospective new customers, including those expenses incurred in trade shows and product demonstrations, and other related expenses. Our research and development expenses represent the salaries and benefits of those individuals who develop and maintain our proprietary software platforms and other software applications we design and sell to our customers. Our general and administrative expenses consist of corporate overhead, including administrative salaries, real property lease payments, salaries and benefits for our corporate officers and other expenses such as legal and accounting fees.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 2 *Summary of Significant Accounting Policies* of the Company's Condensed Consolidated Financial Statements included elsewhere in this filing. The Company's Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. Certain accounting policies involve significant judgments, assumptions, and estimates by management that could have a material impact on the carrying value of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Our actual results could differ from those estimates.

Results of Operations

Note: All dollar amounts reported in Results of Operations are in thousands, except per-share information.

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

The tables presented below compare our results of operations and present the results for each period and the change in those results from one period to another in both dollars and percentage change.

	Three Months Ended September 30,		Change	
	2020	2019		%
Sales	\$ 5,107	\$ 6,723	\$ (1,616)	-24%
Cost of sales	2,663	3,417	(754)	-22%
Gross profit	2,444	3,306	(862)	-26%
Sales and marketing expenses	411	523	(112)	-21%
Research and development expenses	229	306	(77)	-25%
General and administrative expenses	1,849	2,113	(264)	-12%
Depreciation and amortization expense	377	278	99	36%
Total operating expenses	2,866	3,220	(354)	-11%
Operating income/(loss)	(422)	86	(508)	-591%
Other income/(expenses):				
Interest expense	(265)	(199)	(66)	33%
Gain on settlement of debt	114	406	(292)	-72%
Loss on disposal of assets	(13)	-	(13)	100%
Total other income/(expense)	(164)	207	(371)	-179%
Net income/(loss) before income taxes	(586)	293	(879)	-300%
Benefit from / (provision) for income taxes	1	(51)	52	-102%
Net income/(loss)	\$ (585)	\$ 242	(827)	-342%

Sales

Sales decreased by \$1,616, or 24%, in the three months ended September 30, 2020 compared to the same period in 2019 driven a general reduction in installation activity following a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures as a direct result of the COVID-19 pandemic. Reductions in year over year core digital signage business were partially offset by \$2,033 of revenue generated from our Thermal Mirror product and services during the three months ended September 30, 2020 following launch of the Thermal Mirror product at the end of April 2020.

Gross Profit

Gross profit decreased \$862 in absolute dollars from \$3,306 to \$2,444, or 26%, consistent with the reduction in sales during the same periods. The Company retained consistent gross margin percentage performance year over year, with a consolidated gross margin percentage of 47.9% and 49.2% for the three months ended September 30, 2020 and 2019, respectively.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses decreased by \$112, or 21%, in the three months ended September 30, 2020 compared to the same period in 2019 driven by a \$63 reduction in personnel costs, combined with reduced spend on trade show activity and related travel costs following the cancellation of several key industry events as a result of the COVID-19 pandemic. We anticipate that our sales and marketing expenses will continue to be significantly lower than those incurred in 2019 as trade shows and industry events planned for the remainder of 2020 have been suspended, delayed, or completely cancelled. We further anticipate our sales personnel will continue to incur reduced travel costs during the extended pandemic period and utilize virtual meeting technology more commonly moving forward.

Research and Development Expenses

Research and development expenses decreased by \$77, or 25%, in the three months ended September 30, 2020 compared to the same period in 2019 as the result of a reduction in personnel costs during the period.

General and Administrative Expenses

Total general and administrative expenses decreased by \$264, or 12%, in the three months ended September 30, 2020 compared to the same period in 2019 driven by a reduction of \$381 in personnel costs, including salaries, benefits, and travel-related expenses, partially offset by an increase in stock compensation amortization expense of \$211 related to incremental employee and directors awards during 2020 which are being amortized over the thirty six month vesting period based on the grant date fair value calculated using the Black Scholes method. Personnel costs were reduced following completion of a reduction-in-force and salary reductions for remaining personnel in March 2020. We expect a reduction in these employee-related expenses in future periods as a result of the actions outlined within Note 9 *Commitments and Contingencies* to the Condensed Consolidated Financial Statements and further reductions in our rent expenses as a result of changes to our lease arrangements as outlined within Note 15 *Leases* to the Condensed Consolidated Financial Statements.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by \$99, or 36%, in the three months ended September 30, 2020 compared to the same period in 2019 driven by a combination of an increased intangible asset base following the acquisition of Allure and increased spending on capitalized software since the acquisition of Allure.

Interest Expense

See Note 8 *Loans Payable* to the condensed consolidated financial statements for a discussion of the Company's debt and related interest expense obligations.

Gain on Settlement of Obligations

During the three months ended September 30, 2020, the Company wrote off liabilities and recognized a gain of \$155, primarily related to legal settlements of accrued sales tax payable with state jurisdictions.

During the three months ended September 30, 2019, the Company wrote off liabilities and recognized a gain of \$406, primarily related to legacy accounts payable deemed to no longer be legal obligations to vendors.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

The tables presented below compare our results of operations and present the results for each period and the change in those results from one period to another in both dollars and percentage change.

	Nine Months Ended September 30,		Change	
	2020	2019		%
Sales	\$ 12,467	\$ 25,521	\$ (13,054)	-51%
Cost of sales	6,599	14,306	(7,707)	-54%
Gross profit	5,868	11,215	(5,347)	-48%
Sales and marketing expenses	1,209	1,830	(621)	-34%
Research and development expenses	787	1,073	(286)	-27%
General and administrative expenses	7,170	6,824	346	5%
Depreciation and amortization expense	1,123	872	251	29%
Goodwill impairment	10,646	-	10,646	100%
Total operating expenses	20,935	10,599	10,336	98%
Operating (loss)/income	(15,067)	616	(15,683)	-2,546%
Other income/(expenses):				
Interest expense	(752)	(616)	(136)	22%
Change in fair value of warrant liability	-	21	(21)	-100%
Change in fair value of Special Loan	(702)	-	(702)	-100%
Loss on disposal of assets	(13)	-	(13)	100%
Gain on settlement of debt	155	419	(264)	-63%
Total other income/(expense)	(1,312)	(176)	(1,136)	645%
Net income/(loss) before income taxes	(16,379)	440	(16,819)	-3,823%
Benefit from income taxes	152	35	117	334%
Net (loss)/income	\$ (16,227)	\$ 475	(16,702)	-3,516%

Sales

Sales decreased by \$13,054, or 51%, in the nine months ended September 30, 2020 compared to the same period in 2019 driven a general reduction in all service lines and particularly within our installation activity following a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures as a direct result of the COVID-19 pandemic. Reductions in year over year core digital signage business were partially offset by \$2,560 of revenue generated from our Thermal Mirror product and services during the nine months ended September 30, 2020 following launch of the Thermal Mirror product at the end of April 2020.

Gross Profit

Gross profit decreased \$5,347 in absolute dollars from \$11,215 to \$5,868, or 48%, consistent with the reduction in sales during the same periods. The Company expanded gross margin percentage to 47.1% in the nine months ended September 30, 2020 from 43.9% for the same period in 2019 driven by the growth in sales of the Thermal Mirror products and services which have slightly higher margins than our traditional core business.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses decreased by \$621, or 34%, in the nine months ended September 30, 2020 compared to the same period in 2019 driven by a \$443 reduction in personnel costs, combined with reduced spend on trade show activity and related travel costs following the cancellation of several key industry events as a result of the COVID-19 pandemic. We anticipate that our sales and marketing expenses will continue to be significantly lower than those incurred in 2019 as trade shows and industry events planned for the remainder of 2020 have been suspended, delayed, or completely cancelled. We further anticipate our sales personnel will continue to incur reduced travel costs during the extended pandemic period and utilize virtual meeting technology more commonly moving forward.

Research and Development Expenses

Research and development expenses decreased by \$286, or 27%, in the nine months ended September 30, 2020 compared to the same period in 2019 as the result of a reduction in personnel costs during the period.

General and Administrative Expenses

Total general and administrative expenses increased by \$346, or 5%, in the nine months ended September 30, 2020 compared to the same period in 2019. During the nine months ended September 30, 2020, the Company reduced personnel costs, including salaries, benefits, and travel-related expenses, by \$757, representing a reduction in personnel costs of 22.1% as compared to the nine months ended September 30, 2020. Personnel costs were reduced following completion of a reduction-in-force and salary reductions for remaining personnel in March 2020. We expect a reduction in these employee-related expenses in future periods as a result of the actions outlined within Note 9 *Commitments and Contingencies* to the Condensed Consolidated Financial Statements.

Reductions in personnel costs were offset by increases in the nine months ended September 30, 2020 as compared to the same period in 2019 of (1) \$678 related to recording an incremental reserve for bad debt primarily related to a customer bankruptcy and a general deterioration in payments from customers following the COVID-19 pandemic, (2) \$247 in increased legal, accounting, and transaction costs associated with completion of the Company's shelf registration statement on Form S-3 and subsequent at-the-market offering with Roth Capital Partners, and (3) \$48 in increased stock compensation expenses related to newly issued awards in June 2020.

Excluding the year-over-year incremental impact of one-time charges to bad debt expense and deal costs included within general and administrative expenses, general and administrative expenses decreased by \$472, or 7%, versus the same period in the prior year. We expect a continued reduction in controllable general and administrative expenses moving forward as a result of the actions outlined within Note 15 *Leases* to the Condensed Consolidated Financial Statements.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by \$251, or 29%, in the three months ended September 30, 2020 compared to the same period in 2019 driven by a combination of an increased intangible asset base following the acquisition of Allure and increased spending on capitalized software since the acquisition of Allure.

Interest Expense

See Note 8 *Loans Payable* to the condensed consolidated financial statements for a discussion of the Company's debt and related interest expense obligations.

Gain on Settlement of Obligations

During the nine months ended September 30, 2020, the Company wrote off liabilities and recognized a gain of \$155, primarily related to legal settlements of accrued sales tax payable with state jurisdictions.

During the three months ended September 30, 2019, the Company wrote off liabilities and recognized a gain of \$406, primarily related to legacy accounts payable deemed to no longer be legal obligations to vendors.

Change in Fair Value of Warrant Liability

See Note 5 *Fair Value Measurements* to the Condensed Consolidated Financial Statements for a discussion of the Company's non-cash change in warrant liability for the nine months ended September 30, 2019. The change in the fair value of the warrant liability resulted in a gain of \$21 in the nine months ended September 30, 2019. All warrants previously classified as liabilities within the balance sheet expired during the three months ended September 30, 2019 and expired as of December 31, 2019.

Summary Unaudited Quarterly Financial Information

The following represents unaudited financial information derived from the Company's quarterly financial statements:

Quarters ended	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Net sales	\$ 5,107	\$ 3,656	\$ 3,704	\$ 6,077	\$ 6,723
Cost of sales	2,663	1,839	2,097	3,553	3,417
Gross profit	2,444	1,817	1,607	2,524	3,306
Operating expenses, inclusive of one-time lease termination expense, excluding depreciation and amortization	2,489	3,081	3,596	2,872	2,942
Goodwill impairment	-	-	10,646	-	-
Depreciation/amortization	377	380	366	378	278
Operating (loss)/income	(422)	(1,644)	(13,001)	(726)	86
Other expenses/(income)	164	811	337	(1,417)	(207)
Income tax provision/(benefit)	(1)	4	(155)	128	51
Net (loss)/income	\$ (585)	\$ (2,459)	\$ (13,183)	\$ 563	\$ 242

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which adjusts for the categories of expenses described below, is a non-GAAP financial measure. Our management believes that this non-GAAP financial measure is useful information for investors, shareholders and other stakeholders of our company in evaluating our results of operations on an ongoing basis. We believe that earnings before interest, taxes, depreciation, and amortization (“EBITDA”) is a performance measure and not a liquidity measure, and therefore a reconciliation between net loss/income and EBITDA and Adjusted EBITDA, which is calculated by removing the impact of non-recurring and primarily non-cash transactions from EBITDA has been provided. Neither EBITDA nor Adjusted EBITDA should be considered as an alternative to net loss/income as an indicator of performance, or as an alternative to cash flows from operating activities as an indicator of cash flows, in each case as determined in accordance with GAAP, or as a measure of liquidity. In addition, neither EBITDA nor Adjusted EBITDA takes into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. We do not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

Quarters ended	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
GAAP net loss	\$ (585)	\$ (2,459)	\$ (13,183)	\$ 563	\$ 242
Interest expense:					
Amortization of debt discount	85	84	85	105	105
Other interest, net	179	176	142	109	94
Depreciation/amortization:					
Amortization of intangible assets	161	158	159	204	147
Amortization of finance lease assets	5	5	7	7	8
Amortization of share-based awards	248	100	50	21	31
Depreciation of property, equipment & software	212	216	200	167	123
Income tax expense/(benefit)	(1)	4	(155)	128	51
EBITDA	<u>\$ 304</u>	<u>\$ (1,716)</u>	<u>\$ (12,695)</u>	<u>\$ 1,304</u>	<u>\$ 801</u>
Adjustments					
Change in fair value of Special Loan	-	551	151	-	-
Gain on settlement of obligations	(114)	(1)	(40)	(1,632)	(406)
Gain on earnout liability	-	-	-	(250)	-
Loss on disposal of assets	13	-	-	-	-
Loss on goodwill impairment	-	-	10,646	-	-
Stock-based compensation – Director grants	25	19	31	31	31
Adjusted EBITDA	<u>\$ 228</u>	<u>\$ (1,147)</u>	<u>\$ (1,907)</u>	<u>\$ (547)</u>	<u>\$ 426</u>

Liquidity and Capital Resources

We produced net income for the year ended December 31, 2019 but incurred a net loss for the year ended December 31, 2018 and had negative cash flows from operating activities for both the year-ended December 31, 2019 and the nine months ended September 30, 2020.

For the three and nine months ended September 30, 2020 we incurred net losses of \$585 and \$16,227, respectively. As of September 30, 2020, we had cash and cash equivalents of \$855 and working capital deficit of \$7,523, which includes \$345 representing current maturities of operating leases recorded January 1, 2019 upon adoption of Accounting Standards Update (“ASU”) 2016-02. Excluding debt classified as current liabilities based on having maturity dates within twelve months of the Condensed Consolidated Balance Sheet date, we have a working capital surplus of \$1,183.

While our outlook for the digital signage industry over the long term remains strong, we have experienced rapid and immediate deterioration in our short term business as a result of the COVID-19 pandemic, generating increased uncertainty across our customer base in many of our key vertical markets. The elective and forced closures of businesses across the United States has resulted in reduced demand for our services, which primarily assist business in engaging with their end customers in a physical space through digital technology. The elimination and minimization of public gatherings has materially impacted demand for products and services in our movie theater, sports arena and large entertainment markets. These conditions have resulted in downward revisions of our internal forecasts on current and future projected earnings and cash flows. The effective halting of pending and anticipated projects has caused the projected incoming cash to be delayed, and consequently cash flows have been slowed, including a slowdown in payments by customers for previously completed projects, which has further limited cash collections. We have implemented various cost cutting measures, including slowing our payments of accounts payable and accrued liabilities, negotiated extensions for certain currently and past due payments to key vendors, and implemented compensation reductions for most personnel retained following the reduction-in-force activities taken by the Company in mid-March 2020.

On April 28, 2020, we announced the joint launch of an AI-integrated non-contact temperature inspection kiosk known as the Thermal Mirror with our partner, InReality, LLC (“InReality”), for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. Although we have experience in providing customers digital integration solutions, our launch of the Thermal Mirror involves the development, marketing and sale of a new product to new customers involving a joint effort with InReality. The product also uses hardware and technologies that have not been used with our other customers. Although we believe this product and our launch will be successful, there are a number of risks involved in such launch, including investing significant time and resources in the launch, which may ultimately not be successful. While market response has been encouraging, we remain in the early stages of this product launch as of the date of this report, as the hardware and software solution, in addition to the related services, continue to evolve based on customer feedback and requests. Revenue recognized from the sale of hardware and services associated with the Thermal Mirror product, including software activation, configuration, and software-as-a-service (“SaaS”) revenues generated via software subscriptions to the platform, were approximately \$2,037 and \$2,560 for the three and nine months ended September 30, 2020, respectively.

On June 19, 2020, the Company entered into a Sales Agreement (the “Agreement”) with Roth Capital Partners, LLC (“Roth”) under which the Company may offer and sell, from time to time at its sole discretion, shares of its common stock, par value \$0.01 per share (the “Common Stock”), having an aggregate offering price of up to \$8,000,000 through Roth as the Company’s sales agent. Roth may sell the Common Stock by any method permitted by law deemed to be an “at the market offering” as defined in Rule 415 of the Securities Act of 1933, as amended. Subject to the terms of the Agreement, Roth will use its commercially reasonable efforts to sell the Common Stock from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company or Roth may suspend the offering of the Common Stock being made through Roth under the Agreement upon proper notice to the other party. The Company will pay Roth a commission of 3.0% of the gross sales proceeds of any Common Stock sold through Roth under the Agreement, and also has provided Roth with customary indemnification rights. The sale of Common Stock under the Agreement is registered on a Form S-3 registration statement (Registration No. 333-238275) and related prospectus supplement filed with the SEC on June 19, 2020. Pursuant to the “baby shelf” rules that apply to such registration statement, we cannot sell more our common stock in a public primary offering (including under the Agreement) with a value exceeding more than one-third of our public float in any 12 calendar month period so long as our public float remains below \$75.0 million.

The Company is not obligated to make any sales of Common Stock under the Agreement. The offering of shares of Common Stock pursuant to the Agreement will terminate upon the earlier of (i) the sale of all Common Stock subject to the Agreement or (ii) termination of the Agreement in accordance with its terms.

As of September 30, 2020, the Company received gross proceeds under the Agreement of \$1,336 from the issuance of 578,183 shares of Common Stock, and paid an aggregate of \$38 to Roth in commissions, yielding net proceeds of \$1,298 after commissions and net proceeds of \$1,158 after other offering-related expenses. Through November 11, 2020, the Company received gross proceeds under the Agreement of \$1,831 from the issuance of 1,034,068 shares of our Common Stock, and paid an aggregate of \$53 to Roth in commissions, yielding net proceeds of \$1,778 after commissions, and net proceeds of \$1,636 after other offering-related expenses.

On April 27, 2020, the Company entered into a Promissory Note with Old National Bank (the “Promissory Note”), which provided for an unsecured loan of \$1,552 pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note has a term of two years with a 1% per annum interest rate. While the Promissory Note currently has a two-year term, the amended law permits the Company to request a five-year maturity from Old National Bank. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days. Forgiveness of the Promissory Note will be determined in accordance with the provisions of the CARES Act and applicable regulations. Any principal and interest amount outstanding after the determination of amounts forgiven will be repaid on a monthly basis. The Company is in process of finalizing their calculation of amounts forgivable in accordance with guidance issued by the Small Business Administration and anticipates applying for forgiveness during the fourth quarter of 2020. No assurance is provided that we will be able to obtain forgiveness of the Promissory Note in whole or in part.

On November 6, 2019, Slipstream Communications, LLC (“Slipstream”) extended the maturity date of our term loan and revolver loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of our term loan and revolver loan with the Secured Disbursed Escrow Promissory Note.

On December 30, 2019, we entered into the Secured Convertible Special Loan Promissory Note (“Special Loan”) as part of the Seventh Amendment of the Loan and Security Agreement with Slipstream, under which we obtained \$2,000, with interest thereon at 8% per annum payable 6% in cash and 2% via the issuance of paid-in-kind (“SLPIK”) interest, provided however that upon occurrence of an event of default the interest rate shall automatically be increased by 6% per annum payable in cash. The entry into the Seventh Amendment adjusted the interest rate on the Company’s Term Loan and Revolving Loan to 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan exceeds \$4,100 then the Loan Rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional PIK.

Upon the earlier to occur of an Event of Default or October 1, 2020 (such date was extended pursuant to the Ninth Amendment described below), if any of the principal amount of the Special Loan is then outstanding, the principal and accrued but unpaid interest of the Special Loan and the outstanding SLPIK shall be automatically converted into shares of a new series of Senior Convertible Preferred Stock of CRI (“New Preferred”) having an Appraised Value equal to three times the then outstanding principal amount and accrued but unpaid interest of the Special Loan and the outstanding SLPIK and having the following terms and conditions, as reasonably determined by CRI and the Lender, the New Preferred shall:

- be the most senior equity security of CRI, including with respect to the payment of dividends and other distributions;
- be on substantially the same terms and conditions as CRI’s Series A-1 6% Convertible Preferred Stock as set forth in its Certificate of Designation immediately before the same was cancelled pursuant to a Certificate of Cancellation dated as of March 13, 2019;
- not be subject to a right of redemption upon the part of a holder thereof;
- accrue and pay quarterly dividends at the rate of twelve percent (12%) per annum which shall be payable in cash;
- have a Stated Value that is an amount mutually agreed by CRI and the Lender at the time of issuance;
- Conversion Price shall be an amount equal to 80% of the average for the 30-day period ending two days prior to the required conversion date of the daily average of the range of CRI’s common stock (calculated pursuant to information on The Wall Street Journal Online Edition), subject to appropriate adjustments; and
- neither section 6(e) of the Series A-1 Certificate of Designation nor any similar provision shall apply to the New Preferred.

On April 1, 2020, the Company entered into an Eighth Amendment to Loan and Security Agreement (the “Eighth Amendment”) with its subsidiaries and Slipstream to amend the terms of the payments and interest accruing on the Company’s Term Loan, Secured Revolving Promissory Note, and Special Loan. The Eighth Amendment increased the interest rates of these loans from 8% to 10%, effective April 1, 2020. Until January 1, 2021, rather than cash payments of accrued interest under the term and revolving loans, interest will be paid by the issuance of and treated as additional principal thereunder. Commencing January 2, 2021, such interest will be payable in cash. Interest on the special loan will no longer be paid in cash, but by the issuance of and treated as additional principal thereunder.

On September 29, 2020, the Company entered into a Ninth Amendment to Loan and Security Agreement (the “Ninth Amendment”) with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. The Ninth Amendment changed the automatic conversion date of the Special Loan into the defined new class of senior preferred stock of the Company from October 1, 2020 to November 30, 2020 (or upon an earlier event of default). The Company paid no fees in exchange for this extension.

Management believes that, based on (i) our receipt of approximately \$1,552 of funding through the Paycheck Protection Program on April 27, 2020, of which a significant portion we believe will ultimately be forgiven, (ii) our operational forecast through 2021, (iii) our access to capital markets through the Agreement with Roth, and (iv) a commitment of continued support from Slipstream, we can continue as a going concern through at least November 12, 2021. However, given our history of net losses, cash used in operating activities and working capital deficit, each of which continued as of and for the nine months ended September 30, 2020, we can provide no assurance that our ongoing operational efforts or ability to access the public markets for capital will be successful, particularly in consideration of the business interruptions and uncertainty generated as a result of the COVID-19 pandemic, which has materially adversely affected our results of operations and cash flows.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company’s debt obligations.

Operating Activities

The cash flows provided by/(used in) operating activities was (\$4,110) and \$456 for the nine months ended September 30, 2020 and 2019, respectively. The cash use in operating activities was driven by

The cash flows used in operating activities was driven by the Company’s net loss and increase in inventory on hand as a result of the launch of the Thermal Mirror, partially offset by non-cash charges of \$702, \$1,123, and \$10,646 related to (1) fair value of our Special Loan, (2) depreciation and amortization expenses, and (3) impairment charge related to goodwill, respectively, combined with an increase of \$701 in our allowance for doubtful accounts primarily as a result of a customer bankruptcy.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2020 was \$559 compared to \$442 during the same period in 2018. The use of cash in both periods represents acquisition of capital assets, primarily related to the capitalization of software costs, partially offset by cash received from a net working capital settlement of \$210 in 2019. We currently do not have any material commitments for capital expenditures as of September 30, 2020, nor do we anticipate any significant expenditures for the remainder of 2020.

Financing Activities

Net cash provided by / (used in) financing activities during the nine months ended September 30, 2020 and 2018 was \$2,990 compared to (\$492). The increase was the result of the Company’s receipt of \$1,552 in proceeds from the Payroll Protection Program in April 2020 and \$1,336 of proceeds from the sale of shares via at-the-market offering activities.

Contractual Obligations

We have no material commitments for capital expenditures, and we do not anticipate any significant capital expenditures for the remainder of 2020.

Off-Balance Sheet Arrangements

During the three and nine months ended September 30, 2020, we did not engage in any off-balance sheet arrangements set forth in Item 303(a)(4) of Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2020, and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 9 *Commitments and Contingencies; Litigation* to the Condensed Consolidated Financial Statements included in this report.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item; however, the discussion of our business and operations should be read together with the Risk Factors set forth in our Annual Report on Form 10-K filed with the SEC on March 13, 2020 and our Quarterly Reports on Form 10-Q filed with the SEC on May 14, 2020 and August 13, 2020. Such risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flow, strategies or prospects in a material and adverse manner.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
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10.1	<u>Amended and Restated Master Distribution Agreement dated effective September 1, 2020 between the Company and InReality, LLC (Certain information has been excluded from this Exhibit because it both is not material and would likely cause competitive harm to the registrant if publicly disclosed).</u>
10.2	<u>Ninth Amendment to Loan and Security Agreement dated September 29, 2020 by and among the Company, its subsidiaries and Slipstream Communications, LLC⁽¹⁾.</u>
31.1	<u>Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).</u>
31.2	<u>Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).</u>
32.1	<u>Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.</u>
32.2	<u>Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.</u>
99.1	<u>Press release dated November 12, 2020</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith

(1) Filed on October 2, 2020 as Exhibit 10.1 to our Current Report on Form 8-K and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 12, 2020

Creative Realities, Inc.

By /s/ Richard Mills
Richard Mills
Chief Executive Officer

By /s/ Will Logan
Will Logan
Chief Financial Officer

[CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED.]

AMENDED AND RESTATED
MASTER DISTRIBUTION AGREEMENT

BETWEEN

CREATIVE REALITIES, INC.

AND

INREALITY, LLC

DATED AS OF: SEPTEMBER 1, 2020

AMENDED AND RESTATED
MASTER DISTRIBUTION AGREEMENT

THIS AMENDED AND RESTATED MASTER DISTRIBUTION AGREEMENT (“**Agreement**”), dated as of September 1, 2020, is entered into by and between Creative Realities, Inc., a Minnesota corporation (“**Master Distributor**”), and InReality, LLC, a Wisconsin limited liability company (“**Seller**”, and together with Master Distributor, the “**Parties**”, and each, a “**Party**”).

RECITALS

- A. Master Distributor and Seller previously entered into that certain Master Distribution Agreement dated June 19, 2020 (the “**Prior Agreement**”), and the Parties desire to amend and restate the Prior Agreement in its entirety.
- B. Seller is in the business of developing and licensing and hosting software-as-a-service platforms, including the Platform (as defined below), that interface with digital temperature and other hardware solutions.
- C. Master Distributor desires to sell subscriptions to the Platform to distributors, resellers, and end users, subject to the terms and conditions of this Agreement; and
- D. Seller wishes to grant Master Distributor the right to sublicense subscriptions to the Platform under the terms and conditions of this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants, terms, and conditions set out herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms have the meanings set out in this Section, or in the Section in which they first appear in this Agreement.

“**Action**” means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, notice of violation, proceeding, litigation, citation, summons, subpoena, or investigation of any nature, civil, criminal, administrative, regulatory, or other, whether at law, in equity, or otherwise.

“**Affiliate**” of a Person means any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, this Person.

“**Agreement**” means this Amended and Restated Master Distribution Agreement (including all of its schedules, exhibits, and attachments), as the same may be amended from time to time.

“**Business Day**” means any day except Saturday, Sunday, or any day other than Saturday, Sunday, or a federal holiday.

“**Claim**” means any Action made or brought against a Person entitled to indemnification under Article X.

“**Confidential Information**” has the meaning set out in Article VIII.

“**Control**” (and with correlative meanings, the terms “Controlled by” and “under common Control with”) means, regarding any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of another Person, whether through the ownership of voting securities, by contract, or otherwise.

“**CRI-Sourced Reseller**” means any Reseller to whom Master Distributor or a Distributor sublicenses Platform Subscriptions.

“**Customer**” means a customer that is (a) a CRI Sourced Reseller or Distributor, whether or not located in the Territory, who sublicenses Platform for further sublicense to End Users located in the Territory or (b) an End User in the Territory.

“**Defective**” means not conforming to the warranties in Section 5.01(a).

“**Defective Goods**” means Goods that are Defective.

“**Disclosing Party**” has the meaning set out in Section 8.01.

“**Dispute**” has the meaning set out in Section 13.13.

“**Dispute Notice**” has the meaning set out in Section 13.13.

“**Distributor**” has the meaning set out in Section 2.01 and is limited to referencing the following organizations:

- [***]

From time to time, Master Distributor and Seller shall mutually agree in writing to add additional Distributors for inclusion into the definition of “Distributor”.

“**Effective Date**” means the date first set out in the Preamble to this Agreement.

“**End User**” means the end user that (a) has acquired a Hardware Solution from Master Distributor or another third-party for (i) its own and its Affiliates’ use and not for resale, remarketing, or distribution or (ii) incorporation into its own services or operations and (b) is an individual or entity, other than any Governmental Authority, located in the Territory.

“**Force Majeure Event**” has the meaning set out in Section 13.16.

“**Goods**” means Seller’s Thermal Mirror hardware solution.

“**Governmental Authority**” means any federal, state, local, or foreign government or political subdivision thereof, or any agency or instrumentality of the government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority, or quasi-governmental authority (to the extent that the rules, regulations, or orders of this organization or authority have the force of Law), or any arbitrator, court, or tribunal of competent jurisdiction.

“**Governmental Order**” means any order, writ, judgment, injunction, decree, stipulation, award, or determination entered by or with any Governmental Authority, including, without limitation, with respect to COVID-19 or any other epidemic or pandemic illness.

“**Hardware Solutions**” means the hardware solutions listed on Addendum A, as may be amended from time to time by mutual agreement of the Parties.

“**Initial Term**” has the meaning set out in Section 7.01.

“**Intellectual Property Rights**” means all industrial and other intellectual property rights comprising or relating to: (a) Patents; (b) Trademarks; (c) internet domain names, whether or not Trademarks, registered by any authorized private registrar or Governmental Authority, web addresses, web pages, website, and URLs; (d) works of authorship, expressions, designs, and design registrations, whether or not copyrightable, including copyrights and copyrightable works, software, and firmware, application programming interfaces, architecture, files, records, schematics, data, data files, and databases and other specifications and documentation; (e) Trade Secrets; (f) semiconductor chips, mask works and the like; and (g) all industrial and other intellectual property rights, and all rights, interests, and protections that are associated with, equivalent or similar to, or required for the exercise of, any of the foregoing, however arising, in each case whether registered or unregistered and including all registrations and applications for, and renewals or extensions of, these rights or forms of protection under the Laws of any jurisdiction throughout in any part of the world.

“**Law**” means any statute, law, ordinance, regulation, rule, code, constitution, treaty, common law, Governmental Order, or other requirement or rule of law of any Governmental Authority.

“**Losses**” has the meaning set out in Section 10.01.

“**Manufacturer**” has the meaning set out in Section 5.03.

“**Master Distributor Contract**” means any material contract or agreement to which Master Distributor is a party or to which any of its material assets are bound.

“**Master Distributor Indemnitees**” has the meaning set out in Section 10.01.

“**Master Distributor’s Trademarks**” means all Trademarks owned by or licensed to Seller and set out in Schedule 4.

“**Notice**” has the meaning set out in Section 13.04.

“**Notify**” means to give Notice.

“**Patents**” means all patents (including all reissues, divisionals, provisionals, continuations, and continuations-in-part, re-examinations, renewals, substitutions, and extensions thereof), patent applications, and other patent rights and any other Governmental Authority-issued indicia of invention ownership (including inventor’s certificates, petty patents, and patent utility models).

“**Person**” means any individual, partnership, corporation, trust, limited liability entity, unincorporated organization, association, Governmental Authority, or any other entity.

“**Personnel**” means agents, employees, or subcontractors engaged or appointed by Seller or Master Distributor, as applicable.

“**Platform**” means the Seller’s Safe Space software-as-a-service (SaaS) platform and related services including any documentation; modified versions of the Platform; enhancements; derivations; upgrades; data tables; software code; any application program interface (“API”), device driver interface, or any other interface and future versions of the Platform.

“**Platform Subscriptions**” means any of the named levels of subscription to the Platform set forth on Schedule 1.

“**Receiving Party**” has the meaning set out in Section 8.01.

“**Renewal Term**” has the meaning set out in Section 7.02.

“**Representatives**” means a Party’s Affiliates, employees, officers, directors, partners, shareholders, agents, attorneys, third-party advisors, successors, and permitted assigns.

“**Reseller**” has the meaning set out in Section 2.03.

“**Seller Contract**” means any material contract or agreement to which Seller is a party or to which any of its material assets are bound.

“**Seller’s Intellectual Property Rights**” means all Intellectual Property Rights owned by or licensed to Seller.

“**Seller’s Trademarks**” means all Trademarks owned by or licensed to Seller and set out in Schedule 4.

“**Subscription Level**” means one of the named levels of Platform Subscription set forth on Schedule 1.

“**Term**” has the meaning set out in Section 10.02.

“**Territory**” means the United States of America, including its territories, possessions, and military bases, and Canada.

“**Trademarks**” means all rights in and to U.S. and foreign trademarks, service marks, trade dress, trade names, brand names, logos, trade dress, corporate names, and domain names and other similar designations of source, sponsorship, association or origin, together with the goodwill symbolized by any of the foregoing, in each case whether registered or unregistered and including all registrations and applications for, and renewals or extensions of, these rights and all similar or equivalent rights, or forms of protection in any part of the world.

“**Trade Secrets**” means all inventions, discoveries, trade secrets, business, and technical information and know-how, databases, data collections, patent disclosures, and other confidential and proprietary information and all rights therein.

“**Warranty Period**” has the meaning set forth in Section 5.01.

ARTICLE II MASTER DISTRIBUTOR RIGHTS

Section 2.01 Appointment. Subject to the terms and conditions of this Agreement, Seller grants Master Distributor a non-exclusive, nontransferable, irrevocable appointment to market, resell and distribute the Platform Subscriptions to Customers and Distributors of Platform Subscriptions in the Territory during the Term and in accordance with the terms and conditions of this Agreement, provided that such Customer and Distributor appointments shall be by written agreements containing terms and conditions at least as restrictive as this Agreement. Nothing contained herein shall restrict Master Distributor from having the right to obtain or retain the rights to resell any other goods or software as-a-service subscriptions, including goods or software as-a-service subscriptions that may compete with the Platform or the Goods. Seller shall not acquire, import and/or distribute temperature sensing devices used for human screening applications for use in the Territory. In addition, Seller will not, during the Term of this Agreement, pursue and establish direct sublicensing relationship with the Distributors with whom Master Distributor has a Master Distributor Contract in the Territory. Master Distributor shall not (i) translate, reverse-engineer, decompile or disassemble the Platform or let any third party do any of the foregoing; (ii) attempt to derive the source code of any software provided to Master Distributor in object code, or create derivative works of any software, or let any third party do any of the foregoing; (iii) alter or remove any of Seller’s or its licensor’s copyright or other proprietary rights notices or legends appearing on or in the Platform; or (iv) use the Platform or any component thereof for any purpose other than as specified in this Agreement.

Section 2.02 Distributors, Resellers, and Referrals. Master Distributor may appoint Distributors, and establish reseller and referral programs as it determines appropriate in its sole and absolute discretion for the effective sublicense of the Platform Subscriptions under this Agreement. Master Distributor shall bear all costs related to any reseller or referral programs.

Section 2.03 Distribution by Seller in Territory. Nothing contained herein shall limit Seller's ability to sublicense Platform Subscriptions to any reseller of Hardware Solutions and/or Platform Subscriptions within the Territory (each, a "**Reseller**") in accordance with the terms and conditions of this Agreement; *provided, however*, that Seller may only sell Platform Subscriptions to a Reseller at prices equal to or greater than the prices set forth on Schedule 2 Distribution Pricing Column, except in the case that Seller sublicenses more than 200 Platform Subscriptions to a single Reseller in any single transaction; and (b) no Distributor may be deemed a Reseller.

Section 2.04 EULA. Neither Master Distributor nor Customer shall offer an end user a license for the Platform except under the terms and conditions of an End User License Agreement ("**EULA**") approved by Seller as of the time of such offer. The rights and obligations of Seller to the End User and the End User to Seller shall be governed exclusively by the terms of the EULA. Master Distributor and Customer shall not have authority to execute any proposed EULA on Seller's behalf. Master Distributor and Customer shall not add to, delete or modify any of the terms or conditions of the EULA; rather, no amendment to a EULA shall be effective unless agreed to in writing and signed by an officer of Seller.

ARTICLE III PROMOTION AND MARKETING

Section 3.01 Master Distributor Performance Obligations. Master Distributor shall:

- (a) use commercially reasonable efforts to market, promote, and sublicense Platform Subscriptions to Customers;
- (b) maintain a place or places of business, as required for Master Distributor to perform its duties under this Agreement;
- (c) establish and maintain a sales and marketing organization sufficient to develop the market potential for the sublicense of Platform Subscriptions;
- (e) create and launch marketing, promotion, and sales materials, campaigns, and programs to promote sublicenses of Platform Subscriptions to Customers; and
- (f) not make any false or misleading representations or warranties to any Customer regarding Seller or the Platform

Section 3.02 Seller Performance Obligations. Seller shall:

- (a) provide any necessary information, material, and support as Master Distributor may reasonably request regarding the marketing, promotion, and sublicense of Platform Subscriptions and shall notify Master Distributor promptly in the event of any material changes in such information;

(b) provide Master Distributor such marketing, promotional, sales, and technical literature related to the Platform as Master Distributor may reasonably consider necessary to assist with the promotion of the Platform and the sublicense of Platform Subscriptions;

(c) allow Master Distributor to participate in any marketing, promotion, and sales programs, campaigns, or events that Seller may make generally available to its authorized distributors of Platform Subscriptions; and

Section 3.03 Platform Branding. All Platform Solutions sublicensed to any Customer by Master Distributor will be branded “InReality Platform Software Subscriptions – xxxx”, provided that Master Distributor may include reference to itself as the “supplier” of the Platform Subscriptions in any branding or marketing context.

ARTICLE IV SUBLICENSE OF PLATFORM SUBSCRIPTIONS

Section 4.01 Sublicenses by Master Distributor. Master Distributor may sell Platform Subscriptions to Customers within the Territory for use with any Hardware Solution. Master Distributor will have absolute and sole discretion over the price for which Master Distributor sells Platform Subscriptions to Customers. Nothing herein will limit Master Distributor’s right to charge End Users an activation fee in connection with a Platform Subscription sold by Master Distributor or by a Distributor or CRI-Sourced Reseller. Nothing in this Agreement shall obligate Master Distributor to sublicense any minimum amount or quantity of Platform Subscriptions.

Section 4.02 Activation, License, Subscription and Payment Terms. For each Platform Subscription that Master Distributor sublicenses to a Customer after the Master Distributor has sublicensed the initial 3,300 units of the Goods purchased from Seller under the Prior Agreement (the “**Initial Goods**”), Master Distributor shall pay Seller the subscription fee for the applicable Subscription Level set forth on Schedule 1 hereto.

For each Platform Subscription that Master Distributor sublicenses to a Customer following the Effective Date of this Agreement but before Master Distributor’s has sublicensed all of the Initial Goods , Master Distributor shall pay Seller the Subscription Fees set forth on Schedule 1 hereto.

For each Platform Subscription that Master Distributor sublicensed to a Customer prior to the Effective Date of this Agreement, Master Distributor has or shall pay Seller Activation and Subscription Fees as set forth in the “Prior Seller Royalty” fees table on Schedule 1 hereto.

Master Distributor shall complete and deliver to Seller a subscription license request form and a purchase order at the time of sale. Seller will assign the appropriate license to the specified End User account within two business days after receiving such documents from Master Distributor. Master Distributor shall pay Seller all properly invoiced amounts within thirty (30) days after receipt of such invoice. Purchase orders for renewals of subscription licenses must be made at least thirty (30) days prior to end of original subscription period to prevent a lapse in service provided thereunder.

Section 4.03 Intentionally left blank

Section 4.04 Availability/Changes in the Platform. Seller shall:

(a) provide and implement such updates to the Platform, and on such schedule, as reasonably necessary to maintain the full operation and functionality of the Platform in accordance with its documentation, and notify Master Distributor at least seven (7) days before the date of any such update;

(b) provide Master Distributor at least thirty (30) days' Notice before the date that Seller introduces any new version of the Platform, a new software service or platform similar to the Platform, or replacement of the Platform and make such good available for resale by Master Distributor on or before the date it is first introduced in the marketplace; and

(c) not discontinue the Standard and Enhanced Temperature Screening Subscription Levels or the Platform within twelve (12) months after the effective date of the termination of this Agreement.

Section 4.05 Platform Support.

(a) *End Users.* Master Distributor shall perform first level ongoing technical support with respect to the Platform for End Users who have purchased a Platform Subscription from Master Distributor or Distributor in compliance with Service Level Agreement substantially in the form attached hereto as Exhibit A, as it may be amended from time to time (the “**SLA**”); *provided, however*, that Seller shall be solely responsible for, and shall promptly provide at its sole cost and expense, all technical support with respect to the Platform for all issues that (a) render the Platform or Platform Subscription fully or substantially inoperable or inaccessible; (b) prevent the Platform or Platform Subscription from functioning in accordance with its documentation; (c) prevent End Users from using any of the major features or functionalities of the Platform or Platform Subscription in accordance the documentation (i.e., “**Tier 3 Issues**”); provided that technical support for such Tier 3 Issues shall not include resolution of the above Tier 3 Issues which result from (i) third-party software, or hardware, provided that Seller will provide reasonable assistance to work with any other third-party software supplier to resolve any issue (ii) any non-Seller modification to the Platform, (iii) use of the Platform by a Customer or End User which is not in accordance with the documentation, or (iv) for which the Customer or Master Distributor has failed to pay the appropriate fees for the applicable period. Unless determined to be the result of a failure to meet the Platform documentation, Seller’s support of Tier 3 issues will not include troubleshooting or determination of the origin of whether the error is attributable to the Platform, custom software development requested by Master Distributor or Customer or third party software or hardware. For purposes of this Section 4.05, Master Distributor and Seller, respectively, shall be responsible only for their respective costs and expenses arising from their respective duties under this Section 4.05 and the SLA. Seller will not be entitled to any fees received by Master Distributor from End Users in connection with any technical support performed by Master Distributor.

(b) *Distributors and Resellers*. Master Distributor shall perform technical support, training, and end user demonstration support for Distributors and CRI-Sourced Resellers; *provided, however* that Seller shall be solely responsible for, and shall promptly provide at its sole cost and expense, all technical support related to Tier 3 Issues for Distributors and CRI-Sourced Resellers with respect to the Platform or a Platform Subscription.

Section 4.06 Customer Referrals. Seller may, at its sole discretion, refer and direct each End User (whether such End User purchases Hardware Solutions directly from Seller, directly or indirectly through the Master Distributor or otherwise, and whether or not the End User is located in the Territory) to the Master Distributor for Platform Subscriptions.

Section 4.07 Cooperation by Seller. Upon Master Distributor's request, and at Seller's discretion, sole cost, and expense, Seller shall provide strategic input, strategy implementation guidance, and such other material support reasonably requested by Master Distributor with respect to Master Distributor's relationships with any particular Customer, including without limitation with respect to training and product demonstration support. Seller shall make itself available for at least one two-hour meeting with Master Distributor per week during normal business hours, Monday through Friday throughout the Term to discuss the status of Master Distributor's distributor and reseller programs and any current or upcoming support and strategic needs of Master Distributor related thereto. Master Distributor commits to holding these sessions at minimum twice a month.

Section 4.08 Platform Warranties. Seller warrants to Master Distributor that (a) none of the Platform, the Platform Subscriptions, nor the marketing, sublicense, or use of the Platform or Platform Subscriptions infringes on any third-party Intellectual Property Rights; (b) the Platform and Platform Subscriptions contain no harmful code.

ARTICLE V GOODS

Section 5.01 Goods Purchased under Prior Agreement. With respect to any Goods purchased by Master Distributor from Seller associated with Prior Agreement, Master Distributor will look for resolution on Product Warranty and Defects from the original equipment manufacturer directly, not from Seller.

Section 5.02 Purchase of Goods. From and after the Effective Date, Master Distributor shall purchase all Goods that it desires, if any, directly from the manufacturer of such Goods (the "**Manufacturer**"). Nothing in this Agreement shall obligate Master Distributor to purchase any minimum number or quantity of Goods. For each Good ordered by Master Distributor from a Manufacturer, Seller shall perform an on-site quality control check ("**Quality Control**") at such Manufacturer's facility.

Section 5.03 Seller Broker Services. Master Distributor shall have the option to require Seller, and Seller shall have the option to accept, to act as Master Distributor's broker with respect to any particular Manufacturer. Master Distributor may exercise this option with respect to a Manufacturer upon Notice to Seller. Upon Seller's receipt of such Notice, Seller shall be responsible for (a) remitting any payments due from Master Distributor to the Manufacturer, which payments shall be made in advance to the Seller; (b) coordinating manufacturing and other activities with Manufacturer; (c) coordinating shipping of Goods from the Manufacturer to Master Distributor; (d) scheduling and coordinating Seller's performance of its Quality Control duties; and (e) coordinating any additional work required to effectuate Master Distributor's purchase and receipt of the Goods from the Manufacturer (collectively, the "**Broker Services**"). If and only if Master Distributor exercises the option set forth in this Section 5.03 and Seller performs the Broker Services to Master Distributor's satisfaction, Master Distributor shall pay Seller the broker fee set forth on Schedule 3 hereto (the "**Broker Fee**") for each Good for which Seller provided the Broker Services within thirty (30) days after the date that Master Distributor orders the Good to which the Broker Services apply.

Section 5.04 License Fees and Handling Costs. For each Good sold to an End User by Master Distributor, a Distributor, or a CRI-Sourced Reseller following the sale of all of the Initial Goods (each, a "**CRI-Originated Good**"), Master Distributor shall pay Seller the applicable license fee set forth on Schedule 3 (the "**License Fee**"). The License Fee will accrue at the time the CRI-Originated Goods leave Master Distributor's inventory, including for CRI-Originated Goods sold to Customers, End Users, or used for internal purposes. No later than the last day of each calendar month during the Term, Master Distributor shall submit to Seller a written record of all recorded sales of CRI-Originated Goods during such month (the "**Monthly License Report**"), along with a calculation of all License Fees incurred for such sales during the month (the "**Monthly License Fees**"). Master Distributor shall pay all Monthly License Fees within thirty (30) days after the date of each Monthly License Report.

Section 5.05 Handling Costs. For each Good ordered by, delivered to, and accepted by Master Distributor from a Manufacturer, Master Distributor shall pay Seller the handling costs set forth on Schedule 3 (the "**Handling Costs**"). Master Distributor shall pay Seller the Handling Costs within thirty (30) days after the date that original equipment manufacturer ships the Good to which the Handling Costs apply.

ARTICLE VI USE OF SELLER'S INTELLECTUAL PROPERTY

Section 6.01 Use of Seller's Name and Trademarks. Master Distributor and its authorized independent sales representatives, distributors, resellers, referral partners, successors, and assigns are authorized and licensed to:

(a) use Trademarks, service marks and trade names of Seller and any third party licensed by Seller in connection with marketing, promoting, or reselling the Goods and the Platform; and

(b) refer to itself as an authorized distributor of the Goods and the Platform without limitation in the Territory.

Section 6.02 Use of Master Distributor's Name and Trademarks. Seller is authorized and licensed to use Trademarks, service marks, and trade names of Master Distributor solely in connection with marketing and promoting the Goods, the Platform, and the Platform Subscriptions.

Section 6.03 Limited Have Made Rights. Master Distributor is granted a license to make and have made Goods under any Patent of Seller that is used in, implicated by, or otherwise connected with the manufacturing and production of Goods.

Section 6.04 Ownership. Subject to the license and sublicense rights granted herein, Seller is the sole owner of all Intellectual Property Rights in the Platform and Master Distributor acknowledges and agrees that this Agreement grants Reseller no title or right of ownership in or to the Platform. Master Distributor shall not, at any time, take or cause any action, which would be inconsistent with or tend to impair the rights of Seller or its licensors in the Platform.

ARTICLE VII TERM; TERMINATION

Section 7.01 Initial Term. The term of this Agreement shall commence on the Effective Date and will continue for a period of twelve (12) months thereafter, unless and until earlier terminated as provided under this Agreement or applicable Law (the "**Initial Term**").

Section 7.02 Renewal Term. Upon expiration of the Initial Term, this Agreement will automatically renew for additional successive twelve (12) month terms unless and until (a) Master Distributor provides Notice of nonrenewal at least sixty (60) days before the end of the then-current term or (b) Seller provides Notice of nonrenewal at least six (6) months before the end of the then-current term or (c) earlier terminated as provided under this Agreement or applicable Law (each, a "**Renewal Term**", and together with the Initial Term, the "**Term**"). If the Term is renewed for any Renewal Term(s) pursuant to this [Section 7.02](#), the terms and conditions of this Agreement during each such Renewal Term are the same as the terms in effect immediately prior to such renewal, subject to any change agreed to by the Parties in accordance with [Section 13.07](#). If Master Distributor or Seller provides timely Notice of its intent not to renew this Agreement, then, subject to [Section 7.01](#), unless earlier terminated in accordance with its terms, this Agreement will terminate on the expiration of the then-current Term.

Section 7.03 Master Distributor's Right to Terminate the Agreement. Master Distributor may terminate this Agreement upon Notice to Seller:

(a) if Seller repudiates any of its obligations under this Agreement;

(b) except as otherwise specifically provided under this [Section 7.03](#), if Seller is in material breach of any representation, warranty, or covenant of Seller under this Agreement and either the breach cannot be cured or, if the breach can be cured, it is not cured by Seller within a commercially reasonable period of time under the circumstances, in no case exceeding fifteen (15) days following Seller's receipt of Notice of such breach; or

(c) if Seller:

(i) becomes insolvent or is generally unable to pay, or fails to pay, its debts as they become due;

(ii) files or has filed against it, a petition for voluntary or involuntary bankruptcy, or otherwise becomes subject, voluntarily or involuntarily, to any proceeding under any domestic or foreign bankruptcy or insolvency Law;

(iii) seeks reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, or other relief with respect to it or its debts;

(iv) makes or seeks to make a general assignment for the benefit of its creditors; or

(v) applies for or has a receiver, trustee, custodian, or similar agent appointed by order of any court of competent jurisdiction to take charge of or sell any material portion of its property or business;

(d) in the event of a Force Majeure Event affecting Seller's performance of this Agreement for more than fifteen (15) consecutive days;

(e) if, without obtaining Master Distributor's prior written consent, (i) Seller sells, leases or exchanges a material portion of Seller's assets, (ii) Seller merges or consolidates with or into another Person, or (iii) a change in Control of Seller occurs, unless in the case of a merger or consolidation of Seller with another Person, Seller is the surviving entity and has a net worth greater than or equal to its net worth immediately prior to the merger or consolidation; or

(h) at its option and for any reason upon ninety (90) days' written notice to Seller.

Any termination under this Section 7.03 is effective on Seller's receipt of Master Distributor's Notice of termination or any later date set out in the Notice.

Section 7.04 Seller's Right to Terminate for Cause. Seller may terminate this Agreement upon Notice to Master Distributor:

(a) except as otherwise specifically provided under this Section 7.04, if Master Distributor is in material breach of any representation, warranty, or covenant of Master Distributor under this Agreement, and either the breach cannot be cured or, if the breach can be cured, it is not cured by Master Distributor within a commercially reasonable period of time (in no case exceeding fifteen (15) days after Master Distributor's receipt of Notice of such breach).

(b) if Master Distributor:

(i) becomes insolvent or is generally unable to pay, or fails to pay, its debts as they become due;

(ii) files or has filed against it, a petition for voluntary or involuntary bankruptcy or otherwise becomes subject, voluntarily or involuntarily, to any proceeding under any domestic or foreign bankruptcy or insolvency Law;

(iii) seeks reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, or other relief with respect to it or its debts;

(iv) makes or seeks to make a general assignment for the benefit of its creditors; or

(v) applies for or has appointed a receiver, trustee, custodian, or similar agent appointed by order of any court of competent jurisdiction to take charge of or sell any material portion of its property or business.

Any termination under this Section 7.04 is effective on Master Distributor's receipt of Seller's Notice of termination or any later date set out in the Notice.

Section 7.05 Effect of Expiration or Termination.

(a) Upon the expiration or earlier termination of this Agreement:

(i) each Party shall promptly return to the other Party or destroy all documents and tangible materials (and any copies thereof) containing, reflecting, incorporating, or based on the other Party's Confidential Information;

(ii) each Party shall promptly permanently erase all of the other Party's Confidential Information from its computer systems, except for copies that are maintained as archive copies on its disaster recovery and/or information technology backup systems. Each Party shall destroy any such copies upon the normal expiration of its backup files; and

(iii) each Party shall promptly certify in writing to the other Party that it has complied with the requirements of this clause.

(b) The Party terminating this Agreement, or in the case of the expiration of this Agreement, each Party, shall not be liable to the other Party for any damage of any kind (whether direct or indirect) incurred by the other Party by reason of the expiration or earlier termination of this Agreement. Termination of this Agreement will not constitute a waiver of any of the terminating Party's rights or remedies under this Agreement, at law, in equity, or otherwise.

(c) Notwithstanding the provisions of Section 13.03, in the case that this Agreement is terminated for any reason, the Parties shall continue to perform such obligations and provide such services under this Agreement as necessary to ensure that the Platform and the Software continue to operate for the remainder of the then current term of the existing End User contracts for Platform Subscriptions in same condition as if this Agreement were still fully in effect.

ARTICLE VIII CONFIDENTIALITY

Section 8.01 Scope of Confidential Information. From time to time during the Term, either Party (as the “**Disclosing Party**”) may disclose or make available to the other Party (as the “**Receiving Party**”) information about its business affairs, goods and services, Forecasts, confidential information, and materials comprising or relating to Intellectual Property Rights, Trade Secrets, third-party confidential information, and other sensitive or proprietary information; such information, whether orally or in written, electronic, or other form or media, and whether or not marked, designated, or otherwise identified as “confidential” constitutes “**Confidential Information**” hereunder. Confidential Information excludes information that, at the time of disclosure and as established by documentary evidence:

(a) is or becomes generally available to and known by the public other than as a result of, directly or indirectly, any breach of this Article XIII by the Receiving Party or any of its Representatives;

(b) is or becomes available to the Receiving Party on a non-confidential basis from a third-party source, provided that such third party is not and was not prohibited from disclosing such Confidential Information;

(c) was known by or in the possession of the Receiving Party or its Representatives before being disclosed by or on behalf of the Disclosing Party; or

(d) was or is independently developed by the Receiving Party without reference to or use of, in whole or in part, any of the Disclosing Party’s Confidential Information.

Section 8.02 Protection of Confidential Information. The Receiving Party shall:

(a) protect and safeguard the confidentiality of the Disclosing Party’s Confidential Information with at least the same degree of care as the Receiving Party would protect its own Confidential Information, but in no event with less than a commercially reasonable degree of care;

(b) not use the Disclosing Party’s Confidential Information, or permit it to be accessed or used, for any purpose other than to exercise its rights or perform its obligations under this Agreement; and

(c) not disclose any such Confidential Information to any Person, except:

(i) to the Receiving Party’s Representatives who need to know the Confidential Information to assist the Receiving Party, or act on its behalf, to exercise its rights or perform its obligations under this Agreement;

(ii) pursuant to applicable Law, provided that the Receiving Party shall first provide the Disclosing Party with: (A) prompt Notice of such requirement so that the Disclosing Party may seek, at its sole cost and expense, a protective order, or other remedy; and (B) reasonable assistance, at the Disclosing Party’s sole cost and expense, in opposing such disclosure or seeking a protective order or other limitations on disclosure; or

(iii) pursuant to Master Distributor’s obligations under the applicable securities Laws and the regulations of any exchange on which Master Distributor’s securities are traded.

The Receiving Party shall be responsible for any breach of this Article XIII caused by any of its Representatives. The provisions of this Article XIII shall survive termination or expiration of this Agreement for any reason for a period of two (2) years after such termination or expiration. On the expiration or earlier termination of this Agreement, the Receiving Party and its Representatives shall, pursuant to Section 7.05(a), promptly return or destroy all Confidential Information and copies thereof that it has received under this Agreement.

ARTICLE IX REPRESENTATIONS AND WARRANTIES

Section 9.01 Seller’s Representations and Warranties. Seller represents, warrants, and covenants to Master Distributor that:

(a) it is a limited liability company organized, validly existing, and in good standing in the jurisdiction of its organization/formation;

(b) it is duly qualified to do business and is in good standing in every jurisdiction in which such qualification is required or purposes of this Agreement, except where the failure to be so qualified, in the aggregate, would not reasonably be expected to adversely affect its ability to perform its obligations under this Agreement;

(c) it has the full right, power, and authority to enter into this Agreement, to grant the rights and licenses granted under this Agreement, and to perform its obligations under this Agreement;

(d) the execution of this Agreement by its Representative whose signature is set forth at the end hereof has been duly authorized by all necessary action of Seller;

(e) the execution, delivery, and performance of this Agreement by Seller will not violate, conflict with, require consent under, or result in any breach or default under:

(i) any of Seller's organizational documents;

(ii) any applicable Law; or

(iii) with or without notice or lapse of time or both, the provisions of any Seller Contract;

(f) when executed and delivered by each of Master Distributor and Seller, this Agreement will constitute the legal, valid, and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws and equitable principles related to or affecting creditors' rights generally or the effect of general principles of equity; and

(g) it is now and at all times will remain in material compliance with all Laws and Seller Contracts applicable to this Agreement, the Goods, the Software, the Platform, and the operation of its business.

EXCEPT AS EXPRESSLY SET FORTH IN THIS SECTION 9.01 and 9.02, Seller EXPRESSLY DISCLAIMS ALL WARRANTIES AND REPRESENTATIONS, EXPRESS OR IMPLIED, CONCERNING THE GOODS, SERVICES AND DELIVERABLES, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY OR OTHERWISE ARE HEREBY DISCLAIMED.

Section 9.02 Master Distributor's Representations and Warranties. Master Distributor represents, warrants, and covenants to Seller that:

(a) it is a corporation duly organized, validly existing, and in good standing in the jurisdiction of its incorporation;

(b) it is duly qualified to do business and is in good standing in every jurisdiction in which such qualification is required for purposes of this Agreement, except where the failure to be so qualified, in the aggregate, would not reasonably be expected to adversely affect its ability to perform its obligations under this Agreement;

(c) it has the full right, power and authority to enter into this Agreement, to grant the rights and licenses granted under this Agreement, and to perform its obligations under this Agreement;

(d) the execution of this Agreement by its Representative whose signature is set forth at the end hereof has been duly authorized by all necessary action of Master Distributor;

(e) the execution, delivery, and performance of this Agreement by Master Distributor will not violate, conflict with, require consent under, or result in any breach or default under:

(i) any of Master Distributor's organizational documents;

(ii) any applicable Law; or

(iii) with or without notice or lapse of time or both, the provisions of any Master Distributor Contract; and

(f) when executed and delivered by each of Seller and Master Distributor, this Agreement will constitute the legal, valid, and binding obligation of Master Distributor, enforceable against Master Distributor in accordance with its terms, except as may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws and equitable principles related to or affecting creditors' rights generally, or the effect of general principles of equity.

(g) it is now and at all times will remain in material compliance with all Laws of the Territory and Master Distributor Contracts applicable to this Agreement and the operation of its business.

ARTICLE X INDEMNIFICATION

Section 10.01 Indemnification.

(a) Master Distributor shall indemnify, defend, and hold harmless Seller and its Representatives, officers, directors, employees, agents, Affiliates, distributors, resellers, referral partners (and, for each of the foregoing that is an entity, their respective officers, directors, employees, and agents), successors, and permitted assigns (collectively, "**Seller Indemnitees**") against any and all losses, damages, liabilities, deficiencies, claims, actions, judgments, settlements, interest, awards, penalties, fines, costs, or expenses of whatever kind, including attorneys' fees, fees and the costs of enforcing any right to indemnification under this Agreement, and the cost of pursuing any insurance providers (collectively, "**Losses**"), incurred by a Seller Indemnitee or awarded against a Seller Indemnitee, relating to, arising out of, or resulting from any Claim of a third party alleging: (a) breach or non-fulfillment of any representation, warranty, or covenant of this Agreement by Master Distributor or Master Distributor's Personnel; (b) any negligent or more culpable act or omission of Master Distributor or its Personnel (including any recklessness or willful misconduct) in connection with the performance of its obligations under this Agreement; (c) any bodily injury, death of any Person, or damage to real or tangible personal property caused by the willful or negligent acts or omissions of Master Distributor or its Personnel; or (d) any failure by Master Distributor or its Personnel to comply with any applicable Laws.

(b) Seller shall indemnify, defend, and hold harmless Master Distributor and its Representatives, officers, directors, employees, agents, Affiliates, distributors, resellers, referral partners (and, for each of the foregoing that is an entity, their respective officers, directors, employees, and agents), successors, and permitted assigns (collectively, “**Master Distributor Indemnitees**”) against any and all Losses incurred by a Master Distributor Indemnitee or awarded against a Master Distributor Indemnitee, relating to, arising out of, or resulting from any Claim of a third party alleging: (a) breach or non-fulfillment of any representation, warranty, or covenant of this Agreement by Seller or Seller’s Personnel; (b) any negligent or more culpable act or omission of Seller or its Personnel (including any recklessness or willful misconduct) in connection with the performance of its obligations under this Agreement; (c) any bodily injury, death of any Person, or damage to real or tangible personal property caused by the willful or negligent acts or omissions of Seller or its Personnel; or (d) any failure by Seller or its Personnel to comply with any applicable Laws.

10.02 Exceptions and Limitations on Indemnification. Notwithstanding anything to the contrary in this Agreement, the indemnifying party is not obligated to indemnify or defend a indemnified party against any claim (whether direct or indirect) if such claim or corresponding Losses directly result from the indemnified party or its indemnitee’s or its Personnel’s: (a) gross negligence or more culpable act or omission (including recklessness or willful misconduct); or (b) bad faith failure to comply with any of its obligations set forth in this Agreement.

Section 10.03 Seller Intellectual Property Indemnification. Subject to the terms and conditions of Section 10.04, Seller shall defend, hold harmless, and indemnify Master Distributor Indemnitees from and against all Losses arising out of any third-party Claim alleging that any of the Goods, Software, Platform, Platform Subscriptions, or Master Distributor’s receipt or use thereof infringes any Intellectual Property Right; *provided* that the indemnification obligations under the foregoing clause shall not apply to infringement actions or claims to the extent that such actions or claims are based on or result from: (i) the use of any Goods, Software, Platform in violation of the terms of this Agreement or the Seller’s Terms of Use for the Goods, Software or Platform, (ii) any alteration or modification of the Goods, Software or Platform by any person other than by, on behalf or at the direction of Seller or its authorized agent, and provided the loss in question would not have occurred, in whole or in part, but for such unauthorized alteration or modification, (iii) any combination, operation or use of the Goods, Software or Platform with equipment or software not supplied, recommended or approved in writing by Seller (for clarity, Seller has approved the use of Goods with the Software and Platform), unless such use is performed by, on behalf or at the direction of Seller or its affiliates, and provided the loss in question would not have occurred, in whole or in part, but for such unsanctioned use, or (iv) compliance with information, directions, specifications or materials provided by Master Distributor or other sub distributor or reseller. In addition, if such a Claim is or is likely to be made, Seller shall, at its own expense, exercise the following as determined in the Seller’s discretion: (a) obtain for Master Distributor and its End Users the respective rights to continue to use and sell the Goods, sublicense the Platform, and the Platform Subscriptions consistent with this Agreement; (b) modify the Goods, Software, Platform, or Platform Subscriptions, as applicable, so they are non-infringing and in compliance with this Agreement; (c) replace the Goods, Software, Platform, or Platform Subscriptions with non-infringing ones that comply with this Agreement; or (d) accept the cancellation and return (at Seller’s expense) of infringing Goods, Software, Platform, or Platform Subscription without Master Distributor or End Users having any cancellation liability and refund to Master Distributor and End Users any amount paid for such infringing Goods. If the Goods, Software, Platform, or Platform Subscriptions, or any part thereof, become, or in Seller’s opinion are likely to become, subject to a Claim that qualifies for intellectual property indemnification coverage under this Section 10.03, Seller shall, at its sole option and expense, Notify Master Distributor and End Users to cease using such Goods, Software, Platform, or Platform Subscription. Master Distributor shall Notify Seller of third-party Claims against Master Distributor and reasonably cooperate in the investigation, settlement, and defense of such Claims at Seller’s expense.

Section 10.04 Exceptions to Seller's Intellectual Property Indemnification. Notwithstanding anything to the contrary in this Agreement, Seller is not obligated to indemnify or defend any Master Distributor Indemnitee against any claim under Section 10.03 if such claim or corresponding Losses arise out of or result from the circumstances described in Section 10.02(a) or Section 10.02(b).

ARTICLE XI LIMITATION OF LIABILITY

Section 11.01 No Liability for Consequential or Indirect Damages. EXCEPT FOR LIABILITY FOR INDEMNIFICATION, LIABILITY FOR BREACH OF CONFIDENTIALITY, LIABILITY FOR BREACH OF NON-SOLICITATION OBLIGATIONS, OR LIABILITY FOR INFRINGEMENT OR MISAPPROPRIATION OF INTELLECTUAL PROPERTY RIGHTS, NEITHER PARTY NOR ITS REPRESENTATIVES SHALL BE LIABLE FOR CONSEQUENTIAL, INDIRECT, INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE, OR ENHANCED DAMAGES, ARISING OUT OF OR RELATING TO ANY BREACH OF THIS AGREEMENT, WHETHER OR NOT THE POSSIBILITY OF SUCH DAMAGES HAS BEEN DISCLOSED IN ADVANCE TO A PARTY OR COULD HAVE BEEN REASONABLY FORESEEN BY SUCH PARTY, REGARDLESS OF THE LEGAL OR EQUITABLE THEORY (CONTRACT, TORT, OR OTHERWISE) UPON WHICH THE CLAIM IS BASED, AND NOTWITHSTANDING THE FAILURE OF ANY AGREED OR OTHER REMEDY OF ITS ESSENTIAL PURPOSE. EXCEPT FOR LIABILITY FOR INDEMNIFICATION, LIABILITY FOR BREACH OF CONFIDENTIALITY, LIABILITY FOR BREACH OF NON-SOLICITATION OBLIGATIONS, OR LIABILITY FOR INFRINGEMENT OR MISAPPROPRIATION OF INTELLECTUAL PROPERTY RIGHTS, UNDER NO CIRCUMSTANCES WHATSOEVER WILL EITHER PARTY BE LIABLE FOR ANY AMOUNTS THAT WILL EXCEED IN THE AGGREGATE THE AMOUNTS PAID OR PAYABLE FOR GOODS SHIPPED OR SERVICES PERFORMED TO SELLER THE PRECEDING 12 MONTHS.

ARTICLE XII INSURANCE OBLIGATIONS

Section 12.01 Insurance. Without limiting Seller's indemnification obligations under this Agreement, during the Term, Seller shall, at its own expense, maintain and carry in full force and effect at least the following types of insurance coverage, subject to the requirements set forth in Section 12.02: (a) commercial general liability with limits of at least one million dollars (\$1,000,000) per occurrence, including bodily injury, property damage covering the Goods and the Platform, and advertising liability, which policy will also include contractual liability coverage insuring the activities of Seller under this Agreement; (b) worker's compensation with limits no less than the minimum amount required by applicable law; and (c) umbrella (excess) liability for the coverage in Section 12.01(a), with limits of five million dollars (\$5,000,000) per occurrence.

Section 12.02 Insurance Contract Requirements. Seller shall ensure that all insurance policies required pursuant to Section 12.01: (a) are issued by insurance companies reasonably acceptable to Master Distributor; (b) provide that such insurance carriers give Master Distributor at least thirty (30) days' prior Notice of cancellation or non-renewal of policy coverage, provided that, prior to such cancellation, Seller has new insurance policies in place that meet the requirements of this Article XII; (c) provide that such insurance be primary insurance and any similar insurance in the name of and/or for the benefit of Seller shall be excess and non-contributory; (d) name Master Distributor and Master Distributor's Affiliates, including, in each case, all successors and permitted assigns, as additional insureds; and (e) waive any right of subrogation of the insurers against Master Distributor or any of its Affiliates.

Section 12.03 Insurance Certificates. On Master Distributor's reasonable request, Seller shall provide Master Distributor with copies of the certificates of insurance and policy endorsements for all insurance coverage required by this Article XII, and shall not do anything to invalidate such insurance. This Section 12.03 shall not be construed in any manner as waiving, restricting, or limiting the liability of either Party for any obligations imposed under this Agreement (including but not limited to, any provisions requiring a party hereto to indemnify, defend, and hold the other harmless under this Agreement).

ARTICLE XIII MISCELLANEOUS

Section 13.01 Further Assurances. Upon a Party's reasonable request, the other Party shall, at its sole cost and expense, execute and deliver all such further documents and instruments, and take all such further acts, necessary to give full effect to this Agreement.

Section 13.02 Entire Agreement. This Agreement, including and together with any related exhibits, schedules, attachments, and appendices, constitutes the sole and entire agreement of the Parties with respect to the subject matter contained herein and therein, and supersedes all prior and contemporaneous understandings, agreements, representations, and warranties, both written and oral, regarding such subject matter. Any additional or different terms or conditions contained in any document furnished by Seller, including but not limited to, any purchase order or any acknowledgment, are hereby objected to and rejected by Master Distributor. This Agreement supersedes the Prior Agreement in its entirety.

Section 13.03 Survival. Subject to the limitations and other provisions of this Agreement: (a) the representations and warranties of the Parties contained herein shall survive the expiration or earlier termination of this Agreement; and (b) Articles, VI, VIII, X, XI and Sections 5.01(a), 7.05, 13.04, 13.13, and 13.14 of this Agreement, as well as any other provision that, in order to give proper effect to its intent, should survive such expiration or termination, shall survive the expiration or earlier termination of this Agreement. All other provisions of this Agreement shall not survive the expiration or earlier termination of this Agreement.

Section 13.04 Notices. All notices, requests, consents, claims, demands, waivers, and other communications hereunder (each, a “Notice”, and with the correlative meaning, “Notify”) shall be in writing and shall be deemed to have been given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (return receipt requested); (c) if by email, including any attachments thereto, on the date sent (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) day after the date mailed, by certified or registered first class mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 13.04.

Notice to Master Distributor:

Creative Realities, Inc.
13100 Magisterial Drive, Suite 100
Louisville, KY 40223
Attn: Will Logan, Chief Financial Officer

E-mail: will.logan@cri.com

With a copy (which shall not constitute notice) to:

Maslon LLP
3300 Wells Fargo Center
90 South 7th Street
Minneapolis, MN 55402
Attn: Bradley Pederson

E-mail: bradley.pederson@maslon.com

Notice to Seller:

[COMPANY ADDRESS]
[E-mail: [E-MAIL ADDRESS]]

Section 13.05 Headings. The headings in this Agreement are for reference only and do not affect the interpretation of this Agreement.

Section 13.06 Severability. If any term or provision of this Agreement is invalid, illegal, or unenforceable in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon a determination that any term or provision is invalid, illegal, or unenforceable, this Agreement shall be modified to effect the original intent of the Parties as closely as possible in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

Section 13.07 Amendment and Modification. No amendment to or modification of this Agreement or any Purchase Order is effective unless it is in writing and signed by an authorized Representative of each Party.

Section 13.08 Waiver. No waiver by any Party of any provision of this Agreement shall be effective unless it is in writing and signed by the Party waiving its right. Any waiver authorized on one occasion is effective only in that instance and only for the purpose stated, and does not operate as a waiver on any future occasion. None of the following constitutes a waiver or estoppel of any right, remedy, power, privilege, or condition arising from this Agreement: (i) any failure or delay in exercising any right, remedy, power, or privilege or in enforcing any condition under this Agreement; or (ii) any act, omission, or course of dealing between the Parties.

Section 13.09 Cumulative Remedies. All rights and remedies provided in this Agreement are cumulative and not exclusive, and the exercise by either Party of any right or remedy does not preclude the exercise of any other rights or remedies that may now or subsequently be available at law, in equity, by statute, in any other agreement between the Parties, or otherwise.

Section 13.10 Assignment. Except as otherwise set forth in this Agreement, neither Party may assign this Agreement any of its rights or delegate any of its obligations hereunder without the other Party's prior written consent. Any purported assignment or delegation in violation of this Section 13.10 shall be null and void.

Section 13.11 Successors and Assigns. This Agreement is binding on and inures to the benefit of the Parties to this Agreement and their respective permitted successors and permitted assigns.

Section 13.12 No Third-Party Beneficiaries.

(a) Subject to Section 13.12(b), this Agreement benefits solely the Parties to this Agreement and their respective permitted successors and assigns and nothing in this Agreement, express or implied, confers on any other Person any legal or equitable right, benefit, or remedy of any nature whatsoever under or by reason of this Agreement.

(b) The Parties hereby designate distributors, sub-distributors, resellers, referral partners, Master Distributor Indemnitees, and End Users as third-party beneficiaries with the right to enforce Section 2.02, Article X, and Section 5.01(a), respectively, together with any related provision of this Agreement.

Section 13.13 Dispute Resolution. Any dispute, controversy, or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof (each, a “**Dispute**”), shall be submitted for negotiation and resolution to the Chief Executive Officer of Seller (or to such other person of equivalent or superior position designated by Seller in a written Notice to Master Distributor) and the Chief Executive Officer of Master Distributor (or to such other person of equivalent or superior position designated by Master Distributor in a written Notice to Seller), by delivery of written Notice (each, a “**Dispute Notice**”) from either Party to the other Party. Such persons shall negotiate in good faith to resolve the Dispute. If the Parties cannot resolve any Dispute within thirty (30) days after delivery of the applicable Dispute Notice, the Dispute shall be resolved exclusively by arbitration to be conducted by and under the Commercial Arbitration Rules of the American Arbitration Association, to be held in a neutral location to be agreed by the Parties, or in Minneapolis, Minnesota if the Parties cannot agree on a neutral location, unless a Party is seeking injunctive relief, in which case the federal and state courts sitting in the location of the defendant in such matter shall have exclusive jurisdiction. Such arbitration shall be commenced by the sending of a written notice by the aggrieved Party to the other Party, setting forth a statement of the grievance. The mailing of such notice shall commence the arbitration, and the award or decision in such arbitration shall be binding upon the Parties. Such award or decision may be entered as a judgment in such court or courts as may have jurisdiction in the matter. The losing Party in any action to enforce its rights or settle any disputes under this Agreement shall pay to the prevailing Party all of its costs and expenses paid or incurred in connection with such suit or action, including, without limitation, the prevailing Party’s reasonable attorneys’ fees, costs and expenses. THE PARTIES HEREBY INTENTIONALLY, KNOWINGLY AND VOLUNTARILY WAIVE ALL OF THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY IN ANY PROCEEDING BROUGHT TO ENFORCE OR DEFEND ANY PROVISION CONTAINED IN THIS AGREEMENT.

Section 13.14 Governing Law. This Agreement, including all Purchase Order documents and exhibits, schedules, attachments, and appendices attached to this Agreement and thereto, shall be governed by and construed in accordance with the Laws of the State of Delaware, without regard to its choice or conflict of laws rules. The Parties agree that the United Nations Convention on Contracts for the International Sale of Goods does not apply to this Agreement.

Section 13.15 Counterparts. This Agreement may be executed in counterparts, each of which is deemed an original, but all of which together are deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, email, or other means of electronic transmission is deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

Section 13.16 Force Majeure. Any delay or failure of either Party to perform its obligations under this Agreement will be excused to the extent that the delay or failure was caused directly by an event beyond such Party’s control, without such Party’s fault or negligence and that by its nature could not have been foreseen by such Party or, if it could have been foreseen, was unavoidable (which events include, without limitation, natural disasters, embargoes, explosions, riots, wars, or acts of terrorism, epidemics, pandemics (excluding the COVID-19 pandemic in effect as of the date hereof), or any action, order, or other response by any federal, state, or local government authority related to any of the foregoing that directly prevents a Party from performing its obligations) (each, a “**Force Majeure Event**”). Either Party’s financial inability to perform, changes in cost or availability of materials, components, or services, market conditions or supplier actions or contract disputes will not excuse performance by such Party under this Section 13.16. Each Party shall give the other prompt written notice of any event or circumstance that is reasonably likely to result in a Force Majeure Event, and the anticipated duration of such Force Majeure Event. Each Party shall use all diligent efforts to end the Force Majeure Event, ensure that the effects of any Force Majeure Event are minimized and resume full performance under this Agreement.

Section 13.17 No Franchise or Business Opportunity Agreement. The Parties are independent contractors and nothing in this Agreement shall be deemed or constructed as creating a joint venture, employment, partnership, agency relationship, business opportunity, or franchise between Seller and Master Distributor. Neither Party, by virtue of this Agreement, will have any right, power, or authority to act or create an obligation, express or implied, on behalf of the other Party. Each Party assumes responsibility for the actions of its personnel under this Agreement and will be solely responsible for their supervision, daily direction, and control, wage rates, withholding income taxes, disability benefits, or the manner and means through which the work under this Agreement will be accomplished. Except as provided otherwise in this Agreement, Master Distributor has the sole discretion to determine Master Distributor's methods of operation, Master Distributor's accounting practices, the types and amounts of insurance Master Distributor carries, Master Distributor's personnel practices, Master Distributor's marketing and promotion, Master Distributor's customers, and Master Distributor's service areas and methods. The relationship created hereby between the Parties is solely that of supplier and distributor. If any provision of this Agreement is deemed to create a franchise or business opportunity relationship between the Parties, then the Parties shall negotiate in good faith to modify this Agreement so as to effect the Parties' original intent as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as a distribution agreement and not a franchise or business opportunity agreement.

Section 13.18 Non-Solicitation.

(a) Neither Party will solicit and/or offer employment to or hire as a contractor for service, nor accept for employment or hire as a contractor for service, the other Party's personnel, including independent contractors during the Term of this Agreement and for a period continuing for twelve (12) months subsequent to the termination of the Agreement inclusive of any extension thereof; *provided, however*, that the foregoing restriction shall not apply to solicitations directed at the public in general.

(b) During the Term and for a period of twelve (12) months after the effective date of the termination of this Agreement, Seller shall not (i) directly or intentionally indirectly through another Reseller solicit, accept, transact, or attempt to obtain business from any Customer of Master Distributor; (ii) directly or intentionally indirectly through another Reseller assist or aid any other party in the solicitation, acceptance or transaction of or any attempt to obtain the business of any Customer of Master Distributor; or (iii) directly or intentionally indirectly through another Reseller accept the business of any Customer of Master Distributor (it is the intention of the Parties that Seller may not avoid enforcement of the non-solicitation provisions set forth herein by claiming that Seller merely accepted the business of any Customer of Master Distributor).

(c) The Parties acknowledge that any breach of the non-solicitation provisions contained in this Section 13.18 may result in serious and irreparable injury to the non-breaching Party. Therefore, the Parties acknowledge and agree that in the event of a breach of the non-solicitation obligations set forth herein, the non-breaching Party shall be entitled, in addition to any other remedy at law or in equity to which such Party may be entitled, to seek equitable relief against the breaching Party, including an injunction to restrain such breaching Party from such breach and to compel compliance with the obligations hereunder, without any requirement to post bond or other form of security. The right of the Parties to pursue equitable relief hereunder will not be subject to the arbitration provisions set forth in Section 13.13.

[Signature Page follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the Effective Date.

CREATIVE REALITIES, INC.

By: /s/ Richard C. Mills

Name: Richard C. Mills

Its: CEO

INREALITY, LLC

By: /s/ Ronald A. Levac

Name: Ronald A. Levac

Its: CEO

**CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Richard Mills, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three and nine months ended September 30, 2020, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 12, 2020

By: /s/ Richard Mills

Richard Mills

Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION
PURSUANT TO EXCHANGE ACT RULE 13a-14(a)**

I, Will Logan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three and nine months ended September 30, 2020, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 12, 2020

By: /s/ Will Logan
Will Logan
Chief Financial Officer

**CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and nine months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 12, 2020

By: /s/ Richard Mills
Richard Mills
Chief Executive Officer

**CHIEF FINANCIAL OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and nine months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 12, 2020

By: /s/ Will Logan
Will Logan
Chief Financial Officer

FOR IMMEDIATE RELEASE**Creative Realities Reports Third Quarter 2020 Results**

LOUISVILLE, KY – November 12, 2020 – Creative Realities, Inc. (“Creative Realities,” “CRI,” or the “Company”) (NASDAQ: CREX, CREXW), a leading provider of digital marketing solutions, announced its financial results for the three- and nine-months ended September 30, 2020.

Rick Mills, Chief Executive Officer, commented “CRI’s third quarter results highlight the tremendous adaptability and commitment that our personnel have shown in the face of adversity and challenges in our core business throughout the COVID-19 pandemic, specifically both (1) the flexibility to pivot our business to Safe Space Solutions’ products and services that remain relevant in a marketplace with continued business closures, and (2) the ability to continue to drive reductions in expenses despite the incremental costs associated with launching new products and services.”

Mr. Mills continued, “Revenue for the third quarter 2020 increased approximately \$1.4 million as compared to the first and second quarter of 2020 as we began to see adoption of our Thermal Mirror product in the marketplace. We continue to believe that CRI’s solution is a market leader and has opportunity for continued adoption in the marketplace throughout the remainder of 2020 and into 2021 as employers seek to adopt technology that will further enhance the safety of the workplace for their employees. We continued to focus on reducing controllable expenses, reducing total operating expenses by approximately \$0.7 million, or 23%, versus the same quarter in 2019, exclusive of non-cash charges in each period. Net loss in the quarter reduced to \$0.6 million, which resulted in the generation of \$0.3 million of EBITDA, an improvement of \$2.0 million versus the second quarter of 2020. As we look forward and into 2021, and as businesses continue to reopen throughout the United States and Canada, we fully expect our Safe Space Solutions, including the Thermal Mirror product, to be a go-to consideration for return to work products and for our core digital signage revenues to return to growth.”

Third Quarter Financial Update*Revenue, gross profit, and gross margin:*

- Revenues were \$5.1 million for the three months ended September 30, 2020, a decrease of \$1.6 million, or 24%, as compared to the same period in 2019.
 - Hardware revenues were \$2.8 million for the three months ended September 30, 2020, an increase of \$0.8 million, or 40%, as compared to the same quarter in the prior year, driven by the introduction of the Thermal Mirror product which generated approximately \$1.8 million in hardware sales during the quarter. Gross margin on hardware revenue was 34.0% in the third quarter of 2020 as compared to 27.0% during the same period in 2019 due to the shift in mix of hardware revenues from displays to the Thermal Mirror product which generates higher gross profit.
 - Services and other revenues were \$2.3 million for the three months ended September 30, 2020, a decrease of \$2.4 million, or 52%, as compared to the same period in 2019, driven primarily by a reduction in installation services of \$1.5 million year-over-year combined with a general reduction in other software and managed services revenue due to customer closures in response to the COVID-19 pandemic. Gross margin on services and other revenue was 65.4% in the quarter ended September 30, 2020 compared to 58.9% in the same period in 2019 driven by less labor-intensive services offerings related to the Thermal Mirror product.
 - Managed services revenue, which includes both software-as-a-service (“SaaS”) and help desk technical subscription services for our traditional digital signage and new Thermal Mirror product offerings, were \$1.3 million for the three months ended September 30, 2020, a reduction of \$0.5 million, or 28%, driven by customer closures in response to the COVID-19 pandemic.
 - Gross profit was \$2.4 million for the three months ended September 30, 2020, a decrease of \$0.9 million, or 26%, compared to the same period in 2019. Consolidated gross margin decreased to 47.9% for the three months ended September 30, 2020 from 49.1% in the same quarter in the prior year, driven primarily by a higher ratio of hardware revenue to total revenue in the period on continued sales of the Thermal Mirror product.
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Operating expenses:

For the three months ended September 30, 2020 as compared to the same period in the prior year:

- Sales and marketing expenses decreased by \$0.1 million, or 21% while research and development expenses decreased by \$0.1 million, or 25%, each driven by a reduction in employee-related expenses as a result of a combination of headcount reductions, salary reductions implemented for retained personnel, and a reduction in travel-related expenses in the current year including the elimination of participation in industry trade shows.
- General and administrative expenses decreased by \$0.3 million, or 12%; inclusive of incremental non-cash charges related to the amortization of stock compensation of \$0.2 million during the period. Exclusive of the incremental year-over-year increase in non-cash charges, general and administrative expenses decreased by \$0.5 million, or 22%, for the three months ended September 30, 2020 as compared to the same period in 2019.

Operating loss, net loss, and EBITDA:

- Operating loss was \$0.4 million for the three months ended September 30, 2020 as compared to operating income of \$0.1 million during the same period in 2019, despite a reduction in revenue period-over-period of \$1.6 million.
- Net loss was \$0.6 million for the three months ended September 30, 2020 as compared to net income of \$0.2 million for the same period in 2019.
- EBITDA was \$0.3 million for the three months ended September 30, 2020 as compared to \$0.8 million the same period in 2019. Adjusted EBITDA was \$0.2 million for the three months ended September 30, 2020, compared to \$0.4 million for the same period in 2019. See below for a description of these non-GAAP financial measures and reconciliation to our net loss.

Mr. Mills concluded, “We believe that we have weathered the worst of the COVID-19 pandemic and that the incremental changes we have made to both our business operations and cost structure will continue to benefit us well into the future as CRI returns to revenue growth. Despite the challenges that 2020 has brought, we believe that CRI has gained momentum against our peers within the industry by remaining an open, flexible, and transparent business partner to our vendors and customers and our flexibility and responsiveness during this crisis will contribute to our continued success as businesses reopen and markets stabilize.”

Conference Call Details

The Company will host a conference call to review the third quarter results and provide additional commentary about the Company’s recent performance, on Friday, November 13, 2020 at 9:00 am Eastern Time.

Prior to the call, participants should register at <http://bit.ly/crlearnings2020Q3>. Once registered, participants can use the weblink provided in the registration email to listen to the live webcast. An archived edition of the second quarter earnings conference call will also be posted on our website at www.cri.com later that same day and will remain available to interested parties via the same link for one year.

About Creative Realities, Inc.

Creative Realities helps clients use the latest omnichannel technologies to inspire better customer experiences. Founded over 15 years ago, CRI designs, develops and deploys consumer experiences for high-end enterprise level networks, and is actively providing recurring SaaS and support services for more than fifteen diverse vertical markets, including Automotive, Advertising Networks, Apparel & Accessories, Convenience Stores, Foodservice/QSR, Gaming, Movie Theater, and Stadium Venues.

Use of Non-GAAP Measures

Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles (“GAAP”). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding “EBITDA” and “Adjusted EBITDA.” CRI defines “EBITDA” as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines “Adjusted EBITDA” as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, EBITDA and Adjusted EBITDA are used internally in planning and evaluating the Company’s operating performance. Accordingly, management believes that disclosure of these metrics offers investors, bankers and other stakeholders an additional view of the Company’s operations that, when coupled with the GAAP results, provides a more complete understanding of the Company’s financial results.

EBITDA and Adjusted EBITDA should not be considered as an alternative to net income/(loss) or to net cash used in operating activities as measures of operating results or liquidity. Our calculation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures used by other companies, and the measures exclude financial information that some may consider important in evaluating the Company’s performance. A reconciliation of GAAP net income/(loss) to EBITDA and Adjusted EBITDA is included in the accompanying financial schedules.

For further information, please refer to Creative Realities, Inc.’s Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on March 12, 2020, and its other filings available online at www.sec.gov.

Cautionary Note on Forward-Looking Statements

This press release contains certain statements that are deemed "forward-looking statements" under Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and includes, among other things, discussions of our business strategies, future operations and capital resources. Words such as “may,” “likely,” “anticipate,” “expect,” “intend,” “plans,” “seeks,” “will,” “should,” “future,” “propose,” “believe” and variations of these words or similar expressions (or the negative versions of such words or expressions) indicate forward-looking statements. These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the Company, that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Some of these risks are discussed in the “Risk Factors” section contained in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2019, and Item 1A of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020, and the Company’s subsequent filings with the U.S. Securities and Exchange Commission. Important factors, among others, that may affect actual results or outcomes include: the inability to recognize the anticipated benefits of our acquisition of Allure Global Solutions, Inc.; our ability to meet Nasdaq’s continued listing standards; our ability to execute on our business plan; our ability to retain key personnel; potential litigation; and general economic and market conditions impacting demand for our products and services, including those as a result of the COVID-19 pandemic.

Except where required by law, the Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

Contact

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RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA
(in thousands, unaudited)

Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles (“GAAP”). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding “EBITDA” and “Adjusted EBITDA.” CRI defines “EBITDA” as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines “Adjusted EBITDA” as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges.

EBITDA and Adjusted EBITDA are non-GAAP financial measures and should not be considered as a substitute for net income (loss), operating income (loss) or any other performance measure derived in accordance with United States generally accepted accounting principles (“GAAP”) or as an alternative to net cash provided by operating activities as a measure of CRI’s profitability or liquidity. CRI’s management believes EBITDA and Adjusted EBITDA are useful because they allow external users of its financial statements, such as industry analysts, investors, lenders and rating agencies, to more effectively evaluate its operating performance, compare the results of its operations from period to period and against CRI’s peers without regard to CRI’s financing methods, hedging positions or capital structure and because it highlights trends in CRI’s business that may not otherwise be apparent when relying solely on GAAP measures. CRI presents EBITDA and Adjusted EBITDA because it believes EBITDA and Adjusted EBITDA are important supplemental measures of its performance that are frequently used by others in evaluating companies in its industry. Because EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income (loss) and may vary among companies, the EBITDA and Adjusted EBITDA CRI presents may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA from net loss, CRI’s most directly comparable financial measure calculated and presented in accordance with GAAP.

Quarters ended	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
GAAP net loss	\$ (585)	\$ (2,459)	\$ (13,183)	\$ 563	\$ 242
Interest expense:					
Amortization of debt discount	85	84	85	105	105
Other interest, net	179	176	142	109	94
Depreciation/amortization:					
Amortization of intangible assets	161	158	159	204	147
Amortization of finance lease assets	5	5	7	7	8
Amortization of share-based awards	248	100	50	21	31
Depreciation of property, equipment & software	212	216	200	167	123
Income tax expense/(benefit)	(1)	4	(155)	128	51
EBITDA	\$ 304	\$ (1,716)	\$ (12,695)	\$ 1,304	\$ 801
Adjustments					
Change in fair value of Special Loan	-	551	151	-	-
Gain on settlement of obligations	(114)	(1)	(40)	(1,632)	(406)
Gain on earnout liability	-	-	-	(250)	-
Loss on disposal of assets	13	-	-	-	-
Loss on goodwill impairment	-	-	10,646	-	-
Stock-based compensation – Director grants	25	19	31	31	31
Stock-based compensation – PRSU vesting	-	-	-	-	-
Adjusted EBITDA	\$ 228	\$ (1,147)	\$ (1,907)	\$ (547)	\$ 426