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 June 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	**41-1967918**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
13100 Magisterial Drive, Suite 100, Louisville KY	**40223**
Address of Principal Executive Offices	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 ☐	Accelerated filer ☐
Non-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 August 14, 2020, the registrant had 10,422,850 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)

	June 30, 2020 (unaudited)	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 870	$ 2,534
Accounts receivable, net of allowance of $1,361 and $617, respectively	2,308	4,663
Unbilled receivables	66	86
Work-in-process and inventories, net of reserve of $101 and $134, respectively	2,631	379
Prepaid expenses and other current assets	1,156	320
Total current assets	7,031	7,982
Operating lease right-of-use assets	1,467	1,728
Property and equipment, net	1,532	1,553
Intangibles, net	4,090	4,407
Goodwill	7,525	18,171
Other assets	141	135
TOTAL ASSETS	$ 21,786	$ 33,976
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	2,773	2,000
Short-term related party loans payable, net of $338 and $0 discount, respectively	4,054	-
Accounts payable	2,521	1,849
Accrued expenses	2,337	2,751
Deferred revenues	1,083	772
Customer deposits	1,173	755
Current maturities of operating leases	653	646
Current maturities of finance leases	11	21
Total current liabilities	16,242	10,431
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	835	1,100
Deferred tax liabilities	-	175
Other long-term liabilities	1	5
TOTAL LIABILITIES	18,630	15,468
SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 200,000 shares authorized; 9,855 and 9,775 shares issued and outstanding, respectively	98	98
Additional paid-in capital	54,342	54,052
Accumulated deficit	(51,284)	(35,642)
Total shareholders' equity	3,156	18,508
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 21,786	$ 33,976

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 June 30,		For the Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Sales				
Hardware	$ 1,601	$ 1,654	$ 2,968	$ 3,295
Services and other	2,055	7,660	4,392	15,503
Total sales	3,656	9,314	7,360	18,798
Cost of sales				
Hardware	1,296	1,311	2,279	2,716
Services and other	543	3,775	1,657	8,173
Total cost of sales	1,839	5,086	3,936	10,889
Gross profit	1,817	4,228	3,424	7,909
Operating expenses:				
Sales and marketing expenses	371	610	798	1,307
Research and development expenses	245	394	558	767
General and administrative expenses	2,465	2,421	5,321	4,711
Depreciation and amortization expense	380	308	746	594
Goodwill impairment	-	-	10,646	-
Total operating expenses	3,461	3,733	18,069	7,379
Operating income/(loss)	(1,644)	495	(14,645)	530
Other income (expenses):				
Interest expense	(260)	(213)	(487)	(417)
Change in fair value of warrant liability	-	22	-	21
Gain on settlement of obligations	1	6	41	13
Change in fair value of Special Loan	(551)	-	(702)	-
Other expense	(1)	-	-	-
Total other expense	(811)	(185)	(1,148)	(383)
Income/(loss) before income taxes	(2,455)	310	(15,793)	147
Benefit/(provision) for income taxes	(4)	107	151	86
Net income/(loss)	(2,459)	417	(15,642)	233
Basic earnings/(loss) per common share	$ (0.25)	$ 0.04	$ (1.59)	$ 0.02
Diluted earnings/(loss) per common share	$ (0.25)	$ 0.04	$ (1.59)	$ 0.02
Weighted average shares outstanding - basic	9,837	9,736	9,815	9,731
Weighted average shares outstanding - diluted	9,837	9,736	9,815	9,731

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating Activities:		
Net income/(loss)	$ (15,642)	$ 233
Adjustments to reconcile net income/(loss) to net cash used in operating activities		
Depreciation and amortization	746	577
Amortization of debt discount	169	314
Stock-based compensation	169	333
Change in warrant liability	-	(21)
Change in fair value of Special Loan	702	-
Deferred tax provision	(175)	(83)
Allowance for doubtful accounts	744	85
Increase in notes due to in-kind interest	199	-
Loss on goodwill impairment	10,646	-
Gain on settlement of obligations	(41)	(13)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled receivables	1,631	507
Inventories	(2,252)	(389)
Prepaid expenses and other current assets	(836)	1,086
Operating lease right-of-use assets, net	261	286
Other assets	(6)	15
Accounts payable	713	(268)
Deferred revenue	311	(5,142)
Accrued expenses	(414)	2,821
Deposits	418	(798)
Operating lease liabilities, non-current	(258)	(276)
Other liabilities	-	(3)
Net cash used in operating activities	(2,915)	(736)
Investing activities		
Purchases of property and equipment	(408)	(382)
Proceeds from net working capital settlement	-	210
Net cash used in investing activities	(408)	(172)
Financing activities		
Principal payments on finance leases	(14)	(15)
Proceeds from Paycheck Protection Program loan	1,552	-
Issuance of common stock – warrant exercise	121	-
Issuance of common stock – vendor payments	-	30
Other financing activities, net	-	(1)
Net cash provided by financing activities	1,659	14
Increase/(decrease) in Cash and Cash Equivalents	(1,664)	(894)
Cash and Cash Equivalents, beginning of period	2,534	2,718
Cash and Cash Equivalents, end of period	$ 870	$ 1,824

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional paid in	Accumulated	
Three months ended June 30, 2020	Shares	Amount	capital	(Deficit)	Total
Balance as of March 31, 2020	9,794,971	$ 98	$ 54,102	$ (48,825)	$ 5,375
Stock-based compensation	-	-	100	-	100
Shares issued to directors as compensation	32,052	-	19	-	19
Exercise of warrants	27,600	-	121	-	121
Net loss	-	-	-	(2,459)	(2,459)
Balance as of June 30, 2020	9,854,623	$ 98	$ 54,342	$ (51,284)	$ 3,156

	Common Stock		Additional paid in	Accumulated	
Six months ended June 30, 2020	Shares	Amount	capital	(Deficit)	Total
Balance as of December 31, 2019	9,774,546	$ 98	$ 54,052	$ (35,642)	$ 18,508
Stock-based compensation	-	-	119	-	119
Shares issued to directors as compensation	52,477	-	50	-	50
Exercise of warrants	27,600	-	121	-	121
Net loss	-	-	-	(15,642)	(15,642)
Balance as of June 30, 2020	9,854,623	$ 98	$ 54,342	$ (51,284)	$ 3,156

	Common Stock		Additional paid in	Accumulated	
Three months ended June 30, 2019	Shares	Amount	capital	(Deficit)	Total
Balance as of March 31, 2019	9,724,826	$ 97	$ 53,616	$ (36,864)	$ 16,849
Shares issued for services	17,960	-	30	-	30
Stock-based compensation	-	-	41	-	41
Vesting of performance shares previously granted to CEO	-	-	250	-	250
Net income	-	-	-	417	417
Balance as of June 30, 2019	9,742,786	$ 97	$ 53,937	$ (36,447)	$ 17,587

	Common Stock		Additional paid in	Accumulated	
Six months ended June 30, 2019	Shares	Amount	capital	(Deficit)	Total
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
Stock-based compensation	-	-	82	-	82
Vesting of performance shares previously granted to CEO	-	-	250	-	250
Net income	-	-	-	233	233
Balance as of June 30, 2019	9,742,786	$ 97	$ 53,937	$ (36,447)	$ 17,587

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. We believe we are one of the world's leading interactive marketing technology companies that focuses on the retail shopper experience by helping retailers and brands use the latest technologies to create better shopping experiences.

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 Realties, 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, Creative Realities Canada, Inc., a Canadian corporation, and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary, Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

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 six months ended June 30, 2020.

For the three months ended June 30, 2020 and 2019 we have recognized/(incurred) net income/(losses) of ($2,459) and $417, respectively. For the six months ended June 30, 2020 and 2019, we recognized/(incurred) net income/(losses) of ($15,642) and 233, respectively. As of June 30, 2020, we had cash and cash equivalents of $870 and working capital deficit of $9,211, which includes $653 representing current maturities of operating leases recorded January 1, 2019 upon adoption of Accounting Standards Update ("ASU") 2016-02.

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 each 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 has materially impacted demand for products and services in our 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.

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 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 June 30, 2020, the Company has not sold any shares of common stock under the Agreement. Through August 6, 2020, we received gross proceeds under the Agreement of $1,300 from the issuance of 558,183 shares of our common stock, and paid an aggregate of $38 to Roth in commissions, yielding net proceeds of $1,160 after commissions and offering 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.

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 August 15, 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 six months ended June 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 adverse 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:

	June 30, 2020	December 31, 2019
Raw materials, net of reserve of $101 and $134, respectively	$ 1,996	$ 200
Inventory on consignment with distributors	360	-
Work-in-process	275	179
Total inventories	$ 2,631	$ 379

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. We evaluated whether there were any triggering events for consideration of impairment of our long-lived assets as of June 30, 2020 and concluded there were none.

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 7,309,998 and 5,320,162 at June 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 six months ended June 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 June 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 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 six months ended June 30, 2020 and 2019:

(in thousands)	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Hardware	$ 1,601	$ 1,654	$ 2,968	$ 3,295
Services:				
Installation Services	463	1,791	1,332	4,163
Software Development Services	37	4,259	179	8,235
Managed Services	1,555	1,610	2,881	3,105
Total Services	2,055	7,660	4,392	15,503
Total Hardware and Services	$ 3,656	$ 9,314	$ 7,360	$ 18,798

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 June 30, 2020 and 2019 were $0.

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 June 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 8 *Loans Payable*, the Special Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. As of June 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 $551 and $702 loss during the three and six months ended June 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

	Six Months Ended June 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	$ -	$ 181
Income taxes, net	$ 2	$ -

NOTE 7: INTANGIBLE ASSETS, INCLUDING GOODWILL

Intangible Assets

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

	June 30, 2020		December 31, 2019	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Technology platform	$ 4,635	3,273	$ 4,635	3,147
Customer relationships	5,330	2,775	5,330	2,679
Trademarks and trade names	1,020	847	1,020	752
	10,985	6,895	10,985	6,578
Accumulated amortization	6,895		6,578	
Net book value of amortizable intangible assets	$ 4,090		$ 4,407	

For the three months ended June 30, 2020 and 2019, amortization of intangible assets charged to operations was $158 and $147, respectively. For the six months ended June 30, 2020 and 2019 amortization of intangible assets charged to operations was $317 and $303, 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 June 30, 2020	$ 7,525

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.

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 each 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 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. After the impairment loss, there is $7,525 remaining goodwill as of March 31, 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 recognizes that any changes in our projected 2020 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	1,032	6/30/2021	61,729	10.0% interest (1)
C	8/17/2016	3,096	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	2,773	6/30/2021	-	10.0% interest (2)
F	4/27/2020	1,552	4/27/2022	-	1.0% interest (3)
	Total debt, gross	10,354		649,965	
	Debt discount	(338)			
	Total debt, net	$ 10,016			
	Less current maturities	(8,464)			
	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 convertible to preferred stock at the earlier of an event of default or October 1, 2020. While the stated maturity date of the Special Loan is June 30, 2021, the mandatory conversion feature into preferred stock as of October 1, 2020 results in the classification of this debt instrument as a current liability on the consolidated balance sheet.

(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.

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 six months ended June 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 $551 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 June 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 adjoined 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 August 14, 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.

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 June 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 six months ended June 30, 2020, the Company had sales to 33 Degrees of $291, or 8.0%, and $791, or 10.7%, respectively, of consolidated revenue. For the three and six months ended June 30, 2019, the Company had sales to 33 Degrees of $275, or 3.0%, and $470, or 2.5%, respectively, of consolidated revenue.

Accounts receivable due from 33 Degrees was $28, or 0.8%, and $1, or 0.0% of consolidated accounts receivable at June 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 six-months ended June 30, 2020, we reported tax (expense)/benefit of ($4) and $151, respectively. As of June 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	(27,600)	4.38	-
Warrants expired	(89,238)	9.49	-
Balance June 30, 2020	4,616,190	$ 4.74	2.97

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 - $5.39	1,605,000	9.92	$	2.52	-	$	-
$5.40 - $7.50	184,830	5.85	$	6.72	159,830	$	6.60
$7.51 - $160.50	103,979	4.95		11.74	94,396	$	12.05
	1,893,809	9.25	$	3.44	254,226		

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 - $5.39	800,000	9.93	$	2.53	-	$	-
$5.40 - $7.50	-	-	$	-	-	$	-
	800,000	9.93	$	2.53	-		

	Time Vesting Options			*Performance Vesting Options*		
Date/Activity	Options Outstanding		Weighted Average Exercise Price	Options Outstanding		Weighted Average Exercise Price
Balance, December 31, 2019	313,809	$	8.06	-	$	-
Granted	1,580,000		2.53	800,000		2.53
Exercised	-		-	-		-
Forfeited or expired	(51)		367.50	-		-
Balance, June 30, 2020	1,893,809		3.44	800,000	$	2.53

The weighted average remaining contractual life for options exercisable is 5.2 years as of June 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 June 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 12,186 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.

Compensation expense recognized for the issuance of stock options for the three and six months ended June 30, 2020 of $19 and $119, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Compensation expense recognized for the issuance of stock options for the three and six months ended June 30, 2019 of $41 and $83, 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.

At June 30, 2020, there was approximately $3,014 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 one (1) and one (1) customers that in the aggregate accounted for 16% and 18.5% of accounts receivable as of June 30, 2020 and December 31, 2019, respectively.

We had two (2) customers that accounted for 27% and 51% of revenue for the three months ended June 30, 2020 and 2019, respectively. We had two (2) customers that accounted for 22% and 41% of revenue for the six months ended June 30, 2020 and 2019, respectively.

Significant Vendors

We had one (1) vendor that accounted for 22% and 50% of outstanding accounts payable at June 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.

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

(in thousands)	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Finance lease cost		
Amortization of right-of-use assets	$ 12	$ 16
Interest	1	3
Operating lease cost	343	393
Total lease cost	$ 356	$ 412
Weighted Average Remaining Lease Term		
Operating leases	3.0 years	3.8 years
Finance leases	1.0 years	1.4 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 June 30, 2020:

(in thousands)	Operating Leases	Finance Leases
The remainder of 2020	$ 342	$ 9
2021	630	4
2022	377	1
2023	375	-
Thereafter	-	-
Total undiscounted cash flows	1,724	14
Less imputed interest	(237)	$ (1)
Present value of lease liabilities	$ 1,487	$ 13

Supplemental cash flow information related to leases are as follows:

(in thousands)	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 171	$ 383
Operating cash flows from finance leases	2	1
Financing cash flows from finance leases	12	15

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 Report on Form 10-Q filed with the SEC on May 14, 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, Creative Realities Canada, Inc., a Canadian corporation, and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

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 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; consulting services, experience design, content development and production, software development, engineering, implementation, and field services; software license fees; 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 each 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 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, resulting in 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 the digital signage 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. We believe that one byproduct of the COVID-19 pandemic may be the acceleration of industry consolidation as smaller providers may be unwilling or unable to continue business over the course of 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.

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 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 June 30, 2020, the Company has not sold any shares of common stock under the Agreement. Through August 6, 2020, we received gross proceeds under the Agreement of $1,300 from the issuance of 558,183 shares of our common stock, and paid an aggregate of $38 to Roth in commissions, yielding net proceeds of $1,160 after commissions and offering 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, which include system hardware, professional and implementation services, software design and development, software licensing, 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 June 30, 2020 Compared to Three Months Ended June 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.

	For the three months ended June 30,		Change	
	2020	2019		%
Sales	$ 3,656	$ 9,314	$ (5,658)	-61%
Cost of sales	1,839	5,086	(3,247)	-64%
Gross profit	1,817	4,228	(2,411)	-57%
Sales and marketing expenses	371	610	(239)	-39%
Research and development expenses	245	394	(149)	-38%
General and administrative expenses	2,465	2,421	44	2%
Depreciation and amortization expense	380	308	72	23%
Total operating expenses	3,461	3,733	(272)	-7%
Operating income/(loss)	(1,644)	495	(2,139)	-432%
Other income/(expenses):				
Interest expense	(260)	(213)	(47)	22%
Change in fair value of warrant liability	-	22	(22)	-100%
Change in fair value of Special Loan	(551)	-	(551)	-100%
Gain on settlement of debt	1	6	(5)	-83%
Other income/(expense)	(1)	-	(1)	-100%
Total other income/(expense)	(811)	(185)	(626)	338%
Net income/(loss) before income taxes	(2,455)	310	(2,765)	-892%
Provision from income taxes	(4)	107	(111)	-104%
Net income/(loss)	$ (2,459)	$ 417	(2,876)	-690%

Sales

Sales decreased by $5,658, or 61%, in the three months ended June 30, 2020 as compared to the same period in 2019 due to (i) non-recurrence of $3,797 revenue recognized from a single sales transaction of software licenses which were sold in 2018 but initially recorded as deferred revenue and ultimately recognized as revenue in the three months ended June 30, 2019, and (ii) a general reduction in both sales and installation activity, highlighted by a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures during the three months ended June 30, 2020 as a direct result of the COVID-19 pandemic.

Gross Profit

Gross profit decreased $2,411 in absolute dollars from $4,228 to $1,817, or 57%, primarily as a result of the decrease in sales, partially offset by an increase in gross profit margin. Gross profit margin increased to 49.7% in 2020 from 45.4% in 2019 during the same period. The increase in gross profit margin is the result of an increase in services revenue margin percentage, which increased 22.9%, partially offset by a shift in sales mix during the period, which saw 43.8% of revenues from hardware in the three months ended June 30, 2020 as compared to 17.8% in the same period for 2019. Gross profit margin from services revenues increased to 73.6% from 50.7% driven by headcount reductions in personnel servicing customers and an increase in the relative percentage of software revenues as a percentage of services revenues, which have higher margins than installation and other services revenues.

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 $239, or 39%, in 2020 compared to 2019. The decrease was the result of a $160 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 already been suspended, delayed, or completely cancelled. We further anticipate our sales personnel will reduce 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 $149, or 38%, in 2020 compared to 2019 as the result of a reduction in personnel costs during the period.

General and Administrative Expenses

Total general and administrative expenses increased by $44, or 2%, in 2020 compared to 2019 driven by recording an incremental reserve for bad debts of $468 in the three months ended June 30, 2020 related to a customer bankruptcy. Excluding this incremental impact of this one-time charge to bad debt expense within general and administrative expenses, general and administrative expenses decreased by $424, or 17%, versus the same period in the prior year, driven primarily by a reduction in employee and employee-related expenses of $647 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 10 *Commitments and Contingencies* to the Condensed Consolidated Financial Statements. These reductions were partially offset by increased legal, accounting, and transaction costs associated with completion of the Company’s shelf registration statement on Form S-3 and the subsequent at-the-market offering with Roth Capital Partners.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by $72, or 23%, in 2020 compared to 2019. This increase was primarily 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.

Change in fair value of Special Loan

See Note 8 *Loans Payable* to the Condensed Consolidated Financial Statements for a discussion of the Company's Special Loan. As of June 30, 2020, we updated our fair value analysis of the Special Loan, resulting in recognition of a $551 loss during the period from the change in fair value of the liability.

Six Months Ended June 30, 2020 Compared to Six Months Ended June 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.

	For the Six Months Ended June 30,		Change	
	2020	**2019**		**%**
Sales	$ 7,360	$ 18,798	$ (11,438)	-61%
Cost of sales	3,936	10,889	(6,953)	-64%
Gross profit	3,424	7,909	(4,485)	-57%
Sales and marketing expenses	798	1,307	(509)	-39%
Research and development expenses	558	767	(209)	-27%
General and administrative expenses	5,321	4,711	610	13%
Depreciation and amortization expense	746	594	152	26%
Goodwill impairment	10,646	0	10,646	100%
Total operating expenses	18,069	7,379	10,690	145%
Operating income/(loss)	(14,645)	530	(15,175)	-2,863%
Other income/(expenses):				
Interest expense	(487)	(417)	(70)	17%
Change in fair value of warrant liability	-	21	(21)	-100%
Change in fair value of Special Loan	(702)	-	(702)	-100%
Gain on settlement of debt	41	13	28	215%
Total other income/(expense)	(1,148)	(383)	(765)	200%
Net income/(loss) before income taxes	(15,793)	147	(15,940)	-10,844%
Provision from income taxes	151	86	65	76%
Net income/(loss)	$ (15,642)	$ 233	(15,875)	-6,813%

Sales

Sales decreased by $11,438, or 61%, in the three months ended June 30, 2020 as compared to the same period in 2019 due to (i) non-recurrence of $5,671 revenue recognized from a single sales transaction of software licenses which were sold in 2018 but initially recorded as deferred revenue and ultimately recognized as revenue in the six months ended June 30, 2019, (ii) non-recurrence of $2,083 revenue recognized from a software development project completed in the three months ended June 30, 2019, and (ii) a general reduction in both sales and installation activity, highlighted by a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures during the six months ended June 30, 2020 as a direct result of the COVID-19 pandemic.

Gross Profit

Gross profit decreased $4,485 in absolute dollars from $7,909 to $3,424, or 57%, primarily as a result of the decrease in sales, partially offset by an increase in gross profit margin. Gross profit margin increased to 46.5% in 2020 from 42.1% in 2019 during the same period. The increase in gross profit margin is the result of an increase in both hardware and services margin percentages, which increased 5.6% and 15.0%, respectively, offset by a shift in sales mix during the period, which saw 40.3% of revenues from hardware in the six months ended June 30, 2020 as compared to 17.5% in the same period for 2019. Gross profit margin from services revenues increased to 62.3% from 47.3% driven by headcount reductions in personnel servicing customers and an increase in the relative percentage of software revenues as a percentage of services revenues, which have higher margins than installation and other services revenues.

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 $509, or 39%, in 2020 compared to 2019. The decrease was there result of a $305 reduction in personnel costs, combined with reduced spend on trade show activity of $81 and related travel costs of $58 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 already been suspended, delayed, or cancelled. We further anticipate our sales personnel will reduce 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 $209, or 27%, in 2020 compared to 2019 as the result of a reduction in personnel costs during the period.

General and Administrative Expenses

Total general and administrative expenses increased by $610, or 13%, in 2020 compared to 2019 driven by (1) recording an incremental reserve for bad debts of $750 in the six months ended June 30, 2020 related to a customer bankruptcy and a general deterioration in payments from customers following the COVID-19 pandemic and (2) $200 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. Excluding the year-over-year incremental impact of one-time charges to bad debt expense within general and administrative expenses, general and administrative expenses decreased by $140, or 3%, versus the same period in the prior year, driven primarily by a reduction in employee and employee-related expenses of $614 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 10 *Commitments and Contingencies* to the Condensed Consolidated Financial Statements.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by $152, or 26%, in 2020 compared to 2019. This increase was primarily 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.

Change in fair value of Special Loan

See Note 8 *Loans Payable* to the Condensed Consolidated Financial Statements for a discussion of the Company's Special Loan. As of June 30, 2020, we updated our fair value analysis of the Special Loan, resulting in recognition of a $702 loss during the period from the change in fair value of the liability.

Summary Unaudited Quarterly Financial Information

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

Quarters ended	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Net sales	$ 3,656	$ 3,704	$ 6,077	$ 6,723	$ 9,314
Cost of sales	1,839	2,097	3,553	3,417	5,086
Gross profit	1,817	1,607	2,524	3,306	4,228
Operating expenses, inclusive of one-time lease termination expense, excluding depreciation and amortization	3,081	3,596	2,872	2,942	3,425
Goodwill impairment	-	10,646	-	-	-
Depreciation/amortization	380	366	378	278	308
Operating (loss)/income	(1,644)	(13,001)	(726)	86	495
Other expenses/(income)	811	337	(1,417)	(207)	185
Income tax provision/(benefit)	4	(155)	128	51	(107)
Net (loss)/income	$ (2,459)	$ (13,183)	$ 563	$ 242	$ 417

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	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
GAAP net loss	$ (2,459)	$ (13,183)	$ 563	$ 242	$ 417
Interest expense:					
Amortization of debt discount	84	85	105	105	158
Other interest, net	176	142	109	94	55
Depreciation/amortization:					
Amortization of intangible assets	158	159	204	147	147
Amortization of finance lease assets	5	7	7	8	8
Amortization of share-based awards	100	50	21	31	41
Depreciation of property, equipment & software	216	200	167	123	152
Income tax expense/(benefit)	4	(155)	128	51	(107)
EBITDA	$ (1,716)	$ (12,695)	$ 1,304	$ 801	$ 871
Adjustments					
Change in warrant liability	-	-	-	-	(22)
Change in fair value of Special Loan	551	151	-	-	-
Gain on settlement of obligations	(1)	(40)	(1,632)	(406)	(6)
Gain on earnout liability	-	-	(250)	-	-
Loss on goodwill impairment	-	10,646	-	-	-
Stock-based compensation – Director grants	19	31	31	31	
Stock-based compensation – PRSU vesting	-	-	-	-	250
Adjusted EBITDA	$ (1,147)	$ (1,907)	$ (547)	$ 426	$ 1,093

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 six months ended June 30, 2020.

For the three months ended June 30, 2020 and 2019 we have recognized/(incurred) net income/(losses) of ($2,459) and $417, respectively. For the six months ended June 30, 2020 and 2019, we recognized/(incurred) net income/(losses) of ($15,642) and 233, respectively. As of June 30, 2020, we had cash and cash equivalents of $870 and working capital deficit of $9,211, which includes $653 representing current maturities of operating leases recorded January 1, 2019 upon adoption of Accounting Standards Update ("ASU") 2016-02.

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 each 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 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.

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 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 June 30, 2020, the Company has not sold any shares of common stock under the Agreement. Through August 6, 2020, we received gross proceeds under the Agreement of $1,300 from the issuance of 558,183 shares of our common stock, and paid an aggregate of $38 to Roth in commissions, yielding net proceeds of $1,160 after commissions and offering 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.

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) support from Slipstream, we can continue as a going concern through at least August 15, 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 six months ended June 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 had a material adverse effect on 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

As of June 30, 2020, we had an accumulated deficit of $51,284. Cash flows used in operating activities was $2,915 and $736 for the six months ended June 30, 2020 and 2019, respectively. 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 a non-cash charge for fair value of our Special Loan, a non-cash impairment charge related to goodwill combined with increases in customer deposits and deferred revenue, each representing advance cash collections on future performance obligations, and a reduction in accounts receivable.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2020 was $408 compared to $172 during the same period in 2019. The use of cash in both periods represents acquisition of capital assets, primarily related to the capitalization of software costs, which was offset by a net working capital settlement which produced cash of $210 in 2019 during the period. We currently do not have any material commitments for capital expenditures as of June 30, 2020, nor do we anticipate capital expenditures in excess of our historical trends throughout the balance of the year.

Financing Activities

Net cash proved by financing activities during the six months ended June 30, 2020 was $1,659 compared to $14 for the same period in 2019. The 2020 proceeds were driven by the Company's receipt of a $1,552 Paycheck Protection Program loan and the exercise of 27,600 warrants during the three months ended June 30, 2020.

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 six months ended June 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 June 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 June 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

None.

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 Report on Form 10-Q filed with the SEC on May 14, 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. In addition, below are additional risks to consider.

Funding from our at-the-market offering (the "ATM facility") may be insufficient to fund our operations or to implement our strategy.

We will need to keep current our shelf registration statement and an offering prospectus relating to our ATM Facility with Roth in order to use the program to sell shares of our common stock, as well as provide certain periodic deliverables required by the Agreement with Roth for our ATM facility. Although the ATM facility permits sales of our common stock of up to $8 million, due to the SEC's "baby shelf rules," which prohibit companies with a public float of less than $75 million from issuing securities under a shelf registration statement in excess of one-third of such company's public float in a trailing 12-month period, we are only able to issue a limited number of shares which aggregate to no more than one-third of our public float using our shelf registration statement at this time. The number of shares and price at which we may be able to sell shares under the ATM facility may be limited due to market conditions and other factors beyond our control.

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
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
99.1	Press release dated August 13, 2020
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

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.

	Creative Realities, Inc.	
Date: August 13, 2020	By	/s/ Richard Mills
		Richard Mills Chief Executive Officer
	By	/s/ Will Logan
		Will Logan Chief Financial Officer

EXHIBIT 31.1

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

I, Richard Mills, certify that:

1. I have reviewed this annual report on Form 10-Q for the three and six months ended June 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: August 13, 2020

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

EXHIBIT 31.2

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

I, Will Logan, certify that:

1. I have reviewed this annual report on Form 10-Q for the three and six months ended June 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: August 13, 2020

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

EXHIBIT 32.1

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

In connection with the Annual Report of Creative Realities, Inc. (the “Company”) on Form 10-Q for the three and six months ended June 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: August 13, 2020

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

EXHIBIT 32.2

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

In connection with the Annual Report of Creative Realities, Inc. (the “Company”) on Form 10-Q for the three and six months ended June 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: August 13, 2020

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

FOR IMMEDIATE RELEASE

Creative Realities Reports Second Quarter 2020 Results

LOUISVILLE, KY – August 13, 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 six-months ended June 30, 2020.

Rick Mills, Chief Executive Officer, commented "I would first like to thank all CRI employees, customers, suppliers, and partners for their unwavering support of our Company during these unprecedented, dynamic times. I am proud of the adaptability and commitment that our personnel have shown in the face of adversity in light of the COVID-19 pandemic."

Mr. Mills continued, "Entering the second quarter, we anticipated that the COVID-19 pandemic would disrupt the digital signage industry and the business operations in each of the vertical markets we serve as it forced companies to address both stay-at-home orders along with social distancing, increased sanitation protocols, masks, temperature checks and other procedures. In response, we implemented a series of cost-cutting measures and, more importantly, adjusted our product offering to launch the Thermal Mirror to assist businesses responding to newly developed COVID-19 protocols."

Mr. Mills added, "We launched the Thermal Mirror in late-April to exceptional market reception. We worked throughout May and June to enhance features and functionality of the product, building our upstream and downstream supply chain capabilities to support the eventual sale of thousands of units throughout the United States and Canada, and to launch a substantial trial unit program focused on customers throughout the United States. During July and August, we have seen a consistent flow of Thermal Mirror orders on a weekly basis. Similar to our digital signage customer base, our mix of customers for the Thermal Mirror includes enterprise corporations, K-12 and higher education institutions, sports and entertainment venues, and small and medium businesses. We believe this market continues to represent a significant opportunity for the Company throughout the remainder of 2020 as we have positioned ourselves as a clear market leader in this space. With the product, including our cloud subscription services, having recently been made available via the distribution channel, we have seen increasing demand week-over-week throughout July and August. As we continue to develop and evolve the product offering and as businesses continue to reopen throughout the United States and Canada, we fully expect the Thermal Mirror to be a go-to consideration for safe space solutions."

Business Update

- **Business Operations** – In response to the COVID-19 pandemic and the guidance of government and public health officials, Creative Realities closed all of its facilities in April 2020 and the majority of CRI's employees are currently working from home and continue to support the business.
- **Cost Management Initiatives** – CRI has and will continue to take additional action to aggressively manage operating costs, capital expenditures, and working capital. Our actions throughout the second quarter of 2020 and through today include (1) personnel and salary reductions, (2) working closely with vendor partners to enter payment plans for the Company's outstanding accounts payable, (2) exiting, negotiating the deferral of payments, or restructuring existing long-term leases for our facilities, and (3) suspending travel for personnel.
- **Liquidity** – On April 27, 2020, the Company applied for and received a Paycheck Protection Program loan ("PPP") of approximately $1.6 million, which is eligible for forgiveness. Our initial internal calculations and analysis indicate that we have achieved 75% forgiveness as of the date of this press release and expect to achieve 100% forgiveness by the end of the third quarter of 2020, at which point we plan to apply for forgiveness. If forgiveness is granted, the Company would recognize a gain of approximately $1.6 million and eliminate an equivalent amount of long-term debt. On June 19, 2020, the Company entered into a Sales Agreement under which the Company may offer and sell shares of its common stock. As of June 30, 2020, the Company has not sold any shares of common stock under the Agreement. Through August 13, 2020, the Company received net proceeds under the Sales Agreement of approximately $1.2 million from the issuance of approximately 550,000 shares of our common stock. The Company currently has cash on hand of approximately $1.1 million as of the date of this press release.

Second Quarter Financial Update

- Revenues were $3.7 million for the quarter ended June 30, 2020, a decrease of $5.7 million, or 61%, as compared to the same period in 2019.
- Hardware revenues were $1.6 million for the quarter ended June 30, 2020, a decrease of $0.1 million, or 3%, as compared to the same quarter in the prior year. Gross margin on hardware revenue was 19.1% in 2Q2020 as compared to 20.7% in 2Q2019.
- Services and other revenues were $2.1 million for the quarter ended June 30, 2020, a decrease of $5.6 million, or 73%, in the quarter ended June 30, 2020 as compared to the same period in 2019. Gross margin on services and other revenue was 73.6% in the quarter ended June 30, 2020 compared to 50.7% in the same period in 2019.
- Managed services revenue, which includes both SaaS and help desk technical subscription services, were effectively flat at $1.6 million in the second quarter of both 2020 and 2019.
- Gross profit was $1.8 million for the second quarter of 2020, a decrease of $2.4 million, or 57%, compared to the same period in 2019. Consolidated gross margin increased to 49.7% for the quarter ended June 30, 2020 from 45.4% in the same quarter in the prior year, driven primarily by a higher ratio of managed services revenue to total revenue in the period in part as a result of a reduction in installation services.
- With respect to operating expenses for the second quarter of 2020 as compared to the same period in the prior year:
    - Sales and marketing expenses reduced by $0.2 million, or 39% while research and development expenses reduced by $0.1 million, or 38%, 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 were flat year-over-year; however, this is not reflective of the Company’s cost-cutting measures. During the second quarter of 2020, the Company’s employee-related expenses decreased by approximately $0.6 million as compared to the same period in 2019, representing a 45% reduction versus the prior year. These reductions were offset by an increase of $0.5 million in the Company’s reserve for bad debt related to a customer bankruptcy that was filed during the second quarter of 2020 and an increase of $0.2 million related to deal and transaction costs associated with the Company’s entry into an at-the-market offering. Excluding the effects of these discrete events, general and administrative expenses decreased by $0.6 million, or 25%, during the second quarter of 2020 as compared to the same period in 2019.
- Operating loss was $1.6 million in the quarter ended June 30, 2020 as compared to operating income of $0.5 million during the same period in 2019. Excluding the effects of discrete charges in 2Q20 and adjusting for the potential impact of the forgiveness of our PPP loan as calculated today, adjusted operating income would have been approximately $0.1 million. See below for a description of these non-GAAP financial measures and reconciliation to our operating loss.

- Net loss was $2.5 million in the quarter ended June 30, 2020 as compared to net income of $0.4 million for the same period in 2019. Net loss in the second quarter 2020 included a discrete, non-cash charge of $0.6 million related to fair value accounting for the Company's Convertible Special Loan.
- EBITDA was ($1.7) million for the three months ended June 30, 2020 compared to $0.9 million the same period in 2019. Adjusted EBITDA was ($1.1) million for the three months ended June 30, 2020, compared to $1.1 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 with respect to its impact on our business and are optimistic about CRI's opportunities with respect to our traditional digital marketing technologies and the immediate opportunity with respect to the Thermal Mirror. CRI has remained an open, flexible, and transparent business partner to our vendors and customers and we believe our flexibility and responsiveness during this crisis will contribute to our success as businesses reopen and markets stabilize. We believe the long-term opportunity for both the digital signage industry and CRI remain bright and we look forward to supporting our customers in their pursuit to reopen as we move forward together."

Conference Call Details
The Company will host a conference call to review the first quarter results and provide additional commentary about the Company's recent performance, which is scheduled for Friday, August 14, 2020 at 9:00 am Eastern Time.

Prior to the call, participants should register at http://bit.ly/criearnings2020Q2. 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, Theater, and Stadium Venues. The Company acquired Allure Global Solutions, Inc. in November 2018, expanding the Company's operations to five offices across North America with active installations in more than 10 countries.

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," "Adjusted EBITDA," and "Adjusted Operating Income." 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. CRI defines "Adjusted Operating Income" as GAAP operating income/loss, excluding deal & transition costs, bad debt charges related to customer bankruptcies, and the addition of estimated loan forgiveness income. EBITDA, Adjusted EBITDA and Adjusted Operating Income are not measures of performance defined in accordance with GAAP. 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, and Adjusted Operating Income should not be considered as an alternative to operating income/(loss). Our calculation of EBITDA, Adjusted EBITDA and Adjusted Operating Income 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 EBITDA and Adjusted EBITDA to GAAP net income/(loss), and a reconciliation of Adjusted Operating Income to GAAP operating loss is included in the accompanying financial schedules.

For further information, please refer to Creative Realities, Inc.'s Quarterly Report on Form 10-Q to be filed with the Securities and Exchange Commission on or about August 13, 2020, 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, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended March 31, 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.

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RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA
and
RECONCILIATION OF GAAP OPERATING LOSS TO ADJUSTED OPERATING INCOME
(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", "Adjusted EBITDA", and "Adjusted Operating Income". 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. CRI defines "Adjusted Operating Income" as GAAP operating income/loss, excluding deal & transition costs, bad debt charges related to customer bankruptcies, and the addition of estimated loan forgiveness income.

EBITDA, Adjusted EBITDA, and Adjusted Operating Income 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's management believes Adjusted Operating Income is useful in light of the COVID-19 pandemic 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 in normalized market conditions. 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, Adjusted EBITDA, and Adjusted Operating Income exclude some, but not all, items that affect net income (loss) and may vary among companies, the EBITDA, Adjusted EBITDA, and Adjusted Operating Income 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	June 30, 2020	March 31, 2020	June 30, 2019
GAAP net loss	$ (2,459)	$ (13,183)	$ 417
Interest expense:			
Amortization of debt discount	84	85	158
Other interest, net	176	142	55
Depreciation/amortization:			
Amortization of intangible assets	158	159	147
Amortization of finance lease assets	5	7	8
Amortization of share-based awards	100	50	41
Depreciation of property, equipment & software	216	200	152
Income tax expense/(benefit)	4	(155)	(107)
EBITDA	$ (1,716)	$ (12,695)	$ 871
Adjustments			
Change in warrant liability	-	-	(22)
Change in fair value of Special Loan	551	151	-
Gain on settlement of obligations	(1)	(40)	(6)
Gain on earnout liability	-	-	-
Loss on goodwill impairment	-	10,646	-
Stock-based compensation – Director grants	19	31	
Stock-based compensation – PRSU vesting	-	-	250
Adjusted EBITDA	$ (1,147)	$ (1,907)	$ 1,093

The following table presents a reconciliation of Adjusted Operating Income from operating loss, CRI's most directly comparable financial measure calculated and presented in accordance with GAAP.

Quarters ended	Three Months Ended June 30, 2020
GAAP operating loss	$ (1,644)
Bad debt expense (customer bankruptcy)	468
Deal and transaction costs (ATM offering)	160
Implied forgiveness of PPP loan	1,164
Adjusted Operating Income	$ 148