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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2021

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33169



**Creative Realities, Inc.**

(Exact name of registrant as specified in its charter)

**Minnesota**

State or other jurisdiction of  
incorporation or organization

**41-1967918**

I.R.S. Employer  
Identification No.

**13100 Magisterial Drive, Suite 100, Louisville KY**

Address of principal executive offices

**40223**

Zip Code

**(502) 791-8800**

Registrant's telephone number, including area code

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates was \$25,772,393 as of the last business day of the registrant's most recently completed second fiscal quarter.

As of March 22, 2022, the registrant had 17,124,986 shares of common stock outstanding.

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## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS; RISK FACTOR SUMMARY**

The information in this Report contains various forward-looking statements within the meaning of Section 21E of the Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, any such statements 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), are intended to identify such forward-looking statements.

We caution you that these forward-looking statements are subject to numerous risks and uncertainties, most of which are difficult to predict and many of which are beyond our control. Should one or more of the risks or uncertainties described in this Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this Report are expressly qualified in their entirety by this cautionary note. This cautionary note should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Report.

A summary of the principal risk factors that make investing in our securities risky and might cause our actual results to differ is set forth below. The following is only a summary of the principal risks that may materially adversely affect our business, financial condition, results of operations and cash flows. This summary should be read in conjunction with the more complete discussion of the risk factors we face, which are set forth in the section entitled “Risk Factors” in this Report.

### ***Risks Related to our Business and our Industry***

- The ongoing COVID-19 pandemic has previously had, and may in the future have, a significant adverse impact on our advertising revenue and also exposes our business to other risks.
- We have generally incurred losses, and may never become or remain profitable.
- Our digital marketing business is evolving in a rapidly changing market, and we cannot ensure the long-term successful operation of our business or the execution of our business plan.
- Adequate funds for our operations may not be available, requiring us to raise additional financing or else curtail our activities significantly.
- We do not have sufficient capital to engage in material research and development, which may harm our long-term growth.
- We are reliant on the continued support of a related party for adequate financing of our operations.
- There has been, and we expect that there will continue to be, significant consolidation in our industry. Our failure or inability to lead that consolidation would have a severe adverse impact on our access to financing, customers, technology, and human resources.
- Our success depends on our interactive marketing technologies achieving and maintaining widespread acceptance in our targeted markets.
- Our financial condition and potential for continued net losses may negatively impact our relationships with customers, prospective customers and third-party suppliers.
- Because we do not have long-term purchase commitments from our customers, the failure to obtain anticipated orders or the deferral or cancellation of commitments could have adverse effects on our business.
- Our continued growth and financial performance could be adversely affected by the loss of several key customers.
- Most of our contracts are terminable by our customers with limited notice and without penalty payments, and early terminations could have a material adverse effect on our business, operating results and financial condition.

- It is common for our current and prospective customers to take a long time to evaluate our products, most especially during economic downturns that affect our customers' businesses, including as a result of the COVID-19 pandemic. The lengthy and variable sales cycle makes it difficult to predict our operating results.
- Our industry is characterized by frequent technological change. If we are unable to adapt our products and services and develop new products and services to keep up with these rapid changes, we will not be able to obtain or maintain market share.
- A portion of our business involves the use of software technology that we have developed or licensed. Industries involving the ownership and licensing of software-based intellectual property are characterized by frequent intellectual-property litigation, and we could face claims of infringement by others in the industry. Such claims are costly and add uncertainty to our operational results.
- Our proprietary platform architectures and data tracking technology underlying certain of our services are complex and may contain unknown errors in design or implementation that could result in system performance failures or inability to scale.
- Our business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, our products and services.
- We compete with other companies that have more resources, which puts us at a competitive disadvantage.
- Our future success depends on key personnel and our ability to attract and retain additional personnel.
- We are subject to cyber security risks and interruptions or failures in our information technology systems and will likely need to expend additional resources to enhance our protection from such risks. Notwithstanding our efforts, a cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.
- Our reliance on information management and transaction systems to operate our business exposes us to cyber incidents and hacking of our sensitive information if our outsourced service provider experiences a security breach.
- Because our technology, products, platform, and services are complex and are deployed in and across complex environments, they may have errors or defects that could seriously harm our business.
- We may have insufficient network or server capacity, which could result in interruptions in our services and loss of revenues.
- Our business operations are susceptible to interruptions caused by events beyond our control.
- The markets in which we operate are rapidly emerging, and we may be unable to compete successfully against existing or future competitors to our business.
- Our Safe Space Solutions products may no longer be marketable.

***Risks Related to our Acquisition of Reflect Systems, Inc. ("Reflect")***

- The loss of the services of certain key management personnel at Reflect could impair our ability to execute our business strategy and as a result, reduce our sales and profitability.
- We may be unable to successfully integrate Reflect with our business, which could cause our business to suffer.
- We may not realize the growth opportunities that are anticipated from our acquisition of Reflect.
- The acquisition of Reflect may fail to achieve beneficial synergies.
- The assumption of unknown liabilities in the Reflect acquisition may harm our financial condition and results of operations.
- We have incurred and will continue to incur significant transaction and integration costs in connection with the acquisition of Reflect.

***Risks Related to our Securities and our Company***

- The variable sales cycle of some of the combined company's products will likely make it difficult to predict operating results.
- Our largest shareholder possesses controlling voting power with respect to our common stock, which will limit your influence on corporate matters.
- Our Articles of Incorporation grant our Board of Directors the power to issue additional shares of common and preferred stock and to designate other classes of preferred stock, all without shareholder approval.
- We do not intend to pay dividends on our common stock for the foreseeable future.
- We do not have significant tangible assets that could be sold upon liquidation.
- We can provide no assurance that our securities will continue to meet Nasdaq listing requirements. If we fail to comply with the continuing listing standards of the Nasdaq, our securities could be delisted.

***General Risk Factors***

- Unpredictability in financing markets could impair our ability to grow our business through acquisitions.
- Because of our limited resources, we may not have in place various processes and protections common to more mature companies and may be more susceptible to adverse events.
- General global market and economic conditions may have an adverse impact on our operating performance and results of operations.
- Significant issuances of our common stock, or the perception that significant issuances may occur in the future, could adversely affect the market price for our common stock.
- There may not be an active market for shares of our common stock.

## PART I

### ITEM 1 BUSINESS

(All currency is rounded to the nearest thousand, except share and per share amounts.)

#### Our Company

Creative Realities, Inc. (“Creative Realities”, or the “Company”) provides digital solutions to enhance communications in a wide-ranging variety of out-of-home environments by providing innovative digital signage solutions for key market segments and use cases, including:

- Retail
- Entertainment and Sports Venues
- Restaurants, including quick-serve restaurants (“QSR”)
- Convenience Stores
- Financial Services
- Automotive
- Medical and Healthcare Facilities
- Mixed Use Developments
- Corporate Communications, Employee Experience
- Digital out of Home (DOOH) Advertising Networks

We serve market-leading companies, so there is a good chance that if you leave your home today to shop, work, eat or play, you will encounter one or more of our digital signage experiences. Our solutions are increasingly visible because we help our enterprise clients achieve a wide range of business objectives including:

- Increased brand awareness/engagement
- Improved customer support
- Enhanced employee productivity and satisfaction
- Increased revenue and profitability
- Improved guest experience
- Increased customer/guest engagement
- Improved patient outcomes

Through a combination of organically grown platforms and a series of strategic acquisitions, including our recent acquisition of Reflect Systems, Inc. in February 2022, the Company assists clients to design, deploy, manage, and monetize their digital signage networks. The Company sources leads and opportunities for its solutions through its digital and content marketing initiatives, close relationships with key industry partners, equipment manufacturers, and the direct efforts of its in-house industry sales experts. Client engagements focus on consultative conversations that ensure the Company’s solutions are positioned to help clients achieve their business objectives in the most cost-effective manner possible.



When comparing Creative Realities to other digital signage competitors, our customers value the following competitive advantages:

- **Breadth of solutions** – Creative Realities offers true solutions to our clients. Creative Realities is one of only a few companies in the industry capable of providing the full portfolio of products and services required to implement and run an effective digital signage network. We leverage a ‘single vendor’ approach, providing clients with a one-stop-shop for sourcing digital signage solutions from design through day two services.
- **Managed labor pool** – Unlike most companies in our industry, we have a curated labor pool including thousands of qualified and vetted field technicians available to service clients quickly nationwide. We can meet tight schedules even in exceptionally large deployments and still ensure quality and consistency.
- **In-house creative resources** – We assist clients in creating new content or repurposing existing content for digital signage experiences, an activity for which the Company has won several design awards in recent years. In each instance, our services can be essential in helping clients develop an effective content program.
- **Network scalability and reliability** – Our software as a service (“SaaS”) content management platforms power some of the largest and most complex digital signage networks in North America evidencing our ability to manage enterprise scale projects. This also provides us purchasing power to source products and services for our customers, enabling us to deliver cost effective, reliable and powerful solutions to small and medium size business clients.
- **Ad management platform** – Our customers are increasingly interested in monetizing their digital signage networks through advertising content. However, efficiently scheduling advertising content into digital signage playlists to meet campaign objectives can be a challenging and labor-intensive process. AdLogic, our home-grown, content management-agnostic platform, automates this process, allowing network owners to capture more revenue with less expense.
- **Media sales** – Few, if any other digital signage solution providers, can offer their clients media sales as a service. We have in-house media sales expertise to elevate conversations with our clients interested in better understanding network monetization. We believe this meaningful differentiation in the sales process provides an additional revenue stream to Creative Realities compared to our competitors.
- **Market sector expertise** – Creative Realities has in-house experts in key market segments such as automotive, retail, quick-serve restaurants (QSR), convenience stores, and Digital Out of Home (DOOH) advertising. Our expertise in these business segments enables our teams to provide meaningful business conversations and offer tailored solutions with prospects and customers to their unique business objectives. These experts build industry relationship and create thought leadership that drives lead flow and new opportunities for our business.
- **Logistics** – Implementing a large digital signage project can be a logistics nightmare that can stall an initiative even before deployment. Our expertise in logistics improves deployment efficiency, reduces delays and problems, and saves customers time and money.
- **Technical support** – Digital signage networks present unique challenges for corporate IT departments. Creative Realities helps simplify and improve end user support by leveraging our own Network Operations Center (“NOC”) in Louisville Kentucky. The NOC resolves many issues remotely and when field support is required, it can be dispatched quickly from the NOC, leveraging our managed labor pool to resolve customer issues quickly and effectively.
- **Integrations and Application Development** – The future of digital signage is not still images and videos on a screen. Interactive applications and integrations with other data sources will dominate the future. From social media feeds, mobile integrations, corporate data stores, or Point of Sale (“POS”) systems, our proven ability to build scalable applications and integrations is a key advantage clients can leverage to deliver more compelling and engaging experiences for their customers.
- **Hardware support** – A number of digital signage providers sell a proprietary media player or align themselves with just one operating system. We utilize a range of media players including Windows, Android and BrightSign to provide clients the flexibility they need to select the appropriate hardware for any application knowing the entire network can still be served by a single digital signage platform, reducing complexity and improving the productivity of their teams.

The three primary sources of revenue for the company are:

- Hardware sales from reselling digital signage hardware from original equipment manufacturers such as Samsung and BrightSign.
- Services revenue from helping customers design, deploy and manage their digital signage network, including:
  - Hardware system design/engineering
  - Hardware installation
  - Content development
  - Content scheduling
  - Post-deployment network and field support
  - Media sales, as a result of our acquisition of Reflect
- Recurring subscription licensing and support revenue from our digital signage software platforms, which are generally sold via a SaaS model. These include:
  - **ReflectView**, the Company's core digital signage platform for most applications, scalable and cost effective from 10 to 100,000+ devices
  - **Reflect Xperience**, a web-based interface that allows customers to give content scheduling access to local users via the web or mobile devices, while still maintaining centralized programming control
  - **Reflect AdLogic**, the Company's ad management platform for digital signage networks, which presently delivers approximately 50 million ads daily
  - **Reflect Clarity**, the Company's menu board solution, which has become a market leader for a range of restaurant and convenience store applications
  - **Reflect Zero Touch**, which allows customers to turn any screen into an interactive experience by allowing guests to engage using their mobile device
  - **iShowroomProX**, an omni-channel digital sales support platform targeted at original equipment manufacturers in the transportation sector, which integrates with dozens of key data services including dealer inventory at the VIN level
  - **OSx+**, a digital VIN-level checklist used to assist in the tracking and delivery of new vehicles in the transportation sector, providing measurable lift in customer satisfaction scores and connected vehicle enrollments and subscription activations.

While hardware sales and support services revenues can fluctuate more significantly year over year based on new, large-scale network deployments, the Company expects to see continuous growth in recurring SaaS revenue for the foreseeable future as digital signage adoption/utilization continues to expand across the vertical markets we serve.

We believe that the adoption and evolution of our digital signage technology solutions will increase substantially in years to come in the industries in which we currently focus and in others; however it has been delayed in recent years. First, our current and potential customer base reduced capital expenditures as a result of the COVID-19 pandemic, including capital expenditures that would be used to implement digital technology solutions. The costs of hardware configurations and software media players used to process and display content have also increased recently. Throughout 2021, we faced significant supply chain challenges which limited the availability of each of these components to our sold solutions and expect the availability of those products to continue to face supply constraints at least through the first half of 2022. Nevertheless, we believe that the costs of such hardware will decrease over time as it has done so historically, and will do so at an accelerating rate. Flat panel displays and players typically constitute a large portion of the expenditure customers make relative to the entire cost of implementing a digital marketing system implementation and can be a barrier to customer deployment. As a result, we believe that the broader adoption of digital marketing technology solutions is likely to increase, although we cannot predict the rate at which such adoption will occur.

Another key component of our business strategy, given the evolving dynamics of the industry in which we operate, is to acquire and integrate other operating companies in the industry in conjunction with pursuing our organic growth objectives. We believe that the selective acquisition and successful integration of certain companies will: accelerate our growth in targeted vertical and operating markets; enable us to cost-effectively aggregate multiple customer bases onto a single business and technology platform; provide us with greater operating scale on a consolidated basis; enable us to leverage a common set of processes and tools, and cost efficiencies company-wide; and ultimately result in higher operating profitability and cash flow from operations. Our management team evaluates acquisition opportunities on an ongoing basis. Our management team and Board of Directors have broad experience with the execution, integration, and financing of acquisitions. We believe that the COVID-19 pandemic has adversely affected our smaller competitors, and as a result, there may exist acquisition opportunities in the future. We also believe that, based on the foregoing, we can successfully serve as a consolidator of multiple business and technology platforms serving similar markets.

As part of our acquisition strategy, we acquired Allure in 2018, and in February 2022, we consummated our acquisition of Reflect.

#### Acquisition of Reflect

On November 12, 2021, the Company and Reflect Systems, Inc., or “Reflect,” entered into an Agreement and Plan of Merger (as amended on February 8, 2022, the “Merger Agreement”) pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, or “Merger Sub”, merged with and into Reflect, with Reflect surviving as a wholly owned subsidiary of Creative Realities, , which transaction is referred to herein as the “Merger.” On February 17, 2022, the parties consummated the Merger.

Reflect provides digital signage solutions, including software, strategic and media services to a wide range of companies across the retail, financial, hospitality and entertainment, healthcare, and employee communications industries in North America. Reflect offers digital signage platforms, including ReflectView, a platform used by companies to power hundreds of thousands of active digital displays. Through its strategic services, Reflect assists its customers with designing, deploying and optimizing their digital signage networks, and through its media services, Reflect assists customers with monetizing their digital advertising networks.

Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) \$16,166 payable in cash, (ii) 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of \$2 per share) (the “CREX Shares”), (iii) the Secured Promissory Note (as described below), and (iv) supplemental cash payments (the “Guaranteed Consideration”), if any, payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option described below, the “Guarantee Date”), in an amount by which the value of the CREX Shares on such anniversary is less than \$6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than \$7.20 per share (such applicable amount, the “Guaranteed Price”), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below), subject to the terms of the Merger Agreement.

Creative Realities may exercise an extension option (the “Extension Option”) to extend the Guarantee Date from the three-year anniversary of the Closing Date to six (6) months thereafter if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) Creative Realities provides written notice of its election to exercise the Extension Option at least ten (10) days prior to the three-year anniversary of the Closing. The “Extension Threshold Price” means the average closing price per share of Creative Realities Shares as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending fifteen (15) days prior to the three-year anniversary of the Closing Date. If the Extension Threshold Price is less than 80% of the Guaranteed Price, then the Guaranteed Price will be increased by \$1.00 per share.

**Business Strategy**

We believe that our existing business model is highly scalable and can be expanded successfully as we continue to grow organically and integrate operations with Reflect as a result of the Merger, acquire and integrate other companies in our target markets, strengthen our operational practices and procedures, further streamline our administrative office functions, and continue to capitalize on various marketing programs and activities.

**Industry Background**

We believe certain digital marketing technology industry trends are creating the opportunity for retailers, brands, venue-operators, enterprises, non-profits and other organizations to create innovative shopping, marketing, and informational experiences for their customers and other stakeholders in various venues worldwide. These trends include: (i) the expectations of technology-savvy consumers; (ii) addressing on-line competitors by improving physical experiences; (iii) a decline in the cost of hardware configurations (primarily flat panel displays) and software media players; (iv) the continued evolution of mobile, social, software and hardware technologies, applications and tools; (v) increasing sophistication of social networking platforms; (vi) increasingly complex customer requirements related to their specific digital marketing technology and solution objectives; and (vii) customers challenging service providers with the delivery of a satisfactory consumer experience with the traditional pressure on reducing installation and ongoing operating costs.

As a result, a growing number of retailers, brands, venue-operators and other organizations have identified the need and opportunity to implement increasingly cost-effective and “sales-lifting” digital marketing, and interactive experiences to market to their customers. These experiences include creating unique and customized experiences for targeted, timely offerings and relevant promotions; improving engagement resulting in increased sales; and increasing shopping basket size. We believe our clients consider capitalizing on these industry trends to be increasingly critical to any successful “store of the future” retail and brand sales environment, especially where sales staff turnover is high, training outcomes are inconsistent and product knowledge is low.

Companies are implementing various digital marketing technology solutions, which: are implemented in multiple forms and types of configurations and locations; attempt to achieve any of a broad range of individual or combination of objectives; contain various levels of targeting; have the ability to instantly manage single or multiple locations remotely from a customer's desktop or other connected device at each location; and are built to deliver or contain a standard or customized customer experience unique to and within the customer's environment. Examples of such solutions include:

- Digital Merchandising Systems, which aim to inform and interact with customers through various types of content in an integrated experience, improve in-store customer experiences and increase overall sales, upsells, and/or cross-sales;
- Digital Sales Assistants, which aim to replace or augment existing sales resources and the level of interactive and informational sales assistance inside the store;
- Digital Way-Finders, which aim to help customers navigate their way around individual retail stores and multi-store locations or venues, or within individual brand categories;
- Digital Kiosks, which aim to provide data, specialized and customized broadcasts, promotional information and coupons, train, and other forms of information and interaction with customers in a variety of deployment forms, types, configurations and experiences;
- Digital Menu-Board Systems, which aim to enable various types of restaurant operators the ability to remotely and on a scheduled basis, update and modify menu information, promotions, and other forms of content dynamically;
- Dynamic Digital Signage, including Advertising Networks, which aim to deliver and manage in-store marketing and advertising campaigns, specialized and customized broadcasts, and various other forms of messaging targeting customers in a particular experience or environment.

## Our Markets

We currently market and sell our marketing technology solutions through our direct sales force, inside sales team, and word-of-mouth referrals from existing customers. Select strategic partnerships and lead generation programs also drive business to the Company through targeted business development initiatives. We market to companies that seek digital marketing solutions across multiple connected devices and who specifically seek or could benefit from enhancements to the customer experience offered in their stores, venues, brands or organizations. In addition to our direct sales force, we market our Safe Space Solutions suite of products through a network of distribution and reseller partners through which we have expanded our market presence and reach. Distributors operate on either a consignment or direct drop ship approach and no revenue is recognized until a sale is made and product is delivered.

Our digital marketing technology solutions have application in a wide variety of industries. The industries in which we sell our solutions are established and include automotive, apparel & accessories, banking, baby/children, beauty, CPG, department stores, digital out-of-home ("DOOH"), electronics, fashion, fitness, foodservice/quick service restaurant ("QSR"), financial services, gaming, luxury, mass merchants, mobile operators, and pharmacy retail; however, the planning, development, implementation and maintenance of technology-enabled experiences involving combinations of digital marketing technologies are relatively new and evolving. Moreover, a number of participants in these industries have only recently started considering or expanding the adoption of these types of technologies, solutions and experiences as part of their overall marketing strategies.

### *Seasonality*

A portion of our customer activity is influenced by seasonal effects related to traditional end of calendar year peak retail sales periods, traditional spring stadium/venue opening seasons, and certain other factors that arise from our target customer base. Nevertheless, our revenues can be materially affected by the launch of new markets, the timing of production rollouts, and other factors, any of which have the ability to reduce or outweigh certain seasonal effects.

### *Effect of General Economic Conditions on our Business*

We believe that demand for our services will increase in the future in part because of new construction and remodeling activities of pre-existing retail, convenience store, stadium and event venues. While we do see reductions in retail footprints across the U.S., we see a continued focus on integration of digital into the retail marketplace and a focus on digital refreshes within the retail space to stay relevant in an evolving e-commerce marketplace. Recent general economic improvements generally make it easier for our customers to justify decisions to invest in digital marketing technology solutions. A change in the macroeconomic trend in the U.S. could have a negative impact on our customers' ability and/or willingness to advance their digital initiatives.

### *Effect of Supply Chain Constraints*

A key component of our business includes the sale of digital media players and digital displays supplied by third parties, each of which require semiconductors to complete the manufacturing process. Throughout 2021, we experienced disruptions and delays related to fulfillment of inventory purchases from vendors, which represent the key components to our digital signage solutions, because of a global shortage of semiconductor chips. In instances in which inventory was available, we experienced delays in transportation of these goods from manufacturers to the Company, and in delivery of our solutions to our customers. We expect the availability of these products to continue to face supply constraints at least through the first half of 2022.

### **Regulation**

We are subject to regulation by various federal and state governmental agencies. Such regulation includes radio frequency emission regulatory activities of the U.S. Federal Communications Commission, the consumer protection laws of the U.S. Federal Trade Commission, product safety regulatory activities of the U.S. Consumer Product Safety Commission, and environmental regulation in areas in which we conduct business. Some of the hardware components that we supply to customers may contain hazardous or regulated substances, such as lead. A number of U.S. states have adopted or are considering “takeback” bills addressing the disposal of electronic waste, including CRT style and flat panel monitors and computers. Electronic waste legislation is developing. Some of the bills passed or under consideration may impose on us, or on our customers or suppliers, requirements for disposal of systems we sell and the payment of additional fees to pay costs of disposal and recycling. Presently, we do not believe that any such legislation or proposed legislation will have a materially adverse impact on our business.

### **Competition**

While we believe there is presently no direct competitor with the comprehensive offering of technologies, solutions and services we provide to our customers, there are multiple individual competitors who offer pieces of our solutions. These include digital signage software companies such as Stratacache and Four Winds Interactive; marketing services companies such as Sapient Nitro or digital signage systems integrators such as SageNet. Some of these competitors may have significantly greater financial, technical and marketing resources than we do and may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. We believe that our holistic sales and business development capabilities, network operations / field service management capabilities, our comprehensive offering of digital signage technology and solutions, brand awareness, and proprietary processes are the primary factors providing our competitive advantage.

### **Major Customers**

We had two (2) customers that accounted for 41.1% and 27.8% of revenue for the years ended December 31, 2021 and 2020, respectively.

We had two (2) customers that in the aggregate accounted for 56.6% and 42.6% of accounts receivable as of December 31, 2021 and December 31, 2020, respectively.

Decisions by one or more of these key customers to not renew, terminate or substantially reduce their use of our products, technology, services, and platform could substantially slow our revenue growth and lead to a decline in revenue. Our business plan assumes continued growth in revenue, and it is unlikely that we will become profitable without a continued increase in revenue.

### **Territories**

We sell products and services primarily throughout North America, with limited software licensing agreements operating in other international jurisdictions.

### **Human Capital**

We have a workforce comprised of approximately 105 employees as of March 22, 2022, which represents a 40% year-over-year increase in employee headcount, driven primarily by our acquisition of Reflect in February 2022, which is further discussed in *Recent Developments* in Item 7 of this Annual Report. We do not have any employees that operate under collective-bargaining agreements.

Our principal offices are located at 13100 Magisterial Drive, Ste 100, Louisville, Kentucky 40223, and our telephone number at that office is (502) 791-8800. We have additional offices in the Dallas, TX, Atlanta, GA, and Windsor, Ontario (Canada) metro areas.

### **Corporate Organization**

We originally incorporated and organized as a Minnesota corporation under the name “Wireless Ronin Technologies, Inc.” in March 2003 and focused on our expertise in digital media marketing solutions, including digital signage, interactive kiosks, mobile, social media and web-based media solutions. We acquired the interactive marketing technology business that we currently operate in a 2014 merger with Creative Realities, LLC. Shortly after that merger, we changed our corporate name from “Wireless Ronin Technologies, Inc.” to “Creative Realities, Inc.” On October 15, 2015, we acquired the systems integration and marketing technology business of ConeXus World Global, LLC. On November 20, 2018, we acquired Allure, an enterprise software development company. On February 17, 2022, we acquired Reflect pursuant to the Merger.

## ITEM 1A RISK FACTORS

*Our business involves a high degree of risk. In evaluating our business, you should carefully consider the specific risks described below, and any risks described in our other filings with the Securities and Exchange Commission, pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934. Any of the risks we describe below could cause our business, financial condition, results of operations or future prospects to be materially adversely affected. In addition, some of the following statements are forward-looking statements.*

### RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

***The ongoing COVID-19 pandemic has had, and may in the future have, a significant adverse impact on our advertising revenue and also exposes our business to other risks.***

The ongoing COVID-19 pandemic has resulted in authorities implementing numerous preventative measures to contain or mitigate the outbreak of the virus, such as travel bans and restrictions, limitations on business activity, quarantines, and shelter-in-place orders. These measures have caused, and are continuing to cause, business slowdowns or shutdowns in certain affected areas, both regionally and worldwide, which have significantly adversely impacted our business and results of operations.

For example, for the year ended December 31, 2021 and 2020, our revenue was \$18,437 and \$17,457, representing a reduction of 42% and 45% as compared to the year ended December 31, 2019 revenue, respectively. The Company's four-year average revenue growth rate was 29.1% from 2015 to 2019, and 2020 represented the first revenue reduction for the Company since the merger with ConeXus World Global, LLC in October 2015. This reduction was driven by a combination of factors, including, but not limited to, a decrease in revenues generated from (1) installation services following a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures as a direct result of the COVID-19 pandemic, (2) management services related to contracts with customers which were partially or permanently closed during the year(s), and (3) reductions in new customer acquisition, each of which were directly attributable, either in whole or in part, to the COVID-19 pandemic. While we grew revenue 5.6% in 2021, this growth rate is below our historic average.

While we have seen improved revenue generation and customer activity in the second half of 2020 and in 2021, there can be no assurance that it will not decrease again as a result of the effects of the pandemic. In addition, we believe that the pandemic has contributed to an acceleration in the shift of commerce from offline to online, potentially altering customer demand for our products and services as our customers evaluate the most effective approach to capture consumer demand.

The demand for and pricing of our services may be materially and adversely impacted by the pandemic for the foreseeable future, and we are unable to predict the duration or degree of such impact with any certainty. In addition to the impact on our installation and managed services business, the pandemic exposes our business, operations, and workforce to a variety of other risks, including:

- delays in product development or releases, or reductions in manufacturing production and sales of consumer hardware, as a result of inventory shortages, supply chain or labor shortages;
- significant volatility and disruption of global financial markets, which could negatively impact our ability to access capital in the future;
- our inability to recognize revenue, collect payment, or generate future revenue from customers, including from those that have been or may be forced to close their businesses or are otherwise impacted by the economic downturn;
- negative impact on our workforce productivity, product development, and research and development due to difficulties resulting from our personnel working remotely;
- illnesses to key employees, or a significant portion of our workforce, which may result in inefficiencies, delays, and disruptions in our business; and
- increased volatility and uncertainty in the financial projections we use as the basis for estimates used in our financial statements.



Any of these developments may adversely affect our business, harm our reputation, or result in legal or regulatory actions against us. The persistence of the COVID-19 pandemic, and the preventative measures implemented to help limit the spread of the illness, have impacted, and will continue to impact, our ability to operate our business and may materially and adversely impact our business, financial condition, and results of operations.

***We have generally incurred losses, and may never become or remain profitable.***

We have incurred historical net losses, and we have had negative cash flows from operations. While we have been able to achieve profitability in 2021, it is uncertain whether we will be able to sustain or increase our profitability in successive periods.

We have formulated our business plans and strategies based on certain assumptions regarding the acceptance of our business model and the marketing of our products and services. Nevertheless, our assessments regarding market size, market share, market acceptance of our products and services and a variety of other factors may prove incorrect. Our future success will depend upon many factors, including factors beyond our control and those that cannot be predicted at this time. The ongoing COVID-19 pandemic has also caused a significant increase in suspended, delayed, and cancelled customer projects, initiatives, and capital expenditures, and it is not known when these opportunities will be revived for the Company, if at all.

***Our digital marketing business is evolving in a rapidly changing market, and we cannot ensure the long-term successful operation of our business or the execution of our business plan.***

Our digital marketing technology and solutions are an evolving business offering and the markets in which we compete are rapidly changing and the evolution has slowed as a result of the COVID-19 pandemic. As a result, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in new and rapidly evolving markets. We may be unable to accomplish any of the following, which would materially impact our ability to implement our business plan:

- establishing and maintaining broad market acceptance of our technology, solutions, services, and platforms, and converting that acceptance into direct and indirect sources of revenue;
- establishing and maintaining adoption of our technology, solutions, services, and platforms in and on a variety of environments, experiences, and device types;
- timely and successfully developing new technology, solution, service, and platform features, and increasing the functionality and features of our existing technology, solution, service, and platform offerings;
- developing technology, solutions, services, and platforms that result in a high degree of customer satisfaction and a high level of end-customer usage;
- successfully responding to competition, including competition from emerging technologies and solutions;
- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our technology, solutions, services, and platforms;
- identifying, attracting and retaining talented engineering, network operations, program management, technical services, creative services, and other personnel at reasonable market compensation rates in the markets in which we employ such personnel; and
- integration of acquisitions.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully accomplish these tasks, our business will be harmed.

***Adequate funds for our operations may not be available, requiring us to raise additional financing or else curtail our activities significantly.***

During February of 2022, the Company completed a Debt Financing and Equity Financing (as further described in this Annual Report), which resulted in gross proceeds to the Company, prior to deducting placement agent and other offering fees, of approximately \$20,000.

The net proceeds from the forgoing financings were used to pay the cash portion of the merger consideration payable to former stockholders of Reflect in connection with our acquisition of Reflect in February 2022. As a result, we may be required to raise additional funding through public or private financings, including equity financings, through 2022 and beyond. We have an “at-the-market” offering in place, pursuant to which we may direct Roth Capital Partners, our sale agent, to sell shares of our common stock to investors in the market, subject to the terms and conditions of a sales agreement. These sales are dilutive to shareholders. Any additional equity financings may also be dilutive to shareholders and may be completed at a discount to the then-current market price of our securities. Debt financing, if available, may involve restrictive covenants on our operations or pertaining to future financing arrangements. Nevertheless, we may not successfully complete any future equity or debt financing. Adequate funds for our operations, whether from financial markets, collaborative or other arrangements, may not be available when needed or on terms attractive to us. If adequate funds are not available, our plans to operate our business may be adversely affected and we could be required to curtail our activities significantly and/or cease operating.

***We do not have sufficient capital to engage in material research and development, which may harm our long-term growth.***

In light of our limited resources in general, we have limited material investments in research and development over the past several years. This conserves capital in the short term. In the long term, as a result of our failure to invest in research and development, our technology and product offerings may not keep pace with the market, and we may lose any current existing competitive advantage. Over the long term, this may harm our revenues growth and our ability to become profitable.

***We are reliant on the continued support of a related party for adequate financing of our operations.***

As of March 22, 2022, our largest shareholder and investor, Slipstream Communications LLC (“Slipstream”) is the holder of 87% of our outstanding debt instruments, including two term loans, and has beneficial ownership of approximately 47.57% of our common stock (on an as-converted, fully diluted basis including conversion of outstanding warrants, and assuming no other convertible securities, options and warrants are converted or exercised by other parties). Slipstream has also provided us with a continued support letter through March 31, 2023. If we are unable to extend the maturity or replace our existing financing agreements in the future, our plans to operate our business may be adversely affected and we could be required to curtail our activities significantly and/or cease operating.

***There has been, and we expect that there will continue to be, significant consolidation in our industry. Our failure or inability to lead that consolidation would have a severe adverse impact on our access to financing, customers, technology, and human resources.***

Our industry is currently composed of a large number of relatively small businesses, no single one of which is dominant or which provides integrated solutions and product offerings incorporating much of the available technology. Accordingly, we believe that substantial consolidation may occur in our industry in the near future. We believe that our prior acquisitions of Allure and Reflect illustrate acquisition opportunities that exist in our industry. If we do not play a positive role in that consolidation, either as a leader or as a participant whose capability is merged in a larger entity, we may be left out of this process, with product offerings of limited value compared with those of our competitors. Moreover, even if we lead the consolidation process, the market may not validate the decisions we make in that process.

***Our success depends on our interactive marketing technologies achieving and maintaining widespread acceptance in our targeted markets.***

Our success will depend to a large extent on broad market acceptance of our interactive marketing technologies among our current and prospective customers. Our prospective customers may still not use our solutions for a number of other reasons, including preference for static advertising, lack of familiarity with our technology, preference for competing technologies or perceived lack of reliability. We believe that the acceptance of our interactive marketing technologies by prospective customers will depend primarily on the following factors:

- our ability to demonstrate the economic and other benefits attendant to our interactive marketing technologies;
- our customers becoming comfortable with using our interactive marketing technologies; and
- the reliability of our interactive marketing technologies.

Our interactive technologies are complex and must meet stringent user requirements. Some undetected errors or defects may only become apparent as new functions are added to our technologies and products. The need to repair or replace products with design or manufacturing defects could temporarily delay the sale of new products and adversely affect our reputation. Delays, costs and damage to our reputation due to product defects could harm our business.

***Our financial condition and potential for continued net losses may negatively impact our relationships with customers, prospective customers and third-party suppliers.***

Our financial condition and potential for continued net losses may cause current and prospective customers to defer placing orders with us, to require terms that are less favorable to us, or to place their orders with our competitors, which could adversely affect our business, financial condition and results of operations. On the same basis, third-party suppliers may refuse to do business with us, or may do so only on terms that are unfavorable to us, which also could cause our expenses to increase.

***Because we do not have long-term purchase commitments from our customers, the failure to obtain anticipated orders or the deferral or cancellation of commitments could have adverse effects on our business.***

Our business is characterized by short-term purchase orders and contracts that do not require that purchases be made by our customers. This makes forecasting our sales difficult. The failure to obtain anticipated orders and deferrals or cancellations of purchase commitments because of changes in customer requirements, or otherwise, could have a material adverse effect on our business, financial condition and results of operations. We have experienced such challenges in the past and may experience such challenges in the future.

***Our continued growth and financial performance could be adversely affected by the loss of several key customers.***

We had two (2) customers that accounted for 41.1% and 27.8% of revenue for the years ended December 31, 2021 and 2020, respectively.

Decisions by one or more of these key customers to not renew, terminate or substantially reduce their use of our products, technology, services, and platform could substantially slow our revenue growth and lead to a decline in revenue. Our business plan assumes continued growth in revenue, and it is unlikely that we will become profitable without a continued increase in revenue.

***Most of our contracts are terminable by our customers with limited notice and without penalty payments, and early terminations could have a material adverse effect on our business, operating results and financial condition.***

Most of our contracts are terminable by our customers following limited notice and without early termination payments or liquidated damages due from them. In addition, each stage of a project often represents a separate contractual commitment, at the end of which the customers may elect to delay or not to proceed to the next stage of the project. We cannot assure you that one or more of our customers will not terminate a material contract or materially reduce the scope of a large project. The delay, cancellation or significant reduction in the scope of a large project or a number of projects could have a material adverse effect on our business, operating results and financial condition.

***It is common for our current and prospective customers to take a long time to evaluate our products, most especially during economic downturns that affect our customers' businesses, including as a result of the COVID-19 pandemic. The lengthy and variable sales cycle makes it difficult to predict our operating results.***

It is difficult for us to forecast the timing and recognition of revenue from sales of our products and services because our actual and prospective customers often take significant time to evaluate our products before committing to a purchase. Even after making their first purchases of our products and services, existing customers may not make significant purchases of those products and services for a long period of time following their initial purchases, if at all. The period between initial customer contact and a purchase by a customer may be years with potentially an even longer period separating initial purchases and any significant purchases thereafter. During the evaluation period, prospective customers may decide not to purchase or may scale down proposed orders of our products for various reasons, including:

- reduced need to upgrade existing visual marketing systems;
- introduction of products by our competitors;
- lower prices offered by our competitors; and
- changes in budgets and purchasing priorities.

Our prospective customers routinely require education regarding the use and benefit of our products. This may also lead to delays in receiving customers' orders.

***Our industry is characterized by frequent technological change. If we are unable to adapt our products and services and develop new products and services to keep up with these rapid changes, we will not be able to obtain or maintain market share.***

The market for our products and services is characterized by rapidly changing technology, evolving industry standards, changes in customer needs, heavy competition and frequent new product and service introductions. If we fail to develop new products and services or modify or improve existing products and services in response to these changes in technology, customer demands or industry standards, our products and services could become less competitive or obsolete.

We must respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in using new technologies, developing new products and services or enhancing existing products and services in a timely and cost-effective manner. Furthermore, even if we successfully adapt our products and services, these new technologies or enhancements may not achieve market acceptance.

***A portion of our business involves the use of software technology that we have developed or licensed. Industries involving the ownership and licensing of software-based intellectual property are characterized by frequent intellectual-property litigation, and we could face claims of infringement by others in the industry. Such claims are costly and add uncertainty to our operational results.***

A portion of our business involves our ownership and licensing of software. This market space is characterized by frequent intellectual property claims and litigation. We could be subject to claims of infringement of third-party intellectual-property rights resulting in significant expense and the potential loss of our own intellectual property rights. From time to time, third parties may assert copyright, trademark, patent or other intellectual property rights to technologies that are important to our business. Any litigation to determine the validity of these claims, including claims arising through our contractual indemnification of our business partners, regardless of their merit or resolution, would likely be costly and time consuming and divert the efforts and attention of our management and technical personnel. If any such litigation resulted in an adverse ruling, we could be required to:

- pay substantial damages;
- cease the development, use, licensing or sale of infringing products;
- discontinue the use of certain technology; or
- obtain a license under the intellectual property rights of the third party claiming infringement, which license may not be available on reasonable terms or at all.

***Our proprietary platform architectures and data tracking technology underlying certain of our services are complex and may contain unknown errors in design or implementation that could result in system performance failures or inability to scale.***

The platform architecture, data tracking technology and integration layers underlying our proprietary platforms, our contract administration, procurement, timekeeping, content and network management, network services, device management, virtualized services, software automation and other tools, and back-end services are complex and include specially developed software and code. This software and code are developed internally, licensed from third parties, or integrated by in-house personnel and third parties. Any of the system architecture, system administration, integration layers, software or code may contain errors, or may be implemented or interpreted incorrectly, particularly when they are first introduced or when new versions or enhancements to our tools and services are released. Consequently, our systems could experience performance failure, or we may be unable to scale our systems, which may:

- adversely impact our relationship with customers and others who experience system failure, possibly leading to a loss of affected and unaffected customers;
- increase our costs related to product development or service delivery; or
- adversely affect our revenues and expenses.

***Our business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, our products and services.***

Our business may be adversely affected by malicious applications that make changes to our customers' computer systems and interfere with the operation and use of our products or products that impact our business. These applications may attempt to interfere with our ability to communicate with our customers' devices. The interference may occur without disclosure to or consent from our customers, resulting in a negative experience that our customers may associate with our products and services. These applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. The ability to provide customers with a superior interactive marketing technology experience is critical to our success. If our efforts to combat these malicious applications fail, or if our products and services have actual or perceived vulnerabilities, there may be claims based on such failure or our reputation may be harmed, which would damage our business and financial condition.

***We compete with other companies that have more resources, which puts us at a competitive disadvantage.***

The market for interactive marketing technologies is generally highly competitive and we expect competition to increase in the future. Some of our competitors or potential competitors may have significantly greater financial, technical and marketing resources than us. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than us.

We expect competitors to continue to improve the performance of their current products and to introduce new products, services and technologies. Successful new product and service introductions or enhancements by our competitors could reduce sales and the market acceptance of our products and services, cause intense price competition or make our products and services obsolete. To be competitive, we must continue to invest significant resources in research and development, sales and marketing and customer support. If we do not have sufficient resources to make these investments or are unable to make the technological advances necessary to be competitive, our competitive position will suffer. Increased competition could result in price reductions, fewer customer orders, reduced margins and loss of market share. Our failure to compete successfully against current or future competitors could adversely affect our business and financial condition.

***Our future success depends on key personnel and our ability to attract and retain additional personnel.***

Our key personnel include:

- Rick Mills, our Chief Executive Officer;
- Will Logan, our Chief Financial Officer;
- Lee Summers, our President of Media; and
- Bob Sanders, our Chief Strategy Officer.

If we fail to retain our key personnel or to attract, retain and motivate other qualified employees, our ability to maintain and develop our business may be adversely affected. Our future success depends significantly on the continued service of our key technical, sales and senior management personnel and their ability to execute our growth strategy. The loss of the services of our key employees could harm our business. We may be unable to retain our employees or to attract, assimilate and retain other highly qualified employees who could migrate to other employers who offer competitive or superior compensation packages.

***We are subject to cyber security risks and interruptions or failures in our information technology systems and will likely need to expend additional resources to enhance our protection from such risks. Notwithstanding our efforts, a cyber incident could occur and result in information theft, data corruption, operational disruption and/or financial loss.***

We depend on digital technologies to process and record financial and operating data and rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. At the same time, cyber incidents, including deliberate attacks, have increased. The U.S. government has issued public warnings that indicate that energy assets might be specific targets of cyber security threats. Our technologies, systems and networks and those of our vendors, suppliers and other business partners may become the target of cyberattacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of business operations. In addition, certain cyber incidents, such as surveillance, may remain undetected for an extended period. Our systems for protecting against cyber security risks may not be sufficient. As the sophistication of cyber incidents continues to evolve, we will likely be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate any vulnerability to cyber incidents. Additionally, any of these systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, usage errors by employees, computer viruses, cyber-attacks or other security breaches or similar events. The failure of any of our information technology systems may cause disruptions in our operations, which could adversely affect our revenues and profitability.

***Our reliance on information management and transaction systems to operate our business exposes us to cyber incidents and hacking of our sensitive information if our outsourced service provider experiences a security breach.***

Effective information security internal controls are necessary for us to protect our sensitive information from illegal activities and unauthorized disclosure in addition to denial of service attacks and corruption of our data. In addition, we rely on the information security internal controls maintained by our outsourced service provider. Breaches of our information management system could also adversely affect our business reputation. Finally, significant information system disruptions could adversely affect our ability to effectively manage operations or reliably report results.

***Because our technology, products, platform, and services are complex and are deployed in and across complex environments, they may have errors or defects that could seriously harm our business.***

Our technology, proprietary platforms, products and services are highly complex and are designed to operate in and across data centers, large and complex networks, and other elements of the digital media workflow that we do not own or control. On an ongoing basis, we need to perform proactive maintenance services on our platform and related software services to correct errors and defects. In the future, there may be additional errors and defects in our software that may adversely affect our services. We may not have in place adequate reporting, tracking, monitoring, and quality assurance procedures to ensure that we detect errors in our software in a timely manner. If we are unable to efficiently and cost-effectively fix errors or other problems that may be identified, or if there are unidentified errors that allow persons to improperly access our services, we could experience loss of revenues and market share, damage to our reputation, increased expenses and legal actions by our customers.

***We may have insufficient network or server capacity, which could result in interruptions in our services and loss of revenues.***

Our operations are dependent in part upon: network capacity provided by third-party telecommunications networks; data center services provider owned and leased infrastructure and capacity; our dedicated and virtualized server capacity located at its data center services provider partner and a geo-redundant micro-data center location; and our own infrastructure and equipment. Collectively, this infrastructure, equipment, and capacity must be sufficiently robust to handle all of our customers' web-traffic, particularly in the event of unexpected surges in high-definition video traffic and network services incidents. We (and our service providers) may not be adequately prepared for unexpected increases in bandwidth and related infrastructure demands from our customers. In addition, the bandwidth we have contracted to purchase may become unavailable for a variety of reasons, including payment disputes, outages, or such service providers going out of business. Any failure of these service providers or our own infrastructure to provide the capacity we require, due to financial or other reasons, may result in a reduction in, or interruption of, service to our customers, leading to an immediate decline in revenue and possible additional decline in revenue as a result of subsequent customer losses.

***Our business operations are susceptible to interruptions caused by events beyond our control.***

Our business operations are susceptible to interruptions caused by events beyond our control. We are vulnerable to the following potential problems, among others:

- our platform, technology, products, and services and underlying infrastructure, or that of our key suppliers, may be damaged or destroyed by events beyond our control, such as fires, earthquakes, floods, power outages or telecommunications failures;
- we and our customers and/or partners may experience interruptions in service as a result of the accidental or malicious actions of Internet users, hackers or current or former employees;
- we may face liability for transmitting viruses to third parties that damage or impair their access to computer networks, programs, data or information. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to our customers; and
- failure of our systems or those of our suppliers may disrupt service to our customers (and from our customers to their customers), which could materially impact our operations (and the operations of our customers), adversely affect our relationships with our customers and lead to lawsuits and contingent liability.

The occurrence of any of the foregoing could result in claims for consequential and other damages, significant repair and recovery expenses and extensive customer losses and otherwise have a material adverse effect on our business, financial condition and results of operations.

***The markets in which we operate are rapidly emerging, and we may be unable to compete successfully against existing or future competitors to our business.***

The market in which we operate is becoming increasingly competitive. Our current competitors generally include general digital signage companies, specialized digital signage operators targeting certain vertical markets (e.g., financial services), content management software companies, or integrators and vertical solution providers who develop single implementations of content distribution, digital marketing technology, and related services. These competitors, including future new competitors who may emerge, may be able to develop a comparable or superior solution capabilities, software platform, technology stack, and/or series of services that provide a similar or more robust set of features and functionality than the technology, products and services we offer. If this occurs, we may be unable to grow as necessary to make our business profitable.

Whether or not we have superior products, many of these current and potential future competitors have a longer operating histories in their current respective business areas and greater market presence, brand recognition, engineering and marketing capabilities, and financial, technological and personnel resources than we do. Existing and potential competitors with an extended operating history, even if not directly related to our business, have an inherent marketing advantage because of the reluctance of many potential customers to entrust key operations to a company that may be perceived as new, inexperienced or unproven. In addition, our existing and potential future competitors may be able to use their extensive resources to:

- develop and deploy new products and services more quickly and effectively than we can;
- develop, improve and expand their platforms and related infrastructures more quickly than we can;
- reduce costs, particularly hardware costs, because of discounts associated with large volume purchases and longer-term relationships and commitments;



- offer less expensive products, technology, platform, and services as a result of a lower cost structure, greater capital reserves or otherwise;
- adapt more swiftly and completely to new or emerging technologies and changes in customer requirements;
- take advantage of acquisition and other opportunities more readily; and
- devote greater resources to the marketing and sales of their products, technology, platform, and services.

If we are unable to compete effectively in our various markets, or if competitive pressures place downward pressure on the prices at which we offer our products and services, our business, financial condition and results of operations may suffer.

***Our Safe Space Solutions products may no longer be marketable.***

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, for use by businesses as COVID-19 related workplace restrictions are reduced or eliminated. While the product and its launch were successful and recouped our initial investment, we still maintain \$1,750 of inventory as of December 31, 2021 that is solely used in deploying our Safe Space Solutions which may not be saleable elsewhere should the market for these products reduce or eliminate as a result of the development of the COVID-19 vaccine. As of December 31, 2021, the Company has recorded a reserve of \$426 for this inventory in the Consolidated Balance Sheet.

**RISKS RELATED TO OUR ACQUISITION OF REFLECT SYSTEMS, INC.**

***The loss of the services of certain key management personnel at Reflect could impair our ability to execute our business strategy and as a result, reduce our sales and profitability.***

We depend on the continued services of certain key personnel from Reflect's senior management team. As we integrate and combine Reflect's with our business, the loss of key personnel at Reflect could have a material adverse effect on our ability to execute our business strategy and on our financial condition and results of operations. Reflect does not maintain key-person insurance for members of its senior management team and we do not anticipate obtaining any such insurance.

***We may be unable to successfully integrate Reflect with our business, which could cause our business to suffer.***

Our acquisition of Reflect is significant, and we may be unable to successfully integrate and combine the operations, personnel and technology of Reflect with our operations. If we fail to successfully manage the integration of Reflect, we may experience interruptions in our business activities, a deterioration in our employee and customer relationships, increased costs of integration and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations. The types of integration issues we face may include difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration process is likely to impose substantial demands on our management. Other challenges involved in integrating Reflect with Creative Realities include, but are not limited to, the following:

- retaining existing customers and strategic partners for each company;
- retaining and integrating management and other key employees of the combined company;
- coordinating research and development activities to enhance introduction of new products and technologies, especially in light of rapidly evolving markets for those products and technologies;
- effectively managing the diversion of management's attention from business matters to integration issues;

- combining product offerings and incorporating acquired software, technology and rights into the product offerings of the combined company effectively and quickly;
- integrating sales efforts so that customers can do business easily with the combined company;
- transitioning all facilities to a common information technology environment;
- effectively offering products and services of Creative Realities and Reflect to each other's customers;
- anticipating the market needs and achieving market acceptance of our products and services;
- bringing together the companies' marketing efforts so that the industry receives useful information about the combination and customers perceive value in the combined company's products and services; and
- developing and maintaining uniform standards, controls, procedures and policies.

There is no assurance that improved operating results will be achieved as a result of the Reflect acquisition or that we successfully integrate the businesses of Reflect in a timely manner, if at all.

***We may not realize the growth opportunities that are anticipated from our acquisition of Reflect.***

The benefits we expect to achieve as a result of the Reflect acquisition will depend, in part, on our ability to realize anticipated growth opportunities. Our success in realizing these growth opportunities, and the timing of this realization, depends largely on the successful integration of Reflect's business and operations with our business and operations. Even if we are able to integrate our business with Reflect's business successfully, this integration may not result in the realization of the full benefits of the growth opportunities we currently expect from this integration within the anticipated time frame or at all. While we anticipate that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the acquisition may be offset by costs incurred or delays in integrating the companies, which could cause our revenue assumptions to be inaccurate.

***The acquisition of Reflect may fail to achieve beneficial synergies.***

We consummated the acquisition of Reflect with the expectation that the acquisition will result in beneficial synergies, such as cost reductions and improving the stability of the combined company's revenues. Achieving these anticipated synergies and benefits will depend largely on our success in integrating our existing business with Reflect's business. Potential risks from an unsuccessful integration include:

- The potential disruption of the combined company's ongoing business and distraction of management;
- The risk that the customers of Creative Realities or Reflect may defer purchasing decisions due to disagreements with the combined company on its strategic direction and product initiatives;
- the risk that Reflect's customers abandon or reject products offered by the combined company after the acquisition, including Reflect products that are integrated into Creative Realities' business, such as additional software products, hosting applications or installation services;
- The risk that it may be more difficult to retain key management, marketing, and technical personnel after the acquisition;
- The risk that costs and expenditures for retaining personnel, eliminating unnecessary resources and integrating the businesses are greater than anticipated;
- The risk that the combined company cannot increase sales of its product; and

- The risk that integrating and changing the businesses will impair Creative Realities' and Reflect's relationships with their customers and business partners.
- effectively offering products and services of Creative Realities and Reflect to each other's customers;
- anticipating the market needs and achieving market acceptance of our products and services;
- bringing together the companies' marketing efforts so that the industry receives useful information about the acquisition and customers perceive value in the combined company's products and services; and
- developing and maintaining uniform standards, controls, procedures and policies.

Even if the two companies are able to effectively integrate operations, there can be no assurance that the anticipated synergies will be achieved. The failure to achieve such synergies could adversely affect the business, results of operations and financial condition of the combined company.

***The assumption of unknown liabilities in the acquisition of Reflect may harm our financial condition and results of operations.***

Because we acquired all of the capital stock of Reflect, we obtained ownership of Reflect subject to all of its liabilities, including contingent and unknown liabilities. Although the definitive merger agreement includes representations and warranties and indemnity covenants from the sellers of Reflect capital stock that may offer us some contractual remedies for breaches or certain other undisclosed or unknown liabilities, there are limitations and conditions to our ability to recoup any liabilities, and there may be other unknown obligations for which we have no contractual remedy. In such a case, our business could be materially and adversely affected. We may learn additional information about Reflect's business that adversely affects us, such as the existence of unknown liabilities, or issues that could affect our ability to comply with applicable laws. If Reflect's liabilities are greater than expected, or if there are material obligations of which we do not become aware until after the acquisition or we have no recourse against the Seller, our business could be materially and adversely affected. If we become responsible for substantial uninsured liabilities, such liabilities may have a material adverse effect on our financial condition and results of operations.

***We have incurred and will continue to incur significant transaction and integration costs in connection with the acquisition of Reflect.***

We have incurred significant costs associated with completing the acquisition of Reflect, and expect to incur additional significant costs integrating the operations of the two companies. The substantial majority of these costs will be non-recurring expenses and will consist of transaction costs (e.g., legal, accounting), facilities and systems consolidation costs and employment-related costs. Additional unanticipated costs may be incurred in the integration of our businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and acquisition costs over time, this net benefit may not be achieved in the near term, or at all.

## **RISKS RELATED TO OUR SECURITIES AND OUR COMPANY**

***The variable sales cycle of our products will likely make it difficult to predict operating results.***

Our revenues in any quarter depend substantially upon contracts signed and the related shipment and installation or delivery of hardware and software products in that quarter. It is therefore difficult for us to accurately predict revenues and this difficulty also will affect the Company. It is difficult to forecast the timing of large individual hardware and software sales with a high degree of certainty due to the extended length of the sales cycle and the generally more complex contractual terms that may be associated with our products that could result in the deferral of some or all of the revenue to future periods.

Accordingly, large individual sales have sometimes occurred in quarters subsequent to when we anticipated or not at all. If we receive any significant cancellation or deferral of customer orders, or it is unable to conclude license negotiations by the end of a fiscal quarter, our operating results may be lower than anticipated. In addition, any weakening or uncertainty in the economy may make it more difficult for the Company to predict quarterly results in the future, and could negatively impact our business, operating results and financial condition for an indefinite period of time.

***Our largest shareholder possesses controlling voting power with respect to our common stock, which will limit your influence on corporate matters.***

As of the date of this Annual Report, our largest shareholder, Slipstream Communications, LLC, has beneficial ownership of 11,658,469 shares of common stock, including common shares that are beneficially owned by its affiliate Slipstream Funding, LLC, and including warrants not yet exercisable. As a result, Slipstream Communications, LLC has significant influence on our management and affairs, including the election and removal of our Board of Directors and all other matters requiring shareholder approval, including the future merger, consolidation or sale of all or substantially all of our assets. This stockholder position could discourage others from initiating any potential merger, takeover or other change-of-control transaction that may otherwise be beneficial to our shareholders. Furthermore, this concentrated ownership will limit the practical effect of your participation in Company matters, through shareholder votes and otherwise.

***Our Articles of Incorporation grant our Board of Directors the power to issue additional shares of common and preferred stock and to designate other classes of preferred stock, all without shareholder approval.***

Our authorized capital consists of 250,000,000 shares of capital stock, 50,000,000 of which is undesignated preferred stock. Pursuant to authority granted by our Articles of Incorporation, our Board of Directors, without any action by our shareholders, may designate and issue shares in such classes or series (including other classes or series of preferred stock) as it deems appropriate and establish the rights, preferences and privileges of such shares, including dividends, liquidation and voting rights, provided it is consistent with Minnesota law. The rights of holders of other classes or series of stock that may be issued could be superior to the rights of holders of our common shares. The designation and issuance of shares of capital stock having preferential rights could adversely affect other rights appurtenant to shares of our common stock. Furthermore, any issuances of additional stock (common or preferred) will dilute the percentage of ownership interest of then-current holders of our capital stock and may dilute our book value per share.

***We do not intend to pay dividends on our common stock for the foreseeable future.***

We do not plan to pay dividends on our common stock for the foreseeable future. Earnings of the business will be reinvested in future growth strategies or utilized to repay outstanding debt.

***We do not have significant tangible assets that could be sold upon liquidation.***

We have nominal tangible assets. As a result, if we become insolvent or otherwise must dissolve, there will be no tangible assets to liquidate and no corresponding proceeds to disburse to our shareholders. If we become insolvent or otherwise must dissolve, shareholders will likely not receive any cash proceeds on account of their shares.

***We can provide no assurance that our securities will continue to meet Nasdaq listing requirements. If we fail to comply with the continuing listing standards of the Nasdaq, our securities could be delisted.***

If we fail to comply with the continuing listing standards of the Nasdaq, our securities could be delisted. A failure to remain listed on Nasdaq could have a material adverse effect on the liquidity and price of our common stock.

## GENERAL RISK FACTORS

### ***Unpredictability in financing markets could impair our ability to grow our business through acquisitions.***

We anticipate that opportunities to acquire similar businesses will materially depend on, among other things, the availability of financing alternatives with acceptable terms. As a result, poor credit and other market conditions or uncertainty in financial markets could materially limit our ability to grow through acquisitions since such conditions and uncertainty make obtaining financing more difficult.

### ***Because of our limited internal resources, we may not have in place various processes and protections common to more mature companies and may be more susceptible to adverse events.***

We have limited internal resources. As a result, we may not have in place systems, processes and protections that many of our competitors have or that may be essential to protect against various risks. For example, we have in place only limited resources and processes addressing human resources, timekeeping, data protection, business continuity, personnel redundancy, and knowledge institutionalization concerns. As a result, we are at risk that one or more adverse events in these and other areas may materially harm our business, financial condition, and results from operations.

### ***General global market and economic conditions may have an adverse impact on our operating performance and results of operations.***

Our business has been and could continue to be affected by general global economic and market conditions. Any downturn in the United States and worldwide economy could have a negative effect on our operating results, including a decrease in revenue and operating cash flow. To the extent our customers are unable to profitably leverage various forms of digital marketing technology and solutions, and/or the content we create, deliver and publish on their behalf, they may reduce or eliminate their purchase of our products and services. Such reductions in traffic would lead to a reduction in our revenues. Additionally, in a down-cycle economic environment, we may experience the negative effects of increased competitive pricing pressure, customer loss, slowdown in commerce over the Internet and corresponding decrease in traffic delivered over our network and failures by our customers to pay amounts owed to us on a timely basis or at all. Suppliers on which we rely for equipment, field services, servers, bandwidth, co-location and other services could also be negatively impacted by economic conditions that, in turn, could have a negative impact on our operations or revenues. Flat or worsening economic conditions may harm our operating results and financial condition.

In addition, our business could be adversely affected by the effects of a widespread outbreak of contagious disease, including the recent outbreak of the COVID-19 respiratory illness. A significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products, our ability to collect against existing trade receivables and our operating results. Specifically, such event may cause us, our customers or suppliers to temporarily suspend operations in the affected city or country, and customers may suspend or terminate capital improvements including in-store digital deployments or refresh projects, all of which may have a material adverse effect on our business.

### ***Significant issuances of our common stock, or the perception that significant issuances may occur in the future, could adversely affect the market price for our common stock.***

Significant actual or perceived potential future issuance of our common stock could adversely affect the market price of our common stock. Generally, issuances of substantial amounts of common stock in the public market, and the availability of shares for future sale, could adversely affect the prevailing market price of our common stock and could cause the market price of our common stock to remain low for a substantial amount of time.

We cannot foresee the impact of potential securities issuances of common shares on the market for our common stock, but it is possible that the market for our shares may be adversely affected, perhaps significantly. It is also unclear whether or not the market for our common stock could absorb a large number of attempted sales in a short period of time, regardless of the price at which they might be offered.

### ***There may not be an active market for shares of our common stock.***

In general, there has been minimal trading volume in our common stock. Small trading volumes would likely make it difficult for our shareholders to sell their shares as and when they choose. Furthermore, small trading volumes are generally understood to depress market prices. As a result, you may not always be able to resell shares of our common stock publicly at the time and prices that you feel are fair or appropriate.

**ITEM 2 PROPERTIES**

(All currency is rounded to the nearest thousands, except share and per share amounts.)

Our headquarters is located at 13100 Magisterial Drive, Suite 100, Louisville, KY 40223. There, we have approximately 17,500 square-feet of office space and 6,500 square-feet of warehouse space, which we believe is sufficient for our projected near-term future growth. The monthly lease amount is currently \$27 and escalates 1% annually through the end of the lease term in December 2023, should the Company elect to retain the entire space. We restructured this lease during 2020, which allowed the Company to right to surrender approximately 9,100 square feet of space and reduce the monthly rent expense by \$6 per month beginning in July 2021. The restructured lease also provided the Company deferred payment terms of approximately \$6 monthly between July 2020 and June 2021, resulting in \$84 that was ultimately added to the headquarters lease. The Consolidated Balance Sheet includes accrued rental payments related to this deferral of \$68 as of December 31, 2021.

The corporate phone number is (502) 791-8800.

We also lease office space of approximately 6,000 square feet to support our Canadian operations at a facility located at 4600 Rhodes Drives, Unit 3& 4, Windsor, Ontario under a lease that expires November 30, 2025 and with a monthly rental, inclusive of CAMS and related realty taxes, of \$9 CAD per month.

We also lease office space of approximately 900 square feet to support our Atlanta operations at a facility known as Northridge Center II and having as its street address at 375 Northridge Road, Atlanta, GA 30350. This property is under lease until March 31, 2022 with a monthly rental of \$2. In November 2021, the Company entered into a lease for office space of approximately 4,500 square feet to support our Atlanta operations at a facility known as Northridge Center II and having as its street address at 365 Northridge Road, Atlanta, GA 30350. This property lease is expected to begin in March 2022 and be under lease until March 2027 with a monthly rental of \$8, escalating 3% annually.

As a result of the acquisition of Reflect, we also lease office space of approximately 15,350 square feet to support the Reflect operations at a facility located at 2221 Lakeside Blvd, Richardson, TX 75082 under a lease that expires March 2024 and with a monthly rental, inclusive of CAMS and related realty taxes, of \$38 per month.

**ITEM 3 LEGAL PROCEEDINGS**

Information regarding legal proceedings can be found in Note 9 *Commitments and Contingencies* to the Company's Consolidated Financial Statements included in this Annual Report.

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(All currency is rounded to the nearest thousands, except share and per share amounts.)

#### Market Information

Our common stock is listed for trading on the Nasdaq Capital Markets ("Nasdaq") under the symbol "CREX". The transfer agent and registrar for our common stock is Computershare Limited, 401 2nd Avenue North, Minneapolis, Minnesota 55401.

#### Shareholders

As of March 22, 2022, we had 419 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

#### Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain future earnings, if any, to operate and expand our business and to finance the development and expansion of our business. We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our Board of Directors.

Holders of our common stock are entitled to share pro rata in dividends and distributions with respect to the common stock when, as and if declared by our Board of Directors out of funds legally available therefor. Our future dividend policy is subject to the sole discretion of our Board of Directors and will depend upon a number of factors, including future earnings, capital requirements and our financial condition.

#### Recent Sales of Unregistered Securities

None.

#### ITEM 6 [RESERVED]

Not applicable.

## ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(All currency is rounded to the nearest thousands, except share and per share amounts.)

*The following discussion should be read in conjunction with the financial statements and related for the years ended December 31, 2021 and 2020, which are included elsewhere in this Annual Report on Form 10-K. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risk, uncertainties and other factors. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Actual results could differ materially because of the factors discussed in "Risk Factors" elsewhere in this Annual Report on Form 10-K, and other factors that we have not identified.*

### Overview

Creative Realities, Inc. ("Creative Realities", or the "Company") transforms environments through digital solutions by providing innovative digital signage solutions for key market segments and use cases, including:

- Retail
- Entertainment and Sports Venues
- Restaurants, including quick-serve restaurants ("QSR")
- Convenience Stores
- Financial Services
- Automotive
- Medical and Healthcare Facilities
- Mixed Use Developments
- Corporate Communications, Employee Experience
- Digital out of Home (DOOH) Advertising Networks

We serve market-leading companies, so there is a good chance that if you leave your home today to shop, work, eat or play, you will encounter one or more of our digital signage experiences. Our solutions are increasingly visible because we help our enterprise customers achieve a range of business objectives including:

- Increased brand awareness
- Improved customer support
- Enhanced employee productivity and satisfaction
- Increased revenue and profitability
- Improved guest experience
- Increased customer/guest engagement
- Improved patient outcomes



Through a combination of organically grown platforms and a series of strategic acquisitions, including our recent acquisition of Reflect Systems, Inc. in February 2022, the Company assist clients to design, deploy, manage, and monetize their digital signage networks. The Company sources leads and opportunities for its solutions through its digital and content marketing initiatives, close relationships with key industry partners, specifically equipment manufacturers, and the direct efforts of its in-house industry sales experts. Client engagements focus on consultative conversations that ensure the Company's solutions are positioned to help clients achieve their business objectives in the most cost-effective manner possible.

When comparing Creative Realities to other digital signage providers, our customers value the following competitive advantages:

- **Breadth of solutions** – Creative Realities is one of only a few companies in the industry capable of providing the full portfolio of products and services required to implement and run an effective digital signage network. We leverage a 'single vendor' approach, providing clients with a one-stop-shop for sourcing digital signage solutions from design through day two services.
- **Managed labor pool** – Unlike most companies in our industry, we have a curated labor pool including thousands of qualified and vetted field technicians available to service clients quickly nationwide. We can meet tight schedules even in exceptionally large deployments and still ensure quality and consistency.
- **In-house creative resources** – We assist clients in repurposing existing content for digital signage experiences or creating new content, an activity for which the Company has won several design awards in recent years. In each instance, our services can be essential in helping clients develop an effective content program.

- **Network scalability and reliability** – Our software as a service (“SaaS”) content management platforms power some of the largest and most complex digital signage networks in North America evidencing our ability to manage enterprise scale projects. This also provides us purchasing power to source products and services for our customers, enabling us to deliver cost effective, reliable and powerful solutions to small and medium size business clients.
- **Ad management platform** – Our customers are increasingly interested in monetizing their digital signage networks through advertising content. However, efficiently scheduling advertising content into digital signage playlists to meet campaign objectives can be a challenging and labor-intensive process. AdLogic, our home-grown, content management-agnostic platform, automates this process, allowing network owners to capture more revenue with less expense.
- **Media sales** – Few, if any other digital signage solution providers, can offer their clients media sales as a service. We have in-house media sales expertise to elevate conversations with clients interested in better understanding network monetization. We believe this meaningful differentiation in the sales process provides an additional revenue stream to Creative Realities compared to our competitors.
- **Market sector expertise** – Creative Realities has in-house experts in key market segments such as automotive, retail, quick-serve restaurants (QSR), convenience stores, and Digital Out of Home (DOOH) advertising. Our expertise in these business segments enables our teams to provide meaningful business conversations and offer tailored solutions with prospects and customers to their unique business objectives. These experts build industry relationship and create thought leadership that drives lead flow and new opportunities for our business.
- **Logistics** – Implementing a large digital signage project can be a logistics nightmare that can stall an initiative even before deployment. Our expertise in logistics improves deployment efficiency, reduces delays and problems, and saves customers time and money.
- **Technical support** – Digital signage networks present unique challenges for corporate IT departments. Creative Realities helps simplify and improve end user support by leveraging our own Network Operations Center (“NOC”) in Louisville Kentucky. The NOC resolves many issues remotely and when field support is required, it can be dispatched from the NOC, leveraging our managed labor pool to resolve customer issues quickly and effectively.
- **Integrations and Application Development** – The future of digital signage is not still images and videos on a screen. Interactive applications and integrations with other data sources will dominate the future. From social media feeds to corporate data stores to Point of Sale (“POS”) systems, our proven ability to build scalable applications and integrations is a key advantage clients can leverage to deliver more compelling and engaging experiences for their customers.
- **Hardware support** – A number of digital signage providers sell a proprietary media player or align themselves with just one operating system. We utilize a range of media players including Windows, Android and BrightSign to provide clients the flexibility they need to select the appropriate hardware for any application knowing the entire network can still be served by a single digital signage platform, reducing complexity and improving the productivity of their teams.

The three primary sources of revenue for the company are:

- Hardware sales from reselling digital signage hardware from original equipment manufacturers such as Samsung and BrightSign.
- Services revenue from helping customers design, deploy and manage their digital signage network, including:
  - Hardware system design/engineering
  - Hardware installation
  - Content development
  - Content scheduling
  - Post-deployment network and field support
  - Media sales, as a result of our acquisition of Reflect
- Recurring subscription licensing and support revenue from our digital signage software platforms, which are generally sold via a SaaS model. These include:
  - **ReflectView**, the Company's core digital signage platform for most applications, scalable and cost effective from 10 to 100,000+ devices
  - **Reflect Xperience**, a web-based interface that allows customers to give content scheduling access to local users via the web or mobile devices, while still maintaining centralized programming control
  - **Reflect AdLogic**, the Company's ad management platform for digital signage networks, which presently delivers approximately 50 million ads daily
  - **Reflect Clarity**, the Company's menu board solution, which has become a market leader for a range of restaurant and convenience store applications
  - **Reflect Zero Touch**, which allows customers to turn any screen into an interactive experience by allowing guests to engage using their mobile device
  - **iShowroomProX**, an omni-channel digital sales support platform targeted at original equipment manufacturers in the transportation sector, which integrates with dozens of key data services including dealer inventory at the VIN level
  - **OSx+**, a digital VIN-level checklist used to assist in the tracking and delivery of new vehicles in the transportation sector, providing measurable lift in customer satisfaction scores and connected vehicle enrollments and subscription activations.

While hardware sales and support services revenues can fluctuate more significantly year over year based on new, large-scale network deployments, the Company expects to see continuous growth in recurring SaaS revenue for the foreseeable future as digital signage adoption/utilization continues to expand across the vertical markets we serve.

## Recent Developments

### *Acquisition of Reflect*

On November 12, 2021, the Company and Reflect Systems, Inc., or “Reflect,” entered into an Agreement and Plan of Merger (as amended on February 8, 2022, the “Merger Agreement”) pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, or “Merger Sub,” would merge with and into Reflect, with Reflect surviving as a wholly owned subsidiary of Creative Realities, , which transaction is referred to herein as the “Merger.” On February 17, 2022, the parties consummated the Merger.

Reflect provides digital signage solutions, including software, strategic and media services to a wide range of companies across the retail, financial, hospitality and entertainment, healthcare, and employee communications industries in North America. Reflect offers digital signage platforms, including ReflectView, a platform used by companies to power hundreds of thousands of active digital displays. Through its strategic services, Reflect assists its customers with designing, deploying and optimizing their digital signage networks, and through its media services, Reflect assists customers with monetizing their digital advertising networks.

Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) \$16,166 payable in cash, (ii) 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of \$2 per share) (the “CREX Shares”), (iii) the Secured Promissory Note (as described below), and (iv) supplemental cash payments (the “Guaranteed Consideration”), if any, payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option described below, the “Guarantee Date”), in an amount by which the value of the CREX Shares on such anniversary is less than \$6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than \$7.20 per share (such applicable amount, the “Guaranteed Price”), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below), subject to the terms of the Merger Agreement.

Creative Realities may exercise an extension option (the “Extension Option”) to extend the Guarantee Date from the three-year anniversary of the Closing Date to six (6) months thereafter if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) Creative Realities provides written notice of its election to exercise the Extension Option at least ten (10) days prior to the three-year anniversary of the Closing. The “Extension Threshold Price” means the average closing price per share of Creative Realities Shares as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending fifteen (15) days prior to the three-year anniversary of the Closing Date. If the Extension Threshold Price is less than 80% of the Guaranteed Price, then the Guaranteed Price will be increased by \$1.00 per share.

In connection with the Merger, the Company adopted a Retention Bonus Plan and raised capital to, among other things, pay the cash portion of the Merger consideration, all of which is summarized below.

### *Retention Bonus Plan*

On February 17, 2022, in connection with the closing of the Merger, the Company adopted a Retention Bonus Plan, pursuant to which the Company is required to pay to key members of Reflect’s management team an aggregate of \$1,333 in cash, which was paid 50% at the closing of the Merger (the “Closing”), and subject to continuous employment with Reflect or Creative Realities, 25% on the one-year anniversary of Closing and 25% on the two-year anniversary of the Closing. The future cash payments due on the one-year and two-year anniversaries of the Closing have been deposited into an escrow agreement. The Retention Bonus Plan also requires the Company to issue Common Stock having an aggregate value of \$667 to the plan participants as follows: 50% of the value of such shares were issued at the Closing, and subject to continuous employment with Reflect or Creative Realities, 25% of the value of such shares will be issued on the one-year anniversary of Closing and the remaining 25% of the value of such shares will be issued on the two-year anniversary of the Closing. The shares issued on the Closing were valued at \$2.00 per share, and the shares to be issued after the Closing will be determined based on dividing the value of shares issuable on such date divided by the trailing 10-day volume weighted average price (VWAP) of the shares as of such date as reported on the Nasdaq Capital Market.

Upon the resignation of a participant’s employment for “good reason,” or termination of the employment of a participant without “cause,” each as defined in the Retention Bonus Plan, the participant will be fully vested and will receive all cash and shares allocated to such participant under the Retention Bonus Plan. Any amounts unpaid by reason of a lapse in continuous employment or otherwise will be reallocated among the remaining Retention Bonus Plan participants.

### *Equity Financing*

On February 3, 2022, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with a purchaser (the “Purchaser”), pursuant to which the Company agreed to issue and sell to the Purchaser, in a private placement priced at-the-market under Nasdaq rules, (i) 1,315,000 shares (the “Shares”) of the Company’s common stock, par value \$0.01 per share (the “Common Stock”) and accompanying warrants to purchase an aggregate of 1,315,000 shares of Common Stock, and (ii) pre-funded warrants to purchase up to an aggregate of 5,851,505 shares of Common Stock (the “Pre-Funded Warrants”) and accompanying warrants to purchase an aggregate of 5,851,505 shares of Common Stock (collectively, the “Private Placement”). The accompanying warrants to purchase Common Stock are referred to herein collectively as the “Common Stock Warrants.” Under the Securities Purchase Agreement, each Share and accompanying warrants to purchase Common Stock were sold together at a combined price of \$1.535, and each Pre-Funded Warrant and accompanying warrants to purchase Common Stock were sold together at a combined price of \$1.5349, for gross proceeds of approximately \$11,000 before deducting placement agent fees and estimated offering expenses payable by the Company. The net proceeds from the Private Placement were used to fund, in part, payment of the closing cash consideration in the Merger.

Each Pre-Funded Warrant has an exercise price of \$0.0001 per share, is exercisable immediately until the Pre-Funded Warrant is exercised in full. The Common Stock Warrants expire five years from the date of issuance, have an exercise price of \$1.41 per share and are exercisable immediately.

On February 17, 2022, in connection with obtaining a waiver of certain restrictions in the Securities Purchase Agreement in order to consummate the financing contemplated by the Credit Agreement (defined below), the Company paid consideration to such investor in the form of a warrant (the “Purchaser Warrant”) to purchase 1,400,000 shares of Company common stock. The number of shares of Company common stock subject to the Purchaser Warrant is equal to the waiver fee (\$175) divided by \$0.125 per share. The exercise price of the Purchaser Warrant is \$1.41 per share, and the Purchaser Warrant is not exercisable until August 17, 2022. The Purchaser Warrant expires five years from the date of issuance.

### *Debt Financing*

On February 17, 2022, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream, pursuant to a Second Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The Borrowers include Reflect, which became a wholly owned subsidiary of the Company as a result of the closing of the Merger. The debt facilities continue to be fully secured by all assets of the Borrowers.

The Company raised \$10,000 in gross proceeds, or \$9,950 in net proceeds, from entry into a new, 36-month senior secured term loan (the “Acquisition Loan”) with Slipstream as part of the Credit Agreement, which matures on February 17, 2025 (the “Maturity Date”). The Acquisition Loan has an interest rate of 8.0%, with 50.0% warrant coverage (or 2,500,000 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Acquisition Loan (estimated to be \$67 per monthly payment). No principal payments on the Acquisition Loan are payable until the Maturity Date.

The Credit Agreement also provides that the Company’s outstanding loans from Slipstream, consisting of its pre-existing \$4,767 senior secured term loan and \$2,418 secured convertible loan, with an aggregate of \$7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a term loan (the “Consolidation Term Loan”). The Consolidation Term Loan has an interest rate of 10.0%, with 75.0% warrant coverage (or 2,694,495 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Consolidation Term Loan (estimated to be \$60 per monthly payment). Commencing on September 1, 2023, and on the first day of each month thereafter until the Maturity Date, the Borrowers will make a payment on the Consolidation Term Loan, in an equal monthly installment of principal sufficient to fully amortize the Consolidation Term Loan in eighteen equal installments (estimated to be \$399 per monthly installment).

In connection with the Acquisition Loan and Consolidation Term Loan warrant coverage, the Company issued to Slipstream a warrant to purchase an aggregate of 5,194,495 shares of Company common stock (the “Lender Warrant”). The Lender Warrant has a five-year term, an initial exercise price of \$2.00 per share, subject to adjustments in the Lender Warrant, and is not exercisable until August 17, 2022.

### *Secured Promissory Note*

On February 17, 2022, pursuant to the terms of the Merger, the Company issued to RSI Exit Corporation (“Stockholders’ Representative”), the representative of Reflect stockholders, a \$2,500 Note and Security Agreement (the “Secured Promissory Note”).

The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of \$104 on the fifteenth (15th) day of each month, commencing on March 17, 2022. Any remaining or unpaid principal shall be due and payable on February 15, 2023. All payments under the Secured Promissory Note will be paid to the escrow agent in the Merger Agreement to be placed into the escrow account to secure the Reflect stockholders’ indemnification obligations until released on the one-year anniversary of the closing of the Merger, at which time any remaining proceeds not subject to a pending indemnification claim will be paid to the exchange agent for payment to the Reflect Stockholders. The obligations of the Company and Reflect set forth in the Secured Promissory Note are secured by a first-lien security interest in various contracts of Reflect, together with all accounts arising under such contracts, supporting obligations related to the accounts arising under such contracts, all related books and records, and products and proceeds of the foregoing. Slipstream subordinated its security interest in such collateral, and the recourse for any breach of the Secured Promissory Note by the Company or Reflect will be against such collateral.

### **Our Sources of Revenue**

We generate revenue through digital signage 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**

Our management is responsible for our financial statements and has evaluated the accounting policies to be used in their preparation. Our management believes these policies are reasonable and appropriate. The Company’s significant accounting policies are described in Note 2 *Summary of Significant Accounting Policies* of the Company’s Consolidated Financial Statements included within Part II, ITEM 8 of this Annual Report. The following discussion identifies those accounting policies that we believe are critical in the preparation of our financial statements, the judgments and uncertainties affecting the application of those policies and the possibility that materially different amounts will be reported under different conditions or using different assumptions.

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ from those estimates.

### ***Revenue Recognition***

We recognized revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers* (“ASC 606”). Under ASC 606, we account for revenue using the following steps:

- Identify the contract, or contracts, with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the identified performance obligations
- Recognize revenue when, or as, we satisfy our performance obligations

See Note 2 *Summary of Significant Accounting Policies* and Note 4 *Revenue Recognition* in our Consolidated Financial Statements, included in Part II, ITEM 8 of this Annual Report, for a complete discussion of our revenue recognition policies.

### ***Allowance for Doubtful Accounts***

We have not made any material changes in the accounting methodology we use to measure the estimated liability for doubtful accounts during the past two fiscal years. The Company’s methodology for calculating the allowance for doubtful accounts consists of (1) reserving for specific receivables which (a) are known to be facing serious financial problems, (b) have a trade dispute with the Company, or (c) are significantly aged and/or unresponsive, and (2) a general reserve for unaged accounts receivable based on a percentage of revenue each period. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to establish the liability for doubtful accounts. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

### ***Goodwill***

Goodwill is evaluated for impairment annually as of September 30 and whenever events or circumstances make it more likely than not that impairment may have occurred. We have no other indefinite-lived intangible assets. We test goodwill for impairment by comparing the book value to the fair value at the reporting unit level. We have only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit. The fair value of the reporting unit is determined by using a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur. We use these same expectations in other valuation models throughout the business. In addition to the discounted cash flow analysis, we utilize a leveraged buy-out model, trading comps and market capitalization to ultimately determine an estimated fair value of our reporting unit based on weighted average calculations from these models. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. If the carrying amount exceeds the fair value, further analysis is performed to measure the impairment loss.

In addition, our market capitalization could fluctuate from time to time. Such fluctuation may be an indicator of possible impairment of goodwill if our market capitalization falls below its book value. If this situation occurs, we perform the required detailed analysis to determine if there is impairment.

During the first quarter of 2020, 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 period. We qualitatively assessed and concluded that it was more likely than not that goodwill was impaired as of March 31, 2020. We reviewed our previous forecasts and assumptions based on our updated projections that were 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, (4) changes to the regulatory environment and (5) 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. The subsequent quantitative interim impairment assessment of our goodwill as of March 31, 2020 resulted in recording an impairment of \$10,646 as of March 31, 2020.

No additional impairment was recorded during the remainder of 2020, nor as a result of our annual assessment completed as of September 30, 2021, and no indicators of impairment were identified as of December 31, 2021.

We have not made any material changes in our reporting units or the accounting methodology we used to assess impairment of goodwill since September 30, 2021. The valuation of goodwill is subject to a high degree of judgment, uncertainty and complexity. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

### ***Income Taxes***

Accounting for income taxes requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. These deferred taxes are measured by applying the provisions of tax laws in effect at the balance sheet date, including the impact of the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017.

We recognize in income the effect of a change in tax rates on deferred tax assets and liabilities in the period that includes the enactment date.

As of December 31, 2021, a full valuation allowance is recorded against our deferred tax. The valuation allowance is based, in part, on our estimate of future taxable income, the expected utilization of federal and state tax loss carryforwards, and credits and the expiration dates of such tax loss carryforwards. Significant assumptions are used in developing the analysis of future taxable income for purposes of determining the valuation allowance for deferred tax assets which, in our opinion, are reasonable under the circumstances.

### **Impact of Recently Issued Accounting Pronouncements**

Refer to Note 3 *Recently Issued Accounting Pronouncements* in our Consolidated Financial Statements included in Part II, ITEM 8 of this Annual Report, for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

### **Results of Operations**

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



**Year Ended December 31, 2021 Compared to Year Ended December 31, 2020**

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

	<b>Year Ended December 31,</b>		<b>Change</b>	
	<b>2021</b>	<b>2020</b>		<b>%</b>
Sales	\$ 18,437	\$ 17,457	\$ 980	6%
Cost of sales	10,080	9,336	744	8%
Gross profit	8,357	8,121	236	3%
Sales and marketing expenses	1,153	1,676	(523)	-31%
Research and development expenses	550	1,083	(533)	-49%
General and administrative expenses	7,598	8,465	(867)	-10%
Bad debt	(277)	828	(1,105)	-133%
Depreciation and amortization expense	1,364	1,474	(110)	-7%
Lease termination expense	-	18	(18)	-100%
Loss on disposal of assets	-	13	(13)	-100%
Goodwill impairment	-	10,646	(10,646)	-100%
Deal and transaction	518	-	518	100%
Total operating expenses	10,906	24,203	(13,297)	-55%
Operating loss	(2,549)	(16,082)	13,533	-84%
Other income/(expenses):				
Interest expense	(805)	(1,023)	218	-21%
Gain on settlement of debt	3,449	209	3,240	1,550%
Gain/(loss) on fair value of debt	166	(93)	259	-278%
Other income/(expense)	(7)	(13)	6	-46%
Total other income/(expense)	2,803	(920)	3,723	-405%
Net income/(loss) before income taxes	254	(17,002)	17,256	-101%
Income tax benefit/(expense)	(22)	158	(180)	-114%
Net income/(loss)	\$ 232	\$ (16,844)	\$ 17,076	101%

### ***Sales***

Sales increased by \$980, or 6%, in 2021 as compared to 2020 driven by an increase of \$459 in hardware sales as compared to the same period in 2020, despite a decrease of \$2,135 in the sale of our Safe Space Solutions products year-over-year, which launched in April 2020. Core digital signage sales (inclusive of hardware, installation, and services) expanded by \$3,115 in 2021 despite constraints and headwinds due to limited supply chain availability of semiconductor chips delaying the delivery of digital displays and media players to the Company. The supply disruption for digital displays prevented the Company from delivery of hardware and execution of installation activities during the year. As of December 31, 2021, the Company had customer purchase orders for equipment and installation activities in excess of \$1,000 which were delayed as a result of product availability. The Company expects to experience continued disruptions and delays related to fulfillment of inventory purchases from vendors during 2022, but we expect a full recovery in the timely availability of equipment no later than the end of the second quarter of 2022.

### ***Gross Profit***

Gross profit increased \$236 in absolute dollars to \$8,357 in 2021 from \$8,121 in 2020, or 3% through a combination of a 6% increase in revenue and a 1.2% reduction in gross margin percentage, driven by an increase in revenue from hardware revenue, which typically is a lower margin revenue stream than our services, as a percentage of total revenue in 2021 as compared to the prior year.

### ***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 \$523, or 31%, for the year ended December 31, 2021 as compared to the same period in 2020 driven by (1) a current year Employee Retention Credit of \$232 related to the retention and payment of salaries to sales personnel throughout 2020 and 2021, which was all recorded when filed in 2021, (2) reduction of \$105 in sales lead generation tools, and (3) the result of reduced personnel costs, partially offset by an increase of \$47 on trade show activity and related travel costs following a return to participation in industry trade shows and events after the elimination of such costs in 2020 as a result of the COVID-19 pandemic.

### ***Research and Development Expenses***

Research and development expenses decreased by \$533, or 49%, for the year ended December 31, 2021 as compared to the same period in 2020 as the result of (1) a current year Employee Retention Credit of \$196 related to the retention and payment of salaries to development personnel throughout 2020 and 2021, which was all recorded when filed in 2021, (2) a reduction in personnel costs during the period following reduced headcount and salary reductions in March 2020 through salary reinstatements in October 2021, and (3) an increase in capitalization of development activities for new features/functionality.

### ***General and Administrative Expenses***

Total general and administrative expenses decreased by \$867, or 10%, in 2021 compared to 2020. The decrease was driven by \$694 of Employee Retention Credits related to the retention and payment of salaries to sales personnel throughout 2020 and 2021, each of which were recorded in 2021 when the tax credits were filed. Excluding the consideration of those Employee Retention Credits recorded in the period, total general and administrative expenses decreased \$173, or 2%, during 2021 as compared to 2020. The comparable year-over-year expenses included reductions of (a) \$262 in non-ERC-related personnel costs, including salaries, benefits, and travel-related expenses, (b) \$334 in rent expense following closure, downsizing, or restructuring of four leases during 2020, and (c) reductions in legal expenses of \$366 following settlement of the Amended and Restated Seller Note, partially offset by an increase in stock compensation amortization expense of \$1,213 related to incremental employee and directors' awards granted during 2020, which are being amortized over a nineteen (19) month remaining vesting period, and 2021, which are being amortized over twelve (12) and (24) month vesting periods, based on the grant date fair value calculated using the Black Scholes method. Personnel costs were reduced following completion of a reduction-in-force and salary reductions for remaining personnel in March 2020.

***Bad Debt***

Expenses related to the Company's allowance for bad debts decreased by \$1,105, or 133%, in 2021 as compared to 2020. This decrease was primarily driven by a cash recovery of \$555 in 2021 related to a customer bankruptcy for which the Company previously recorded a reserve beginning in second quarter 2020. The remaining reduction was the result of reduced credits and cancellations in 2021 as compared to the prior year in which the COVID-19 pandemic resulted in material customer closures.

***Depreciation and Amortization Expenses***

Depreciation and amortization expenses decreased by \$110, or 7%, in 2021 compared to 2020. This decrease was the result of a trade name asset becoming fully amortized during 2020, while no amortization was recorded during the 2021. Depreciation was consistent in both periods.

***Lease Termination Expense***

On December 31, 2020, we exited our office facilities located in Dallas, TX. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$18. There were no such lease terminations during 2021.

***Goodwill impairment***

See Note 7 *Intangible Assets, Including Goodwill* to the Consolidated Financial Statements for a discussion of the Company's interim impairment test and the non-cash impairment charge recorded in 2020.

***Interest Expense***

See Note 8 *Loans Payable* to the Consolidated Financial Statements for a discussion of the Company's debt and related interest expense obligations.

***Gain on Settlement of Obligations***

During 2021, (i) the full principal amount of the PPP Loan and the accrued interest of \$1,552 were forgiven and recorded as a gain on settlement, (ii) the Company settled the Amended and Restated Seller Note and related accrued interest for \$100, recording a gain on settlement of \$1,624, representing \$1,538 related to the Amended and Restated Seller Note and \$86 of related interest thereon, and (iii) the statute of limitations passed related to the remaining liability on a lease abandoned by the Company in 2015, resulting in a gain of \$256.

During the year ended December 31, 2020, the Company settled and/or wrote off obligations of \$348 for aggregate cash payments of \$139 and recognized a gain of \$209 related to legacy accounts payable deemed to no longer be legal obligations to vendors.

### 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 gauging our results of operations on an ongoing basis. We believe that EBITDA is a performance measure and not a liquidity measure, and therefore a reconciliation between net loss/income and EBITDA and Adjusted EBITDA has been provided. EBITDA should not 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, EBITDA does not take 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 that are included elsewhere in this Annual Report.

Quarters ended	Year Ended 2021	Quarters Ended			
		December 31, 2021	September 30, 2021	June 30 2021	March 31, 2021
GAAP net income (loss)	\$ 232	\$ (1,722)	\$ (343)	\$ 1,025	\$ 1,272
Interest expense:					
Amortization of debt discount	159	29	29	29	72
Other interest, net	648	160	158	153	177
Depreciation/amortization:					
Amortization of intangible assets	1,251	302	320	317	312
Amortization of finance lease assets	4	-	-	-	4
Amortization of employee share-based awards	1,494	324	329	329	512
Depreciation of property and equipment	109	27	27	27	28
Income tax expense/(benefit)	22	13	1	7	1
EBITDA	<u>\$ 3,919</u>	<u>(867)</u>	<u>\$ 521</u>	<u>1,887</u>	<u>2,378</u>
Adjustments					
Change in fair value of Special Loan	(166)	-	-	-	(166)
Gain on settlement of obligations	(3,449)	-	(256)	(1,628)	(1,565)
Deal and transaction costs	518	518	-	-	-
Stock-based compensation – Director grants	399	318	27	27	27
Adjusted EBITDA	<u>\$ 1,221</u>	<u>(31)</u>	<u>\$ 292</u>	<u>286</u>	<u>674</u>

Quarters ended	Year Ended 2020	Quarters Ended			
		December 31, 2020	September 30, 2020	June 30 2020	March 31, 2020
GAAP net loss	\$ (16,844)	\$ (617)	\$ (585)	\$ (2,459)	\$ (13,183)
Interest expense:					
Amortization of debt discount	339	85	85	84	85
Other interest, net	683	186	179	176	142
Depreciation/amortization:					
Amortization of intangible assets	1,330	319	340	344	327
Amortization of finance lease assets	20	3	5	5	7
Amortization of share-based awards	617	250	248	100	19
Depreciation of property and equipment	124	29	33	30	32
Income tax expense/(benefit)	(158)	(6)	(1)	4	(155)
EBITDA	<u>\$ (13,889)</u>	<u>249</u>	<u>\$ 304</u>	<u>(1,716)</u>	<u>(12,726)</u>
Adjustments					
Change in fair value of Special Loan	93	(609)	-	551	151
Gain on settlement of obligations	(209)	(54)	(114)	(1)	(40)
Loss on disposal of assets	13	-	13	-	-
Loss on lease termination	18	18	-	-	-
Loss on goodwill impairment	10,646	-	-	-	10,646
Stock-based compensation – Director grants	102	27	25	19	31
Adjusted EBITDA	<u>\$ (3,226)</u>	<u>(369)</u>	<u>\$ 228</u>	<u>(1,147)</u>	<u>(1,938)</u>

## Liquidity and Capital Resources

We produced net income and positive cash flows from operating activities for the year ended December 31, 2021 but incurred a net loss and had negative cash flows from operating activities for the year ended December 31, 2020. As of December 31, 2021, we had cash and cash equivalents of \$2,883 and a working capital surplus of \$2,913.

### *Equity Financing*

As described more fully in the *Recent Developments* section above, on February 3, 2022, the Company entered into the Securities Purchase Agreement pursuant to which the Company agreed to issue and sell 1,315,000 shares of the Company's common stock and Common Stock Warrants to a Purchaser in a Private Placement transaction for gross proceeds of \$11,000 before deducting placement agent fees and estimated offering expenses payable by the Company. The net proceeds from the Private Placement were used to fund, in part, payment of the closing cash consideration in the Merger.

### *Debt Financing*

On February 17, 2022, the Company and its subsidiaries (collectively, the "Borrowers") refinanced their current debt facilities with Slipstream, pursuant to the Credit Agreement, and raised \$10,000 in gross proceeds with a maturity date of February 1, 2025.

The Credit Agreement also provides that the Company's outstanding loans from Slipstream, consisting of its pre-existing \$4,767 senior secured term loan and \$2,418 secured convertible loan, with an aggregate of \$7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a Consolidation Term Loan with a maturity date of February 1, 2025. On February 17, 2022, in connection with the closing of the acquisition of Reflect, the Company issued to RSI Exit Corporation ("Stockholders' Representative"), the representative of Reflect stockholders, a \$2,500 Note and Security Agreement (the "Secured Promissory Note").

The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of \$104 on the fifteenth (15th) day of each month, commencing on March 17, 2022, for twelve months with any remaining or unpaid principal due and payable on February 15, 2023.

Management believes that, based on (i) the execution of the Equity Financing, (ii) the refinancing of our debt as part of the Debt Financing, including extension of the maturity date on our term loans, and (iii) our operational forecast through 2022 following completion of the Reflect Acquisition, that we can continue as a going concern through at least March 31, 2023. However, given our historical net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through March 31, 2023. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

See Note 8 *Loans Payable* to the Consolidated Financial Statements and the *Recent Developments* section earlier in Item 7 for an additional discussion of the Company's debt obligations and further discussion of the Company's refinancing activities subsequent to December 31, 2021.

#### ***Operating Activities***

The cash flows provided by / (used in) operating activities were \$471 and \$(3,530) for the years ended December 31, 2021 and 2020, respectively. Removing the effect of non-cash items, cash provided by operations in 2021 was \$1,723, driven by an (1) increase in net customer/vendor deposits of \$901 related to upfront cash collections/payments for large-scale projects, (2) increase in net accounts receivable and payables of \$196 related to the timing of collections and payments for ongoing hardware and installation sales and purchases, and (3) a decrease in inventory of \$471 as Safe Space Solutions inventory purchased in the prior year was sold in 2021, partially offset by a \$338 decrease in deferred revenue.

#### ***Investing Activities***

Net cash used in investing activities during the year ended December 31, 2021 was \$1,159 as compared to \$657 for the same period in 2020. Uses of cash in the current and prior period relate primarily to internal and external costs associated with software development. We currently do not have any material commitments for capital expenditures as of December 31, 2021; however, we anticipate an increase in our capital expenditures of approximately \$430 in excess of our historical trends through the first half of 2022 to maintain and enhance the software platform for our customers and to enhance revenue generating activities through the platform.

#### ***Financing Activities***

Net cash provided by financing activities during the years ended December 31, 2021 and 2020 was \$1,745 and \$3,479, respectively. The current year results were driven by completion of the Company's registered direct offering, while the prior year results were driven by our receipt of a PPP Loan of \$1,552 and proceeds from our at-the-market offering of \$1,831, partially offset by no debt proceeds during the year.

#### **Off-Balance Sheet Arrangements**

During the year ended December 31, 2021, we did not engage in any off-balance sheet arrangements set forth in Item 303(a) (4) of Regulation S-K.

#### **ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Index to Consolidated Financial Statements on Page F-1.

#### **ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

## ITEM 9A 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 (“Exchange Act”), as of the end of the period covered by this Annual 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 December 31, 2021, 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.

### Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment and those criteria, management believes that we maintained effective internal control over financial reporting as of December 31, 2021.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B OTHER INFORMATION

### *Earnings Release*

On March 22, 2022, the Company issued a press release announcing its financial condition and results of operations for the three months and year ended December 31, 2021. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference into this Item 9B in lieu of separately furnishing such press release under Item 2.02 of Form 8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

## ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

### PART III

#### ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our Board of Directors consists of Dennis McGill (Chairman), Richard Mills (CEO), David Bell, Donald Harris, and Stephen Nesbit.

The following table sets forth the name and position of each of our current directors and executive officers.

Name	Age	Positions
Dennis McGill	73	Director (Chairman)
David Bell	78	Director
Donald A. Harris	69	Director
Richard Mills	66	Chief Executive Officer and Director
Stephen Nesbit	70	Director
Will Logan	37	Chief Financial Officer

The biographies of the above-identified individuals are set forth below:

**Dennis McGill** joined our Board of Directors in November 2019. Over the course of a 45-year career, Mr. McGill has served as a director, Chief Executive Officer or Chief Financial Officer of various public and private companies. From June 2015 to October 2017, Mr. McGill served as the President and CEO of ReCommunity Holdings II, Inc., the largest independent recycling processing company in the US, processing over 1.8 million tons of material annually and employing a team of 1,600 members. Mr. McGill served on the Board of Directors for Lighting Science Group Corp. (“LSGC”) from March 2015 to July 2017 while the company was publicly traded. Mr. McGill also served as the LSGC’s Interim Chief Operating Officer from June 2014 to September 2014 and as LSGC’s Interim Chief Financial Officer from July 2014 to December 2014. Mr. McGill joined Pegasus Capital as an operating advisor in December 2014 and remains in that capacity today. Since June 2014, Mr. McGill has also served on the board of directors of DGSE Companies, Inc., a company listed on the NYSE MKT that buys and sells jewelry, diamonds, fine watches, rare coins and currency (“DGSE”). Mr. McGill previously served on the board of directors of DGSE, ReCommunity Holdings, LP and Fiber Composites, LLC and served as the chairman of DGSE’s audit committee. From February 2013 to October 2013, Mr. McGill served as executive vice president and Chief Financial Officer of Heartland Automotive Services, Inc., where he actively participated with the senior management team to develop and roll-out a new business model. From September 2010 to February 2013, Mr. McGill served as executive vice president and Chief Financial Officer of Blockbuster LLC and was responsible for directing and managing various aspects of the Chapter 11 process. From March 2005 to July 2010, Mr. McGill served as executive vice president and Chief Financial Officer of Safety-Kleen Systems, Inc., during which time he led the company’s merger and acquisition efforts and grew the company from \$0 to \$160 million in EBITDA during his tenure. Mr. McGill holds a Bachelor of Science degree in Finance and Accounting and Master of Business Administration degree from the University of California, Berkeley and is a Certified Public Accountant in the state of California.

**David Bell** joined our Board of Directors in August 2014 in connection with our acquisition of Creative Realities, LLC. Mr. Bell brings over 40 years of advertising and marketing industry experience to the board, including serving as CEO of three of the largest companies in the industry—Bozell Worldwide, True North Communications and The Interpublic Group of Companies, Inc. Since 2007, Mr. Bell has led Slipstream Communications, LLC which is an international company providing strategic branding, digital marketing, and public relations services and served as a Senior Advisor to Google Inc. from 2006 to 2009. Mr. Bell previously served as an Operating Advisor at Pegasus Capital Advisors. He is currently a Senior Advisor to AOL and has also served on the boards of multiple publicly traded companies, including Lighting Science Group Corporation and Point Blank Solutions, Inc., and Primedia, Inc., and served as President and CEO of The Interpublic Group of Companies Inc. from 2003 to 2005. Mr. Bell served as an independent director on the Board of Directors of Time, Inc. from June 2014 to January 2018.

**Donald A. Harris** was appointed to our Board of Directors in August 2014 in connection with our acquisition of Broadcast International, Inc. He has been President of 1162 Management, and the General Partner of 5 Star Partnership, a private equity firm, since June 2006. Mr. Harris has been President and Chief Executive Officer of UbiquiTel Inc., a telecommunications company organized by Mr. Harris and other investors, since its inception in September 1999 and also its Chairman since May 2000. Mr. Harris served as the President of Comcast Cellular Communications Inc. from March 1992 to March 1997. Mr. Harris received a Bachelor of Science degree from the United States Military Academy and an MBA from Columbia University. Mr. Harris’s experience in the telecommunications industry and his association with private equity funding is valuable to the Company.



**Richard Mills** is currently our Chief Executive Officer and a member of our Board of Directors. Mr. Mills possesses over 32 years of industry experience. He was previously Chief Executive Officer of ConeXus World Global, a leading digital media services company, which he founded in 2010, and which was acquired by the Company. Prior to founding ConeXus, Mr. Mills was President and Director at Beacon Enterprise Solutions Group, Inc., a public telecom and technology infrastructure services provider. Previous to that, he joined publicly traded Pomeroy Computer Resources, Inc. in 1993 and served as Chief Operating Officer and a member of the Board of Directors from 1995 until 1999. Mr. Mills helped grow sales at Pomeroy during his time there from \$100 million to \$700 million. Mr. Mills was also a founder of Strategic Communications LLC.

**Stephen Nesbit** has been in the digital signage and digital advertising industry for over 20 years. He is currently the Managing Director of Prestonwood Trail Holdings LLC and has provided advisory services for companies in the Digital Signage and Digital Media Industry for the past 10 years. He has directed and advised projects in North America, Europe, Asia proper, Southeast Asia, the Middle East, Australia and Africa. Prior to founding Prestonwood Trail, Mr. Nesbit was the President/COO at Reflect Systems, a prominent software and services company in the Digital Signage business. He joined Reflect after serving as President/COO of MarketForward, the Global Digital Media Division owned by the Publicis Groupe S.A. in Paris France. Mr. Nesbit began his career in Digital Signage as the EVP Global Operations & GM International Business for Next Generation Network. NGN was one of the first Digital Place Based Advertising companies in the industry before its sale to Anschutz Investments where the company changed its name to National Cinemedia (NASDAQ: NCMI). He began his career at IBM in the Data Processing Division holding various field and HQ management positions. Mr. Nesbit also held management and executive positions at Wang Labs and BBN Communications Inc., the communications company that was the original architect of the Internet. Mr. Nesbit holds an undergraduate degree from the University of Notre Dame and earned an MBA from the Indiana University Kelly Graduate School of Business.

**Will Logan** joined the Company as VP of Finance in November 2017 and was promoted to the position of Chief Financial Officer effective May 16, 2018. From January 2007 until November 2017, Mr. Logan was employed by Ernst & Young in the assurance services group where he primarily served large public companies, including a two-year international rotation in London, UK in the asset management practice. He brings over ten years of experience in SEC reporting, technical accounting matters and Sarbanes-Oxley compliance expertise as well as expertise in initial public offerings, acquisitions and integration. He has B.A. degrees in Accounting and Economics from Bellarmine University and is a Certified Public Accountant.

Under our corporate bylaws, all of our directors serve for indefinite terms expiring upon the next annual meeting of our shareholders.

When considering whether directors and nominees have the experience, qualifications, attributes and skills to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focuses primarily on the industry and transactional experience, in addition to any unique skills or attributes associated with a director. With regard to Mr. McGill, the Board of Directors considered his background and experience with running and accelerating growth at public companies. With regard to Mr. Bell, the Board considered his deep experience within the advertising and marketing industries and his prior management of large enterprises. With regard to Mr. Mills, the Board of Directors considered his extensive background and experience in the industry. With regard to Mr. Harris, the Board of Directors considered his extensive experience in the telecommunications industry and association with private equity investors. Finally, with regard to Mr. Nesbit, the Board of Directors considered his extensive experience in the digital signage industry, having run several companies in the industry and acted as a consultant broadly for digital signage companies over the past twenty years.

The Board of Directors has determined that there are presently three “independent” directors as such term is defined in Section 5605(a)(2) of the Nasdaq listing rules, each of whom also meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The directors whom the board has determined to be independent are Messrs. Bell, Harris, and Nesbit.

The Board of Directors has determined that at least two members of the Board, Mr. McGill and Mr. Bell, qualify as an “audit committee financial expert” as that term is defined in Regulation S-K promulgated under the Securities Exchange Act of 1934. Each of Mr. McGill and Mr. Bell’s relevant experience in this regard is detailed above, which includes past employment experience in finance and through various Director roles at public companies, including experience on the Audit Committee for other publicly traded companies. Mr. Bell is deemed to be independent of the Company. The Board of Directors has determined that each director is able to read and understand fundamental financial statements.

#### **Board Committees**

Our Board of Directors has created a standing Compensation Committee and Audit Committee. Messrs. Nesbit, Harris, and Bell serve on the Compensation Committee. Messrs. Bell, Harris and Nesbit serve on the Audit Committee. In the case of the Compensation Committee, Mr. Nesbit serves as chair, and in the case of the Audit Committee, Mr. Bell serves as chair. The Board of Directors has determined that at least one member of the Audit Committee, Mr. Bell, is an “audit committee financial expert” as that term is defined in Regulation S-K promulgated under the Securities Exchange Act of 1934. Mr. Bell’s relevant experience in this regard is detailed above. Mr. Bell, Mr. Harris and Mr. Nesbit qualify as “independent” member of the board as described above. The Board of Directors has determined that each director serving on the Audit Committee is able to read and understand fundamental financial statements.

The Board of Directors has not created a separate committee for nomination or corporate governance. Instead, the entire Board of Directors shares the responsibility of identifying potential director-nominees to serve on the Board of Directors. Nevertheless, nominees to serve as directors on our Board of Directors are selected by those directors on our board who are independent.

#### **Communications with Board Members**

Our Board of Directors has provided the following process for shareholders and interested parties to send communications to our board and/or individual directors. All communications should be addressed to Creative Realities, Inc., 13100 Magisterial Drive, Ste. 100, Louisville, KY 40223, Attention: Corporate Secretary. Communications to individual directors may also be made to such director at our company’s address. All communications sent to any individual director will be received directly by such individuals and will not be screened or reviewed by any company personnel. Any communications sent to the board in the care of the Corporate Secretary will be reviewed by the Corporate Secretary to ensure that such communications relate to the business of the company before being reviewed by the board.

#### **Code of Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions) and directors. Our Code of Business Conduct and Ethics satisfies the requirements of Item 406(b) of Regulation S-K. Our Code of Business Conduct and Ethics is available, free of charge, upon written request to our Corporate Secretary at 13100 Magisterial Drive, Ste. 100, Louisville, KY 40223.

## ITEM 11 EXECUTIVE COMPENSATION

### Executive Compensation

#### Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for 2021 and 2020 (*table and footnotes in whole dollars*):

Name and Principal Position (a)	Years	Salary (\$)(b)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)(c)	Non-Equity Incentive Plan Compensation (\$)(d)	All Other Compensation (\$)	Total (\$)
Richard Mills	2021	296,152	-	-	-	82,500	-	378,652
Chief Executive Officer and Director	2020	277,962	-	-	897,600	-	-	1,175,562
Will Logan	2021	223,460	-	-	-	31,125	-	254,585
Chief Financial Officer	2020	209,735	-	-	448,800	-	-	658,535

- (a) Mr. Mills joined the Company effective October 15, 2015. Mr. Logan joined the Company effective November 2017.
- (b) Effective March 19, 2020 and in response to state and local authorities forcing many businesses to temporarily reduce or cease operations to slow the spread of the COVID-19 pandemic, the Company's Board of Directors approved a six-month reduction of the salaries of the Chief Executive Officer and Chief Financial Officer by twenty percent (20%), thereby reducing the salaries payable to such officers in 2020 to \$297,000 and \$224,100, respectively. The salary reductions resulted in actual salaries to \$277,962 and \$209,735, respectively, during 2020. During 2021, the Company reinstated lost salaries one-third on each of April 1, July 1, and October 1, the final reinstate thereby increasing the compensation to its pre-pandemic levels of \$330,000 and \$249,000, respectively. The graded reinstatement resulted in actual salaries for Mr. Mills and Mr. Logan during 2021 of \$296,152, and \$223,460, respectively.
- (c) There were two tranches of stock options issued to Mr. Mills and Mr. Logan during the year. 50% of the stock options awarded become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023. The fair value of the options on the grant date was \$1.87 and was determined using the Black-Scholes model. The values included in the table above represent the number of shares awarded to Mr. Mills (480,000) and Mr. Logan (240,000) multiplied by the grant date fair value of the awards as of the grant date. These calculations exclude any value associated with an equal number of performance restricted stock options issued to both Mr. Mills and Mr. Logan which become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023, 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. No expense was recorded in 2020 as neither the revenue nor EBITDA target were achieved. The Company recorded stock compensation expense of \$449,623 related to Mr. Mills and Mr. Logan for current year and catch-up expense related to the achievement of the EBITDA target in 2021. The revenue and EBITDA targets for the following 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

- (d) In addition to the employee stock option plan approved by the Board of Directors in May 2020, the Board of Directors also approved an employee bonus plan pursuant to which certain officers and other employees of the Company would be granted incentive compensation in the form of cash bonuses. In each of the calendar years 2020, 2021 and 2022, Mr. Mills was provided a target bonus of \$165, or 50% of his base salary, and Mr. Logan was provided a target bonus of \$62, or 25% of his base salary, subject to satisfying the same Company revenue and EBITDA targets for the applicable year on which vesting of performance-based share compensation were set. The Company targets for calendar year 2020 were not met and there was no impact on the Company's financial statements of those awards during 2020. While the Company targets for revenue were not achieved in 2021, the EBITDA target was achieved and the Company has accrued \$114 in the Consolidated Balance Sheet as of December 31, 2021 related to this bonus plan.

The material terms of employment agreements of Richard Mills, Chief Executive Officer of Creative Realities, and Will Logan, Chief Financial Officer of the Company, including those adopted on November 12, 2021, and payments to be made upon a change in control are discussed below, in the narrative following “Employment Agreements.”

Our named executive officers are eligible for retirement benefits on the same terms as non-executives under the Company’s defined contribution 401(k) retirement plan. Employees may contribute pretax compensation to the plan in accordance with current maximum contribution levels proscribed by the Internal Revenue Service. Beginning on April 1, 2018 but suspended indefinitely as of March 19, 2020, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%. Creative Realities re-implemented the employer contribution match at the previous rate effective October 1, 2021.

#### ***Richard Mills Employment Agreement***

Creative Realities employed Richard Mills as Creative Realities Chief Executive Officer. Mr. Mills’ employment agreement was initially effective for a two-year term, which automatically renewed for additional one-year periods unless either Creative Realities or Mr. Mills elected not to extend the term. The agreement provided for an initial annual base salary of \$270 subject to annual increases but generally not subject to decreases. Mr. Mills’ current annual base salary is \$330. Under the agreement, Mr. Mills was eligible to participate in performance-based cash bonus or equity award plans for Creative Realities senior executives. Mr. Mills participated in Creative Realities employee benefit plans, policies, programs, prerequisites and arrangements to the extent he meets applicable eligibility requirements. In the event of a termination of employment for good reason, as defined, without cause, as defined, or within 12 months following a change in control, as defined, other than for reason of death, disability or for cause, any of which occur during the first year of Mr. Mills’ employment, Mr. Mills would have been entitled to receive a severance payment equal to six months of his base salary. After the one-year anniversary of his employment (the current term of Mr. Mills’ employment is beyond the one-year anniversary), the severance amount increased to 12 months of then-current base salary. The agreement provided that any severance payments would be paid in installments over the course of the severance. The agreement contained certain non-solicitation and non-competition provisions that continue after employment for a period of one year. The agreement also contained other customary restrictive and other covenants relating to the confidentiality of information, the ownership of inventions and other matters.

Mr. Mills and Creative Realities entered into a new employment agreement on November 12, 2021. The employment agreement is effective for a one-year term, which automatically renews for additional one-year periods unless either Creative Realities or Mr. Mills elects not to extend the term. The agreement provides for an initial annual base salary of \$330 subject to annual increases but generally not subject to decreases. The employment agreement provides that Mr. Mills’ annual base salary adjusts automatically upon the closing of the Merger to \$450 subject to annual increases but not generally subject to decreases. Under the agreement, Mr. Mills is eligible to participate in performance-based cash bonus or equity award plans for Creative Realities senior executives. Mr. Mills will participate in Creative Realities employee benefit plans, policies, programs, prerequisites and arrangements to the extent he meets applicable eligibility requirements. In the event of a termination of employment for good reason, as defined, without cause, as de-fined, or within 12 months following a change in control, as defined, other than for reason of death, disability or for cause, Mr. Mills will be entitled to receive aggregate severance payments equal to twelve months of his base salary. The agreement provides that any severance payments would be paid in installments over the course of the severance. The agreement contains certain non-solicitation and non-competition provisions that continue after employment for a period of one year. The agreement also contains other customary restrictive and other covenants relating to the confidentiality of information, the ownership of inventions and other matters.

### Will Logan Employment Agreement

Will Logan, Creative Realities' Chief Financial Officer, had an at-will employment arrangement with Creative Realities. Mr. Logan's current annual base salary is \$249. Mr. Logan participated in Creative Realities employee benefit plans, policies, programs, perquisites and arrangements to the extent he meets applicable eligibility requirements, and also received the stock options discussed under "Outstanding Equity Awards at Fiscal Year-End" below.

Mr. Logan and Creative Realities entered into an employment agreement on November 12, 2021. The employment agreement is effective for a one-year term, which automatically renews for additional one-year periods unless either Creative Realities or Mr. Logan elects not to extend the term. The agreement provides for an initial annual base salary of \$249 subject to annual increases but generally not subject to decreases. The employment agreement provides that Mr. Logan's annual base salary adjusts automatically upon the closing of the Merger to \$350, subject to annual increases but not generally subject to decreases, and Mr. Logan will receive a \$75 cash bonus upon the closing of the Merger. The Merger closed on February 17, 2022. Under the agreement, Mr. Logan is eligible to participate in performance-based cash bonus or equity award plans for Creative Realities senior executives. Mr. Logan participates in Creative Realities employee benefit plans, policies, programs, prerequisites and arrangements to the extent he meets applicable eligibility requirements. In the event of a termination of employment for good reason, as defined, without cause, as defined, or within 12 months following a change in control, as defined, other than for reason of death, disability or for cause, Mr. Logan will be entitled to receive aggregate severance payments equal to six months of his base salary. The agreement provides that any severance payments would be paid in installments over the course of the severance. The agreement contains certain non-solicitation and non-competition provisions that continue after employment for a period of one year. The agreement also contains other customary restrictive and other covenants relating to the confidentiality of information, the ownership of inventions and other matters.

### Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information concerning outstanding stock options and restricted stock awards held by Creative Realities named executive officers as of December 31, 2021:

Name	Option Awards (a)			Stock Awards		
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Non-Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that has not vested (#)	Market value of shares or units of stock that have not vested (\$)
Richard Mills	160,000 <sup>(a)</sup>	320,000 <sup>(a)</sup>	\$ 2.53	6/1/2030	-	-
	160,000 <sup>(b)</sup>	320,000 <sup>(b)</sup>	\$ 2.53	6/1/2030	-	-
Will Logan	19,167 <sup>(c)</sup>	- <sup>(c)</sup>	\$ 8.70	11/6/2027	-	-
	12,500 <sup>(d)</sup>	4,167 <sup>(d)</sup>	\$ 7.50	9/20/2028	-	-
	80,000 <sup>(a)</sup>	160,000 <sup>(a)</sup>	\$ 2.53	6/1/2030	-	-
	80,000 <sup>(b)</sup>	160,000 <sup>(b)</sup>	\$ 2.53	6/1/2030	-	-

- (a) These stock options become exercisable in increments of 33 percent of the total shares purchasable under this issuance on June 1 annually, beginning in 2021 and ending in 2023.
- (b) These stock options become exercisable in increments of 16.67 percent of the total shares purchasable under this issuance subject to satisfying Creative Realities 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, with each target and vesting being independently achieved without regard for the other. These performance options include a catch-up provision, where any options that did not vest during a prior year due to Creative Realities' 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 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 executives met the foregoing EBTIDA target for calendar year 2021.

- (c) These stock options become exercisable in increments of 25 percent of the total shares purchasable under this issuance on November 6 annually, beginning in 2018 and ending in 2021.
- (d) These stock options become exercisable in increments of 25 percent of the total shares purchasable under this issuance on September 20 annually, beginning in 2019 and ending in 2022.

### Director Compensation

On March 13, 2019, Creative Realities' Board of Directors approved a plan to compensate non-officer directors for their service to Creative Realities in the amount of \$25 per year, beginning April 1, 2019, to be issued in either cash or restricted stock vesting immediately upon issuance. Shares of restricted stock were issued quarterly in arrears for service the preceding quarter for a value of \$6 per director, with the number of shares issued based on the most recent close price of Creative Realities' common stock at the end of the previous calendar quarter.

On November 17, 2021, Creative Realities' Board of Directors updated its director compensation plan to compensate non-officer directors as follows:

- Annual grant of shares of unrestricted common stock of Creative Realities, issuable on November 17, 2021, 2022 and 2023, having an annual value of \$24, with the per-share price to be determined based upon the closing price of the Company's common stock as reported on Nasdaq on such issuance date; and
- An option issuable to each non-executive director to purchase 60,000 shares of Creative Realities common stock (or in the case of Dennis McGill, Chairman of the Creative Realities Board, 75,000 shares), which vest in three equal installments on November 17, 2021, 2022 and 2023, subject to continuing service as a director as of such vesting date. The exercise price of such options is \$2.21, the closing price of Creative Realities' common stock as reported on Nasdaq on the date of adoption of such plan.

The table below sets forth the compensation paid to Creative Realities non-employee directors during 2021:

**Director Compensation (table and footnotes in whole dollars)**

Name	Fees earned or paid in cash (\$)	Stock awards (\$) <sup>(1)</sup>	Option awards (\$) <sup>(2)</sup>	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Dennis McGill	–	46,531	130,825	–	–	–	177,356
David Bell	–	46,531	104,660	–	–	–	151,191
Donald A. Harris	–	46,531	104,660	–	–	–	151,191
Stephen Nesbit	–	46,531	104,660	–	–	–	151,191

- (1) Each director was awarded shares of the Company's common stock for service having an aggregate value of \$6,250 on a quarterly basis in arrears for services completed during the immediately preceding quarter. This arrangement was in place for the first three quarters of 2021, with \$18,750 of the total above for each director representing the aggregate value of shares issued on the date of issuance.
- (2) Represents the aggregate grant date fair value of three-year option awards vesting in 2021, 2022, and 2023 based on the Black-Scholes value determined as of the November 17, 2021 grant date.

## ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the number of common shares, and percentage of outstanding common shares, beneficially owned as of March 22, 2022, by:

- each person known by us to be the beneficial owner of more than five percent of our outstanding common stock,
- each current director,
- each executive officer of the Company and other persons identified as a named executive in this Annual Report on Form 10-K, and
- all current executive officers and directors as a group.

Unless otherwise indicated, the address of each of the following persons is 13100 Magisterial Drive, Suite 100, Louisville, KY 40223, and each such person has sole voting and investment power with respect to the shares set forth opposite his, her or its name.

Name and Address	Common Shares Beneficially Owned <sup>[1]</sup>	Percentage of Common Shares <sup>[1]</sup>
Slipstream Funding, LLC <sup>[2]</sup> c/o Pegasus Capital Advisors, L.P. 750 E Main St., Suite 600 Stamford, CT 06902	952,365	5.56%
Slipstream Communications, LLC <sup>[3]</sup> c/o Pegasus Capital Advisors, L.P. 750 E Main St., Suite 600 Stamford, CT 06902	6,463,974	33.47%
Stephen Nesbit <sup>[4]</sup>	73,981	*
Donald A. Harris <sup>[5]</sup>	220,023	1.28%
Dennis McGill <sup>[6]</sup>	89,296	*
David Bell <sup>[7]</sup>	73,981	*
Richard Mills <sup>[8]</sup>	1,076,904	6.17%
Will Logan <sup>[9]</sup>	197,735	1.14%
All current executive officers and directors as a group <sup>[10]</sup>	1,731,920	9.18%

\* less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC, and includes general voting power and/or investment power with respect to securities. Shares of common stock issuable upon exercise of options or warrants that are currently exercisable or exercisable within 60 days of March 22, 2022, and shares of common stock issuable upon conversion of other securities currently convertible or convertible within 60 days, are deemed outstanding for computing the beneficial ownership percentage of the person holding such securities but are not deemed outstanding for computing the beneficial ownership percentage of any other person. Under applicable SEC rules, each person's beneficial ownership is calculated by dividing the total number of shares with respect to which they possess beneficial ownership by the total number of outstanding shares of Creative Realities. In any case where an individual has beneficial ownership over securities that are not outstanding, but are issuable upon the exercise of options or warrants or similar rights within the next 60 days, that same number of shares is added to the denominator in the calculation described above. Because the calculation of each person's beneficial ownership set forth in the "Percentage of Common Shares" column of the table may include shares that are not presently outstanding, the sum total of the percentages set forth in such column may exceed 100%.

- (2) Investment and voting power over shares held by Slipstream Funding, LLC is held by Slipstream Communications, LLC, its sole member, and may be deemed to be directly or indirectly controlled by Craig Cogut, Chairman and Chief Executive Officer of Pegasus Capital Advisors, LLC. See table footnote 3 for further information regarding Slipstream Communications, LLC.
- (3) Investment and voting power over shares held by Slipstream Communications, LLC may be deemed to be directly or indirectly controlled by Craig Cogut, Chairman and Chief Executive Officer of Pegasus Capital Advisors, LLC. Slipstream Communications, LLC (“Slipstream Communications”) is the sole member of Slipstream Funding, LLC (“Slipstream Funding”). BCOM Holdings, LP (“BCOM Holdings”) is the managing member of Slipstream Communications. BCOM GP LLC (“BCOM GP”) is the general partner of BCOM Holdings. Business Services Holdings, LLC (“Business Services Holdings”) is the sole member of BCOM GP. PP IV BSH, LLC (“PP IV BSH”), Pegasus Investors IV, L.P. (“Pegasus Investors”) and Pegasus Partners IV (AIV), L.P. (“Pegasus Partners (AIV)”) are the members of Business Services Holdings. Pegasus Partners IV, L.P. (“Pegasus Partners”) is the sole member of PP IV BSH. Pegasus Investors IV, L.P. (“Pegasus Investors”) is the general partner of each of Pegasus Partners (AIV) and Pegasus Partners and Pegasus Investors IV GP, L.L.C. (“Pegasus Investors GP”) is the general partner of Pegasus Investors. Pegasus Investors GP is wholly owned by Pegasus Capital, LLC (“Pegasus Capital”). Pegasus Capital may be deemed to be directly or indirectly controlled by Craig Cogut. The share figure includes the 952,365 shares of common stock issued to and held by Slipstream Funding, LLC in connection with the merger transaction with Creative Realities, LLC. Share figure also includes 2,187,521 common shares purchasable upon exercise of outstanding warrants issued to and held by Slipstream Communications, LLC.
- (4) Mr. Nesbit is a director of the Company. Share figure includes 20,000 shares purchasable upon the exercise of outstanding options.
- (5) Mr. Harris is a director of the Company. Share figure includes 9,130 shares purchasable upon the exercise of outstanding warrants and 20,000 shares purchasable upon the exercise of outstanding options.
- (6) Mr. McGill is a director of the Company and Chairman of the Board. Share figured includes 41,667 shares purchasable upon the exercise of outstanding options.
- (7) Mr. Bell is a director of the Company. Share figure includes 20,000 shares purchasable upon the exercise of outstanding options.
- (8) Mr. Mills is a director of the Company and Chief Executive Officer. Share figure includes 320,000 shares purchasable upon the exercise of outstanding options.
- (9) Mr. Logan is the Chief Financial Officer of the Company. Share figure includes 191,667 shares purchasable upon the exercise of outstanding options.
- (10) Includes Messrs. McGill, Mills, Bell, Harris, Nesbit and Logan.



### Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth certain information, as of the close of business on December 31, 2021, regarding equity compensation plans (including individual compensation arrangements) under which our securities were then authorized for issuance.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (excluding securities reflected in column a)
Equity compensation plans approved by stockholders	None <sup>(1)</sup>	N/A	None
Equity compensation plans not approved by stockholders	2,868,809 <sup>(1)</sup>	\$ 3.10	3,143,326 <sup>(2)</sup>

- (1) All shares reflected in the table are issuable upon exercise of outstanding stock options issued under the 2006 Amended and Restated Equity Incentive Plan or the 2014 Stock Incentive Plan.
- (2) Reflects number of securities remaining available for issuance under the 2014 Stock Incentive Plan.

### ITEM 13 CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE

#### *Debt Financing*

On February 17, 2022, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream, pursuant to a Second Amended and Restated Credit and Security Agreement (the “Credit Agreement”). The Borrowers include Reflect, which became a wholly owned subsidiary of the Company as a result of the closing of the Merger on February 17, 2022. The debt facilities continue to be fully secured by all assets of the Borrowers.

The Company raised \$10,000 in gross proceeds, or \$9,950 in net proceeds, from entry into a new, 36-month senior secured term loan (the “Acquisition Loan”) with Slipstream as part of the Credit Agreement, which matures on February 17, 2025 (the “Maturity Date”). The Acquisition Loan has an interest rate of 8.0%, with 50.0% warrant coverage (or 2,500,000 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Acquisition Loan (estimated to be \$67 per monthly payment). No principal payments on the Acquisition Loan are payable until the Maturity Date.

The Credit Agreement also provides that the Company’s outstanding loans from Slipstream, consisting of its pre-existing \$4,767 senior secured term loan and \$2,418 secured convertible loan, with an aggregate of \$7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a term loan (the “Consolidation Term Loan”). The Consolidation Term Loan has an interest rate of 10.0%, with 75.0% warrant coverage (or 2,694,495 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Consolidation Term Loan (estimated to be \$60 per monthly payment). Commencing on September 1, 2023, and on the first day of each month thereafter until the Maturity Date, the Borrowers will make a payment on the Consolidation Term Loan, in an equal monthly installment of principal sufficient to fully amortize the Consolidation Term Loan in eighteen equal installments (estimated to be \$399 per monthly installment).

In connection with the Acquisition Loan and the Consolidation Term Loan warrant coverage, the Company issued to Slipstream a warrant to purchase an aggregate of 5,194,495 shares of Company common stock (the “Lender Warrant”). The Lender Warrant has a five-year term, an initial exercise price of \$2.00 per share, subject to adjustments in the Lender Warrant, and is not exercisable until August 17, 2022.

In certain circumstances, upon a fundamental transaction of the Company, the holder of the Lender Warrant will have the right to require the Company to repurchase the Lender Warrant at its fair value using a Black Scholes option pricing formula; provided that such holder may not require the Company or its successor entity to repurchase the Lender Warrant for the Black Scholes value in connection with a fundamental transaction that is not approved by the Company’s Board of Directors, and therefore not within the Company’s control.

### 33 Degrees

33 Degrees Convenience Connect, Inc., a related party that was approximately 17.5% owned by a member of our senior management (“33 Degrees”) until September 2021, is a customer of both equipment and services from the Company. For the years ended December 31, 2021 and 2020, we had sales of \$457 (2.5% of consolidated sales) and \$1,058 (6.1% of consolidated sales), respectively, with 33 Degrees. Accounts receivable due from 33 Degrees was \$35, or 1.0%, and \$40, or 1.2% of consolidated accounts receivable at December 31, 2021 and December 31, 2020, respectively.

Each of the foregoing transactions were approved by our Board of Directors after full disclosure of any conflicts of interest. Any directors that had a conflicting interest in the transactions abstained from approving such matter.

### Independence

The Company does not have a standing nominating committee. Instead, the entire Board of Directors shares the responsibility of identifying potential director-nominees to serve on the Board of Directors. The Board believes the engagement of all directors in this function is important at this time in the Company’s development in light of the Company’s recent acquisition activities.

The Board of Directors has determined that there are presently four “independent” directors as such term is defined in Section 5605(a)(2) of the Nasdaq listing rules, each of whom also meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The directors whom the board has determined to be independent are Messrs. Bell, Harris, and Nesbit.

### ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

(All currency is rounded to the nearest thousands, except share and per share amounts.)

The following table presents fees for audit and other services provided by Deloitte and Touche LLP for 2021 and 2020. Fees for tax services were provided by Ernst & Young, LLP beginning in the second quarter of 2018. Fees to Deloitte and Touche LLP were as follows:

	<u>2021</u>	<u>2020</u>
Audit fees (a)	\$ 260	\$ 336
Audit related fees (b)	65	-
Tax fees (c)	-	-
	<u>\$ 325</u>	<u>\$ 336</u>

- (a) Audit fees for 2021 and 2020 relate to professional services provided in connection with the audit of our consolidated financial statements, the reviews of our quarterly condensed consolidated financial statements, and audit services provided in connection with other regulatory filings.
- (b) Audit related fees relate to professional services provided in connection with the preparation and filing of SEC reports related to our Registered Direct Offering and the Reflect Merger.
- (c) There were no tax fees paid to Deloitte and Touche LLP. Tax fees to other service providers consisted of the aggregate fees billed for tax compliance, tax advice, and tax planning of \$223 and \$105 for 2021 and 2020, respectively.

Our Board of Directors pre-approved the audit services rendered by Deloitte and Touche LLP during 2021 and 2020, respectively, and concluded that such services were compatible with maintaining the auditor’s independence.

**PART IV****ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) See “Index to Consolidated Financial Statements” on page F-1 and “Exhibit Index” on page E-1.
- (b) See “Exhibit Index” on page E-1.
- (c) Not applicable.

**ITEM 16. FORM 10-K SUMMARY.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Louisville, State of Kentucky, on March 22, 2022.

Creative Realities, Inc.

By /s/ Richard Mills  
Richard Mills  
Chief Executive Officer

By /s/ Will Logan  
Will Logan  
Chief Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant, and in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Richard Mills</u> Richard Mills	Chief Executive Officer and Director	March 22, 2022
<u>/s/ Will Logan</u> Will Logan	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 22, 2022
<u>/s/ Dennis McGill</u> Dennis McGill	Chairman of the Board of Directors	March 22, 2022
<u>/s/ David Bell</u> David Bell	Director	March 22, 2022
<u>/s/ Donald Harris</u> Donald Harris	Director	March 22, 2022
<u>/s/ Steve Nesbit</u> Steve Nesbit	Director	March 22, 2022

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Creative Realities, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Creative Realities, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Goodwill – Refer to Notes 2 and 7 to the Financial Statements*

#### *Critical Audit Matter Description*

The Company operates as a single reportable segment, operating segment and reporting unit. The Company's evaluation of goodwill for impairment involves comparing the book value of the reporting unit to its estimated fair value. The Company's determination of estimated fair value of the reporting unit is based primarily on a discounted cash flow model utilizing the income approach. The Company used the discounted cash flow model to estimate fair value which requires management to make significant estimates and assumptions related to the valuation of the reporting unit, including assumptions regarding discount rates and forecasts of future revenue and operating margins. Changes in these assumptions could have a significant impact on either the fair value of the reporting unit, the amount of any goodwill impairment charge, or both. The Company's annual impairment assessment date is September 30. Accordingly, management performed an impairment assessment as of September 30, 2021. The estimated fair value of the reporting unit exceeded the carrying value as of September 30, 2021 and, therefore, no impairment was recognized.

We identified the valuation of goodwill as a critical audit matter because of the significant estimates and assumptions management made to estimate the fair value of the reporting unit and the highly sensitive nature of Company's operations to changes in demand. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the forecasts of future revenues, gross profit, operating income/EBITDA, and capital expenditures, and the selection of the long-term growth rate and discount rate for the reporting unit included the following, among others:

- We evaluated the reasonableness of management's forecasts of revenue, gross profit, operating income/EBITDA, and capital expenditures by comparing the forecasts to:
  - (1) historical revenue, gross profit, operating income/EBITDA, and capital expenditures,
  - (2) internal communications to management and the Board of Directors, and
  - (3) forecasted information included in industry reports for the Company.
- With the assistance of our fair value specialists:
  - We evaluated the reasonableness of the discounted cash flow valuation methodology and performed underlying procedures on the mathematical accuracy of the calculations.
  - We evaluated the reasonableness of the discount rate used in the discounted cash flow model by testing the underlying source information, developing an independent range of estimated discount rates and comparing that range to the discount rate selected by the Company.
  - We evaluated the reasonableness of the long-term growth rate used in the discounted cash flow model by comparing the information used by the Company to third party economic and industry related information.

/s/ Deloitte & Touche LLP  
Louisville, Kentucky  
March 22, 2022

We have served as the Company's auditor since 2020.

**CREATIVE REALITIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share amounts)

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,883	\$ 1,826
Accounts receivable, net of allowance for doubtful accounts of \$620 and \$1,230, respectively	3,006	2,302
Unbilled receivables	369	41
Inventories, net	1,880	2,351
Prepays and other current assets	1,634	507
Total current assets	9,772	7,027
Operating lease right-of-use assets	654	931
Property and equipment, net	75	175
Intangibles, net	4,850	4,955
Goodwill	7,525	7,525
Other assets	5	5
<b>TOTAL ASSETS</b>	<u>\$ 22,881</u>	<u>\$ 20,618</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term seller note payable	\$ -	\$ 1,637
Accounts payable	2,517	1,661
Accrued expenses	2,110	2,142
Deferred revenues	426	764
Customer deposits	1,525	770
Current maturities of operating leases	281	355
Current maturities of financing leases	-	4
Total current liabilities	6,859	7,333
Long-term Payroll Protection Program note payable	-	1,552
Long-term related party loans payable, net of \$143 and \$168 discount, respectively	4,624	4,436
Long-term related party convertible loans payable, at fair value	2,251	2,270
Long-term obligations under operating leases	373	584
Long-term accrued expenses	-	108
Other liabilities	45	-
<b>TOTAL LIABILITIES</b>	<u>14,152</u>	<u>16,283</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value, 200,000 shares authorized; 12,009 and 10,924 shares issued and outstanding, respectively	120	109
Additional paid-in capital	60,863	56,712
Accumulated deficit	(52,254)	(52,486)
Total shareholders' equity	8,729	4,335
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 22,881</u>	<u>\$ 20,618</u>

*See accompanying Notes to Consolidated Financial Statements.*



**CREATIVE REALITIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)

	For the Years Ended December 31,	
	2021	2020
Sales		
Hardware	\$ 9,450	\$ 8,991
Services and other	8,987	8,466
Total sales	<u>18,437</u>	<u>17,457</u>
Cost of sales		
Hardware	6,914	6,251
Services and other	3,166	3,085
Total cost of sales	<u>10,080</u>	<u>9,336</u>
Gross profit	<u>8,357</u>	<u>8,121</u>
Operating expenses:		
Sales and marketing	1,153	1,676
Research and development	550	1,083
General and administrative	7,598	8,465
Bad debt expense/(recovery)	(277)	828
Depreciation and amortization	1,364	1,474
Lease termination expense	-	18
Goodwill impairment	-	10,646
Loss on disposal of fixed assets	-	13
Deal and transaction costs	518	-
Total operating expenses	<u>10,906</u>	<u>24,203</u>
Operating loss	<u>(2,549)</u>	<u>(16,082)</u>
Other income/(expenses):		
Interest expense, including amortization of debt discount	(805)	(1,023)
Gain on settlement of obligations	3,449	209
Gain/(loss) on fair value of debt	166	(93)
Other income/(expense), net	(7)	(13)
Total other income/(expense)	<u>2,803</u>	<u>(920)</u>
Net income/(loss) before income taxes	254	(17,002)
Income tax benefit/(expense)	<u>(22)</u>	<u>158</u>
Net income/(loss)	232	(16,844)
Net income/(loss) per common share - basic	<u>\$ 0.02</u>	<u>\$ (1.65)</u>
Net income/(loss) per common share - diluted	<u>\$ 0.02</u>	<u>\$ (1.65)</u>
Weighted average shares outstanding - basic	<u>11,761</u>	<u>10,195</u>
Weighted average shares outstanding - diluted	<u>11,761</u>	<u>10,195</u>

*See accompanying Notes to Consolidated Financial Statements.*

**CREATIVE REALITIES, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For the years ended December 31, 2021 and 2020**  
**(in thousands, except shares)**

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
<i>Year ended December 31, 2021</i>					
Balance as of December 31, 2020	10,924,287	\$ 109	\$ 56,712	\$ (52,486)	\$ 4,335
Stock-based compensation – employees	-	-	1,494	-	1,494
Stock-based compensation - directors	106,528	1	398	-	399
Stock-based compensation - vendors	80,560	1	129	-	130
Conversion of Disbursed Escrow Loan	97,144	1	263	-	264
Gain on Extinguishment of Special Loan	-	-	26	-	26
Shares issued via registered direct offering	800,000	8	1,841	-	1,849
Net income	-	-	-	232	232
Balance as of December 31, 2021	12,008,519	\$ 120	\$ 60,863	\$ (52,254)	\$ 8,729

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	Amount			
<i>Year ended December 31, 2020</i>					
Balance as of December 31, 2019	9,774,546	98	54,052	(35,642)	18,508
Shares issued to directors as compensation	88,073	1	99	-	100
Stock-based compensation	-	-	620	-	620
Shares issued via at-the-market offering	1,034,068	10	1,821	-	1,831
Exercise of warrants	27,600	-	120	-	120
Net loss	-	-	-	(16,844)	(16,844)
Balance as of December 31, 2020	10,924,287	\$ 109	\$ 56,712	\$ (52,486)	\$ 4,335

*See accompanying Notes to Consolidated Financial Statements.*

**CREATIVE REALITIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share per share amounts)

	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating Activities:</b>		
Net income/(loss)	\$ 232	\$ (16,844)
Adjustments to reconcile net income/(loss) to be used in operating activities:		
Depreciation and amortization	1,364	1,474
Amortization of debt discount	159	339
Stock-based compensation	1,893	719
Allowance for doubtful accounts	10	613
Employee retention and other government credits	(785)	-
Non-cash interest expense on related party loans	467	517
Non-cash receivables from in-process projects	(369)	-
Non-cash application of customer deposits to completed projects	(506)	-
Stock compensation issued to vendors for services	130	-
Deferred tax (benefit)/expense	-	(175)
Gain on forgiveness of PPP loan	(1,552)	-
Gain on settlement of Seller Note	(1,538)	-
Gain on settlement of other obligation	(359)	(209)
Loss on disposal of assets	-	13
(Gain)/loss on fair value of debt	(166)	93
Goodwill impairment	-	10,646
Changes to operating assets and liabilities:		
Accounts receivable and unbilled receivables	(673)	1,793
Inventories	471	(1,972)
Prepaid expenses and other current assets	18	(71)
Vendor deposits	(360)	(116)
Other assets	-	130
Operating lease right of use asset	277	149
Accounts payable and other current payables	869	3
Deferred revenue	(338)	(8)
Accrued expenses, net	206	(502)
Customer deposits	1,261	15
Operating lease liabilities	(285)	(139)
Other liabilities	45	2
Net cash provided by / (used in) operating activities	<u>471</u>	<u>(3,530)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(19)	(92)
Capitalization of internal and external labor for software development	(1,140)	(565)
Net cash used in investing activities	<u>(1,159)</u>	<u>(657)</u>
<b>Financing activities</b>		
Proceeds from common stock issuance, net of issuance costs	1,849	1,831
Proceeds from Payroll Protection Program loan	-	1,552
Principal payments on finance leases	(4)	(24)
Repayment of seller note	(100)	-
Proceeds from warrant exercise into common stock	-	120
Net cash provided by financing activities	<u>1,745</u>	<u>3,479</u>
<b>Increase in Cash and Cash Equivalents</b>	<u>1,057</u>	<u>(708)</u>
<b>Cash and Cash Equivalents, beginning of year</b>	<u>1,826</u>	<u>2,534</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 2,883</u>	<u>\$ 1,826</u>

*See accompanying Notes to Consolidated Financial Statements.*

**CREATIVE REALITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share amounts)**

**All currency is rounded to the nearest thousands except share and per share amounts**

**NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS**

*Unless the context otherwise indicates, references in these Notes to the accompanying 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.

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation, and Creative Realities Canada, Inc., a Canadian corporation, and Reflect Systems, Inc., a Delaware corporation, which was acquired on February 17, 2022.

*Acquisition of Reflect*

On November 12, 2021, the Company and Reflect Systems, Inc., or “Reflect,” entered into an Agreement and Plan of Merger (as amended on as amended on February 8, 2022, the “Merger Agreement”) pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, or “Merger Sub,” would merge with and into Reflect, with Reflect surviving as a wholly owned subsidiary of Creative Realities, and the surviving company of the merger, which transaction is referred to herein as the “Merger.” On February 17, 2022, the parties consummated the Merger.

Reflect provides digital signage solutions, including software, strategic and media services to a wide range of companies across the retail, financial, hospitality and entertainment, healthcare, and employee communications industries in North America. Reflect offers digital signage platforms, including ReflectView, a platform used by companies to power hundreds of thousands of active digital displays. Through its strategic services, Reflect assists its customers with designing, deploying and optimizing their digital signage networks, and through its media services, Reflect assists customers with monetizing their digital advertising networks.

Subject to the terms and conditions of the Merger Agreement, upon the closing of the Merger, Reflect stockholders as of to the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) \$16,166 payable in cash, (ii) 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of \$2 per share) (the “CREX Shares”), (iii) the Secured Promissory Note (as described below), and (iv) supplemental cash payments (the “Guaranteed Consideration”), if any, payable on or after the three-year anniversary of the effective time of the Merger (subject to the Extension Option described below, the “Guarantee Date”), in an amount by which the value of the CREX Shares on such anniversary is less than \$6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than \$7.20 per share (such applicable amount, the “Guaranteed Price”), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below), subject to the terms of the Merger Agreement.

Creative Realities may exercise an extension option (the “Extension Option”) to extend the Guarantee Date from the three-year anniversary of the Closing Date to six (6) months thereafter if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) Creative Realities provides written notice of its election to exercise the Extension Option at least ten (10) days prior to the three-year anniversary of the Closing. The “Extension Threshold Price” means the average closing price per share of Creative Realities Shares as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending fifteen (15) days prior to the three-year anniversary of the Closing Date. If the Extension Threshold Price is less than 80% of the Guaranteed Price, then the Guaranteed Price will be increased by \$1.00 per share.

In connection with the Merger, the Company adopted a Retention Bonus Plan and raised capital to, among other things, pay the cash portion of the Merger consideration.

### *Equity Financing*

On February 3, 2022, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with a purchaser (the “Purchaser”), pursuant to which the Company agreed to issue and sell to the Purchaser, in a private placement priced at-the-market under Nasdaq rules, (i) 1,315,000 shares (the “Shares”) of the Company’s common stock, par value \$0.01 per share (the “Common Stock”) and accompanying warrants to purchase an aggregate of 1,315,000 shares of Common Stock, and (ii) pre-funded warrants to purchase up to an aggregate of 5,851,505 shares of Common Stock (the “Pre-Funded Warrants”) and accompanying warrants to purchase an aggregate of 5,851,505 shares of Common Stock (collectively, the “Private Placement”). The accompanying warrants to purchase Common Stock are referred to herein collectively as the “Common Stock Warrants.” Under the Securities Purchase Agreement, each Share and accompanying warrants to purchase Common Stock were sold together at a combined price of \$1.535, and each Pre-Funded Warrant and accompanying warrants to purchase Common Stock were sold together at a combined price of \$1.5349, for gross proceeds of approximately \$11,000 before deducting placement agent fees and estimated offering expenses payable by the Company. The net proceeds from the Private Placement were used to fund, in part, payment of the closing cash consideration in the Merger.

### *Debt Financing*

On February 17, 2022, the Company and its subsidiaries (collectively, the “Borrowers”) refinanced their current debt facilities with Slipstream, pursuant to the Credit Agreement, and raised \$10,000 in gross proceeds with a maturity date of February 1, 2025. The Credit Agreement also provides that the Company’s outstanding loans from Slipstream, consisting of its pre-existing \$4,767 senior secured term loan and \$2,418 secured convertible loan, with an aggregate of \$7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a Consolidation Term Loan with a maturity date of February 1, 2025.

On February 17, 2022, in connection with the closing of the acquisition of Reflect, the Company issued to RSI Exit Corporation (“Stockholders’ Representative”), the representative of Reflect stockholders, a \$2,500 Note and Security Agreement (the “Secured Promissory Note”). The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of \$104 on the fifteenth (15th) day of each month, commencing on March 17, 2022, for twelve months with any remaining or unpaid principal due and payable on February 15, 2023.

See Note 8 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company’s debt obligations and further discussion of the Company’s refinancing activities subsequent to December 31, 2021.

Management believes that, based on (i) the execution of the Equity Financing, (ii) the refinancing of our debt as part of the Debt Financing, including extension of the maturity date on our term loans, and (iii) our operational forecast through 2022 following completion of the Reflect Acquisition, that we can continue as a going concern through at least March 31, 2023. However, given our historical net losses and cash used in operating activities, we obtained a continued support letter from Slipstream through March 31, 2023. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

## **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### *1. Basis of Presentation*

The accompanying Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-K and Article 8 of 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 annual financial reporting.

The Consolidated Financial Statements include the accounts of Creative Realities, Inc. and our wholly owned subsidiaries Allure, and Creative Realities (Canada), Inc. All intercompany balances and transactions have been eliminated in consolidation, as applicable.

### *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. 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 net realizable value, determined by the first-in, first-out (FIFO) method, and consist of the following:

	December 31, 2021	December 31, 2020
Raw materials, net of reserve of \$502 and \$104, respectively	\$ 1,580	\$ 1,920
Inventory on consignment with distributors	3	208
Work-in-process	297	223
Total inventories	<u>\$ 1,880</u>	<u>\$ 2,351</u>

### 4. Impairment of Long-Lived Assets

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

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

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

Basic and diluted income/(loss) per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method. Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 6,972,020 and 7,040,709 at December 31, 2021 and 2020, 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 2020 and no options or warrants were in the money for 2021. In calculating diluted earnings per share for the years ended December 31, 2021 and 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 as the Company has both the intent and ability to make the scheduled amortization payments on 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 December 31, 2021 and December 31, 2020.

### 7. Goodwill and Definite-Lived Intangible Assets

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 an annual 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. Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over the estimated service lives, principally using straight-line methods. Leasehold improvements are amortized over the shorter of the life of the improvement or the lease term, using the straight-line method.

Property and equipment consist of the following at December 31, 2021 and 2020:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Equipment	\$ 89	\$ 81
Leasehold improvements	135	135
Furniture and fixtures	121	119
Other depreciable assets	56	56
Total property and equipment	401	391
Less: accumulated depreciation and amortization	(326)	(216)
Net property and equipment	<u>\$ 75</u>	<u>\$ 175</u>

The estimated useful lives used to compute depreciation and amortization are as follows:

<b>Asset class</b>	<b>Useful life assigned</b>
Equipment	3 – 5 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of 5 years or term of lease

Depreciation expense was \$109 and \$124 for the years ended December 31, 2021 and 2020, respectively.

#### 12. Research and Development and Software Development Costs

Research and development expenses consist primarily of development personnel and non-employee contractor costs related to the development of new products and services, enhancement of existing products and services, quality assurance and testing. The Company capitalizes its costs incurred for additional functionality to its internal software. We capitalized approximately \$1,140 and \$603 for the years ended December 31, 2021 and 2020, respectively. These software development costs include both enhancements and upgrades of our client-based systems including functionality of our internal information systems to aid in our productivity, profitability and customer relationship management. We are amortizing these costs over 3 years once the new projects are completed and placed in service. These costs are included in intangible assets, net on the Consolidated Balance Sheets.

#### 13. 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 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 Consolidated Balance Sheets.



**NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS***Recently adopted*

None.

*Not yet adopted*

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (ASU 2021-08), which clarifies that an acquirer of a business should recognize and measure contract assets and contract liabilities in a business combination in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers (Topic 606)*. This guidance will be effective for us in the first quarter of 2023 on a prospective basis, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In May 2021, the FASB issued ASU No. 2021-04, *Modification of equity-classified written call options*, which clarifies how an issuer should account for modifications made to equity-classified written call options (e.g., warrants to purchase an issuer's common stock). The guidance in the ASU requires the issuer to treat a modification of an equity-classified warrant that does not cause the warrant to become liability-classified as an exchange of the original warrant for a new warrant. This guidance applies whether the modification is structured as an amendment to the terms and conditions of the warrant or as termination of the original warrant and issuance of a new warrant. This guidance will be effective for us in the first quarter of 2022. We are currently evaluating the disclosure requirements and potential impact on our consolidated financial statements, but anticipate there may be impacts as the Company has issued warrants in prior debt financing activities, including in both our Equity Financing and Debt Financings.

In August 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (ASU 2020-06), which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be effective for us in the first quarter of 2024 on a full or modified retrospective basis, with early adoption permitted. We are currently evaluating the disclosure requirements and potential impact on our 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 and accounting requirements related to adopting this guidance, given the transition from an incurred loss to an expected loss model.

**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 years ended December 31, 2021 and 2020:

<i>(in thousands)</i>	Year Ended December 31, 2021	Year Ended December 31, 2020
Hardware	\$ 9,450	\$ 8,991
Services:		
Installation Services	2,600	2,537
Software Development Services	791	549
Managed Services	5,596	5,380
Total Services	<u>8,987</u>	<u>8,466</u>
Total Hardware and Services	<u>\$ 18,437</u>	<u>\$ 17,457</u>

#### *System hardware sales*

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

#### *Installation services*

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

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

#### *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 revenue 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. All of the Company's outstanding warrants classified as liabilities expired during 2019.

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

As discussed in Note 8 *Loans Payable*, the Special Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. Certain unobservable inputs into the calculation of the fair value of this liability include an estimate of the fair value of the Company at a future date using a discounted cash flow model, discount rate assumptions, and an estimation of the likelihood of conversion of the Special Loan. We utilized a discounted cash flow analysis in updating our fair value analysis of the Convertible Loan, resulting in recognition of a \$166 gain during 2021 from the change in fair value of the liability and a corresponding decrease in the debt balance recorded in the Condensed Consolidated Balance Sheet. The Company recorded a \$93 loss during 2020 related to the fair value of the Special Loan.

#### **NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION**

	Year Ended December 31,	
	2021	2020
<b>Supplemental non-cash Investing and Financing activities</b>		
Conversion of disbursed escrow loan into common stock	\$ 264	\$ -
Increase in debt related to financing fees	\$ 200	\$ -
Decrease in debt discount via amended Credit Agreement	\$ 133	\$ -
<b>Supplemental disclosure information for cash flow</b>		
Cash paid during the period for:		
Interest	\$ 106	\$ 140
Income taxes, net	\$ 32	\$ 19

**NOTE 7: INTANGIBLE ASSETS AND GOODWILL***Intangible Assets*

Intangible assets consisted of the following at December 31, 2021 and December 31, 2020:

	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Technology platform	\$ 4,635	3,652	\$ 4,635	3,400
Purchased and developed software	3,488	2,713	3,167	2,002
In-Process internally developed software platform	824	-	-	-
Customer relationships	3,960	1,692	5,330	2,870
Trademarks and trade names	640	640	1,020	925
	<u>13,547</u>	<u>8,697</u>	<u>14,152</u>	<u>9,197</u>
Accumulated amortization	8,697		9,197	
Net book value of amortizable intangible assets	<u>\$ 4,850</u>		<u>\$ 4,955</u>	

For the years ended December 31, 2021 and 2020, amortization of intangible assets charged to operations was \$1,251 and \$1,330, respectively. For the year ended December 31, 2021, the Company wrote-off a \$380 fully amortized trade name asset and a \$1,370 fully amortized customer list asset and the related accumulated amortization for each related to ConeXus World Global, LLC, an entity dissolved by the Company during 2021. There was no impact on the Company's Condensed Consolidated Balance Sheet or Condensed Consolidated Statement of Operations during the period.

Estimated amortization is as follows:

<b>Year ending December 31,</b>	<b>Estimated Future Amortization</b>
2022	\$ 954
2023	636
2024	487
2025	415
Thereafter	1,503

Intangible assets include the following and are being amortized over their estimated useful lives as follows:

<b>Acquired Intangible Asset:</b>	<b>Amortization Period: (years)</b>
Technology platform and patents	7
Purchased and developed software	3
Trademark	3
Customer relationships	15

*Goodwill*

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.

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit was estimated using a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur, specifically, the Company gave significant consideration to actual historic financial results, including revenue growth rates in the preceding three years. Based on the Company's assessment, we determined that the fair value of our reporting unit exceeds its carrying value, and accordingly, the goodwill associated with the reporting unit was not considered to be impaired at September 30, 2021.

The Company recognizes that any changes in our projected 2022 and future 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.

*Interim Impairment Assessment – March 31, 2020*

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

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

The fair value of the reporting unit was estimated via the income approach. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We use our internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on our most recent views of the long-term outlook for our industry. Actual results may differ from those assumed in our forecasts. We derive our discount rates using a capital asset pricing model and by analyzing published rates relevant to our business to estimate the cost of equity financing. We use discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in our internally developed forecasts. We utilized a discount rate of 14.5% in our valuation completed as of March 31, 2020.

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

*Annual Impairment Assessment – September 30, 2020*

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

**NOTE 8: LOANS PAYABLE**

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

*As of December 31, 2021*

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
C	8/17/2016	4,767	2/17/2025	588,236	8.0% interest
E	12/30/2019	2,418	2/17/2025	-	10.0% interest
	Total debt, gross	7,185		588,236	
	Fair value (E)	(166)			
	Total debt, gross	7,019			
	Debt discount	(144)			
	Total debt, net	\$ 6,875			
	Less current maturities	-			
	Long term debt	6,875			

*As of December 31, 2020*

Debt Type	Issuance Date	Principal	Maturity Date	Warrants	Interest Rate Information
A	6/30/2018	\$ 264	N/A	-	0.0% interest
B	1/16/2018	1,085	3/31/2023	61,729	10.0% interest <sup>(1)</sup>
C	8/17/2016	3,255	3/31/2023	588,236	10.0% interest <sup>(1)</sup>
D	11/19/2018	1,637	2/15/2020	-	3.5% interest
E	12/30/2019	2,177	3/31/2023	-	10.0% interest <sup>(2)</sup>
F	4/27/2020	1,552	4/27/2022 <sup>(3)</sup>	-	1.0% interest <sup>(3)</sup>
	Total debt, gross	9,970		649,965	
	Fair value (E)	93			
	Total debt, gross	10,063			
	Debt discount	(168)			
	Total debt, net	\$ 9,895			
	Less current maturities	(1,637)			
	Long term debt	8,258			

A – Secured Disbursed Escrow Promissory Note with related party

B – Secured Revolving Promissory Note with related party

C – Term Loan with related party

D – Amended and Restated Seller Note from acquisition of Allure

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

F – Paycheck Protection Program Loan from Small Business Administration

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

- (2) 8.0% cash interest per annum, comprised of 6.0% cash, 2.0% PIK through March 31, 2020. 10.0% PIK interest per annum through September 30, 2020. In an event of default, the interest rate increases by 6.0% to 16.0%. Debt is automatically convertible to a new class of senior preferred stock of the Company at the earlier of an event of default or November 30, 2020. The principal, including PIK interest, as of December 31, 2020 is \$2,177; however, fair value accounting for the convertible debt instrument results in an additional \$93 of debt recorded on the Consolidated Balance Sheet as of December 31, 2020 related to this instrument.
- (3) 1.0% cash interest per annum. Payments are deferred for six months from the date of the Promissory Note and the Company can apply for forgiveness of the Promissory Note after 60 days.

#### ***Second Amended and Restated Loan and Security Agreement***

On February 17, 2022, Creative Realities, Inc. (the "Company") and its subsidiaries (collectively, the "Borrowers") refinanced their current debt facilities with Slipstream Communications, LLC ("Slipstream"), pursuant to a Second Amended and Restated Credit and Security Agreement (the "Credit Agreement"). The Borrowers include Reflect Systems, Inc. ("Reflect"), which became a wholly owned subsidiary of the Company as a result of the closing of the Merger on February 17, 2022. The debt facilities continue to be fully secured by all assets of the Borrowers.

The Credit Agreement also provides that the Company's outstanding loans from Slipstream at December 31, 2021, consisting of its pre-existing \$4,767 senior secured term loan and \$2,418 secured convertible loan, with an aggregate of \$7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a term loan (the "Consolidation Term Loan"). The Consolidation Term Loan has an interest rate of 10.0%, with 75.0% warrant coverage (or 2,694,495 warrants). The Company issued to Slipstream a \$7,185 Consolidation Term Note in connection with consolidating the Consolidation Term Loan. On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Consolidation Term Loan (estimated to be \$60 per monthly payment). Commencing on September 1, 2023, and on the first day of each month thereafter until the Maturity Date, the Borrowers will make a payment on the Consolidation Term Loan, in an equal monthly installment of principal sufficient to fully amortize the Consolidation Term Loan in eighteen equal installments (estimated to be \$399 per monthly installment).

In addition to refinancing the existing debt with Slipstream, the Company also raised \$10,000 in gross proceeds, or \$9,950 in net proceeds, from entry into a new, 36-month senior secured term loan (the "Acquisition Loan") with Slipstream as part of the Credit Agreement, which matures on February 17, 2025 (the "Maturity Date"). The Acquisition Loan has an interest rate of 8.0%, with 50.0% warrant coverage (or 2,500,000 warrants). The Company issued to Slipstream a \$10,000 Acquisition Term Note in connection with obtaining the Acquisition Loan. On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Acquisition Loan (estimated to be \$67 per monthly payment). No principal payments on the Acquisition Loan are payable until the Maturity Date.

In connection with the Acquisition Loan and Consolidation Term Loan warrant coverage, the Company issued to Slipstream a warrant to purchase an aggregate of 5,194,495 shares of Company common stock (the "Lender Warrant"). The Lender Warrant has a five-year term, an initial exercise price of \$2.00 per share, subject to adjustments in the Lender Warrant, and is not exercisable until August 17, 2022.

In certain circumstances, upon a fundamental transaction of the Company (e.g., a disposal or sale of all or the greater part of the assets or undertaking of the Company, an amalgamation or merger with another company, or implementation of a scheme of arrangement), the holder of the Lender Warrant will have the right to require the Company to repurchase the Lender Warrant at its fair value using a Black Scholes option pricing formula; provided that such holder may not require the Company or its successor entity to repurchase the Lender Warrant for the Black Scholes value in connection with a fundamental transaction that is not approved by the Company's Board of Directors, and therefore not within the Company's control.

#### ***Secured Promissory Note***

On February 17, 2022, in connection with the closing of the Reflect Acquisition, the Company issued to RSI Exit Corporation ("Stockholders' Representative"), the representative of Reflect stockholders, a \$2,500 Note and Security Agreement (the "Secured Promissory Note").

The Secured Promissory Note accrues interest at 0.59% (the applicable federal rate) and requires the Company and Reflect to pay equal monthly principal installments of \$104 on the fifteenth (15th) day of each month, commencing on March 17, 2022. Any remaining or unpaid principal shall be due and payable on February 15, 2023. All payments under the Secured Promissory Note will be paid to the escrow agent in the Merger Agreement to be placed into the escrow account to secure the Reflect stockholders' indemnification obligations until released on the one-year anniversary of the closing of the Merger, at which time any remaining proceeds not subject to a pending indemnification claim will be paid to the exchange agent for payment to the Reflect Stockholders. The obligations of the Company and Reflect set forth in the Secured Promissory Note are secured by a first-lien security interest in various contracts of Reflect, together with all accounts arising under such contracts, supporting obligations related to the accounts arising under such contracts, all related books and records, and products and proceeds of the foregoing. Slipstream subordinated its security interest in such collateral, and the recourse for any breach of the Secured Promissory Note by the Company or Reflect will be against such collateral. The Company has the right to offset amounts payable under the Secured Promissory Note upon a final, non-appealable decision of a court that entitles the Company or its affiliates to any damages for indemnification under the Merger Agreement, or the Stockholders' Representative's agreement in writing to such damages.

#### ***Amended and Restated Loan and Security Agreement***

On March 7, 2021, the Company and its subsidiaries (collectively, the "Borrowers") refinanced their current debt facilities with Slipstream pursuant to an Amended and Restated Credit and Security Agreement (the "Prior Credit Agreement"). The debt facilities continue to be fully secured by all assets of the Borrowers. The maturity date ("Maturity Date") on the outstanding debt and new debt is extended to March 31, 2023. The Prior Credit Agreement (i) provides a \$1,000 of availability under a line of credit (the "Line of Credit"), (ii) consolidates our existing term and revolving line of credit facilities into a new term loan (the "New Term Loan") having an aggregate principal balance of approximately \$4,550 (including a 3.0% issuance fee capitalized into the principal balance), (iii) increases the outstanding special convertible term loan (the "Convertible Loan") to approximately \$2,280 (including a 3.0% issuance fee capitalized into the principal balance), and (iv) extinguishes the outstanding obligations owed with respect to a \$264 existing disbursed escrow loan in exchange for shares of the Company's common stock (the "Disbursed Escrow Conversion Shares"), valued at \$2.718 per share (the trailing 10-day VWAP as reported on the Nasdaq Capital Market as of the date of execution of the Prior Credit Agreement). The Line of Credit and Convertible Loan accrue interest at 10% per year, and the New Term Loan accrues interest at 8% per year.

The New Term Loan requires no principal payments until the Maturity Date, and interest payments are payable on the first day of each month until the Maturity Date. All interest payments owed prior to October 1, 2021 are payable as PIK payments, or increases to the principal balance only.



The Line of Credit and Convertible Loan require payments of accrued interest payable on the first day of each month through April 1, 2022. All such interest payments made prior to October 1, 2021 are payable as PIK payments, or increases to the principal balances under the Line of Credit and Convertible Loan only. No principal payments are owed under the Line of Credit or Convertible Loan until April 1, 2022, at which time all principal and interest on each of the Line of Credit and Convertible Loan will be paid in monthly installments until the Maturity Date to fully amortize outstanding principal by the Maturity Date.

All payments of interest (other than PIK payments) and principal on the Line of Credit and Convertible Loan may be paid, in the Borrowers' sole discretion, in shares of the Company's Common Stock (the "Payment Shares," and together with the Disbursed Escrow Conversion Shares, the "Shares"). The Payment Shares will be valued on a per-Share basis at 70% of the VWAP of the Company's shares of common stock as reported on the Nasdaq Capital Market for the 10 trading days immediately prior to the date such payment is due; provided that the Payment Shares shall not be valued below \$0.50 per Share (the "Share Price").

The Prior Credit Agreement limits the Company's ability to issue Shares as follows (the "Exchange Limitations"): (1) The total number of Shares that may be issued under the Prior Credit Agreement will be limited to 19.99% of the Company's outstanding shares of common stock on the date the Prior Credit Agreement is signed (the "Exchange Cap"), unless stockholder approval is obtained to issue shares in excess of the Exchange Cap; (2) if Slipstream and its affiliates (the "Slipstream Group") beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares and such shares are less than 19.99% of the then-issued and outstanding shares of Company common stock, the issuance of such Payment Shares will not cause the Slipstream Group to beneficially own in excess of 19.99% of the issued and outstanding shares of Company common stock after such issuance unless stockholder approval is obtained for ownership in excess of 19.99%; and (3) if the Slipstream Group does not beneficially own the largest ownership position of shares of Company common stock immediately prior to the proposed issuance of Payment Shares, the Company may not issue Payment Shares to the extent that such issuance would result in Slipstream Group beneficially owning more than 19.99% of the then issued and outstanding shares of Company common stock unless (A) such ownership would not be the largest ownership position in the Company, or (B) stockholder approval is obtained for ownership in excess of 19.99%.

Accounting for the Prior Credit Agreement was accounted for as a debt extinguishment in the first quarter of 2021.

#### ***Loan and Security Agreement History***

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 December 31, 2020 include the Term Loan, Secured Revolving Promissory Note, Secured Disbursed Escrow Promissory Note, and the Special Loan.

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

#### ***Ninth, Tenth, Eleventh, Twelfth, and Thirteenth Amendment; Modification of Conversion Date of Special Loan under Loan and Security Agreement***

On February 28, 2021, January 31, 2021, December 31, 2020, November 30, 2020, and September 29, 2020, the Company entered into several amendments to Loan and Security Agreement with its subsidiaries and Slipstream to amend the automatic conversion date of the Special Loan. Each amendment extended the automatic conversion date of the Special Loan, which was ultimately Amended and Restated in full on March 7, 2021 as discussed further above. The Company paid no fees in exchange for these extensions.

*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.

*Secured Disbursed Escrow Promissory Note*

The Fourth Amendment to the Loan and Security Agreement included entry into a Secured Disbursed Escrow Promissory Note between the Company and Slipstream, and, effective June 30, 2018, we drew \$264 in conjunction with our exit from a previously leased operating facility. The principal amount of the Secured Disbursed Escrow Promissory Note bears no interest. Upon entry into the Prior Credit Agreement on March 7, 2021, this note was converted into Disbursed Escrow Conversion Shares, with elimination of the debt recorded as an equity issuance with the Statement of Shareholder’s Equity.

*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 (the “PPP Loan”) pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act and applicable regulations (the “CARES Act”). The Promissory Note had a term of two years with a 1% per annum interest rate.

On January 11, 2021, the Company received a notice from Old National Bank that the full principal amount of the PPP Loan and the accrued interest have been forgiven, resulting in a gain of \$1,552 during the year-ended December 31, 2021.

*Amended and Restated Seller Note from acquisition of Allure*

The Amended and Restated Seller Note represented a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated to a reduced amount of \$1,637 through the Stock Purchase Agreement and a subsequent net working capital adjustment. That debt accrued interest at 3.5% per annum, and required 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.

On February 20, 2020, Creative Realities, Inc. and Allure made a demand for arbitration against Seller for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Allure Purchase Agreement.

On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, \$100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements.

As a result of this settlement, the full principal amount of the Seller Note and the accrued interest were eliminated, resulting in a gain in the Condensed Consolidated Financial statements of \$1,624, representing \$1,538 related to the Seller Note and \$86 of related interest thereon, during 2021.

**NOTE 9: COMMITMENTS AND CONTINGENCIES***Litigation*

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

On October 10, 2019, the Allure customer that is the basis of our claim above sent a demand to the Company for payment of \$3,200 as settlement for an alleged breach of contract related to hardware failures of equipment installations performed by Allure between November 2017 and August 2018. The suits filed by and against Allure have been adjointed in the Jefferson Circuit Court, Kentucky in January 2020. Due to delays arising as a result of the ongoing COVID-19 pandemic, these suits remain in the early stages of litigation and, as a result, the outcome of the suits 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 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, Creative Realities, Inc. and Allure made 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. The Company did not pay the Amended and Restated Seller Note on 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. On September 11, 2020, the Company served a First Amended Demand in the arbitration with Seller, and on November 5, 2020, Seller pre-served a Motion for Summary Disposition in the arbitration demanding payment of the Amended and Restated Seller Note and accrued interest.

On May 13, 2021, the Company and Seller entered into a settlement agreement wherein neither party admitted liability, and the Company agreed to pay, and Seller agreed to accept, \$100 as settlement in full for the outstanding balance of principal and accrued interest under the Amended and Restated Seller Note and a mutual release of all claims related to the Amended and Restated Seller Note and sale transaction under the Allure Purchase Agreement and all related agreements. The Company recorded a gain on settlement of obligations of \$1,624 during 2021 upon settlement.

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

*Settlement of obligations*

During 2021, (i) the full principal amount of the PPP Loan and the accrued interest of \$1,552 were forgiven and recorded as a gain on settlement, (ii) the Company settled the Amended and Restated Seller Note and related accrued interest for \$100, recording a gain on settlement of \$1,624, representing \$1,538 related to the Amended and Restated Seller Note and \$86 of related interest thereon, and (iii) the statute of limitations passed related to the remaining liability on a lease abandoned by the Company in 2015, resulting in a gain of \$256.

During the year ended December 31, 2020, the Company settled and/or wrote off obligations of \$348 for aggregate cash payments of \$139 and recognized a gain of \$209 related to legacy accounts payable deemed to no longer be legal obligations to vendors.

#### *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 several Company employees by between five percent (5%) and twenty percent (20%). During 2021, the Company reinstated lost salaries one-third on each of April 1, July 1, and October 1, the final reinstate thereby increasing the compensation to its pre-pandemic levels.

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 2020.

#### *Lease termination*

On December 31, 2020, we vacated our office facilities located in Dallas, TX. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$18. There were no such lease terminations during 2021.

### **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.

33 Degrees Convenience Connect, Inc., a related party that was approximately 17.5% owned by a member of our senior management ("33 Degrees") until September 2021, is a customer of both equipment and services from the Company. For the years ended December 31, 2021 and 2020, we had sales of \$457 (2.5% of consolidated sales) and \$1,057 (6.1% of consolidated sales), respectively, with 33 Degrees. Accounts receivable due from 33 Degrees was \$35, or 1.0%, and \$40, or 1.2% of consolidated accounts receivable at December 31, 2021 and December 31, 2020, respectively.

### **NOTE 11: INCOME TAXES**

Income tax benefit/(expense) consisted of the following:

	<b>Year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Tax provision summary:		
State income tax	\$ (22)	\$ (17)
Deferred tax benefit/(expense) - federal	-	150
Deferred tax benefit/(expense) - state	-	25
Tax benefit/(expense)	<u>\$ (22)</u>	<u>\$ 158</u>

The income tax benefit includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities. The Company records income taxes under the liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws.

A reconciliation of the statutory income tax rate to the effective income tax rates as a percentage of income before income taxes is as follows:

	<u>2021</u>	<u>2020</u>
Federal statutory rate	21.00%	21.00%
State taxes, net of federal benefit	5.21%	1.53%
Foreign rate differential	(26.47)%	0.51%
PPP Loan Forgiveness	(128.43)%	0.00%
Discrete items, Transaction items, and Other	21.92%	(7.00)%
Changes in valuation allowance	115.43%	(15.11)%
Effective tax rate	<u>8.66%</u>	<u>0.93%</u>

The net deferred tax assets and liabilities recognized in the accompanying Consolidated Balance Sheets, determined using the income tax rate applicable to each period, consist of the following:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Deferred tax assets (liabilities):		
Reserves	\$ 267	\$ 318
Property and equipment	(2)	(40)
Accrued expenses	106	326
Right-of-use Asset	(91)	(147)
Right-of-use Liability	91	149
IRC 163(j) Interest Deduction	18	18
Non-qualified stock options	1,074	675
R&D credits	1,801	1,801
Net foreign carryforwards	3,485	3,106
US net operating loss and credit carryforwards	35,448	35,566
Intangibles	<u>(11)</u>	<u>(13)</u>
Total deferred tax assets, net	42,186	41,759
Valuation allowance	<u>(42,186)</u>	<u>(41,759)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2021, the Company had no reserves recorded as a liability for unrecognized tax benefits for U.S. federal and state tax jurisdictions. There were no unrecognized tax benefits as of December 31, 2021 that, if recognized, would affect the tax rate. It is the Company's policy to accrue interest and penalties related to liabilities for income tax contingencies in the provision for income taxes. As of December 31, 2021, the Company had no accrued interest or penalties related to uncertain tax positions.

Our deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). As of December 31, 2021, the Company has federal and state net operating loss carryforwards expiring between 2022 and 2037, \$10,651 of which has an indefinite carryforward period. The federal statute of limitations remains open for tax years 2018 through 2020 and state tax jurisdictions generally have statutes of limitations open for tax years 2017 through 2020.

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.

The goodwill impairment recorded March 31, 2020 altered 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.

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.

**NOTE 12: WARRANTS**

A summary of outstanding warrants for the years ended December 31, 2021 and 2020 is included below:

*Year Ended December 31, 2021*

	Warrants (Equity)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2021	4,426,900	\$ 4.62	2.83
Warrants issued	-	-	-
Warrants expired	(323,689)	4.69	-
Balance December 31, 2021	<u>4,103,211</u>	<u>\$ 4.48</u>	<u>1.73</u>

*Year Ended December 31, 2020*

	Warrants (Equity)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2020	4,733,028	\$ 4.83	3.41
Warrants issued	-	-	-
Warrants exercised	(27,600)	4.38	-
Warrants expired	(278,528)	7.08	-
Balance December 31, 2020	<u>4,426,900</u>	<u>\$ 4.62</u>	<u>2.83</u>

As of December 31, 2021, there remained outstanding 597,678 warrants which contain weighted average anti-dilution protection. During 2021, those warrants were subject to a downward adjustment in their strike price following completion of the Company's issuance of common stock in (1) the Registered Direct Offering in February 2021 and (2) the conversion of the Disbursed Escrow Note in March 2021. The strike prices prior to adjustment ranged from \$5.80 to \$5.96 and were adjusted to between \$5.61 and \$5.76. The remaining weighted-average contractual life of warrants subject to weighted average anti-dilution protection is 0.92 years as of December 31, 2021.

As of December 31, 2020, there remained outstanding 921,367 warrants which contain weighted average anti-dilution protection. During 2020, those warrants were subject to a downward adjustment in their strike price following completion of the Company's issuance of common stock via at-the-market offering activities. The strike prices prior to adjustment ranged from \$6.09 to \$6.25 and were adjusted to between \$5.80 and \$5.96. The remaining weighted-average contractual life of warrants subject to weighted average anti-dilution protection is 1.71 years as of December 31, 2020.

*Subsequent Events*

On February 17, 2022, in connection with obtaining a waiver of certain restrictions in investment documents between an investor and the Company in order to consummate the financing contemplated by the Credit Agreement, the Company paid consideration to such investor in the form of a warrant (the "Purchaser Warrant") to purchase 1,400,000 shares of Company common stock in an at-the-market offering under Nasdaq rules. The number of shares of Company common stock subject to the Purchaser Warrant is equal to the waiver fee (\$175) divided by \$0.125 per share. The exercise price of the Purchaser Warrant is \$1.41 per share, and the Purchaser Warrant is not exercisable until August 17, 2022. The Purchaser Warrant expires five years from the date of issuance.

On February 3, 2022, the Company, entered into a securities purchase agreement (the “Securities Purchase Agreement”) with a purchaser (the “Purchaser”), pursuant to which the Company agreed to issue and sell to the Purchaser, in a private placement priced at-the-market under Nasdaq rules, (i) 1,315,000 shares (the “Shares”) of the Company’s common stock, par value \$0.01 per share (the “Common Stock”) and accompanying warrants to purchase an aggregate of 1,315,000 shares of Common Stock, and (ii) pre-funded warrants to purchase up to an aggregate of 5,851,505 shares of Common Stock (the “Pre-Funded Warrants”) and accompanying warrants to purchase an aggregate of 5,851,505 shares of Common Stock (collectively, the “Private Placement”). The accompanying warrants to purchase Common Stock are referred to herein collectively as the “Common Stock Warrants.” Under the Securities Purchase Agreement, each Share and accompanying warrants to purchase Common Stock were sold together at a combined price of \$1.535, and each Pre-Funded Warrant and accompanying warrants to purchase Common Stock were sold together at a combined price of \$1.5349, for gross proceeds of approximately \$11,000, before deducting placement agent fees and estimated offering expenses payable by the Company.

On February 17, 2022, in connection with the restructured Credit Agreement with Slipstream, the Company issued 5,194,495 warrants with an exercise price of \$2.00 per share which expire five years from the date of issuance.

### **NOTE 13: STOCK-BASED COMPENSATION**

A summary of outstanding options as of December 31, 2021 is included below:

#### *Time Vesting Options*

<b>Range of Exercise Prices between</b>	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Options Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$0.01 - \$3.00	1,780,000	8.62	\$ 2.48	601,667	\$ 2.47
\$3.01 - \$7.50	184,830	4.35	\$ 6.72	176,496	\$ 6.69
\$7.51+	103,979	3.44	11.74	103,979	\$ 11.74
	<u>2,068,809</u>	<u>7.71</u>	<u>\$ 3.48</u>	<u>882,142</u>	

#### *Performance Vesting Options*

<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Options Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$2.53	800,000	8.42	\$ 2.53	266,667	\$ 2.53
	<u>800,000</u>	<u>8.42</u>	<u>\$ 2.53</u>	<u>266,667</u>	<u>\$ 2.53</u>

<b>Date/Activity</b>	<b>Time Vesting Options</b>		<b>Performance Vesting Options</b>	
	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2020	1,813,809	3.48	800,000	\$ 2.53
Granted	255,000	2.21	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Balance, December 31, 2021	<u>2,068,809</u>	<u>3.48</u>	<u>800,000</u>	<u>\$ 2.53</u>

The weighted average remaining contractual life for options exercisable is 7.2 years as of December 31, 2021.

### 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 November 17, 2021, Creative Realities' Board of Directors updated its director compensation plan to compensate non-officer directors resulting in the Company granting 10-year options to purchase an aggregate of 255,000 shares of its common stock to non-employee directors of the Company under the Company's 2014 Stock Incentive Plan (the "Plan"). One-third of the options vested immediately, with the half of the remaining options vesting at each of the first and second anniversaries of the grant date. The options have an exercise price of \$2.21, the market value of the Company's common stock on the grant date. The fair value of the options on the grant date was \$1.744 and was determined using the Black-Scholes model. These values were calculated using the following weighted average assumptions:

Risk-free interest rate	1.60%
Expected term	6.25 years
Expected price volatility	97.78%
Dividend yield	0%

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 three plan 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 executives met the foregoing EBTIDA target for calendar year 2021.

The exercise price of the foregoing options is \$2.53 per share, the closing price of the Company's common stock on the grant date. 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. No expense was recorded in 2020 as neither the revenue nor EBITDA target were achieved. The Company recorded stock compensation expense of \$500 within general and administrative expense related to these awards for current year and catch-up expense related to the achievement of the EBITDA target in 2021.

### Stock Compensation Expense Information

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

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. Following a 1-for-30 reverse stock split, the shares authorized for issuance under the Company's 2014 Stock Incentive Plan was reduced to 600,000. On July 10, 2020, the Company's shareholders approved an amendment to the Company's 2014 Stock Incentive Plan to increase the reserve of authorized for issuance thereunder to 6,000,000. There are 2,856,674 options outstanding under the 2014 Stock Incentive Plan.

#### *Employee Awards*

Compensation expense recognized for the issuance of stock options to employees for the years ended December 31, 2021 and 2020 of \$1,494 and \$620, respectively, was included in general and administrative expense in the Consolidated Financial Statements.

At December 31, 2021, there was approximately \$1,360 and \$999 of total unrecognized compensation expense related to unvested share-based awards with time vesting and performance vesting criteria for employees, respectively. Generally, expense related to the time vesting options will be recognized over the next two- and one-half 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.

#### *Non-Employee Awards*

Compensation expense recognized for the issuance of stock options, including those options awarded to our Board of Directors, for the years ended December 31, 2021 and 2020 of \$399 and \$100, respectively, was included in general and administrative expense in the Consolidated Financial Statements. At December 31, 2021, there was approximately \$260 of total unrecognized compensation expense related to unvested share-based awards with time vesting criteria for non-employee directors. Generally, expense related to the time vesting options will be recognized over the next two- years and will be adjusted for any future forfeitures as they occur.

During 2021, the Company engaged certain consultants to perform services in exchange for Company common stock. Shares issued for services were calculated based on the ten (10) day volume weighted average price ("VWAP") for the last ten (10) days during the month of service provided. The Company recorded \$130 in compensation expenses in exchange for issuance of shares during 2021. \$30 of the compensation expenses were recorded as capitalized software.

**NOTE 14: 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 2022 and 2025. 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:

<i>(in thousands)</i>	Year Ended December 31, 2021	Year Ended December 31, 2020
Finance lease cost		
Amortization of right-of-use assets	\$ 4	\$ 20
Interest	-	2
Operating lease cost	379	626
Total lease cost	<u>\$ 383</u>	<u>\$ 648</u>
Weighted Average Remaining Lease Term		
Operating leases	2.8 years	3.8 years
Finance leases	-	0.9 years
Weighted Average Discount Rate		
Operating leases	10.0%	10.0%
Finance leases	-%	14.0%

The following is a schedule, by years, of maturities of lease liabilities as of December 31, 2021:

<i>(in thousands)</i>	Operating Leases
2022	\$ 298
2023	295
2024	85
2025	78
Thereafter	-
Total undiscounted cash flows	756
Less imputed interest	(102)
Present value of lease liabilities	<u>654</u>
Lease liabilities, current	281
Lease liabilities, non-current	373
Present value of lease liabilities	<u>\$ 654</u>

Supplemental cash flow information related to leases are as follows:

<i>(in thousands)</i>	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 383	\$ 627
Financing cash flows from finance leases	(4)	24

**NOTE 15: PROFIT-SHARING PLAN**

We have a defined contribution 401(k) retirement plans for eligible associates in the United States. Associates may contribute up to 15% of their pretax compensation to the plan subject to IRS limitations. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%. The Company indefinitely suspended the employer match at the end of March 2020 in response to the uncertainty of the COVID-19 pandemic and reinstated the employer match in October 2021.

We have a Registered Retirement Savings Plan for eligible associates in Canada. Associates may contribute up to 18% of earned income reported on their tax return in the previous year, subject to legal contribution limits. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%. The Company indefinitely suspended the employer match at the end of March 2020 in response to the uncertainty of the COVID-19 pandemic and reinstated the employer match in October 2021.

The Company contributed \$19 and \$35 to employee retirement plans for the year-ended December 31, 2021 and 2020, respectively.

**NOTE 16: SEGMENT INFORMATION AND SIGNIFICANT CUSTOMERS/VENDORS***Segment Information*

We currently operate in one reportable segment, marketing technology solutions. Substantially all property and equipment is located at our offices in the United States, and a data center located in the United States. All material sales for the years ended December 31, 2021 and 2020 were in the United States and Canada.

*Significant Customers*

We had two (2) customers that accounted for 41.1% and 27.8% of revenue for the years ended December 31, 2021 and 2020, respectively.

We had two (2) and customers that in the aggregate accounted for 56.6% and 42.6% of accounts receivable as of December 31, 2021 and December 31, 2020, respectively.

*Significant Vendors*

We had three (3) and two (2) vendors that accounted for 69.1% and 46.8% of outstanding accounts payable at December 31, 2021 and December 31, 2020, respectively.

**NOTE 17: SUBSEQUENT EVENTS***Equity Financing*

On February 3, 2022, the Company entered into a Securities Purchase Agreement with the Purchaser for gross proceeds of approximately \$11,000 before deducting placement agent fees and estimated offering expenses. The net proceeds from such equity financing were used to fund, in part, payment of the closing cash consideration in the Merger. A detailed explanation of this transaction is included in Note 1 to the audited annual financial statements included within this Annual Report.

*Debt Financing*

On February 17, 2022, the Company raised \$10,000 in gross proceeds, or \$9,950 in net proceeds, from entry into the Acquisition Loan with Slipstream as part of the Credit Agreement, with an interest rate of 8.0% and which matures on February 17, 2025. The Company also refinanced their current debt facilities with Slipstream, pursuant to the Credit Agreement into a single note for \$7,185 with interest rate of 10.0% maturing on the same date. A detailed explanation of this transaction is included in Note 1 to the audited annual financial statements included within this Annual Report.

*Warrant Exercise*

On March 18, 2022, the Purchaser exercised 1,301,505 pre-funded warrants at an exercise price of \$0.0001 per share in exchange for 1,301,505 shares of Company common stock.

## EXHIBIT INDEX

Exhibit No.	Description
2.2	<a href="#">Stock Purchase Agreement, dated as of September 20, 2018, by and between the registrant and Christie Digital System, Inc. (incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on September 20, 2018).</a>
2.3	<a href="#">Agreement and Plan of Merger, dated as of November 12, 2021, by and between the registrant, CRI Acquisition Corporation, Reflect Systems, Inc., and RSI Exit Corporation (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed on November 15, 2021)</a>
2.4	<a href="#">Amendment to Agreement and Plan of Merger, dated as of February 8, 2022, by and among the registrant, CRI Acquisition Corporation, Reflect Systems, Inc., and RSI Exit Corporation (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed February 9, 2022)</a>
3.2	<a href="#">Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on September 17, 2014)</a>
3.3	<a href="#">Articles of Amendment Filed on October 17, 2018 (incorporate by reference to Exhibit 3.3 to the registrant's registration statement on Form S-1 filed October 17, 2018)</a>
3.4	<a href="#">Series A-1 Convertible Preferred Stock Certificate of Designation of Preferences, Rights and Limitations filed October 30, 2015 (incorporated by reference to Exhibit 4.2 of the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)</a>
3.5	<a href="#">Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on September 17, 2014)</a>
3.6	<a href="#">Articles of Amendment (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on October 16, 2014)</a>
3.7	<a href="#">Articles of Amendment Filed on October 17, 2018 (incorporated by reference to Exhibit 3.3 to the registrant's registration statement on Form S-1 filed October 17, 2018)</a>
3.8	<a href="#">Statement of Cancellation of Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on March 18, 2019)</a>
3.9	<a href="#">Statement of Cancellation of Certificate of Designation of Series A-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the registrant's Form 8-K filed with the SEC on March 18, 2019)</a>
3.10	<a href="#">Amended and Restated Bylaws (incorporated by reference to the registrant's Current Report on Form 8-K filed on November 2, 2011)</a>
4.1	<a href="#">Specimen certificate evidencing shares of Common Stock (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form SB-2 (File No. 333-136972))</a>
4.2	<a href="#">Form of Indenture between the registrant and one or more trustees to be named (incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-3 (File No. 333-238275)</a>
4.3	<a href="#">Form of Warrant Issued to Selling Stockholders (November 19, 2018 Issuance date) (incorporated by reference to Exhibit 4.2 of the Registrant's Registration Statement on Form S-3 (File No. 333-239108)</a>
4.4	<a href="#">Warrant dated August 10, 2017, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form 10-Q filed with the SEC on November 14, 2017)</a>
4.5	<a href="#">Warrant dated November 13, 2017, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)</a>
4.6	<a href="#">Warrant dated January 16, 2018, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)</a>

<b>Exhibit No.</b>	<b>Description</b>
4.7	<a href="#"><u>Warrant to Purchase Common Stock issued to Slipstream Communications, LLC on April 27, 2018 (incorporated by reference to Exhibit 10.31 of the registrant's Form S-1 filed with the SEC on June 25, 2018).</u></a>
4.8	<a href="#"><u>Warrant to Purchase Common Stock (entered into in connection with Loan and Security Agreement dated August 17, 2016) (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)</u></a>
4.9	<a href="#"><u>Form of Investor Warrant issued November 19, 2018 (incorporated by reference to Exhibit 4.3 to the registrant's Amendment No. 5 to Form S-1/A filed with the SEC on November 14, 2018)</u></a>
4.10	<a href="#"><u>Form of Representative's Warrant (incorporated by reference to Exhibit 4.4 to the registrant's Amendment No. 3 to Form S-1/A filed with the SEC on October 22, 2018)</u></a>
4.11	<a href="#"><u>Description of Registrant's Securities (incorporated by reference to Exhibit 4.14 of Registrant's Annual Report on Form 10-K for the fiscal year ended 12/31/2019)</u></a>
4.12	<a href="#"><u>Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.1 of the registrant's Current Report on Form 8-K filed February 4, 2022)</u></a>
4.13	<a href="#"><u>Form of Common Stock Warrant (incorporated by reference to Exhibit 4.2 of the registrant's Current Report on Form 8-K filed February 4, 2022)</u></a>
4.14	<a href="#"><u>Lender Warrant dated February 17, 2022 (incorporated by reference to Exhibit 4.1 of the registrant's Current Report on Form 8-K filed February 18, 2022)</u></a>
4.15	<a href="#"><u>Purchaser Warrant dated February 17, 2022 (incorporated by reference to Exhibit 4.2 of the registrant's Current Report on Form 8-K filed February 18, 2022)</u></a>
9.1	<a href="#"><u>Voting and Lock-up Agreement dated November 12, 2021 among registrant, Reflect Systems, Inc. and certain stockholders of Reflect incorporated by reference to Exhibit 9.1 to the registrant's Current Report on Form 8-K filed November 15, 2021)</u></a>
9.2	<a href="#"><u>Voting Agreement dated November 12, 2021 among registrant, Reflect Systems, Inc. and certain stockholders of registrant(incorporated by reference to Exhibit 9.2 to the registrant's Current Report on Form 8-K filed November 15, 2021)</u></a>

<b>Exhibit No.</b>	<b>Description</b>
10.1	<a href="#">Form of Warrant Agency Agreement between the Company and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.5 of the registrant's registration statement on Form S-1 filed October 22, 2018)</a>
10.2**	<a href="#">2014 Stock Incentive Plan as amended (incorporated by reference to the registrant's definitive proxy statement filed with the SEC on July 24, 2018)</a>
10.3	<a href="#">Master Distribution Agreement dated June 19, 2020 by and between the Company and InReality, LLC (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on June 19, 2020)</a>
10.4	<a href="#">Twelfth Amendment to Loan and Security Agreement dated January 31, 2021 by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on February 3, 2021)</a>
10.5	<a href="#">Securities Purchase Agreement dated February 18, 2021 by and between Creative Realities, Inc. and purchaser identified on the signature page thereto (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on February 19, 2021)</a>
10.6	<a href="#">Thirteenth Amendment to Loan and Security Agreement dated February 28, 2021 by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on March 4, 2021)</a>
10.7	<a href="#">Amended and Restated Loan and Security Agreement by and among the Company, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.36 to the registrant's report on Form 10-K filed with the SEC on March 10, 2021)</a>
10.8**	<a href="#">Employment Agreement dated as of November 12, 2021 by and between the registrant and Rick Mills (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed November 15, 2021).</a>
10.9**	<a href="#">Employment Agreement dated as of November 12, 2021 by and between the registrant and Will Logan. (incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed November 15, 2021)**</a>
10.10	<a href="#">Form of Securities Purchase Agreement dated February 3, 2022 by and between Creative Realities, Inc. and the Investors (incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed February 4, 2022)</a>
10.11	<a href="#">Form of Registration Rights Agreement dated February 3, 2022 by and between Creative Realities, Inc. and the Investors (incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed February 4, 2022)</a>
10.12	<a href="#">Second Amended and Restated Loan and Security Agreement by and among the registrant, its subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed February 18, 2022)</a>

<b>Exhibit No.</b>	<b>Description</b>
10.13	<a href="#">\$10,000,000 Acquisition Term Note (incorporated by reference to Exhibit 10.2 of the registrant's Current Report on Form 8-K filed February 18, 2022)</a>
10.14	<a href="#">\$7,185,319.06 Consolidation Term Note (incorporated by reference to Exhibit 10.3 of the registrant's Current Report on Form 8-K filed February 18, 2022)</a>
10.15	<a href="#">Secured Promissory Note (incorporated by reference to Exhibit 10.4 of the registrant's Current Report on Form 8-K filed February 18, 2022)</a>
10.16**	<a href="#">2014 Stock Incentive Plan, as amended (incorporated by reference to Exhibit A to the registrant's definitive proxy statement on Schedule 14A filed with the SEC on June 12, 2020)</a>
10.17**	<a href="#">Retention Bonus Plan (incorporated by reference to Exhibit 10.5 of the registrant's Current Report on Form 8-K filed February 18, 2022)</a>
10.18**	<a href="#">Form of Retention Bonus Plan Agreement (incorporated by reference to Exhibit 10.6 of the registrant's Current Report on Form 8-K filed February 18, 2022)</a>
14.1	<a href="#">Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018)</a>
21.1	<a href="#">List of Subsidiaries*</a>
23.1	<a href="#">Consent of Deloitte &amp; Touche LLP*</a>
31.1	<a href="#">Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).*</a>
31.2	<a href="#">Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).*</a>
32.1	<a href="#">Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.*</a>
32.2	<a href="#">Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.*</a>
99.1	<a href="#">Press Release dated March 22, 2022</a>
101.INS	Inline XBRL Instance Document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).*

\* Filed herewith

\*\* Compensatory Plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

+ This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.



**Exhibit 21.1**

Our corporate structure, including our principal operating subsidiaries, is as follows:

<b>Name of subsidiary</b>	<b>Jurisdiction of incorporation or organization</b>
Allure Global Solutions, Inc.	Georgia
Reflect Systems, Inc.	Delaware
Wireless Ronin Technologies Canada, Inc.	Canada

**Exhibit 23.1****CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-262516, 333-239108, 333-238275, and 333-255001 on Form S-3, Nos. 333-225876 and 333-209847 on Form S-1, No. 333-261048 on Form S-4 and Nos. 333-189318, 333-181999, 333-174861, 333-167454, 333-159927, 333-147458 and 333-145795 on Form S-8 of our report dated March 22, 2022, relating to the consolidated financial statements of Creative Realities, Inc. appearing in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Deloitte and Touche LLP

Louisville, Kentucky  
March 22, 2022

**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-K for the year ended December 31, 2021, 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: March 22, 2022

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-K for the year ended December 31, 2021, 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: March 22, 2022

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-K for the year ended December 31, 2021, 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: March 22, 2022

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-K for the year ended December 31, 2021, 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: March 22, 2022

By: /s/ Will Logan

Will Logan  
Chief Financial Officer

**FOR IMMEDIATE RELEASE****Creative Realities Reports Fourth Quarter and Full Year 2021 Results;  
Expects 2022 Revenue to Exceed \$43 Million**

**LOUISVILLE, KY – March 22, 2022** – Creative Realities, Inc. (“Creative Realities,” “CRI,” or the “Company”) (NASDAQ: CREX, CREXW), a leading provider of digital signage solutions, announced its financial results for the year ended December 31, 2021, including the quarter ended as of the same date.

Rick Mills, Chief Executive Officer, commented “CRI’s fourth quarter 2021 revenue was approximately \$5.4 million, bringing full year 2021 revenue to \$18.4 million, which represents an increase of 8.3% and 5.6% as compared to the same periods in the prior year. Removing the year-over-year revenue generated from our Safe Space Solutions products, which we launched in response to the COVID-19 pandemic, our core digital signage revenue grew 32.2% and 20.5% in the three- and twelve-month periods ended December 31, 2021 as compared to the same periods in the prior year, despite facing supply chain difficulties. We continue to experience strong and growing demand for our digital signage solutions into 2022 and beyond.”

Mr. Mills continued, “Our primary focus is growing CRI into the market leader in end-to-end digital signage solutions for enterprise customers, expanding the number of devices managed via our digital signage software, and increasing the value of our Company through expansion in our recurring services revenue. During the fourth quarter of 2021, CRI won a significant new theme park customer that will continue to deploy hardware throughout 2022 and we expect to ultimately add more than 1,300 billable devices, generating monthly recurring subscription revenue to our content management software platforms.”

“The tremendous momentum and return to double-digit growth that we experienced in core digital signage solutions throughout 2022 has only accelerated with our acquisition of Reflect Systems, Inc. (“Reflect”) in February 2022. In December 2021, CRI and Reflect went to market on our first joint sales effort, which resulted in a major win – a project to deploy digital experiences for a retail customer at hundreds of locations nationwide for an expected total contract value in excess of \$10 million. Our merger with Reflect and this win immediately validated what we’ve been saying since Reflect and CRI first began discussing a merger: we believe our combined offerings are stronger than anything else in the industry,” said Mills. “Winning a project of this value and prominence sends a powerful message to existing and potential customers – we have something new and exciting that they need to consider.”

“I could not be more excited about the opportunity to join forces with Reflect, which has an incredible track record for growing annual recurring revenues via software subscriptions to its digital signage software platforms. In addition, it brings CRI a tremendous, patented AdTech platform (Reflect AdLogic) and a media sales capability that will enable the Company to directly productize solutions and participate in the out-of-home advertising industry, including the potential for integrated programmatic high value digital advertising solutions. With our recent theme park and retail wins, combined with the outlook for our expanded customer base and growth prospects, we expect the combined company to generate revenue in excess of \$43 million during 2022, representing an organic growth rate in excess of 35% on a combined company basis as compared to 2021. This expectation includes the consolidation of Reflect operations for the period beginning February 17, 2022.”

Mr. Mills concluded, “We are proud of the work we have done to prepare the Company for long-term success and are excited about recent customer developments, both those we have previously announced and those we anticipate will come to fruition throughout 2022. Now more than ever, we believe our end-to-end offering has positioned CRI well within the industry to compete for new and growing opportunities with partners, particularly enterprise customers in a variety of key verticals.”

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## **2021 Financial Overview**

All results herein represent the financial results of Creative Realities, Inc. and exclude any results of Reflect Systems, Inc. as the merger was closed February 17, 2022. The first quarter of 2022 will include financial results for Reflect Systems, Inc. for the period February 17, 2022 – March 31, 2022 during which Reflect operated as a wholly owned subsidiary of Creative Realities.

### *Key Highlights:*

- Revenue growth of \$1.0 million, or 5.6%
- Digital signage revenue growth of \$2.9 million, or 20.5%
- Net income of \$0.2 million as compared to net loss of \$16.8 million in 2020
- EBTIDA of \$3.9 million as compared to an EBITDA loss of \$13.9 million in 2020

### *Revenue, gross profit, and gross margin:*

- Revenues were \$18.4 million for the year ended December 31, 2021, an increase of \$1.0 million, or 5.6%, as compared to the same period in 2020. Removing our Safe Space Solutions revenue in each period, revenues from our core digital signage solutions were \$16.8 million in 2021, an increase of \$2.9 million, or 20.5%, as compared to 2020.
- Hardware revenues were \$9.5 million for the year ended December 31, 2021, an increase of \$0.5 million, or 5.1% as compared to the same period in 2020; digital signage hardware solutions revenue increased \$2.1 million in 2021 compared to 2020, offset by reductions in sales of our Safe Space Solutions products. Gross margin on hardware revenue was 26.8% during 2021 as compared to 30.5% during 2020 primarily due to the reduction in revenue from Safe Space Solutions products, which have historically generated higher gross profit on a per unit basis.
- Services and other revenues were \$9.0 million for the year ended December 31, 2021, an increase of \$0.5 million, or 6.2%, as compared to the same period in 2020, driven primarily by a \$0.2 million, or 44%, increase, in software development services for a single key customer for custom development in our platform.
- Managed services revenue, which includes both software-as-a-service (“SaaS”) and help desk technical subscription services for our traditional digital signage and Safe Space Solutions product offerings, were \$5.6 million for the year ended December 31, 2021, an increase of \$0.2 million, or 4.0%, as our base business and related deployments continued to rebound following customers opening their venues/locations upon release of COVID-19 vaccines.
- Gross profit was \$8.4 million for the year ended December 31, 2021, an increase of \$0.2 million, or 3%, compared to the same period in 2020. Consolidated gross margin decreased to 45.3% for the year ended December 31, 2021 from 46.5% in the prior year, driven primarily by a reduction in Safe Space Solutions sales, which have historically generated higher margin on a per unit basis.

### *Operating expenses:*

- For the year ended December 31, 2021 as compared to the same period in the prior year:
- Sales and marketing expenses decreased by \$0.5 million, or 31%, driven by (1) a current year Employee Retention Credit of \$0.2 million related to the retention and payment of salaries to sales personnel throughout 2020 and 2021, which was all recorded when filed in 2021, (2) reduction of \$0.1 million in sales lead generation tools, and (3) the result of reduced personnel costs, partially offset by small increases in trade show activity and related travel costs following a return to participation in industry trade shows and events after the elimination of such costs in 2020 as a result of the COVID-19 pandemic.
- Research and development expenses decreased by \$0.5 million, or 49% as the result of (1) a current year Employee Retention Credit of \$0.2 million related to the retention and payment of salaries to development personnel throughout 2020 and 2021, which was all recorded when filed in 2021, (2) a reduction in personnel costs during the period following reduced headcount and salary reductions in March 2020 through salary reinstatements in October 2021, and (3) an increase in capitalization of development activities for new features/functionality. The Company capitalizes its costs incurred for additional functionality to its internal software. We capitalized approximately \$1.1 million and \$0.6 million for the years ended December 31, 2021 and 2020, respectively. These software development costs include both enhancements and upgrades of our client-based systems including functionality of our internal information systems to aid in our productivity, profitability and customer relationship management. We amortize these costs over 3 years once the new projects are completed and placed in service.



- General and administrative expenses, including bad debt expense and recoveries, decreased by \$2.0 million in 2021, or 21.2% compared to 2020, driven by:
  - A reduction in bad debt expense of \$1.1 million, following a recovery of accounts receivable from a customer who filed for bankruptcy in 2020;
  - A reduction of \$0.7 million in salaries expense from Employee Retention Credits related to the retention and payment of salaries to sales personnel throughout 2020 and 2021, each of which were recorded in 2021 when the tax credits were filed;
  - A reduction of \$0.3 million in rent expense following closure, downsizing, or restructuring of four leases facilities during 2020; and
  - A reduction of \$0.4 million in legal expenses following settlement of our dispute with the seller of Allure Global Solutions, Inc.

These reductions were partially offset by an increase in stock compensation amortization expense of \$1.2 million related to incremental employee and directors' awards.

Excluding the consideration of those Employee Retention Credits recorded in the period and the year-over-year impact of bad debt expense and recoveries, total general and administrative expenses decreased \$0.8 million, or 10.2%, during 2021 as compared to 2020.

*Operating loss, net loss, and EBITDA:*

- Operating loss was \$2.5 million for the year ended December 31, 2021 as compared to an operating loss of \$16.1 million during the same period in 2020. The current year operating loss included \$0.5 million in costs associated with pursuit of acquisition activities, including the Reflect transaction.
- Net income was \$0.2 million for the year ended December 31, 2021 as compared to net loss of \$16.8 million for the same period in 2020.
- EBITDA was \$3.9 million for the year ended December 31, 2021 as compared to an EBITDA loss of \$13.9 million for the same period in 2020. Adjusted EBITDA was \$1.2 million in 2021 as compared to an Adjusted EBITDA loss of \$3.2 million in 2020. See below for a description of these non-GAAP financial measures and reconciliation to our net loss.

*Subsequent events:*

- **Debt Financing:** On February 17, 2022, the Company refinanced its debt facilities with its current lender, and raised \$10.0 million in gross loan proceeds. The financing also combined and extended the maturity date of the Company's pre-existing \$4.8 million senior secured term loan and \$2.4 million secured convertible loan into a Consolidation Term Loan. The refinancing extended the maturity date of the Company's loans to February 1, 2025 and removed the convertible feature of the secured convertible loan.
- **Equity Financing:** On February 3, 2022, the Company completed an at-the-market private placement priced for gross proceeds of approximately \$11.0 million before deducting placement agent fees and estimated offering expenses. The net proceeds from the private placement were used to fund payment of the closing cash consideration in the acquisition of Reflect.
- **Acquisition of Reflect:** On February 17, 2022, the Company and Reflect consummated a merger, pursuant to which Reflect stockholders collectively received from the Company the following merger consideration:
  - \$16.2 million payable in cash; and
  - 2,333,334 shares of common stock of Creative Realities (valued based on an issuance price of \$2 per share) (the "CREX Shares");
  - \$2.5 million Secured Promissory Note; and
  - Supplemental cash payments (the "Guaranteed Consideration"), if any, payable on or after the three-year anniversary of the effective time of the Merger (the "Guarantee Date"), in an amount by which the value of the CREX Shares on such anniversary is less than \$6.40 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than \$7.20 per share, multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date.

## Conference Call Details

The Company will host a webinar to review the results and provide additional commentary about the Company's recent performance and the Reflect merger, which is scheduled for Wednesday, March 23, 2022 at 9:00 am Eastern Time.

Prior to the call, participants should register at [bit.ly/CRlearnings2021Q4](https://bit.ly/CRlearnings2021Q4). Once registered, participants can use the weblink provided in the registration email to listen to and view prepared materials via live webcast. An archived edition of the conference call will also be posted on our website at [www.cri.com](http://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 place-based digital media to achieve business objectives such as increased revenue, enhanced customer experiences, and improved productivity. The company designs, develops and deploys digital signage experiences for enterprise-level networks, and is actively providing recurring SaaS and support services across diverse vertical markets, including but not limited to retail, automotive, digital-out-of-home (DOOH) advertising networks, convenience stores, foodservice/QSR, gaming, theater, and stadium venues.

With its recent acquisition of Reflect Systems, Inc., a leading provider of digital signage software platforms, the company is poised to extend its product and service offering and accelerate growth in SaaS revenue. While Reflect provided a broad range of digital signage solutions, the company's flagship products are the market-leading ReflectView digital signage platform and Reflect AdLogic ad management platform. ReflectView is the industry's most comprehensive, scalable, enterprise-grade digital signage platform, powering enterprise customer networks. Meanwhile, Reflect AdLogic has become the benchmark for digital signage powered ad networks, delivering nearly 50 million ads daily. The acquisition of Reflect also brought to the business a media sales division with the expertise and relationships to help any digital signage venue owner develop and execute a monetization plan for their network.

The combined company has operations 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" and "Adjusted EBITDA." CRI defines "EBITDA" as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines "Adjusted EBITDA" as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, EBITDA and Adjusted EBITDA are used internally in planning and evaluating the Company's operating performance. Accordingly, management believes that disclosure of these metrics offers investors, bankers and other stakeholders an additional view of the Company's operations that, when coupled with the GAAP results, provides a more complete understanding of the Company's financial results.

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

For further information, please refer to Creative Realities, Inc.'s filings available online at [www.sec.gov](http://www.sec.gov), including its Annual Report on Form 10-K to be filed with the Securities and Exchange Commission on or about March 22, 2022.

### **Cautionary Note on Forward-Looking Statements**

This press release contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, and includes, among other things, discussions of our business strategies, product releases, future operations and capital resources. Words such as “estimates,” “projected,” “expects,” “anticipates,” “forecasts,” “plans,” “intends,” “believes,” “seeks,” “may,” “will,” “should,” “future,” “propose” and variations of these words or similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance, conditions or results. They are based on the opinions, estimates and beliefs of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties, assumptions and other factors, many of which are outside of our control, that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Some of these risks are discussed in the “Risk Factors” section contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 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: our ability to effectively integrate Reflect’s business operations, our strategy for customer retention, growth, product development, market position, financial results and reserves, our ability to execute on our business plan, our ability to retain key personnel, potential litigation, supply chain shortages, and general economic and market conditions impacting demand for our products and services, including those as a result of the COVID-19 pandemic. Readers should not place undue reliance upon any forward-looking statements. We assume no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

### **Contact**

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

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

EBITDA and Adjusted EBITDA are non-GAAP financial measures and should not be considered as a substitute for net income (loss), operating income (loss) or any other performance measure derived in accordance with United States generally accepted accounting principles (“GAAP”) or as an alternative to net cash provided by operating activities as a measure of CRI’s profitability or liquidity. CRI’s management believes EBITDA and Adjusted EBITDA are useful financial metrics because they allow external users of CRI’s financial statements, such as industry analysts, investors, lenders and rating agencies, to more effectively evaluate CRI’s 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 also presents EBITDA and Adjusted EBITDA because it believes EBITDA and Adjusted EBITDA are important supplemental measures of its performance that are frequently used by others in evaluating companies in its industry. Because EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income (loss) and may vary among companies, the EBITDA and Adjusted EBITDA CRI presents may not be comparable to similarly titled measures of other companies.

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

Quarters ended	Year Ended 2021	Quarters Ended			
		December 31, 2021	September 30, 2021	June 30 2021	March 31, 2021
GAAP net income (loss)	\$ 232	\$ (1,722)	\$ (343)	\$ 1,025	\$ 1,272
Interest expense:					
Amortization of debt discount	159	29	29	29	72
Other interest, net	648	160	158	153	177
Depreciation/amortization:					
Amortization of intangible assets	1,251	302	320	317	312
Amortization of finance lease assets	4	-	-	-	4
Amortization of employee share-based awards	1,494	324	329	329	512
Depreciation of property and equipment	109	27	27	27	28
Income tax expense/(benefit)	22	13	1	7	1
EBITDA	\$ 3,919	\$ (867)	\$ 521	\$ 1,887	\$ 2,378
Adjustments					
Change in fair value of Special Loan	(166)	-	-	-	(166)
Gain on settlement of obligations	(3,449)	-	(256)	(1,628)	(1,565)
Deal and transaction costs	518	518	-	-	-
Stock-based compensation – Director grants	399	318	27	27	27
Adjusted EBITDA	\$ 1,221	\$ (31)	\$ 292	\$ 286	\$ 674

Quarters ended	Year Ended 2020	Quarters Ended			
		December 31, 2020	September 30, 2020	June 30 2020	March 31, 2020
GAAP net loss	\$ (16,844)	\$ (617)	\$ (585)	\$ (2,459)	\$ (13,183)
Interest expense:					
Amortization of debt discount	339	85	85	84	85
Other interest, net	683	186	179	176	142
Depreciation/amortization:					
Amortization of intangible assets	1,330	319	340	344	327
Amortization of finance lease assets	20	3	5	5	7
Amortization of share-based awards	617	250	248	100	19
Depreciation of property and equipment	124	29	33	30	32
Income tax expense/(benefit)	(158)	(6)	(1)	4	(155)
EBITDA	\$ (13,889)	\$ 249	\$ 304	\$ (1,716)	\$ (12,726)
Adjustments					
Change in fair value of Special Loan	93	(609)	-	551	151
Gain on settlement of obligations	(209)	(54)	(114)	(1)	(40)
Loss on disposal of assets	13	-	13	-	-
Loss on lease termination	18	18	-	-	-
Loss on goodwill impairment	10,646	-	-	-	10,646
Stock-based compensation – Director grants	102	27	25	19	31
Adjusted EBITDA	\$ (3,226)	\$ (369)	\$ 228	\$ (1,147)	\$ (1,938)