

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

or

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

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

Commission File Number 001-33169



**Creative Realities, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Minnesota**

State or Other Jurisdiction of  
Incorporation or Organization

**41-1967918**

I.R.S. Employer  
Identification No.

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

Address of Principal Executive Offices

**40223**

Zip Code

**(502) 791-8800**

Registrant's Telephone Number, Including Area Code

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

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

**Title of each class**

**Trading Symbol(s)**

**Name of each exchange on which registered**

Common Stock, par value \$0.001 per share

CREX

The Nasdaq Stock Market LLC

Warrants to purchase Common Stock

CREXW

The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 7, 2019, the registrant had 9,774,546 shares of common stock outstanding.

**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>September 30,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	(unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,240	\$ 2,718
Accounts receivable, net of allowance of \$588 and \$583, respectively	5,110	6,479
Unbilled receivables	340	1,202
Work-in-process and inventories, net of reserve of \$158 and \$207, respectively	591	379
Prepaid expenses and other current assets	286	1,581
<b>Total current assets</b>	<b>8,567</b>	<b>12,359</b>
Operating lease right-of-use assets	1,854	-
Property and equipment, net	1,475	1,230
Intangibles, net	4,610	5,060
Goodwill	18,265	18,900
Other assets	156	179
<b>TOTAL ASSETS</b>	<b>\$ 34,927</b>	<b>\$ 37,728</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term seller note payable	\$ 1,637	\$ -
Accrued expenses	5,791	3,847
Deferred revenues	927	6,454
Customer deposits	1,689	2,687
Accounts payable	1,341	1,995
Current maturities of operating leases	643	-
Current maturities of finance leases	25	-
Warrant liability	-	21
<b>Total current liabilities</b>	<b>12,053</b>	<b>15,004</b>
Long-term related party loans payable, net of \$612 and \$1,031 discount, respectively	3,652	3,233
Long-term seller note payable	-	2,303
Long-term obligations under operating leases	1,225	-
Long-term obligations under finance leases	6	-
Deferred tax liabilities	99	128
Other long-term liabilities	-	239
<b>TOTAL LIABILITIES</b>	<b>17,035</b>	<b>20,907</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, 200,000 shares authorized; 9,756 and 9,725 shares issued and outstanding, respectively	98	97
Additional paid-in capital	53,999	53,575
Accumulated deficit	(36,205)	(36,851)
<b>Total shareholders' equity</b>	<b>17,892</b>	<b>16,821</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 34,927</b>	<b>\$ 37,728</b>

*See accompanying notes to condensed consolidated financial statements*

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Sales</b>				
Hardware	\$ 2,034	\$ 1,517	\$ 5,329	\$ 5,587
Services and other	4,689	4,484	20,192	11,659
<b>Total sales</b>	<b>6,723</b>	<b>6,001</b>	<b>25,521</b>	<b>17,246</b>
<b>Cost of sales</b>				
Hardware	1,484	838	4,200	3,782
Services and other	1,933	1,422	10,106	5,124
<b>Total cost of sales</b>	<b>3,417</b>	<b>2,260</b>	<b>14,306</b>	<b>8,906</b>
<b>Gross profit</b>	<b>3,306</b>	<b>3,741</b>	<b>11,215</b>	<b>8,340</b>
<b>Operating expenses:</b>				
Sales and marketing expenses	523	425	1,830	1,466
Research and development expenses	306	261	1,073	879
General and administrative expenses	2,113	3,233	6,824	6,874
Depreciation and amortization expense	278	330	872	981
Lease termination expense	-	-	-	474
<b>Total operating expenses</b>	<b>3,220</b>	<b>4,249</b>	<b>10,599</b>	<b>10,674</b>
<b>Operating income/(loss)</b>	<b>86</b>	<b>(508)</b>	<b>616</b>	<b>(2,334)</b>
<b>Other income/(expenses):</b>				
Interest expense	(199)	(688)	(616)	(2,014)
Change in fair value of warrant liability	-	27	21	235
Gain on settlement of obligations	406	169	419	208
Other expense	-	(6)	-	(7)
<b>Total other income/(expense)</b>	<b>207</b>	<b>(498)</b>	<b>(176)</b>	<b>(1,578)</b>
<b>Income/(loss) before income taxes</b>	<b>293</b>	<b>(1,006)</b>	<b>440</b>	<b>(3,912)</b>
<b>Benefit from / (provision for) income taxes</b>	<b>(51)</b>	<b>128</b>	<b>35</b>	<b>184</b>
<b>Net income/(loss)</b>	<b>242</b>	<b>(878)</b>	<b>475</b>	<b>(3,728)</b>
<b>Dividends on preferred stock</b>	<b>-</b>	<b>(105)</b>	<b>-</b>	<b>(345)</b>
<b>Net income/(loss) attributable to common shareholders</b>	<b>\$ 242</b>	<b>\$ (983)</b>	<b>\$ 475</b>	<b>\$ (4,073)</b>
<b>Basic earnings/(loss) per common share</b>	<b>\$ 0.02</b>	<b>\$ (0.31)</b>	<b>\$ 0.05</b>	<b>\$ (1.34)</b>
<b>Diluted earnings/(loss) per common share</b>	<b>\$ 0.02</b>	<b>\$ (0.35)</b>	<b>\$ 0.05</b>	<b>\$ (1.47)</b>
<b>Weighted average shares outstanding - basic</b>	<b>9,756</b>	<b>2,814</b>	<b>9,739</b>	<b>2,777</b>
<b>Weighted average shares outstanding - diluted</b>	<b>9,756</b>	<b>2,814</b>	<b>9,739</b>	<b>2,777</b>

*See accompanying notes to condensed consolidated financial statements.*

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

	Nine Months Ended September 30,	
	2019	2018
<b>Operating Activities:</b>		
Net income/(loss)	\$ 475	\$ (3,728)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Depreciation and amortization	847	981
Amortization of debt discount	419	1,247
Stock-based compensation	395	1,276
Change in warrant liability	(21)	(235)
Deferred tax benefit	(29)	(197)
Allowance for doubtful accounts	194	60
Increase in notes due to in-kind interest	-	106
Charge for lease termination	-	474
Gain on settlement of obligations	(419)	(208)
Changes to operating assets and liabilities:		
Accounts receivable and unbilled revenues	1,739	249
Inventories	(212)	460
Prepaid expenses and other current assets	1,295	(219)
Operating lease right of use asset, net	409	-
Other assets	23	(15)
Accounts payable	(235)	(573)
Deferred revenue	(5,527)	31
Accrued expenses	2,491	(1,041)
Deposits	(990)	11
Operating lease liabilities	(395)	-
Other liabilities	(3)	(27)
Net cash provided by/(used in) operating activities	<u>456</u>	<u>(1,348)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(652)	(255)
Proceeds from net working capital settlement	210	-
Net cash used in investing activities	<u>(442)</u>	<u>(255)</u>
<b>Financing activities</b>		
Issuance of common stock	30	-
Proceeds from related party loans	-	2,100
Repayment of seller note	(498)	-
Other financing activities, net, including principal payments on finance leases	(24)	-
Net cash (used in)/provided by financing activities	<u>(492)</u>	<u>2,100</u>
<b>Increase/(decrease) in Cash and Cash Equivalents</b>	<u>(478)</u>	<u>497</u>
<b>Cash and Cash Equivalents, beginning of period</b>	<u>2,718</u>	<u>1,003</u>
<b>Cash and Cash Equivalents, end of period</b>	<u>\$ 2,240</u>	<u>\$ 1,500</u>

*See accompanying notes to condensed consolidated financial statements.*

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

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

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

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Three months ended September 30, 2018</i>					
Balance as of June 30, 2018	2,795,694	\$ 28	\$ 31,665	\$ (29,081)	\$ 2,612
Vesting of performance shares previously granted to CEO	166,667	2	998	-	1,000
Stock-based compensation	-	-	99	-	99
Net loss	-	-	-	(878)	(878)
Balance as of September 30, 2018	<u>2,962,361</u>	<u>\$ 30</u>	<u>\$ 32,762</u>	<u>\$ (29,959)</u>	<u>\$ 2,833</u>

	<u>Common Stock</u>		<u>Additional paid in capital</u>	<u>Accumulated (Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<i>Nine months ended September 30, 2018</i>					
Balance as of December 31, 2017	2,752,742	\$ 28	\$ 30,555	\$ (26,231)	\$ 4,352
Common stock issued as dividend	26,613	-	-	-	-
Issuance of warrants with debt extension	-	-	809	-	809
Shares issued upon conversion of preferred stock	16,339	-	124	-	124
Vesting of performance shares previously granted to CEO	166,667	2	998	-	1,000
Stock-based compensation	-	-	276	-	276
Net loss	-	-	-	(3,728)	(3,728)
Balance as of September 30, 2018	<u>2,962,361</u>	<u>\$ 30</u>	<u>\$ 32,762</u>	<u>\$ (29,959)</u>	<u>\$ 2,833</u>

*See accompanying notes to condensed consolidated financial statements.*

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

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

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

*Nature of the Company’s Business*

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

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

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation, Creative Realities Canada, Inc., a Canadian corporation, and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

*Liquidity and Financial Condition*

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

We incurred a net loss for the year ended December 31, 2018 and had negative cash flows from operating activities as of December 31, 2018. For the three months ended September 30, 2019 and 2018 we have recognized/(incurred) net income/(losses) of \$242 and (\$878), respectively. For the nine months ended September 30, 2019 and 2018, we recognized/(incurred) net income/(losses) of \$475 and (\$3,728), respectively. As of September 30, 2019, we had cash and cash equivalents of \$2,240 and working capital deficit of \$3,486, which includes \$640 representing current maturities of operating leases recorded January 1, 2019 upon adoption of Accounting Standards Update (“ASU”) 2016-02.

On November 9, 2018, Slipstream Communications, LLC, an Anguillan limited liability company, (“Slipstream”) a related party (see Note 9), extended the maturity date of our term loan and revolving loan to August 16, 2020. Our intent is to refinance our term loan and revolving loan with an unrelated third party during 2019. In conjunction with the extension of the maturity date of our term loan, we agreed that the cash portion of the interest rate would increase prospectively from 8.0% per annum to 10.0% per annum effective July 1, 2019.

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

Management believes that, based on (i) the extension of the maturity date on our term loan and revolving loans and (ii) our operational forecast through 2020, we can continue as a going concern through at least November 8, 2020. However, given our historical net losses, cash used in operating activities and working capital deficit, we obtained a continued support letter from Slipstream through November 15, 2020. 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 9 to the Condensed Consolidated Financial Statements for a discussion of the Company’s debt obligations.

#### *Acquisitions*

##### ***Acquisition of Allure Global Solutions, Inc.***

On September 20, 2018, we entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Christie Digital Systems, Inc. (“Seller”) to acquire the capital stock of Allure Global Solutions, Inc. (“Allure”), a wholly owned subsidiary of Seller (the “Allure Acquisition”). Allure is an enterprise software development company providing software solutions, a suite of complementary services, and ongoing support for an array of digital media and POS solutions. Allure provides a wide range of products for the theatre, restaurant, convenience store, theme park, and retail spaces and works to create, develop, deploy, and maintain enterprise software solutions including those designed specifically to integrate, manage, and power ambient client-owned networks. Those networks manage data and marketing content that has been designed and proven to influence consumer purchase behavior. The Allure Acquisition closed on November 20, 2018.

Subject to the terms and conditions of the Purchase Agreement, upon the closing of the Allure Acquisition, we acquired ownership of all of Allure’s issued and outstanding capital shares in consideration for a total purchase price of approximately \$8,450, subject to a post-closing working capital adjustment. Of this purchase price amount, we paid \$6,300 in cash. Of the remaining purchase price amount, approximately \$1,250 is to be paid to former management of Allure, and approximately \$900 is due from Allure to Seller, under an existing Seller note which was amended and restated for this reduced amount (as so amended and restated, the “Amended and Restated Seller Note”). The Amended and Restated Seller Note accrues interest at 3.5% per annum and requires us to make quarterly payments of interest only through February 19, 2020, on which date the Amended and Restated Seller Note will mature and all remaining amounts owing thereunder will be due. We are able to prepay in whole or in part amounts owing under the Amended and Restated Seller Note, without penalty, at our option, at any time and from time to time.

On May 10, 2019, we reached a settlement agreement with Seller on, among other things, the final net working capital as of the acquisition date resulting in (i) a payment to us from Seller in the amount of \$210, and (ii) a reduction of the amount due under the Amended and Restated Seller Note of \$168 of cash collected by the Company which had been previously designated for payment on the Amended and Restated Seller Note but was not ultimately remitted to the Seller and (b) \$20 of unpaid accrued interest. In addition to this net working capital settlement, Seller accepted collection risk for one acquired receivable in the amount of \$666, which was net settled through the Amended and Restated Seller Note. As a result, our condensed consolidated balance sheet reflects a reduction in both accounts receivable and the Amended and Restated Seller Note of \$666 as of June 30, 2019. The outstanding principal balance of the Amended and Restated Seller Note as of September 30, 2019 is \$1,637.

The Amended and Restated Seller Note is convertible into shares of our common stock at Seller’s option on or after May 19, 2019, at an initial conversion price of \$8.40 per share, subject to customary equitable adjustments. Conversion of all amounts owing under the Amended and Restated Seller Note will be mandatory if the 30-day volume-weighted average price of our common stock exceeds 200% of the common stock trading price at the closing of the Allure Acquisition. We will grant Seller customary registration rights for the shares of our common stock issuable upon conversion of the Amended and Restated Seller Note.

The Purchase Agreement contemplates additional consideration of \$2,000 to be paid by us to Seller in the event that Allure’s revenue exceeds \$13,000, provided that revenues from one specifically-named customer is capped at 70% of their gross revenue as part of the aggregate revenue calculation, for any of (i) the 12-month period ending December 31, 2019, or (ii) any of the next following trailing 12-month periods ending on each of March 31, June 30, September 30 and December 31, 2020.

See Note 5 to the Condensed Consolidated Financial Statements for further discussion of the Company’s Allure Acquisition.

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

### *1. Basis of Presentation*

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the applicable instructions to Form 10-Q and Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America (“GAAP”) for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2018, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2019.

The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. It is the opinion of management that all necessary adjustments for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein.

### *2. Revenue Recognition*

We recognize revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which we adopted effective January 1, 2018, using the modified retrospective method. See further discussion of the impact of adoption and our revenue recognition policy in Note 4.

### *3. Inventories*

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Raw materials, net of reserve of \$158 and \$207, respectively	\$ 265	\$ 220
Work-in-process	326	159
Total inventories	<u>\$ 591</u>	<u>\$ 379</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. All of the shares reserved for outstanding stock options and warrants totaling approximately 5,021,888 and 1,787,029 at September 30, 2019 and 2018, respectively, were excluded from the computation of income/(loss) per share as they are anti-dilutive. Net income/(loss) attributable to common shareholders for the three months ended September 30, 2019 and 2018 is after dividends on convertible preferred stock of \$0 and \$105, respectively. Net income/(loss) attributable to common shareholders for the nine months ended September 30, 2019 and 2018 is after dividends on convertible preferred stock of \$0 and \$345, respectively.



## *6. Income Taxes*

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in basis of intangibles, stock-based compensation, reserves for uncollectible accounts receivable and inventory, differences in depreciation methods, and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company accounts for uncertain tax positions utilizing an established recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We had no uncertain tax positions as of September 30, 2019 and December 31, 2018.

## *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 a measurement date of September 30. There was no impairment loss recognized on goodwill or definite-lived intangible assets during the nine months ended September 30, 2019 and 2018 (see Note 8).

## *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, recognition of revenue, right-of-use assets and related lease liabilities, deferred taxes, deferred revenue, the fair value of acquired assets and liabilities, valuation of warrants and other stock-based compensation 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. Business Combinations*

Accounting for acquisitions requires us to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations. Refer to Note 5, "Business Combination" for a discussion of the accounting for the Allure Acquisition.

## 10. Leases

On January 1, 2019, we adopted ASU No. 2016-02, *Leases* (Topic 842), as amended, which supersedes the lease accounting guidance under ASC 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use (“ROU”) assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We adopted the new guidance using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating comparative periods. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged. For information regarding the impact of Topic 842 adoption, see Note 17— Leases.

Lease accounting results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under Topic 840.

We elected the package of practical expedients permitted under the transition guidance, which allowed us to carryforward our historical lease classification, our assessment on whether a contract was or contains a lease, and our initial direct costs for any leases that existed prior to January 1, 2019. We also elected to combine our lease and non-lease components. We have no leases with an initial term of 12 months or less.

Upon adoption, we recognized total ROU assets of \$2,319, with corresponding liabilities of \$2,319 on the condensed consolidated balance sheets. This included \$54 of pre-existing finance lease ROU assets previously reported in computer equipment within property and equipment, net. The ROU assets include adjustments for prepayments and accrued lease payments. The net effect of the adoption resulted in an insignificant cumulative effect adjustment to retained earnings on January 1, 2019 but did not impact our prior year consolidated statements of operations, statements of cash flows, or statements of shareholders’ equity.

Under Topic 842, we determine if an arrangement is a lease at inception. ROU assets and liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, we consider only payments that are fixed and determinable at the time of commencement. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our incremental borrowing rate is a hypothetical rate based on our understanding of what our credit rating would be. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options.

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

### **NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

#### *Recently adopted*

On January 1, 2019, we adopted ASU No. 2016-02, *Leases* (Topic 842), as amended. For information regarding the impact of Topic 842 adoption, see Note 2 – Summary of Significant Accounting Policies and Note 17— Leases.

On January 1, 2019, we adopted ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting* (Topic 718) to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The new guidance expanded the scope of ASC 718 to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in an entity's own operations. The adoption had no impact to the Company's consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-16 ("ASU 2018-16"), *Derivatives and Hedging*. ASU 2018-16 expands the permissible benchmark interest rates to include the Secured Overnight Financing Rate (SOFR) to be eligible as a U.S. benchmark interest rate for purposes of applying hedge accounting under Topic 815, *Derivatives and Hedging*. The Company adopted this ASU effective January 1, 2019 on a prospective basis for qualifying or redesignated hedging relationships entered on or after the date of adoption. As we previously adopted the amendments in Update 2017-12, and as the benchmark rate on our term loan debt does not utilize the SOFR, the adoption of this amendment had no effect on the Company's results of operations, financial position and cash flows.

On January 1, 2019, we adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, which amended certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. We have updated our Condensed Consolidated Financial Statements to include a reconciliation of the beginning balance to the ending balance of stockholders' equity for each period for which a statement of comprehensive income is filed.

On January 1, 2019, we adopted ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* which aimed to address concerns over the cost and complexity of the two-step goodwill impairment test by removing the second step of the test. Prior to adoption, an entity was required to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compared the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performed Step 2 by comparing the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. As a result of adoption, in completing our annual impairment testing of goodwill as of September 30, 2019, we applied a one-step quantitative test and would have recorded the amount of goodwill impairment, if any, as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. There was no impact on our condensed consolidated financial statements as the result of adoption.

#### *Not yet adopted*

In August 2018, the FASB issued ASU 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. The amendments in this update provide guidance on evaluating the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments in this ASU is permitted, including adoption in any interim period, for all entities. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This standard modifies the disclosure requirements for fair value measurements by removing the requirements to disclose: (i) amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) timing of recognizing transfers between levels within the fair value hierarchy; and (iii) valuation processes used for Level 3 fair value measurements. Additionally, the standard now requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of each reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. An entity is permitted to early adopt all of the disclosure changes or early adopt only the removed disclosure requirements and delay adoption of the additional disclosures until the effective date of this amendment. We are currently evaluating the disclosure requirements related to adopting this guidance.

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

#### **NOTE 4: REVENUE RECOGNITION**

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts not completed as of the date of adoption. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. Under this method, we concluded that the cumulative effect of applying this guidance was not material to the financial statements and no adjustment to the opening balance of accumulated deficit was required on the adoption date.

Under ASC 606, the Company accounts 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, the Company satisfies the performance obligations

The Company combines contracts with the same customer into a single contract for accounting purposes when the contracts are entered into at or near the same time and the contracts are negotiated as a single commercial package, consideration in one contract depends on the other contract, or the services are considered a single performance obligation. 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.

As discussed in more detail below, 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. Observable prices are used to determine the standalone selling price of separate performance obligations or a cost plus margin approach when one is not available. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

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

Deferred contract acquisition costs were evaluated for inclusion in other assets; however, the Company elected to use the practical expedient for recording an immediate expense for those 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.

The Company 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’s 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 typically generate revenue through the following sources:

- Hardware:
  - System hardware sales – displays, computers and peripherals
- Services and Other:
  - Professional implementation and installation services
  - Software design and development services
  - Software as a service, including content management
  - Maintenance and support services

The following table disaggregates the Company’s revenue by major source for the three and nine months ended September 30, 2019:

<i>(in thousands)</i>	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2019</b>
Hardware	\$ 2,034	\$ 5,329
Services:		
Installation Services	2,143	6,306
Software Development Services	695	8,930
Managed Services	1,851	4,956
<b>Total Services</b>	<b>4,689</b>	<b>20,192</b>
<b>Total Hardware and Services</b>	<b>\$ 6,723</b>	<b>\$ 25,521</b>

*System hardware sales*

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

### *Installation services*

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

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

The aggregate amount of the transaction price allocated to installation service performance obligations that are partially unsatisfied as of September 30, 2019 were \$1,428. We expect to recognize \$1,428 during the three months ended December 31, 2019.

### *Software design and development services*

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

### *Software as a service*

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

### *Maintenance and support services*

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

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

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

In addition to changes in the timing of when we record variable consideration, ASC 606 provided clarification about the classification of certain costs relating to revenue arrangements with customers. As a result of our analysis, we did not identify any components of our revenue transactions which required reclassification between gross and net presentation.

**NOTE 5: BUSINESS COMBINATION**

On November 20, 2018, the Company completed the Allure Acquisition. Pursuant to the Purchase Agreement, the total purchase price was \$8,450, which was primarily funded using cash from the Company’s public offering closed on November 19, 2018.

On May 10, 2019, the Company entered a settlement agreement with Seller finalizing the opening balance sheet net working capital in accordance with the Purchase Agreement. The reconciliation of final net working capital compared to the estimated net working capital at the date of the acquisition resulted in a final net working capital below the estimated net working capital by \$398. The \$398 net working capital deficit was settled via cash payment from Seller to the Company in the amount of \$210, net of past due interest on the Amended and Restated Seller Note of \$20 and \$168 collected by the Company on certain acquired accounts receivable which, in accordance with the Purchase Agreement, were required to be utilized to pay down the Amended and Restated Seller Note. The preliminary purchase price and related allocation of the purchase price has been updated to reflect the cash settlement. The difference between the total purchase price and the net consideration transferred is driven by the cash acquired in the acquisition. The purchase price allocation remains preliminary as of September 30, 2019 as the Company continues to evaluate certain acquired assets and liabilities.

The revised preliminary purchase price of Allure consisted of the following items:

<b><i>(in thousands)</i></b>	<b>Consideration</b>
Cash consideration for stock	\$ 5,902 <sup>(1)</sup>
Payable to former Allure management	1,021 <sup>(2)</sup>
Seller note payable	900 <sup>(3)</sup>
Earnout liability	250 <sup>(4)</sup>
<b>Total consideration</b>	<b>8,073</b>
Cash acquired	(26) <sup>(5)</sup>
<b>Net consideration transferred</b>	<b>\$ 8,047</b>

- (1) Cash consideration for outstanding shares of Allure common stock per the Purchase Agreement, after the net adjustment upon finalizing the net working capital settlement on May 10, 2019.
- (2) Represents a payable due to two former members of the Allure management team for a total of \$1,250 as a result of the acquisition: 30% due in November 2018 and 70% due in November 2019. The fair value of the payable as of the acquisition date was deemed to be \$1,021.
- (3) Represents a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated for this amount through the Purchase Agreement. At the closing date, the estimated net working capital deficit of Allure was \$801 in excess of the target net working capital as defined in the stock purchase agreement. As of the acquisition date, Allure also had accounts payable to Seller for outsourced services of \$2,204. We agreed with Seller to net cash settle the estimated net working capital deficit through a reduction in the accounts payable to Seller as of the acquisition date and to further amend the Seller Note to include the remaining \$1,403 accounts payable due from Allure to Seller. The Seller Note (as amended and restated below, the “Amended and Restated Seller Note”) thereby increased from \$900 per the Purchase Agreement to \$2,303 at the opening balance sheet. The Amended and Restated Seller Note accrues interest at 3.5% per annum and requires us to make quarterly payments of interest only through February 19, 2020, on which date the Amended and Restated Seller Note will mature and all remaining amounts owing thereunder will be due. We are able to prepay the Amended and Restated Seller Note in whole or in part, without penalty, at our option, at any time and from time to time.

On May 10, 2019, we reached a settlement agreement with Seller on, among other things, the final net working capital as of the acquisition date resulting in (i) a payment to us from Seller in the amount of \$210 and (ii) a reduction of the amount due under the Amended and Restated Seller Note of \$168 of cash collected by the Company which had been previously designated for payment on the Amended and Restated Seller Note but was not ultimately remitted to Seller and (b) \$20 of unpaid accrued interest. In addition to this net working capital settlement, Seller accepted collection risk for one acquired receivable in the amount of \$666, which was net settled through the Amended and Restated Seller Note. As a result, our condensed consolidated balance sheet reflects a reduction in both accounts receivable and the Amended and Restated Seller Note of \$666 as of June 30, 2019. The outstanding principal balance of the Amended and Restated Seller Note as of September 30, 2019 is \$1,637.

- (4) The Purchase Agreement contemplates additional consideration of \$2,000 to be paid by us to Seller in the event that Allure's revenue exceeds \$13,000, as further described in the Purchase Agreement. The fair value of the earnout liability was determined to be \$250 at the time of acquisition.
- (5) Represents the Allure cash balance acquired at acquisition.

The Company accounted for the Allure Acquisition using the acquisition method of accounting. The revised preliminary allocation of the purchase price is based on estimates of the fair value of assets acquired and liabilities assumed as of November 20, 2018. The Company is continuing to obtain information to determine the acquired assets and liabilities, including tax assets, liabilities and other attributes. The components of the preliminary purchase price allocation are as follows:

<i>(in thousands)</i>	<b>Total</b>
Accounts receivable	\$ 1,512
Unbilled receivables	221
Inventory	142
Prepaid expenses & other current assets	18
Property and equipment	177
Other assets	7
Identified intangible assets:	
Definite-lived trade names	340
Developed technology	1,770
Customer relationships	2,870
Goodwill	3,276
Accounts payable	(331)
Accrued expenses	(447)
Customer deposits	(494)
Deferred revenues	(276)
Accounts payable converted into Seller Note	(738)
Net consideration transferred	<u>\$ 8,047</u>

The preliminary fair value of the customer relationship intangible asset has been estimated using the income approach through a discounted cash flow analysis with the cash flow projections discounted using a rate of 26.0%. The cash flows are based on estimates used to price the Allure Acquisition, and the discount rates applied were benchmarked with reference to the implied rate of return from the Company's pricing model and the weighted average cost of capital.

The definite-lived trade name represents the Allure brand name as marketed primarily in the sports & entertainment, large venue and quick service restaurant verticals of the digital signage industry. The Company applied the income approach through an excess earnings analysis to determine the preliminary fair value of the trade name asset. The Company identified this asset as definite-lived as opposed to indefinite-lived as the Company plans to utilize the Allure trade name as a product name as opposed to go-to-market company name. The Company applied the income approach through a relief-from-royalty analysis to determine the preliminary fair value of this asset.



The developed technology assets are primarily comprised of know-how and functionality embedded in Allure's proprietary content management application which drives currently marketed products and services. The Company applied the income approach through a relief-from-royalty analysis to determine the preliminary fair value of this asset.

The Company is amortizing the identifiable intangible assets on a straight-line basis over the weighted average lives ranging from 5 to 15 years.

The table below sets forth the preliminary valuation and amortization period of identifiable intangible assets:

<i>(in thousands)</i>	<b>Preliminary Valuation</b>	<b>Amortization Period</b>
Identifiable intangible assets:		
Definite-lived trade names	\$ 340	5 years
Developed technology	1,770	7 years
Customer relationships	2,870	15 years
Total	<u>\$ 4,980</u>	

The Company estimated the preliminary fair value of the acquired property, plant and equipment using a combination of the cost and market approaches, depending on the component. The preliminary fair value of property, plant and equipment is \$177.

The excess of the purchase price over the preliminary estimated fair value of the tangible net assets and identifiable intangible assets acquired was recorded as goodwill and is subject to change upon final valuation. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Allure Acquisition. These benefits include a comprehensive portfolio of iconic customer brands, complementary product offerings, enhanced national footprint, and attractive synergy opportunities and value creation. None of the goodwill is expected to be deductible for income tax purposes.

The following unaudited pro forma information for the nine months ended September 30, 2018 presents the combined financial results for the Company and Allure, adjusted for Allure's fiscal year ended March 31, as if the Allure Acquisition had been completed January 1, 2017. Prior to the Allure Acquisition, Allure had a fiscal year reporting from April 1 to March 31 annually. The pro forma financial information set forth below for the nine months ended September 30, 2018 includes Allure's pro forma information for the nine month period January 1, 2018 through September 30, 2018. The unaudited information set forth below for the nine months ended September 30, 2019 represents the Company's consolidated results for that period.

<i>(in thousands, except earnings per common share)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(unaudited)</b>	
Net sales	\$ 25,521	\$ 25,306
Net income/(loss)	\$ 475	\$ (3,865)
Earnings/(loss) per common share	\$ 0.05	\$ (0.41)

**NOTE 6: FAIR VALUE MEASUREMENT**

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

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

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

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

The Company previously recorded warrant liabilities that were measured at fair value on a recurring basis using a binomial option pricing model. The warrant liabilities were classified as Level 3 and were determined to have a fair value of \$21 as of December 31, 2018. The warrant liabilities had been previously decreased to \$0 as of June 30, 2019. All of the Company's outstanding warrants classified as liabilities expired during the three months ended September 30, 2019.

As part of the Allure Acquisition, the Purchase Agreement contemplated additional consideration of \$2,000 to be paid by us to Seller in the event that acquiree revenue exceeds \$13,000, as defined in the underlying agreement, for any of the trailing twelve-month periods measured as of December 31, 2019, March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020. The fair value of the earnout liability was determined to be \$250 at the time of acquisition. There were no changes to the assumptions nor adjustments recorded to the fair value of the earnout liability as of September 30, 2019 given limited passage of time in the measurement period and performance in-line with those estimates utilized in developing the initial estimate. The liability is deemed to be Level 3 as the valuation is based on revenue projections and estimates developed by management as informed by historical results.

**NOTE 7: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION**

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Supplemental non-cash Investing and Financing Activities</b>		
Issuance of common stock upon conversion of preferred stock	\$ -	\$ 125
Issuance of warrants with term loan extensions / revolver draws	\$ -	\$ 809
<b>Supplemental disclosure information for cash flow</b>		
Cash paid during the period for:		
Interest	\$ 108	\$ 136
Income taxes, net	\$ 15	\$ 24

**NOTE 8: INTANGIBLE ASSETS AND GOODWILL***Intangible Assets*

Intangible assets consisted of the following at September 30, 2019 and December 31, 2018:

	<b>September 30, 2019</b>		<b>December 31, 2018</b>	
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
Technology platform	\$ 4,635	3,084	\$ 4,635	2,895
Customer relationships	5,330	2,631	5,330	2,477
Trademarks and trade names	1,020	660	1,020	553
	<u>10,985</u>	<u>6,375</u>	<u>10,985</u>	<u>5,925</u>
Accumulated amortization	6,375		5,925	
Net book value of amortizable intangible assets	<u>\$ 4,610</u>		<u>\$ 5,060</u>	

For the three months ended September 30, 2019 and 2018, amortization of intangible assets charged to operations was \$147 and \$232, respectively. For the nine months ended September 30, 2019 and 2018 amortization of intangible assets charged to operations was \$451 and \$696, respectively.

*Goodwill*

The following is a rollforward of the Company's goodwill since December 31, 2018:

	<b>Total</b>
<b>Balance as of January 1, 2019</b>	<u>\$ 18,900</u>
Adjustments due to adjustments to preliminary purchase price allocation (Note 5)	(635)
<b>Balance as of September 30, 2019</b>	<u>\$ 18,265</u>

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

On January 1, 2019, we adopted ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* which aimed to address concerns over the cost and complexity of the two-step goodwill impairment test by removing the second step of the test. The Company performed its annual goodwill impairment test at September 30, 2019.

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, 2019.

The Company recognizes that any changes in our actual fourth quarter 2019 or projected 2020 results could potentially have a material impact on our assessment of goodwill impairment. The Company will continue to monitor the actual performance of its operations against expectations and assess indicators of possible impairment. The valuation of goodwill and intangible assets is subject to a high degree of judgment, uncertainty and complexity. Should any indicators of impairment occur in subsequent periods, the Company will be required to perform an analysis in order to determine whether goodwill is impaired.

**NOTE 9: LOANS PAYABLE**

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

<b>Debt Type</b>	<b>Issuance Date</b>	<b>Principal</b>	<b>Maturity Date</b>	<b>Warrants</b>	<b>Interest Rate Information</b>
A	6/30/2018	\$ 264	6/30/2021	-	0.0% interest <sup>(1)</sup>
B	1/16/2018	1,000	6/30/2021	61,729	10.0% interest <sup>(2)</sup>
C	8/17/2016	3,000	6/30/2021	588,236	10.0% interest <sup>(2)</sup>
D	11/19/2018	1,637	2/15/2020	-	3.5% interest <sup>(3)</sup>
		<u>\$ 5,901</u>		<u>649,965</u>	
	Debt discount	(612)			
	Total debt	\$ 5,289			
	Less current maturities	(1,637)			
	Long term debt	<u>\$ 3,652</u>			

A – Secured Disbursed Escrow Promissory Note with related party

B – Revolving Loan with related party

C – Term Loan with related party

D – Amended and Restated Seller Note from the Allure Acquisition

(1) 0.0% interest per annum when total borrowings under the term and revolver loans, in aggregate, are below \$4,000 in principal (disregarding paid-in-kind (“PIK”) interest); 10.0% cash, when total borrowing under the term and revolver loans, in aggregate, exceed \$4,000 in principal (disregarding PIK interest)

(2) 10.0% cash interest per annum when total borrowings under the term and revolver loans, in aggregate, are below \$4,000 in principal (disregarding PIK interest); 10.0% cash, 2.0% PIK when total borrowing under the term and revolver loans, in aggregate, exceed \$4,000 in principal (disregarding PIK interest).

(3) 3.5% simple cash interest per annum; interest payable quarterly with the first payment due on December 31, 2018 with payments of accrued interest continuing quarterly thereafter until the maturity date of February 20, 2020.

The foregoing obligations are secured by all of the tangible assets of the co-makers pursuant to the terms of an amended and restated security agreement.

### ***Term Notes and Secured Disbursed Escrow Promissory Note***

On August 17, 2016, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Slipstream Communications, LLC, an Anguillan limited liability company (“Slipstream”), and obtained a \$3.0 million term loan (the “Term Loan”), with interest thereon at 8% per annum. The Term Loan 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).

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream and obtained a \$1.0 million revolving loan (the “Revolving Loan”), with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the Revolving Loan, we issued Slipstream a five-year warrant to purchase up to 61,729 shares of Creative Realities’ common stock at a per share price of \$8.10 (subject to adjustment and subsequently adjusted to \$8.09 in April 2018). The fair value of the warrants was \$266, which was accounted for as an additional debt discount and is being amortized over the remaining life of the Revolving Loan.

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream, under which we obtained a \$1.1 million Revolving Loan, with interest thereon at 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan (excluding the additional principal added pursuant to this proviso) exceeds \$4,000 then interest rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional principal of the Term Loan (“PIK”); provided, further, no interest accrues on any portion of the outstanding Disbursed Escrow Loan. The Revolving Loan was originally set to mature on January 16, 2019, which was amended to August 16, 2020 in conjunction with the Fifth Amendment to the Loan and Security Agreement. In connection with the Revolving Loan, we issued the lender a five-year warrant to purchase up to 143,791 shares of Creative Realities’ common stock at a per share price of \$7.65 (subject to adjustment). The fair value of the warrants was \$543, which was accounted for as an additional debt discount and is being amortized over the remaining life of the Revolving Loan.

The Fourth Amendment also included our issuance to Slipstream a Secured Disbursed Escrow Promissory Note (the “Disbursed Escrow Note”), and, effective June 30, 2018 we drew \$264 thereon in conjunction with our exit from a previously leased operating facility. The principal amount of the Disbursed Escrow Note bears simple interest at the 8%; provided, that the Disbursed Escrow Note accrues no interest when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan (excluding the additional principal added pursuant to this proviso) is at or below \$4,000.

On November 19, 2018, we used proceeds from our public offering to repay Slipstream \$1,283, inclusive of \$125 of accrued interest, to reduce borrowings under the Loan Agreement to an aggregate of \$4,264, comprised of \$3,000 Term Loan, \$1,000 Revolving Loan and \$264 Disbursed Escrow Note. The condensed consolidated balance sheet includes \$33 of accrued interest as of September 30, 2019 representing one month’s interest at 8.0% on the \$4,000 outstanding balance.

On November 9, 2018, Slipstream extended the maturity date of the Term Loan and Revolver Loan to August 16, 2020 through the Fifth Amendment to the Loan and Security Agreement. Our current intent is to refinance our Term Loan with an unrelated third party during 2019. In conjunction with the extension of the maturity date of our Term Loan, the cash portion of the interest rate increased from 8.0% per annum to 10.0% per annum effective July 1, 2019.

On November 6, 2019, Slipstream extended the maturity date of the Term Loan and Revolver Loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning their maturity date with that of the Disbursed Escrow Note.

See Note 14 for the Black Scholes inputs used to calculate the fair value of the warrants.

### ***Convertible Promissory Notes***

On October 29, 2018, Slipstream, the holder of convertible promissory notes, agreed to convert \$4,955 of outstanding principal, including paid-in-kind interest and all accrued interest thereon into shares of our common stock and warrants at a conversion price equal to the lower of \$7.65, or 80% of the price at which shares of common stock were sold in the Public Offering. The conversion was contingent upon (i) the conversion of the Company's Series A Preferred Stock, and (ii) the successful completion of a Public Offering of at least \$10 million, each of which were successfully completed on November 19, 2018. In exchange for participation in the Public Offering, subject to a minimum participation requirement as agreed between the underwriters and the Company, and Slipstream's execution of a lock-up agreement, Slipstream received, as a one-time incentive, additional common stock and warrants in such number that decreased the effective conversion price of the convertible notes to 70% of the lowest of those scenarios outlined above. Upon completion of the Company's Public Offering on November 19, 2018, the convertible promissory notes were converted into shares of the Company's common stock. The Company issued 653,062 shares of common stock at the stated conversion rate and an additional 1,386,090 shares of common stock in exchange for conversion of the convertible promissory notes as a result of the one-time incentive. The lock-up agreement applied to all shares of common stock and warrants issued to Slipstream.

### ***Amended and Restated Seller Note from the Allure Acquisition***

The Amended and Restated Seller Note represents a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated through the Purchase Agreement as part of the Allure Acquisition. The Amended and Restated Seller Note accrues interest at 3.5% per annum and requires us to make quarterly payments of interest only through February 19, 2020, on which date the Amended and Restated Seller Note will mature and all remaining amounts owing thereunder will be due. The condensed consolidated balance sheet includes \$14 of accrued interest as of September 30, 2019 representing all interest accrued under the Amended and Restated Seller Note since close of the Allure Acquisition. We are able to prepay in whole or in part amounts owing under the Amended and Restated Seller Note, without penalty, at our option, at any time and from time to time.

The Amended and Restated Seller Note is convertible into shares of Creative Realities common stock, at Seller's option on or after May 19, 2019, at an initial conversion price of \$8.40 per share, subject to customary equitable adjustments. Conversion of all amounts owing under the Amended and Restated Seller Note will be mandatory if the 30-day volume-weighted average price of our common stock exceeds 200% of the common stock trading price at the closing of the acquisition. We granted Seller customary registration rights for the shares of our common stock issuable upon conversion of the promissory note.

## **NOTE 10: COMMITMENTS AND CONTINGENCIES**

### *Lease termination*

On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004 which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we recorded a one-time non-cash charge of \$474 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income. Effective June 30, 2018, we entered into a settlement agreement to exit this lease agreement, resulting in the Company recording a gain on settlement of \$39 in the three months ended June 30, 2018.

### *Settlement of obligations*

During the three and nine months ended September 30, 2019, through settlements of liabilities no longer deemed valid, the Company wrote off obligations and recognized a gain of \$406 and \$419, respectively. During the three and nine months ended September 30, 2018, the Company wrote off obligations and recognized a gain of \$169 and \$208, respectively.

### *Litigation*

(a) 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 is in the early stages of litigation 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. As of the date of this filing, no formal legal action had been taken by the customer against the Company and, as a result, the outcome of this matter is unclear, so the Company is unable to reasonably estimate the possible loss, or range of loss, if any.

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

(b) The Company is involved in various other legal and administrative proceedings incidental to the operations of its business. The Company believes that the outcome of all such other pending proceedings in the aggregate will not have a material adverse effect on its business, financial condition, liquidity, or operating results.

### *Termination benefits*

On December 21, 2018, the Company announced certain restructuring activities following completion of its acquisition of Allure and accrued one-time termination benefits related to severance to the affected employees of \$386, \$31 of which was paid prior to the year-end date. During the three and nine months ended September 30, 2019, cash payments for termination benefits of \$84 and \$295 were paid and a liability of \$60 remains included in accrued expenses on the condensed consolidated balance sheet.

## **NOTE 11: RELATED PARTY TRANSACTIONS**

In addition to the financing transactions with Slipstream, a related party, discussed in Note 9, we have the following related party transactions.

On August 14, 2018, we entered into a payment agreement with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees"), outlining terms for repayment of \$2,567 of aged accounts receivable as of that date. The payment agreement stipulates a simple interest rate of 12% on aged accounts receivable to be paid on the tenth day of each month through the maturity date of December 31, 2019. Remaining payments due under the agreement as of September 30, 2019 were \$417, \$300 of which has been paid subsequent to the reporting date as of the date of this filing. Remaining payments of \$117 are to be paid on December 1, 2019. All amounts under this note are included in accounts receivable in current assets, as all amounts are expected to be collected within one year of the balance sheet date. Since inception of this agreement up to and through the filing date, all payments due under this agreement have been received from 33 Degrees timely, including monthly interest payments and payments for ongoing services.

Since the Company entered into the payment agreement with 33 Degrees, 33 Degrees has continued to purchase additional hardware and services from the Company, on a prepaid basis, in addition to making payments under the payment agreement. On March 12, 2019, the Company entered into a security agreement and promissory note with 33 Degrees Menu Services, LLC, a subsidiary of 33 Degrees, providing a line of credit of \$300 for hardware, installation and SaaS services. Under the agreement, product will be shipped and installed by the Company upon evidence of a valid purchase order from the ultimate payer being provided as collateral.

For the three and nine months ended September 30, 2019, the Company had sales to 33 Degrees of \$279, or 4.2%, and \$750, or 2.9%, respectively, of consolidated revenue. For the three and nine months ended September 30, 2018, the Company had sales to 33 Degrees of \$235, or 3.9%, and \$1,265, or 7.3%, respectively, of consolidated revenue.

Accounts receivable due from 33 Degrees was \$517, or 9.1%, and \$1,933, or 30.0% of consolidated accounts receivable at September 30, 2019 and December 31, 2018, respectively.

On November 6, 2019, Slipstream extended the maturity date of the Term Loan and Revolving Loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of such loans with the maturity date of the Disbursed Escrow Note. See Note 9 for additional information regarding the loans.



**NOTE 12: INCOME TAXES**

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

For the three and nine months ended September 30, 2019, we reported a tax expense/(benefit) of \$51 and (\$35), respectively. The net deferred tax liability at September 30, 2019 of \$99 represents the liability relating to indefinite lived assets. This indefinite lived deferred tax liability may be considered a source of taxable income and reduced by certain indefinite lived deferred tax assets that will never expire, subject to statutory limitations.

**NOTE 13: CONVERTIBLE PREFERRED STOCK**

Our Series A Convertible Preferred Stock (the “preferred stock”) entitled its holders to a 6% dividend, payable semi-annually in cash or in kind through the three-year anniversary of the original issue date, and from and after such three-year anniversary, payable in shares of common stock. The three-year anniversary of the initial investment date occurred during the second half of 2017 for \$5,200 and the first quarter of 2018 for the remaining \$300 originally issued preferred stock and therefore dividends on those investments will be paid via issuance of common shares at all future dividend dates.

On November 5, 2018, the shareholders of preferred stock agreed to convert the entire class of preferred stock into common stock at an exchange ratio of \$7.65 per share. The conversion was contingent upon a successful Public Offering of at least \$10 million, which the Company completed on November 19, 2018.

Holders of preferred stock received common stock at the stated conversion rate of \$7.65 per share, or 723,561 shares of common stock. Those holders of preferred stock who executed a customary lock-up agreement for a period continuing for 90 days after the consummation of the public offering were issued, as a one-time incentive, additional common stock and warrants, in such number as defined in underlying agreements. The Company issued an additional 1,123,367 shares of common stock in exchange for execution of such lock-up agreements. The lock-up agreements applied to all shares of common stock issued to convert the holder’s preferred stock, and the additional shares of common stock and warrants, and underlying warrant shares, issued by the Company in exchange for the holder’s execution of the lock-up agreement and participation in the public offering. As a result of this conversion, there remained no Series A Preferred Stock outstanding as of December 31, 2018.

During the three and nine months ended September 30, 2018, accredited investors converted 124,985 shares of preferred stock for 16,339 shares of common stock.

**NOTE 14: WARRANTS**

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream, under which we issued the lender a five-year warrant to purchase up to 143,791 shares of Creative Realities' common stock at a per share price of \$7.65 (subject to adjustment and subsequently adjusted to \$6.25 in November 2018). The fair value of the warrants was \$543, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream, under which we issued the lender a five-year warrant to purchase up to 61,729 shares of Creative Realities' common stock at a per share price of \$8.10 (subject to adjustment and subsequently adjusted to \$6.09 in November 2018). The fair value of the warrants on the issuance date was \$266, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

Listed below are the inputs used for the probability weighted Black Scholes option pricing model valuation for warrants issued during the nine months ended September 30, 2019 and 2018.

<b>Issuance Date</b>	<b>Expected Term at Issuance Date</b>	<b>Risk Free Interest Rate at Date of Issuance</b>	<b>Volatility at Date of Issuance</b>	<b>Stock Price at Date of Issuance</b>
1/16/2018	5.00	2.36%	65.07%	\$ 7.80
4/27/2018	5.00	2.80%	65.95%	\$ 6.90

A summary of outstanding liability and equity warrants is included below:

	<u>Warrants (Equity)</u>		<u>Weighted Average Remaining Contractual Life</u>	<u>Warrants (Liability)</u>		<u>Weighted Average Remaining Contractual Life</u>
	<u>Amount</u>	<u>Weighted Average Exercise Price</u>		<u>Amount</u>	<u>Weighted Average Exercise Price</u>	
Balance January 1, 2019	4,815,047	\$ 4.90	4.34	216,255	\$ 7.34	0.64
Warrants issued	-	-	-	-	-	-
Warrants expired	(82,019)	8.25	-	(216,255)	7.34	-
Balance September 30, 2019	<u>4,733,028</u>	<u>\$ 4.84</u>	<u>3.66</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

**NOTE 15: STOCK-BASED COMPENSATION**

A summary of outstanding options is included below:

<u>Range of Exercise Prices between</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$5.40 - \$19.50	287,341	6.29	\$ 8.35	238,381	\$ 8.53
\$19.51 - \$23.70	1,000	4.29	23.70	1,000	\$ 23.70
\$23.71 - \$367.50	519	2.83	112.30	519	\$ 112.30
	<u>288,860</u>	<u>6.27</u>	<u>\$ 8.59</u>	<u>239,900</u>	
				<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2018				288,860	\$ 8.59
Granted				-	-
Exercised				-	-
Forfeited or expired				-	-
Balance, September 30, 2019				<u>288,860</u>	<u>\$ 8.59</u>

The weighted average remaining contractual life for options exercisable is 5.88 years as of September 30, 2019.

**Stock Compensation Expense Information**

ASC 718-10, *Stock Compensation*, requires measurement and recognition of compensation expense for all stock-based payments including warrants, stock options, restricted stock grants and stock bonuses based on estimated fair values. Under the Amended and Restated 2006 Equity Incentive Plan, the Company reserved 1,720,000 shares for purchase by the Company's employees and under the Amended and Restated 2006 Non-Employee Director Stock Option Plan the Company reserved 700,000 shares for purchase by the Company's employees. There are 12,186 options outstanding under the 2006 Equity Incentive Plan.

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. There are 276,674 options outstanding under the 2014 Stock Incentive Plan.

Compensation expense recognized for the issuance of both stock options to employees and common stock to directors for the three and nine months ended September 30, 2019 and 2018 was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Stock-based compensation costs included in:</b>				
Costs of sales	\$ -	\$ 6	\$ -	\$ -
Sales and marketing expense	-	(16)	-	-
General and administrative expense	62	1,109	395	1,276
Total stock-based compensation expense	<u>\$ 62</u>	<u>\$ 1,099</u>	<u>\$ 395</u>	<u>\$ 177</u>

At September 30, 2019, there was approximately \$166 of total unrecognized compensation expense related to unvested share-based awards. Generally, this expense will be recognized over the next three years and will be adjusted for any future forfeitures as they occur.

Stock-based compensation expense is based on awards ultimately expected to vest. ASC 718-10-55 allows companies to either estimate forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates or elect to account for forfeitures as they occur by reversing compensation cost when the award is forfeited. Our accounting policy is to account for forfeitures as they occur by reversing compensation cost in the period in which forfeitures occur.

On September 20, 2018, the Compensation Committee of the Board of Directors proposed, and the Board of Directors approved, an aggregate award of 166,667 shares of common stock to our current CEO in light of performance and growth of certain key customer relationships. Of those shares granted, 133,334 were deemed to be awarded and fully vested as of such date, with the remaining 33,333 shares restricted to vest upon the Company's recognition in accordance with GAAP of approximately \$6,200 of revenue which is deferred on the Company's balance sheet. During the three-months ended September 30, 2018, the Company recorded compensation expense for those vested awards based on the grant-date close price of the Company's common stock, or \$7.50, resulting in a non-cash compensation expense in the period of \$1,000. During the three months ended June 30, 2019, the conditions were met for those remaining shares to vest. During the three-months ended June 30, 2019, the Company recorded compensation expense for those vested awards based on the grant-date close price of the Company's common stock, or \$7.50, resulting in a non-cash compensation expense in the period of \$250.

**NOTE 16: SIGNIFICANT CUSTOMERS**

*Major Customers*

We had 1 and 3 customers that in the aggregate accounted for 11% and 40% of accounts receivable as of September 30, 2019 and December 31, 2018, respectively, which includes transactions with 33 Degrees for both periods.

We had 1 and 2 customers that accounted for 13% and 56% of revenue for the three months ended September 30, 2019 and 2018, respectively. We had 1 and 2 customers that accounted for 23% and 56% of revenue for the nine months ended September 30, 2019 and 2018, respectively.

**NOTE 17: 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 2019 and 2023. Many leases include one or more options to renew. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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

<i>(in thousands)</i>	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Finance lease cost		
Amortization of right-of-use assets	\$ 8	\$ 25
Interest	1	4
Operating lease cost	172	565
Total lease cost	<u>\$ 181</u>	<u>\$ 594</u>
Weighted Average Remaining Lease Term		
Operating leases		3.6 years
Finance leases		1.2 years
Weighted Average Discount Rate		
Operating leases		10.0%
Finance leases		13.5%

The following is a schedule, by years, of maturities of lease liabilities as of September 30, 2019:

<i>(in thousands)</i>	Operating Leases	Finance Leases
The remainder of 2019	\$ 168	\$ 8
2020	681	22
2021	630	3
2022	377	-
2023	375	-
Thereafter	-	-
Total undiscounted cash flows	2,231	33
Less imputed interest	(363)	\$ (3)
Present value of lease liabilities	<u>\$ 1,868</u>	<u>\$ 30</u>

Supplemental cash flow information related to leases are as follows:

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 551
Operating cash flows from finance leases	\$ 1
Financing cash flows from finance leases	\$ 23

## **NOTE 18: SUBSEQUENT EVENTS**

### *Extension of Maturity Date of Debt*

On November 6, 2019, Slipstream extended the maturity date of our Term Loan and Second Revolver Loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of those loans with that of the Disbursed Escrow Note.

### *Director Resignation; Election of Successor*

Effective November 8, 2019, Alec Machiels is resigning as a member of the Company's Board of Directors (the "Board") and Chairman of the Board. The Board elected Dennis McGill as Mr. Machiels' successor, effective November 8, 2019. The Board elected Mr. McGill to serve as the Company's Chairman of the Board.

### *Consulting Agreement*

On November 7, 2019, the Company and Dennis McGill executed a Consulting Agreement (the "Consulting Agreement"). The term of the Consulting Agreement is one year, and it automatically renews for successive one-year periods. Either party may terminate the Consulting Agreement at any time upon 30 days' written notice. Under the Consulting Agreement, Mr. McGill will receive compensation of \$5,000 per month in cash in exchange for general business and strategy consulting services to the Company.

### *Option Agreement*

On November 7, 2019, the Company and Mr. McGill also executed an Option Agreement (the "Option Agreement"). Under the Option Agreement, Mr. McGill has the option to purchase 25,000 shares of the Company's common stock under the Company's 2014 Stock Incentive Plan. The options have an exercise price of \$1.88 per share, which was the closing price of the Company's common stock as reported on Nasdaq on the date prior to the date of the Option Agreement. The options vest in three equal annual installments beginning on the one-year anniversary of the date of the Option Agreement, provided that Mr. McGill must continue to serve as a director of the Company.

### *Executive Bonus*

On November 6, 2019, the Board approved payment of a \$150 cash bonus to Richard Mills, the Company's Chief Executive Officer, for his significant contributions to the Company's performance in 2018.

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

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words “anticipates,” “believes,” “expects,” “intends,” “plans,” “estimates” and similar expressions, as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause actual results to differ materially from those anticipated, certain of which are beyond our control, are set forth under the caption “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on March 28, 2019.

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

### Overview

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

Our main operations are conducted directly through Creative Realities, Inc. and our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation, Creative Realities Canada, Inc., a Canadian corporation, and ConeXus World Global, LLC, a Kentucky limited liability company. Our other wholly owned subsidiary Creative Realities, LLC, a Delaware limited liability company, has been effectively dormant since October 2015, the date of the merger with ConeXus World Global, LLC.

We generate revenue in our business by:

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

These activities generate revenue through: bundled-solution sales; consulting services, experience design, content development and production, software development, engineering, implementation, and field services; software license fees; and maintenance and support services related to our software, managed systems and solutions.

### **Our Sources of Revenue**

We generate revenue through digital marketing solution sales, which include system hardware, professional and implementation services, software design and development, software licensing, deployment, and maintenance and support services.

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

### **Our Expenses**

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

### **Critical Accounting Policies and Estimates**

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



## Results of Operations

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

### Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

The tables presented below compare our results of operations and present the results for each period and the change in those results from one period to another in both dollars and percentage change. The Company acquired Allure Global Solutions, Inc. effective November 2018.

	For the three months ended		Change	
	September 30,		Dollars	%
	2019	2018		
Sales	\$ 6,723	\$ 6,001	\$ 722	12%
Cost of sales	3,417	2,260	1,157	51%
Gross profit	3,306	3,741	(435)	-12%
Sales and marketing expenses	523	425	98	23%
Research and development expenses	306	261	45	17%
General and administrative expenses	2,113	3,233	(1,120)	-35%
Depreciation and amortization expense	278	330	(52)	-16%
Total operating expenses	3,220	4,249	(1,029)	-24%
Operating income/(loss)	86	(508)	594	-121%
Other income/(expenses):				
Interest expense	(199)	(688)	489	-71%
Change in fair value of warrant liability	-	27	(27)	-100%
Gain on settlement of obligations	406	169	237	140%
Other expense	-	(6)	6	-100%
Total other expense	207	(498)	705	-142%
Net income/(loss) before income taxes	293	(1,006)	1,299	-129%
Benefit from / (provision for) income taxes	(51)	128	(179)	-140%
Net income/(loss)	\$ 242	\$ (878)	\$ 1,120	-128%

#### Sales

Sales increased by \$722, or 12%, in the three months ended September 30, 2019 compared to the same period in 2018 driven by \$1,248 from new customers in 2019 and \$1,228 contributed by legacy Allure customers. During the three months ended September 30, 2018 the Company completed work on a single, material software development project with a longstanding client, for which approximately \$2,375 was recognized in the three months ended September 30, 2018 and for which no similar project was completed in the same period in 2019.

### ***Gross Profit***

Gross profit decreased \$435 in absolute dollars from \$3,741 to \$3,306, or 12%, primarily as a result of a single, material software development project which was recorded in the three months ended September 30, 2018 which had no equivalent in the current year. Excluding that project, the Company generated gross margin of approximately \$2,316 during the three months ended September 30, 2018.

Gross profit margin decreased to 49.2% in the three months ended September 30, 2019 from 62.3% during the same period in 2018, primarily as a result of the material software development project recorded during the three months ended September 30, 2018.

### ***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 increased by \$98, or 23%, in the three months ended September 30, 2019 compared to the same period in 2018 a result of increased sales headcount following the Allure Acquisition and participation in an increased number of trade shows and customer-facing events.

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

Research and development expenses increased by \$45, or 17%, in the three months ended September 30, 2019 compared to the same period in 2018 due to increased development headcount as a result of the Allure Acquisition.

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

Total general and administrative expenses decreased by \$1,120, or 35%, in the three months ended September 30, 2019 compared to the same period in 2018 as a result of (1) \$1,000 reduction in compensation expense related to shares of common stock granted to our current CEO during the three months ended September 30, 2018 which did not recur in 2019, (2) \$90 reduction in salaries, benefits and related taxes due to headcount reductions post-integration of the Allure Acquisition, and (3) \$167 reduction in transaction/deal costs which were incurred during 2018 as part of the Allure Acquisition, partially offset by a (1) \$144 increase in rent as a result of the Allure Acquisition and expansion of the Company's headquarters, and (2) \$142 increase in contractor spend.

### **Depreciation and Amortization Expenses**

Depreciation and amortization expenses decreased by \$52, or 16%, in the three months ended September 30, 2019 compared to the same period in 2018 due to certain property and intangible assets reaching the end of their useful lives, partially offset by the newly added assets as a result of the Allure Acquisition.

### **Interest Expense**

See Note 9 to the condensed consolidated financial statements for a discussion of the Company's debt and related interest expense obligations.

### **Change in Fair Value of Warrant Liability**

See Note 6 to the condensed consolidated financial statements for a discussion of the Company's non-cash change in warrant liability for the three months ended September 30, 2019, the methodology for which is consistent for the three months ended September 30, 2018. The change in the fair value of the warrant liability resulted in no gain or loss in the three months ended September 30, 2019. All warrants previously classified as liabilities within the balance sheet expired during the three months ended September 30, 2019.

### **Gain on Settlement of Obligations**

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

In September 2018, the Company settled and/or wrote off debt of \$219 for \$50 cash payment and recognized a gain of \$169. This debt included \$30 of accrued wage labor liabilities no longer anticipated to be pursued against the Company.

### **Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

The tables presented below compare our results of operations and present the results for each period and the change in those results from one period to another in both dollars and percentage change. The Company acquired Allure Global Solutions, Inc. effective November 2018.

	<b>For the nine months ended</b>		<b>Change</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>Dollars</b>	<b>%</b>
	<b>2019</b>	<b>2018</b>		
Sales	\$ 25,521	\$ 17,246	\$ 8,275	48%
Cost of sales	14,306	8,906	5,400	61%
Gross profit	11,215	8,340	2,875	34%
Sales and marketing expenses	1,830	1,466	364	25%
Research and development expenses	1,073	879	194	22%
General and administrative expenses	6,824	6,874	(50)	-1%
Depreciation and amortization expense	872	981	(109)	-11%
Lease termination expense	-	474	(474)	-100%
Total operating expenses	10,599	10,674	(75)	-1%
Operating income/(loss)	616	(2,334)	2,950	-126%
Other income/(expenses):				
Interest expense	(616)	(2,014)	1,398	-69%
Change in fair value of warrant liability	21	235	(214)	-91%
Gain on settlement of obligations	419	208	211	101%
Other expense	-	(7)	7	-100%
Total other expense	(176)	(1,578)	1,402	-89%
Net income/(loss) before income taxes	440	(3,912)	4,352	-111%
Benefit from provision for income taxes	35	184	(149)	-81%
Net income/(loss)	\$ 475	\$ (3,728)	\$ 4,203	-113%

## **Sales**

Sales increased by \$8,275, or 48%, in the nine months ended September 30, 2019 compared to the same period in 2018 driven by \$4,452 from customers new to the Company in 2019, \$3,667 contributed by legacy Allure customers and the remainder through expansion and growth in the pre-existing customer base, partially offset by a reduction of \$521 in sales to related parties.

## **Gross Profit**

Gross profit increased \$2,875 in absolute dollars from \$8,340 to \$11,209, or 34% during the nine months ended September 30, 2019 versus the same period in the prior year driven by an increase in sales, partially offset by a reduction in gross margin. Gross margin decreased from 48% for the nine months ended September 30, 2018 to 44% in 2019 during the same period.

## **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 increased by \$364, or 25%, in the nine months ended September 30, 2019 compared to the same period in 2018 as a result of increased sales headcount following the Allure Acquisition and participation in an increased number of trade shows and customer-facing events.

## **Research and Development Expenses**

Research and development expenses increased by \$194, or 22%, in the nine months ended September 30, 2019 compared to the same period in 2018 due to increased development headcount as a result of the Allure Acquisition.

## **General and Administrative Expenses**

Total general and administrative expenses decreased by \$50, or 1%, in the nine months ended September 30, 2019 compared to the same period in 2018 as a result of (1) \$881 reduction in compensation expense related to shares of common stock granted to our current CEO during the three months ended September 30, 2018 which did not recur in 2019, (2) \$20 reduction in salaries, benefits and related taxes due to headcount reductions post-integration of the Allure Acquisition, and (3) \$211 reduction in transaction/deal costs which were incurred during 2018 as part of the Allure Acquisition, partially offset by a (a) \$623 increase in rent as a result of the Allure Acquisition and expansion of the Company's headquarters, and (b) \$523 increase in contractor spend.

## **Depreciation and Amortization Expenses**

Depreciation and amortization expenses decreased by \$109, or 11%, in the nine months ended September 30, 2019 compared to the same period in 2018 due to reduced amortization expense related to intangible assets, partially offset by increased depreciation of property and equipment acquired in the Allure Acquisition. Although we added intangible assets as a result of the Allure Acquisition, the amortization periods are longer than of those assets which became fully depreciated in 2018 and 2019.

## **Interest Expense**

See Note 9 to the condensed consolidated financial statements for a discussion of the Company's debt and related interest expense obligations.

## **Change in Fair Value of Warrant Liability**

See Note 6 to the condensed consolidated financial statements for a discussion of the Company's non-cash change in warrant liability for the nine months ended September 30, 2019, the methodology for which is consistent for the nine months ended September 30, 2019. The change in the fair value of the warrant liability resulted in a gain of \$21 in the nine months ended September 30, 2019. All warrants previously classified as liabilities within the balance sheet expired during the three months ended September 30, 2019.

## **Gain on Settlement of Obligations**

During the three months ended September 30, 2019, the Company wrote off liabilities and recognized a gain of \$419, primarily related to legacy accounts payable deemed to no longer be legal obligations to vendors.

In September 2018, the Company settled and/or wrote off debt of \$219 for \$50 cash payment and recognized a gain of \$169. This debt included \$30 of accrued wage labor liabilities no longer anticipated to be pursued against the Company.

## Summary Quarterly Financial Information

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

Quarters ended	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Net sales	\$ 6,723	\$ 9,314	\$ 9,484	\$ 5,229	\$ 6,001
Cost of sales	3,417	5,086	5,803	3,346	2,260
Gross profit	3,306	4,228	3,681	1,883	3,741
Operating expenses, inclusive of one-time lease termination expense, excluding depreciation and amortization	2,942	3,425	3,360	3,827	3,919
Depreciation/amortization	278	308	286	204	330
Operating income/(loss)	86	495	35	(2,148)	(508)
Other expenses/(income)	(156)	78	219	4,744	370
Net income/(loss)	\$ 242	\$ 417	\$ (184)	\$ (6,892)	\$ (878)

## 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 earnings before interest, tax, depreciation and amortization ("EBITDA"), which is a non-GAAP financial measure, is a performance measure and not a liquidity measure, and therefore a reconciliation between net income/(loss) and EBITDA and Adjusted EBITDA, which is a non-GAAP financial measure, has been provided. EBITDA and Adjusted 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 and Adjusted 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.

Quarters ended	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
GAAP net income/(loss)	\$ 242	\$ 417	\$ (184)	\$ (6,892)	\$ (878)
Interest expense:					
Amortization of debt discount	105	158	156	447	415
Other interest, net	94	55	48	145	273
Depreciation/amortization	278	308	286	204	330
Income tax expense/(benefit)	51	(107)	21	(214)	(128)
EBITDA	\$ 770	\$ 831	\$ 327	\$ (6,310)	\$ 12
Adjustments					
Change in warrant liability	-	(22)	1	(602)	(27)
Gain on settlement of obligations	(406)	(6)	(7)	(86)	(169)
Debt conversion expense	-	-	-	5,055	-
Stock-based compensation	62	291	42	107	1,099
Severance charges	-	-	-	385	-
Deal & transaction costs	-	-	-	710	-
Other expense/(income)	-	-	-	(1)	6
Adjusted EBITDA	\$ 426	\$ 1,094	\$ 363	\$ (742)	\$ 921

## **Liquidity and Capital Resources**

We incurred a net loss for the year ended December 31, 2018 and had negative cash flows from operating activities as of December 31, 2018. For the three months ended September 30, 2019 and 2018 we have recognized/(incurred) net income/(losses) of \$242 and (\$878), respectively. For the nine months ended September 30, 2019 and 2018, we recognized/(incurred) net income/(losses) of \$475 and (\$3,728), respectively. As of September 30, 2019, we had cash and cash equivalents of \$2,240 and working capital deficit of \$3,486, which includes \$640 representing current maturities of operating leases recorded January 1, 2019 upon adoption of Accounting Standards Update (“ASU”) 2016-02.

On November 9, 2018, Slipstream Communications, LLC, (“Slipstream”) a related party (see Note 9), extended the maturity date of our term loan and revolving loan to August 16, 2020. Our intent is to refinance our term loan and revolving loan with an unrelated third party in the first half of 2019. In conjunction with the extension of the maturity date of our term loan, we agreed that the cash portion of the interest rate would increase prospectively from 8.0% per annum to 10.0% per annum effective July 1, 2019.

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

See Note 9 to the Condensed Consolidated Financial Statements for a discussion of the Company’s debt obligations.

### ***Operating Activities***

As of December 31, 2018, we had an accumulated deficit of (\$36,851). The cash flows provided by/(used in) operating activities was \$456 and (\$1,348) for the nine months ended September 30, 2019 and 2018, respectively. The cash provided by operating activities was driven by collections on accounts receivable of \$1,739, utilization of prepaid assets of \$1,295 and an increase in accrued expenses of \$2,491, partially offset by the Company’s recognition of deferred revenue of \$5,527.

### ***Investing Activities***

Net cash used in investing activities during the nine months ended September 30, 2019 was \$442 compared to \$255 during the same period in 2018. The use of cash in both periods represents acquisition of capital assets, primarily related to the capitalization of software costs, partially offset by cash received from a net working capital settlement of \$210 in 2019. We currently do not have any material commitments for capital expenditures as of September 30, 2019, nor do we anticipate any significant expenditures for the remainder of 2019.

### ***Financing Activities***

Net cash (used in) / provided by financing activities during the nine months ended September 30, 2019 and 2018 was (\$492) compared to \$2,100. The decrease was related to debt proceeds of \$2,100 in 2018 as compared to debt repayment of \$498 in 2019.

### **Contractual Obligations**

We have no material commitments for capital expenditures, and we do not anticipate any significant capital expenditures for the remainder of 2019.

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

During the nine months ended September 30, 2019, we did not engage in any off-balance sheet arrangements set forth in Item 303(a) (4) of Regulation S-K.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), as of the end of the period covered by this report. 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 with respect to financial statement preparation and presentation.

As disclosed in Part II Item 9A Controls and Procedures in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, during the third quarter of fiscal 2014 we identified a material weakness in internal control related to a deficient process to close the monthly consolidated financial statements and prepare comprehensive and timely account analysis that support the Company’s financial reporting processes.

During 2019, management implemented our previously disclosed remediation plan that included: (i) addition of headcount in the accounting and finance function to support an adequate and timely close process; (ii) creation of a financial statement close checklist to document the timing, responsibilities and segregation of close duties within and between accounting and finance function personnel; (iii) documentation of a timeline for completion of the financial statement close process and adherence to the timeline in executing the financial statement close; (iv) performance of a Sarbanes-Oxley Section 404a self-assessment of internal controls over financial reporting in the financial statement close process which included identifying, documenting, performance of walk-throughs and testing of the identified internal controls; and (v) testing of the effectiveness of those identified and implemented internal controls.

During the third quarter of 2019, we completed our testing of the operating effectiveness of the implemented controls and found them to be effective. As a result, we have concluded the material weakness has been remediated as of September 30, 2019.

### **Changes in Internal Control over Financial Reporting**

Except for the changes in connection with our implementation of the remediation plan discussed above, there have been no other changes in our internal control over financial reporting that occurred during the third quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

(a) 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 is in the early stages of litigation 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. As of the date of this filing, no formal legal action had been taken by the customer against the Company and, as a result, the outcome of this matter is unclear, so the Company is unable to reasonably estimate the possible loss, or range of loss, if any.

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

(b) The Company is not party to any other material legal proceedings, other than ordinary routine litigation incidental to the business, as of November 7, 2019, and there were no other such proceedings pending during the period covered by this Report.

### Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item; however, the discussion of our business and operations should be read together with the Risk Factors set forth in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2019. Such risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flow, strategies or prospects in a material and adverse manner.

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

None.

### Item 3. Defaults Upon Senior Securities

None.



#### **Item 4. Mine Safety Disclosures**

Not applicable.

#### **Item 5. Other Information**

##### *(a) Director Resignation; Election of Successor*

Effective November 8, 2019, Alec Machiels is resigning as a member of the Company's Board of Directors (the "Board") and Chairman of the Board. The Board elected Dennis McGill as Mr. Machiels' successor, effective November 8, 2019. The Board elected Mr. McGill to serve as the Company's Chairman of the Board.

Over the course of a forty-five-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.

##### *Consulting Agreement*

On November 7, 2019, the Company and Dennis McGill executed a Consulting Agreement (the "Consulting Agreement"). The term of the Consulting Agreement is one year, and it automatically renews for successive one-year periods. Either party may terminate the Consulting Agreement at any time upon 30 days' written notice. Under the Consulting Agreement, Mr. McGill will receive compensation of \$5,000 per month in cash in exchange for general business and strategy consulting services to the Company.

The foregoing summary of the Consulting Agreement is qualified in all respects by the Consulting Agreement, a copy of which is attached hereto as Exhibit 10.1 and incorporated herein by this reference.

##### *Option Agreement*

On November 7, 2019, the Company and Mr. McGill also executed an Option Agreement (the "Option Agreement"). Under the Option Agreement, Mr. McGill has the option to purchase 25,000 shares of the Company's common stock under the Company's 2014 Stock Incentive Plan. The options have an exercise price of \$1.88 per share, which was the closing price of the Company's common stock as reported on Nasdaq on the date prior to the date of the Option Agreement. The options vest in three equal annual installments beginning on the one-year anniversary of the date of the Option Agreement, provided that Mr. McGill must continue to serve as a director of the Company. The foregoing summary of the Option Agreement is qualified in all respects by the Option Agreement, a copy of which is attached hereto as Exhibit 10.2 and incorporated herein by this reference.

##### *Executive Bonus*

On November 6, 2019, the Board approved payment of a \$150 cash bonus to Richard Mills, the Company's Chief Executive Officer, for his significant contributions to the Company's performance in 2018.

##### *Extension of Maturity Date of Debt*

On November 6, 2019, Slipstream extended the maturity date of our Term Loan and Second Revolver Loan to June 30, 2021 through the Sixth Amendment to the Loan and Security Agreement, aligning the maturity date of those loans with that of the Disbursed Escrow Note. The foregoing summary of the Sixth Amendment is qualified in all respects by the Sixth Amendment and Fourth Allonges, a copy of each is attached hereto as Exhibits 10.3-10.5 and incorporated herein by this reference.

(b) Not applicable.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
10.1	<a href="#">Consulting Agreement dated effective as of November 7, 2019 by and between the Company and Dennis McGill</a>
10.2	<a href="#">Option Agreement dated effective as of November 7, 2019 by and between the Company and Dennis McGill</a>
10.3	<a href="#">Sixth Amendment to Loan and Security Agreement with Slipstream Communications, LLC, dated as of November 6, 2019</a>
10.4	<a href="#">Fourth Allonge to Secured Revolving Promissory Note issued in favor of Slipstream Communications, LLC, dated as of November 6, 2019</a>
10.5	<a href="#">Fourth Allonge to Amended and Restated Secured Promissory Note issued in favor of Slipstream Communications, LLC, dated as of November 6, 2019</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>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

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

Creative Realities, Inc.

Date: November 7, 2019

By /s/ Richard Mills  
Richard Mills  
Chief Executive Officer

By /s/ Will Logan  
Will Logan  
Chief Financial Officer

## CREATIVE REALITIES, INC.

## CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (“**Agreement**”) is made and entered into as of November 7, 2019 (the “**Effective Date**”) by and between Creative Realities, Inc., a Minnesota corporation (the “**Company**”), and Dennis McGill (“**Consultant**”).

- A. Consultant serves as a director on the Company’s Board of Directors.
- B. Consultant has substantial experience providing general business and strategy consulting services to businesses.
- C. The Company is in need of such services, and the Company desires to engage Consultant to provide such services.

Therefore, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Consultant and the Company hereby agree as follows:

1. Services. The Company hereby engages Consultant, and Consultant hereby accepts such engagement, as an independent contractor to provide the services described in Schedule 1 attached hereto (the “**Services**”) to the Company above and beyond the services customarily provided as a prospective or current board member, on the terms and conditions set forth herein. Consultant will devote the time required, as agreed upon by the parties, to deliver the Services. Consultant shall have sole control over the detailed manner and method of performance of the Services, and the Company shall have the right to control only the end result. Unless otherwise provided herein, Consultant shall furnish, at Consultant’s own expense, the equipment, supplies and other materials used to perform the Services. The Company shall provide Consultant with access to its premises and equipment to the extent necessary for the performance of the Services.

2. Compensation and Expenses. As full compensation for the Services and the rights granted to the Company hereunder, the Company shall pay Consultant \$5,000 per month (pro-rated for any partial months), in accordance with the Company’s normal payroll procedures. The Company may grant Consultant options to purchase stock in the Company from time to time pursuant to a separate option agreement between the Company and Consultant. The Company shall reimburse Consultant for his reasonable out-of-pocket expenses incurred in providing the Services in accordance with the Company’s general reimbursement policies; *provided, however*, that the Company shall not reimburse Consultant for any expense in excess of \$1,500 unless such expense is pre-approved in writing by the Company.

3. Independent Consultant Status; Benefits. Consultant is performing the Services as an independent contractor, and this Agreement shall not be construed to create any association, partnership, joint venture, employee or agency relationship. Consultant is not an employee, agent or subcontractor of the Company. Consultant has no authority (and shall not hold himself or herself out as having authority) to act on behalf of, or to bind, the Company. Consultant shall not, on the Company’s behalf, make any representation, enter into any agreement or contract or incur any liability, in each case without the Company’s prior written consent. Consultant shall not be eligible hereunder to receive or participate in any vacation, sick leave, group medical, life or other insurance, disability, profit sharing or retirement benefits or any other fringe benefits or benefit plans offered by the Company to its employees. Consultant shall pay all applicable taxes (including penalties and interest) that may arise as a result of this Agreement (collectively, “**Taxes**”) and make all insurance contributions (including unemployment or disability), and the Company shall not be responsible for withholding or paying any such Taxes, making any insurance contributions or obtaining worker’s compensation insurance on behalf of Consultant.

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4. **Confidential Information.** Consultant will treat all Confidential Information (as defined below) as strictly confidential and will not, directly or indirectly, access, use, copy, remove (from the Company's premises or control) or disclose to any Person, in whole or in part, any Confidential Information, except to the extent actually required (i) in the performance of the Services or (ii) by law or pursuant to a valid order of a court of competent jurisdiction. Consultant will promptly notify the Company, in writing, of any misappropriation or misuse of Confidential Information. "**Confidential Information**" means any and all confidential, secret, proprietary or otherwise nonpublic documents, materials and other information, in tangible and intangible form, of (i) the Company relating to its actual or anticipated business, operations, research or development or (ii) third parties associated with the Company, including customers, suppliers, licensors, licensees, partners, collaborators, vendors, distributors and buyers ("**Third Party Information**"), excluding any of the foregoing items to the extent the same became publicly known and made generally available through no wrongful act of Consultant or others.

5. **Representations and Warranties.** Consultant hereby represents and warrants to the Company that (i) Consultant's entering into this Agreement and performance of the Services do not conflict with, and will not result in any breach of, or default under, any other agreement to which Consultant is subject; (ii) Consultant has all right, power and authority necessary to enter into and perform its obligations under this Agreement; and (iii) Consultant has the required skill, experience and qualifications, and all licenses and permits necessary and appropriate, to perform the Services and will perform the Services in a professional, timely and workmanlike manner in accordance with generally recognized industry standards for similar services and in compliance with all applicable laws, orders and regulations. The Company hereby represents and warrants to Consultant that (i) the Company has all right, power and authority necessary to enter into and perform this Agreement; and (ii) the execution of this Agreement has been duly authorized by all necessary corporate action.

6. **Term; Termination; Survival.** The term of this Agreement shall commence on the Effective Date and continue for a period of twelve (12) months, and shall renew automatically for additional twelve (12) month periods, provided that either party may terminate this Agreement at any time upon thirty (30) days' prior written notice. Sections 2 (Compensation and Expenses), 4 (Confidential Information), and 9 (Miscellaneous) hereof will survive any expiration or termination of this Agreement.

7. **Indemnity.** The Company agrees to indemnify and hold harmless Consultant, subject to the exceptions below, if Consultant is a party to any proceeding related in any way to Consultant's performance of Services. Consultant shall be indemnified by the Company against all expenses and liabilities incurred or paid by Consultant in connection with such proceeding. Consultant shall be entitled to the indemnification except to the extent that, in connection with the events giving rise to or related to the proceeding, (i) Consultant engaged in willful misconduct or gross negligence, or (ii) Consultant is liable to the Company with respect to any claim, issue or matter involved in the proceeding out of which the claim for indemnification has arisen, including, without limitation, a claim that Consultant received an improper personal benefit as a result of Consultant's willful misconduct or gross negligence.

8. **Notices.** All notices, requests, consents, claims, demands, waivers and other communications required or permitted hereunder shall be in writing and shall be to the address and marked to the attention of the individual (by name or title) set forth below or to such other address or individual as such party may designate by a notice given in accordance with this Section and shall be deemed given or delivered (a) when delivered personally, (b) one business day after being deposited with an overnight courier service (costs prepaid), or (c) when received or rejected by the addressee, if sent by certified or registered mail, return receipt requested, postage prepaid. Notices to the Company shall be delivered to the Company's principal office, and notices to Consultant shall be sent to the most recent address of Consultant in the Company's books and records.

9. Miscellaneous. This Agreement shall be governed by the internal laws of the State of Kentucky, without regard to any conflict of laws principles. Each party hereto irrevocably consents and submits to the exclusive personal jurisdiction of any state or federal court located in the County of Jefferson in the State of Kentucky, as well as to the jurisdiction of all courts to which an appeal may be taken from such courts, for enforcement of this Agreement. Each party hereto irrevocably waives any objection such party may have to venue in the defense of an inconvenient forum to the maintenance of such actions or proceedings to enforce this Agreement. In the event of a breach or threatened breach by Consultant of any provision hereof, Consultant hereby consents and agrees that the Company may seek, in addition to other available remedies, injunctive or other equitable relief from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The Services are in the nature of personal services. Accordingly, without the Company's prior written consent, Consultant may not assign, delegate or subcontract this Agreement or any right or obligation hereunder. The Company may not assign this Agreement, and its rights and obligations hereunder, without the prior written consent of the Consultant. Subject to the foregoing limits on assignment, this Agreement will inure to the benefit of, be binding on, and be enforceable against, the parties hereto and their respective successors and assigns. This Agreement sets forth the entire agreement and understanding between the parties relating to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, both written and oral. No modification or waiver of any provision of, or amendment to, this Agreement shall be effective unless it is in writing and signed by Consultant and the appropriate and authorized officer of the Company. The failure or delay of any party to enforce at any time any provision hereof shall not be construed to be a waiver, and no waiver of any breach shall be held to constitute a waiver of any other or subsequent breach. No provisions hereof are intended, nor shall be interpreted, to provide or create any third party beneficiary rights, unless specifically provided otherwise herein. Should any provision contained herein be held as invalid, illegal or unenforceable, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the parties with any such modification to become a part hereof and treated as though originally set forth herein. The titles, captions and headings herein are for convenience of reference only and shall not affect the meaning or interpretation hereof. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. Each party agrees to execute and deliver such additional documents and to take such further actions as may reasonably be necessary to give full effect to the purposes of this Agreement and the terms and conditions hereof. This Agreement may be executed in counterparts (including by facsimile, e mail or other means of electronic transmission), each of which shall be considered an original, but all of which, when taken together, shall be considered one and the same agreement.

*Signature page follows.*

IN WITNESS WHEREOF, the undersigned have executed this Consulting Agreement as of the date set first set forth above.

**CREATIVE REALITIES, INC.**

**DENNIS MCGILL**

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

/s/ Dennis McGill

**CREATIVE REALITIES, INC.  
STOCK OPTION AGREEMENT**

THIS STOCK OPTION AGREEMENT (this “**Agreement**”) is made and entered into as of November 7, 2019, by and between Dennis McGill (“**Optionee**”), and Creative Realities, Inc., a Minnesota corporation (the “**Company**”).

BACKGROUND

The Company has adopted the Creative Realities, Inc. 2014 Stock Incentive Plan (as amended, the “**Plan**”) pursuant to which shares of Company common stock have been reserved for issuance under the Plan. The Optionee will perform substantial work on behalf of the Company in his capacity as a director of the Company and as a consultant of the Company. The Company desires to provide Optionee an option to purchase certain shares of Company common stock upon the terms and conditions set forth herein, specifically including but not limited to the restrictive covenants and related clawback provisions contained herein.

AGREEMENT

Now, THEREFORE, the parties hereby agree as follows:

1. Incorporation of the Plan by Reference. The terms and conditions of the Plan, a copy of which has been earlier delivered to Optionee, are hereby incorporated into this Agreement by this reference. In particular, the provisions of Section 9.13 of the Plan, respecting any sale of the Company, govern the terms and conditions of this Agreement. In the event of any direct conflict or inconsistency between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall govern and control. By its terms, the Plan may be amended subsequent to the date of this Agreement, in which case the Plan as so amended shall continue to govern and control the terms and conditions of this Agreement in the case of any such direct conflict or inconsistency.
2. Grant of Option; Exercise Price. Subject to the terms and conditions herein set forth, the Company hereby irrevocably grants to Optionee, from shares of common stock reserved under the Plan, the right and option (the “**Option**”) to purchase all or any part of an aggregate of 25,000 shares of Company common stock, \$.01 par value per share (the “**Shares**”), at the per-Share exercise price of \$1.88 (the “**Exercise Price**”), which price is intended to be at least 100% of the fair market value of the Company’s common stock on the grant date (i.e., the date of this Agreement).
3. Exercisability and Vesting of Option. The Option shall be exercisable only to the extent that all of the Option, or any portion thereof, has vested. Except as provided in Section 4, 33% of the Option shall vest each year on the anniversary of the date of this Agreement over three years beginning on the first anniversary, but only for so long as Optionee continues to serve the Company as a director, officer, employee or consultant.



Notwithstanding the foregoing, if a “Sale Transaction,” as such term is defined in the Plan, occurs and the Committee exercises its power and right to cause all or any portion of the Option to continue or be replaced under Section 9.13(c), then the entirety of this Option will vest immediately upon the earlier of (i) any termination of service by the Company without “cause” (as such term is defined in Section 4(d) below) or (ii) 180 days after the consummation of the Sale Transaction.

4. Term of Option. To the extent vested, and except as otherwise provided in this Agreement, the Option shall be exercisable for ten years from the date of this Agreement. Nevertheless, this Option may earlier vest or may earlier terminate as set forth in the applicable paragraphs below:

(a) In the event of a termination of Optionee’s service to the Company or its subsidiaries (whether as a director, officer, employee or consultant, as the case may be) due to the death or disability of Optionee, then Optionee’s legal representative may thereafter exercise the Option, to the extent then vested, until the earlier of (i) 90 days after the death or disability of Optionee, as applicable, or (2) the expiration of the Option set forth in the first sentence of this Section 4. The unvested portion of the Option will terminate upon Optionee’s death or disability.

(b) In the event of a termination of Optionee’s service to the Company or its subsidiaries (whether as a director, officer, employee or consultant, as the case may be) due to “cause” (including a voluntary departure by Optionee under circumstances constituting “cause”), then the entire Option, regardless of whether any portion thereof is then vested (including any portion of the Option that may have vested in connection with a Sale Transaction), will thereupon immediately terminate and be null and void without any further action required on the part of the Company.

(c) In the event of a termination of Optionee’s service to the Company or its subsidiaries (whether as a director, officer, employee or consultant, as the case may be) under circumstances not involving or constituting “cause,” then the unvested portion of the Option will thereupon terminate but that portion of the Option that is vested as of the date of termination of service will continue to be exercisable until the expiration of the Option set forth in the first sentence of this Section 4.

(d) For purposes of this Agreement, the following events or circumstances will constitute “cause”: (i) Optionee willfully destroys any property of the Company; (ii) Optionee commits any act of dishonesty (as determined by the Company’s Board of Directors in its reasonable discretion) with respect to the Company or its business; (iii) Optionee uses or divulges, in violation of the written policies applicable to Optionee or in violation of a written agreement to which Optionee is bound, any confidential information of the Company (including confidential information of subsidiaries); (iv) Optionee engages in any conduct that is or could be materially detrimental to the Company, its business or its reputation, including violation of written policies or refusal to abide by the repeated directives of the Company, as determined by the Company’s Board of Directors in its reasonable discretion; (v) Optionee is indicted or convicted of a serious misdemeanor or felony; or (vi) Optionee uses alcohol or drugs in a manner such that the Company, its business or its reputation, is or could be jeopardized, as determined by the Company’s Board of Directors in its reasonable discretion. In addition, if Optionee or its controlled entity that is a consultant to the Company has a written consulting agreement with the Company or one of its subsidiaries, and such consulting agreement contains a definition of “cause” (or similar such term or concept) that is broader than the above, then such additional and broader events or circumstances defining “cause” (or similar such term or concept) are incorporated herein by this reference.

5. Method of Exercising Option. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised, in whole or in part, by giving written notice to the Company specifying the number of Shares to be purchased and accompanied by the full purchase price for such shares (which written notice may be in the form of Notice of Exercise attached hereto). The Exercise Price shall be payable: (a) in United States dollars upon exercise of the Option and may be paid by cash, uncertified or certified check or bank draft; (b) by delivery of shares of common stock in payment of all or any part of the option price, which shares shall be valued for this purpose at the Fair Market Value (as such term is defined in the Plan) on the date on which the Option is exercised; or (c) at Optionee's election, by instructing the Company to withhold from the Shares issuable upon exercise of the Option shares of common stock in payment of all or any part of the exercise price (and/or any related withholding tax obligations, if permissible under applicable law), which shares shall be valued for this purpose at the Fair Market Value or in such other manner as may be authorized from time to time by the Company's board of directors or a compensation committee thereof. Any such notice shall be deemed given when received by the Company at the address provided in Section 10 of this Agreement. All Shares that shall be purchased upon the proper exercise of the Option as provided herein shall be fully paid and non-assessable.

6. Rights of Option Holder. As holder of the Option, Optionee shall not have any of the rights of a shareholder with respect to the Shares covered by the Option except to the extent that one or more certificates for such Shares shall be delivered to Optionee upon the due exercise of all or any part of the Option.

7. Transferability. The Option shall not be transferable except to the extent permitted by Section 9.3 of the Plan.

8. Optionee Representations. Optionee hereby represents and warrants to the Company that Optionee has reviewed with his or her own tax advisors the federal, state and local tax consequences of the transactions contemplated by this Agreement, including the grant of this Option by the Company. Optionee is relying solely on such advisors and not on any statements or representation of the Company or any of its agents. Optionee understands that Optionee will be solely responsible for any tax liability that may result to Optionee as a result of the transactions contemplated by this Agreement, including the grant by the Company of the Option. Optionee further understands that, as to matters involving an interpretation under the Plan, the Board of Directors of the Company (or an applicable committee thereof) has sole and complete discretionary authority to definitively interpret the Plan, which interpretation shall be final, conclusive and binding upon the Optionee.

9. Securities Law Matters. Optionee acknowledges that the Shares to be received upon any exercise of the Option may not have been registered under the Securities Act of 1933 or the applicable securities laws of any state (collectively, the “**Securities Laws**”). If such Shares shall have not been so registered, Optionee acknowledges and understands that the Company is under no obligation to register, under the Securities Laws, the Shares received by Optionee or to assist Optionee in complying with any exemption from such registration if Optionee should at a later date wish to dispose of the Shares. Optionee acknowledges that, if not then registered under the Securities Laws, any certificates representing the Shares shall bear a legend restricting the transferability thereof in substantially the following form:

The shares represented by this certificate have not been registered or qualified under federal or state securities laws. The shares may not be offered for sale, sold, pledged or otherwise disposed of unless so registered or qualified, unless an exemption exists or unless such disposition is not subject to the federal or state securities laws. In its discretion, the Company may require that the availability of any exemption or the inapplicability of such securities laws be established by an opinion of counsel, the form and substance of which opinion shall be reasonably satisfactory to the Company.

10. Notices. All notices and other communications required under this Agreement will be in writing and will be deemed to have been duly given two days after mailing, via certified mail return-receipt requested, to the applicable party at the following addresses:

*If to the Company:* Creative Realities, Inc.  
Attention: Chief Financial Officer  
13100 Magisterial Drive, Suite 100  
Louisville, KY 40223

*If to Optionee:* Dennis McGill  
\_\_\_\_\_  
\_\_\_\_\_

11. General Provisions.

(a) The Option is granted pursuant to the Plan and is governed by the terms thereof. The Company shall at all times during the term of the Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement.

(b) Nothing herein expressed or implied is intended or shall be construed as conferring upon or giving to any person, firm, or corporation, other than the parties hereto, any rights or benefits under or by reason of this Agreement.

(c) Each party agrees to execute such further documents as may be necessary or desirable to effect the purposes of this Agreement.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

(e) This Agreement, in its interpretation and effect, shall be governed by the laws of the State of Kentucky applicable to contracts executed and to be performed therein, and without regard to any of such state’s conflicts-of-law provisions. Each party hereto irrevocably consents and submits to the exclusive personal jurisdiction of any state or federal court located in the County of Jefferson in the State of Kentucky, as well as to the jurisdiction of all courts to which an appeal may be taken from such courts, for enforcement of this Agreement. Each party hereto irrevocably waives any objection such party may have to venue in the defense of an inconvenient forum to the maintenance of such actions or proceedings to enforce this Agreement.

(f) If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be unaffected thereby and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative.

\* \* \* \* \*

IN WITNESS WHEREOF, the undersigned have executed this Stock Option Agreement as of the date first written above.

**CREATIVE REALITIES, INC.**

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

**OPTIONEE**

/s/ Dennis McGill  
Dennis McGill

*Signature Page – Stock Option Agreement*

NOTICE OF EXERCISE  
CREATIVE REALITIES, INC.  
STOCK OPTION AGREEMENT

*(To be signed only upon exercise of stock option)*

Pursuant to a Stock Option Agreement dated as of \_\_\_\_\_ (the "Option Agreement"), the undersigned is the holder of an option (the "Option") to purchase 25,000 shares of common stock, \$.01 par value per share, of Creative Realities, Inc., a Minnesota corporation (the "Company"). In accordance with the terms of the Option Agreement, the undersigned hereby irrevocably elects to exercise the Option with respect to \_\_\_\_\_ shares of common stock and to purchase such shares from the Company, and herewith makes payment of \$\_\_\_\_\_ therefor:

- by cash, uncertified or certified check or bank draft;
- by delivery of shares of common stock; or
- by instructing the Company to withhold from the shares issuable upon exercise of the Option shares of common stock in payment of \$\_\_\_\_\_ of the exercise price (and/or any related withholding tax obligations, if permissible under applicable law).

The undersigned requests that the certificate(s) for such shares be issued in the name of \_\_\_\_\_, and be delivered to \_\_\_\_\_, whose address is set forth below the signature of the undersigned.

Dated: \_\_\_\_\_

\_\_\_\_\_  
*(Signature)*

\_\_\_\_\_  
*(Address)*

\_\_\_\_\_  
*(Address)*

\_\_\_\_\_  
*(Social Security or other Tax ID No.)*

## SIXTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This SIXTH AMENDMENT TO LOAN AND SECURITY AGREEMENT dated as of November 6, 2019 (this "Amendment") to the Loan and Security Agreement dated as of August 17, 2016 (as amended by the First Amendment thereto dated as of December 12, 2016, the Second Amendment thereto dated as of November 13, 2017 (including the Allonge dated November 13, 2017 pursuant thereto to the Revolving Note and the Term Note), the Third Amendment dated as of January 16, 2018, the Fourth Amendment dated as of April 27, 2018, the Fifth Amendment dated as of November 14, 2018 and a Joinder Agreement dated as of November 20, 2018 (and as it may be further amended, restated, supplemented, modified or otherwise changed from time to time, the "Loan Agreement"), is by and among Creative Realities, Inc., a Minnesota corporation ("CRI"), Creative Realities, LLC, a Delaware limited liability company ("CRLLC"), Conexus World Global, LLC, a Kentucky limited liability company ("Conexus"), and Allure Global Solutions, Inc. a Georgia corporation ("Allure") and collectively referred to together with CRI, CRLLC and Conexus as the "Borrower", and Slipstream Communications, LLC, an Anguillan limited liability company (the "Lender"). All terms used herein that are defined in the Loan Agreement and not otherwise defined herein shall have the respective meanings assigned to them in the Loan Agreement.

WHEREAS, Borrower, Broadcast International, Inc., a Utah corporation ("BII"), and the Lender are parties to the Loan Agreement, pursuant to which, *inter alia*, as of the date hereof and immediately prior to the effectiveness of this Amendment, the outstanding principal amount of the Term Loan is \$3,000,000, the outstanding principal amount of the Revolving Loan is \$1,000,000 and the outstanding principal amount of the Disbursed Escrow Loan is \$264,000;

WHEREAS, CRI has advised the Lender that BII has been dissolved;

WHEREAS, Borrower has advised Lender that Borrower's independent public accountants will not issue an accountant's opinion which does not contain a "going concern qualification" unless there is a sufficient further extension of the Maturity Dates for the Term Loan and the Revolving Loan; and

WHEREAS, the Lender is willing to provide a further extension to the Maturity Dates of the Term Loan and the Revolving Loan subject to the terms and conditions of the Loan Agreement as amended by this Amendment, and subject to the terms and conditions set forth in this Amendment.

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NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower and the Lender, intending to be legally bound, hereby agree as follows:

1. Amendments. The Loan Agreement is hereby amended as follows:

- (a) The second sentence of Section 3.3 is hereby amended by inserting immediately after the phrase “As of the Closing Date, each Loan Document (other than the First Amendment, as to which as of the First Amendment Effective Date and other than the Second Amendment, as to which as of the Second Amendment Effective Date and other than the Third Amendment, as to which as of the Third Amendment Effective Date and other than the Fourth Amendment, as to which as of the Fourth Amendment Effective Date and other than the Fifth Amendment, as to which as of the Fifth Amendment Effective Date, and other than the Joinder, as to which as of November 20, 2018” and immediately before the closing of the parenthetical therein, the phrase “and other than the Sixth Amendment, as to which as of the Sixth Amendment Effective Date”; and
- (b) Schedule A is hereby amended by:
  - i) amending the definition of Loan Documents by inserting immediately after the phrase “and from and after November 20, 2018, the Joinder Agreement” the phrase “and from and after the Sixth Amendment Effective Date, the Sixth Amendment”; and
  - ii) adding the following definitions, in appropriate alphabetical order:
    - (A) “‘Sixth Amendment’ means the Sixth Amendment to Loan and Security Agreement dated as of November \_\_, 2019, among Borrower and Lender.”; and
    - (B) “‘Sixth Amendment Effective Date’ shall have the meaning specified therefor in Section 3 of the Sixth Amendment.”.

2. Representations and Warranties. Borrower hereby represents and warrants to Lender as follows:

- a) Representations and Warranties; No Event of Default. The representations and warranties herein, in Article 3 of the Loan Agreement and in each other Loan Document, certificate or other writing delivered by or on behalf of Borrower to the Lender pursuant to this Amendment, the Loan Agreement or any other Loan Document on or prior to the Sixth Amendment Effective Date (as defined below) are true and correct in all material respects (except that such materiality qualifier shall not be applied to any representations or warranties that already are qualified or modified as to “materiality” or “Material Adverse Effect” in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification) on and as of the Sixth Amendment Effective Date as though made on and as of such date (unless such representations or warranties (after taking into account this Amendment) are stated to relate to an earlier date, in which case such representations and warranties shall be true and correct on and as of such earlier date in all material respects (except that such materiality qualifier shall not be applicable to any representations or warranties that already are qualified or modified as to “materiality” or “Material Adverse Effect” in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification), and no Default or Event of Default has occurred and is continuing as of the Sixth Amendment Effective Date or would result from this Amendment becoming effective in accordance with its terms.

- b) Authorization, Etc. The execution, delivery and performance by Borrower of this Amendment and the other Loan Documents being executed concurrently herewith, and the performance of the Loan Agreement, as amended hereby, and the other Loan Documents, (i) have been duly authorized by all necessary action, (ii) do not and will not contravene any of the governing documents of any Borrower or any applicable Requirement of Law, (iii) do not and will not contravene any Contractual Obligation binding on or otherwise affecting any Borrower or any of its properties (except for those the conflict with which could not reasonably be expected to result in a Material Adverse Effect), (iv) do not and will not result in or require the creation of any Lien (other than pursuant to any Loan Document) upon or with respect to any properties of any Borrower, and (v) do not and will not result in any default, noncompliance, suspension, revocation, impairment, forfeiture or non-renewal of any permit, license, authorization or approval applicable to its operations or any of its properties, except in each case to the extent that such default, noncompliance, contravention, suspension, revocation, impairment, forfeiture or non-renewal could not reasonably be expected to result in a Material Adverse Effect.
- c) Enforceability of Loan Documents. This Amendment, the Loan Agreement as amended by this Amendment, and each other Loan Document to which any Borrower is or will be a party, when delivered hereunder, will be, a legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws and by general principles of equity.
3. Conditions to Effectiveness. This Amendment shall become effective only upon satisfaction in full, in a manner reasonably satisfactory to the Lender and its counsel, of the following conditions precedent (the first date upon which all such conditions shall have been satisfied (or waived) being herein called the "Sixth Amendment Effective Date"):
- a) Representations and Warranties. The representations and warranties contained in this Amendment and in Article 3 of the Loan Agreement and in each other Loan Document, certificate or other document delivered to Lender pursuant to this Amendment, the Loan Agreement or any other Loan Document on or prior to the Sixth Amendment Effective Date are true and correct in all material respects (except that such materiality qualifier shall not be applied to any representations or warranties that already are qualified or modified as to "materiality" or "Material Adverse Effect" in the text thereof (which representations and warranties shall be true and correct in all respects subject to such qualification), on and as of the Sixth Amendment Effective Date as though made on and as of such date, except to the extent that any such representation or warranty (after taking into account this Amendment) expressly relates solely to an earlier date (in which case such representation or warranty shall be true and correct on and as of such earlier date in all material respects (except that such materiality qualifier shall not be applicable to any representations or warranties that already are qualified or modified as to "materiality" or "Material Adverse Effect" in the text thereof, which representations and warranties shall be true and correct in all respects subject to such qualification) on and as of such earlier date).



- b) No Default; Event of Default. No Default or Event of Default shall have occurred and be continuing on the Sixth Amendment Effective Date or result from this Amendment becoming effective in accordance with its terms.
- c) Delivery of Documents. The Lender shall have received on or before the Sixth Amendment Effective Date the following, each in form and substance reasonably satisfactory to the Lender and, unless indicated otherwise, dated the Sixth Amendment Effective Date:
- i) this Amendment, duly executed by each Borrower; and
  - ii) the Fourth Allonge to the Revolving Note in the form of Exhibit A hereto, duly executed by each Borrower; and
  - iii) the Fourth Allonge to the Term Note in the form of Exhibit B hereto, duly executed by each Borrower.
4. Continued Effectiveness of the Loan Agreement and Other Loan Documents. Each Borrower hereby (i) confirms and agrees that the Loan Agreement and each other Loan Document to which it is a party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that on and after the Sixth Amendment Effective Date all references in any such Loan Document to “the Loan Agreement,” the “Agreement,” “thereto,” “thereof,” “thereunder” or words of like import referring to the Loan Agreement shall mean the Loan Agreement as amended by this Amendment, and (ii) confirms and agrees that to the extent that any Loan Document purports to assign or pledge to the Lender, or to grant to the Lender a security interest in or Lien on, any Collateral as security for the Obligations of any Borrower from time to time existing in respect of the Loan Agreement (as amended hereby) and the other Loan Documents, such pledge, assignment and/or grant of the security interest or Lien is hereby ratified and confirmed in all respects. This Amendment does not and shall not affect any of the obligations of any Borrower, other than as expressly provided herein, including, without limitation, the Borrower’s obligations to repay the Loans in accordance with the terms of the Loan Agreement, or the obligations of any Borrower under any Loan Document to which it is a party, all of which obligations shall remain in full force and effect. Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Lender under the Loan Agreement or any other Loan Document, nor constitute a waiver of any provision of the Loan Agreement or any other Loan Document.

5. Release. (a) Each Borrower hereby acknowledges and agrees that: (i) no Borrower has any claim or cause of action against the Lender (or any of its Affiliates or its or their officers, directors, employees, managers, members, partner, shareholders, attorneys or consultants) in connection with the Loan Documents and (ii) the Lender has heretofore properly performed and satisfied in a timely manner all of its obligations to Borrower under the Loan Agreement and the other Loan Documents that are required to have been performed on or prior to the date hereof. Notwithstanding the foregoing, the Lender wishes (and Borrower agrees) to eliminate any possibility that any past conditions, acts, omissions, events or circumstances would impair or otherwise adversely affect any of the Lender's rights, interests, security and/or remedies under the Loan Agreement and the other Loan Documents. Accordingly, for and in consideration of the agreements contained in this Amendment and other good and valuable consideration, each Borrower (for itself and each other Borrower and the successors, assigns, heirs and representatives of each of the foregoing) (collectively, the "Releasors") does hereby fully, finally, unconditionally and irrevocably release and forever discharge Lender and each of its Affiliates and its and their managers, members, partners, officers, directors, employees, shareholders attorneys and consultants in their capacities as or for the Lender (collectively, the "Released Parties") from any and all debts, claims, obligations, damages, costs, attorneys' fees, suits, demands, liabilities, actions, proceedings and causes of action, in each case, whether known or unknown, contingent or fixed, direct or indirect, and of whatever nature or description, and whether in law or in equity, under contract, tort, statute or otherwise, which any Releasor has heretofore had or now or hereafter can, shall or may have against any Released Party by reason of any act, omission or thing whatsoever done or omitted to be done directly arising out of, connected with or related to this Amendment, the Loan Agreement or any other Loan Document, or any act, event or transaction related or attendant thereto, or the agreements of the Lender contained therein, or the possession, use, operation or control of any of the assets of any Borrower, or the making of any Loans or other Advances, or the management of such Loans or Advances or the Collateral, in each case, solely to the extent arising from any act, omission or thing whatsoever done or omitted to be done on or prior to the Sixth Amendment Effective Date.
6. Miscellaneous.
- a) Borrower will pay on demand all reasonable and documented out-of-pocket fees, costs and expenses of the Lender, including, without limitation, fees, costs and expenses of the Office of Andrew Ross, counsel to the Lender, in connection with the structuring, preparation, negotiation, execution and delivery of this Amendment and the transactions and all documents contemplated herein, and related transactions, and all documents with respect thereto.
- b) Section and paragraph headings herein are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

- c) Borrower hereby acknowledges and agrees that this Amendment constitutes a "Loan Document" under the Loan Agreement. Accordingly, it shall be an Event of Default under the Loan Agreement if (i) any representation or warranty made by a Borrower under or in connection with this Amendment shall have been incorrect in any material respect when made, or (ii) any Borrower shall fail to perform or observe any term, covenant or agreement contained in this Amendment.
  - d) All representations, warranties, acknowledgements, agreements and other covenants of the Borrowers in this Amendment are made on a joint and several basis and are made by each Borrower with respect to itself and all other Borrowers.
  - e) Any provision of this Amendment that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining portions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.
7. Covenant by Borrower. Borrower covenants and agrees that at any time upon the request of Lender, Borrower will cause Wireless Ronin Technologies, Corp., a Canadian company and subsidiary of CRI to become a party to the Loan Agreement.
8. Counterparts. This Amendment may be entered into in any number of separate counterparts by any one or more of the parties hereto, and all of said counterparts taken together shall constitute one and the same instrument. Valid and binding signatures to this Amendment may be delivered in original ink, by facsimile or by email or other means of electronic transmission.
9. Governing Law. This Amendment and the obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflicts of laws.
10. Submission To Jurisdiction; Waiver Of Jury Trial.
- a) BORROWER HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN NEW YORK CITY, NEW YORK, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWER AND THE LENDER PERTAINING TO THIS AMENDMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATED TO THIS AMENDMENT OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED, HOWEVER, THAT NOTHING IN THIS AMENDMENT OR ANY OTHER LOAN DOCUMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE THE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO COLLECT THE OBLIGATIONS, TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF THE LENDER. BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS.
  - b) THE PARTIES HERETO WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE BETWEEN LENDER AND BORROWER ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THIS AMENDMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO.

[ Remainder of page intentionally left blank ]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date set forth on the first page hereof.

**BORROWER:**

**CREATIVE REALITIES, INC.  
CREATIVE REALITIES, LLC  
CONEXUS WORLD GLOBAL, LLC  
ALLURE GLOBAL SOLUTIONS, INC.**

By: /s/ Richard Mills  
RICHARD MILLS  
*Chief Executive Officer*

Address for Notice (for all Borrowers):  
Creative Realities, Inc.  
Attention: Chief Financial Officer  
13100 Magisterial Drive, Ste. 100  
Louisville, KY 40223

**LENDER:**

SLIPSTREAM COMMUNICATIONS, LLC  
By: BCOM Holdings LP, its managing member  
By: BCOM GP, LLC, its general partner

By: /s/ Brian Friedman  
Name: Brian Friedman  
Title: General Counsel

Address for Notice:  
850 3<sup>rd</sup> Avenue, 18<sup>th</sup> Floor  
New York, NY 10022  
Attn: Mr. Anuj Kamdar

Exhibit A  
Fourth Allonge to Revolving Note

Exhibit B  
Fourth Allonge to Term Note

EXHIBIT A  
FOURTH ALLONGE TO REVOLVING NOTE

This Fourth Allonge (“Allonge”), dated as of November 6, 2019, is to the Secured Revolving Promissory Note dated as of December 12, 2016 in the maximum principal amount outstanding at any time of \$2,100,000.00 (as amended by an Allonge dated November 13, 2017, a Second Allonge dated April 27, 2018 and a Third Allonge dated as of November 20, 2018, the “Note”) made by Creative Realities, Inc., a Minnesota corporation, Creative Realities, LLC, a Delaware limited liability company, Conexus World Global, LLC, a Kentucky limited liability company, and Allure Global Solutions, Inc., a Georgia corporation, jointly and severally (each, and together herein referred to as “Maker”), payable to the order of Slipstream Communications, LLC, an Anguillan limited liability company (the “Holder”).

The Note was issued pursuant to that certain Loan and Security Agreement by and between, *inter alia*, Maker and the initial Holder dated as of August 16, 2016 (as amended by the First Amendment thereto dated as of the First Amendment Effective Date, the Second Amendment thereto dated as of the Second Amendment Effective Date, the Third Amendment thereto dated as of the Third Amendment Effective Date, the Fourth Amendment thereto dated as of the Fourth Amendment Effective Date, the Fifth Amendment dated as of the Fifth Amendment Effective Date, the Joinder Agreement dated as of November 20, 2018 and the Sixth Amendment dated as of the date hereof, and as it may be further amended, restated, supplemented, modified or otherwise changed from time to time, the “Loan Agreement”), and are subject to the terms and conditions thereof.

The Note is hereby amended as follows: All references therein to the “Maturity Date” shall mean June 30, 2021.

Except as expressly amended hereby, the Note, including without limitation the default and acceleration provisions thereof, remain in full force and effect, and Makers hereby confirm their liability thereunder to Holder.

IN WITNESS WHEREOF, this Allonge is executed and attached, or copies attached, to the Note on the date first set forth above.

## MAKERS

CREATIVE REALITIES, INC.  
CREATIVE REALITIES, LLC  
CONEXUS WORLD GLOBAL, LLC  
ALLURE GLOBAL SOLUTIONS, INC.

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

EXHIBIT B  
FOURTH ALLONGE TO TERM NOTE

This Furth Allonge (“Allonge”), dated as of November 6, 2019, is to the Amended and Restated Secured Term Promissory Note, dated as of August 16, 2016 in the initial principal amount of \$3,000,000.00 (as amended by an Allonge dated November 13, 2017 and a Second Allonge dated April 27, 2018, and a Third Allonge dated November 14, 2018, the “Note”) made by Creative Realities, Inc., a Minnesota corporation, Creative Realities, LLC, a Delaware limited liability company, Conexus World Global, LLC, a Kentucky limited liability company, and Allure Global Solutions, Inc., a Georgia corporation, jointly and severally (each, and together herein referred to as “Maker”), payable to the order of Slipstream Communications, LLC, an Anguillan limited liability company (the “Holder”).

The Note was issued pursuant to that certain Loan and Security Agreement by and between, *inter alia*, Maker and the initial Holder dated as of August 16, 2016 (as amended by the First Amendment thereto dated as of December 12, 2016, the Second Amendment thereto dated as of November 13, 2017, the Third Amendment dated as of January 16, 2018, the Fourth Amendment dated as of April 27, 2018, the Fifth Amendment dated as of November 14, 2018, the Joinder Agreement dated as of November 20, 2018 and the Sixth Amendment dated as of November 6, 2019, and as it may be further amended, restated, supplemented, modified or otherwise changed from time to time, the “Loan Agreement”), and are subject to the terms and conditions thereof.

The Note is hereby amended to change the Maturity Date to “June 30, 2021.”

Except as expressly amended hereby, the Note, including without limitation the default and acceleration provisions thereof, remain in full force and effect, and Makers hereby confirm their liability thereunder to Holder.

IN WITNESS WHEREOF, this Allonge is executed and attached, or copies attached, to the Note on the date first set forth above.

## MAKERS

CREATIVE REALITIES, INC.  
CREATIVE REALITIES, LLC  
CONEXUS WORLD GLOBAL, LLC  
ALLURE GLOBAL SOLUTIONS, INC.

By: /s/ Richard Mills

Name: Richard Mills

Title: Chief Executive Officer



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

I, Richard Mills, certify that:

1. I have reviewed this annual report on Form 10-Q for the nine months ended September 30, 2019, of Creative Realities, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2019

By: /s/ Richard Mills

Richard Mills

Chief Executive Officer

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

I, Will Logan, certify that:

1. I have reviewed this annual report on Form 10-Q for the nine months ended September 30, 2019, of Creative Realities, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2019

By: /s/ Will Logan

Will Logan

Chief Financial Officer

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

In connection with the Annual Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the nine months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: November 7, 2019

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

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

In connection with the Annual Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the nine months ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: November 7, 2019

By: /s/ Will Logan

Will Logan

Chief Financial Officer