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 March 31, 2024

or

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

For the transition period from ___________ to ___________

Commission File Number 001-33169

Creative Realities, Inc.
(Exact Name of Registrant as Specified in its Charter)

Minnesota	**41-1967918**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.

13100 Magisterial Drive, Suite 100, Louisville KY	**40223**
Address of Principal Executive Offices	Zip Code

(502) 791-8800
Registrant's Telephone Number, Including Area Code

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 9, 2024, the registrant had 10,446,659 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)

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,899	$ 2,910
Accounts receivable, net	9,516	12,468
Inventories, net	3,065	2,567
Prepaid expenses and other current assets	837	665
Total Current Assets	$ 16,317	$ 18,610
Property and equipment, net	464	499
Goodwill	26,453	26,453
Other intangible assets, net	23,985	24,062
Operating lease right-of-use assets	875	1,041
Other non-current assets	112	112
Total Assets	$ 68,206	$ 70,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,788	$ 7,876
Accrued expenses and other current liabilities	3,955	3,761
Deferred revenues	1,777	1,132
Customer deposits	4,411	3,233
Current maturities of operating leases	431	505
Short-term portion of related party Acquisition Term Loan, net of $613 and $0 discount, respectively	9,387	-
Short-term portion of related party Consolidation Term Loan, net of $655 and $747 discount, respectively	3,383	3,690
Short-term portion of contingent consideration, at fair value	10,603	-
Total Current Liabilities	38,735	20,197
Long-term related party Acquisition Term Loan, net of $0 and $787 discount, respectively	-	9,213
Long-term related party Consolidation Term Loan, net of $0 and $94 discount, respectively	-	616
Long-term obligations under operating leases	444	536
Long-term contingent consideration, at fair value	-	11,208
Other non-current liabilities	178	176
Total Liabilities	39,357	41,946
Shareholders' Equity		
Common stock, $0.01 par value, 66,666 shares authorized; 10,447 and 10,409 shares issued and outstanding, respectively	104	104
Additional paid-in capital	82,200	82,073
Accumulated deficit	(53,455)	(53,346)
Total Shareholders' Equity	28,849	28,831
Total Liabilities and Shareholders' Equity	$ 68,206	$ 70,777

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 March 31, 2024	For the Three Months Ended March 31, 2023
Sales		
Hardware	$ 4,144	$ 4,322
Services and other	8,141	5,622
Total sales	12,285	9,944
Cost of sales		
Hardware	3,193	3,206
Services and other	3,328	1,649
Total cost of sales	6,521	4,855
Gross profit	5,764	5,089
Operating expenses:		
Sales and marketing expenses	1,465	1,136
Research and development expenses	508	366
General and administrative expenses	3,028	2,898
Depreciation and amortization expense	839	779
Total operating expenses	5,840	5,179
Operating loss	(76)	(90)
Other expenses (income):		
Interest expense, including amortization of debt discount	663	803
Change in fair value of contingent consideration	(604)	76
Other expense (income)	(35)	(12)
Total other expenses (income)	24	867
Net loss before income taxes	(100)	(957)
Provision for income taxes	(9)	(43)
Net loss	$ (109)	$ (1,000)
Basic loss per common share	$ (0.01)	$ (0.14)
Diluted loss per common share	$ (0.01)	$ (0.14)
Weighted average shares outstanding - basic	10,421	7,351
Weighted average shares outstanding - diluted	10,421	7,351

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	**2023**
Operating Activities:		
Net loss	$ (109)	$ (1,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	839	779
Amortization of debt discount	360	356
Amortization of stock-based compensation	3	298
Bad debt expense	-	237
(Gain) loss on change in fair value of contingent consideration	(604)	76
Deferred income taxes	4	24
Changes to operating assets and liabilities:		
Accounts receivable	2,952	1,177
Inventories, net	(498)	788
Prepaid expenses and other current assets	(172)	1,015
Accounts payable	(2,976)	(486)
Accrued expenses and other current liabilities	317	(45)
Deferred revenue	645	2,382
Customer deposits	1,178	(1,693)
Other, net	(1)	(40)
Net cash provided by operating activities	1,938	3,868
Investing activities		
Purchases of property and equipment	(6)	(31)
Capitalization of labor for software development	(824)	(1,003)
Net cash used in investing activities	(830)	(1,034)
Financing activities		
Repayment of Consolidation Term Loan	(1,109)	-
Repayment of Secured Promissory Note	-	(310)
Repayment of Term Loan (2022)	-	(250)
Principal payments on finance leases	(10)	(2)
Net cash used in financing activities	(1,119)	(562)
Increase (decrease) in Cash and Cash Equivalents	(11)	2,272
Cash and Cash Equivalents, beginning of period	2,910	1,633
Cash and Cash Equivalents, end of period	$ 2,899	$ 3,905

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional paid in capital	Accumulated Deficit	Total
	Shares	**Amount**			
Three Months Ended March 31, 2024					
Balance as of December 31, 2023	10,409,027	$ 104	$ 82,073	$ (53,346)	$ 28,831
Stock-based compensation	-	-	3	-	3
Shares issued to employees pursuant to the Retention Bonus Plan	37,632	-	124	-	124
Net loss	-	-	-	(109)	(109)
Balance as of March 31, 2024	10,446,659	$ 104	$ 82,200	$ (53,455)	$ 28,849

	Common Stock		Additional paid in capital	Accumulated (Deficit)	Total
	Shares	**Amount**			
Three Months Ended March 31, 2023					
Balance as of December 31, 2022	7,266,382	$ 72	$ 75,916	$ (50,409)	$ 25,579
Stock-based compensation	-	-	243	-	243
Shares issued to directors as compensation	51,616	1	95	-	96
Shares issued to vendors as compensation	13,934	-	25	-	25
Shares issued to employees pursuant to the Retention Bonus Plan	62,475	1	138	-	139
Net loss	-	-	-	(1,000)	(1,000)
Balance as of March 31, 2023	7,394,407	$ 74	$ 76,417	$ (51,409)	$ 25,082

See accompanying notes to condensed consolidated financial statements.

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.

Our main operations are conducted directly through Creative Realities, Inc., and under our wholly owned subsidiaries Allure Global Solutions, Inc., a Georgia corporation ("Allure"), Creative Realities Canada, Inc., a Canadian corporation ("CRI Canada"), and Reflect Systems, Inc., a Delaware corporation ("Reflect").

Reverse stock split

On March 23, 2023, the Company filed Articles of Amendment with the Secretary of State of the State of Minnesota to effectuate, effective March 27, 2023, a 1-for-3 reverse stock split of the shares of the Company's common stock, par value $0.01 per share. All share and per share information (including share and per share information related to share-based compensation) has been retroactively adjusted to reflect the reverse stock split within this Quarterly Report on Form 10-Q ("Report").

As a result of the reverse stock split, effective 12:01 am on March 27, 2023, every three shares of common stock then-issued and outstanding automatically combined into one share of common stock, with no change in par value per share. No fractional shares were outstanding following the reverse stock split and any fractional shares resulting from the reverse split were rounded up to the nearest whole share of common stock. In connection with the reverse stock split, the total number of shares of common stock authorized for issuance was reduced from 200,000,000 shares to 66,666,666 shares in proportion to the reverse stock split.

Effective as of the same time as the reverse stock split, the number of shares of common stock available for issuance under the Company's equity compensation plans were reduced in proportion to the reverse stock split. The reverse stock split also resulted in reductions in the number of shares of common stock issuable upon exercising or vesting of equity awards in proportion to the reverse stock split and proportionate increases in exercise price or share-based performance criteria, if any, applicable to such awards. Similarly, the number of shares of common stock issuable upon exercise of outstanding warrants were reduced in proportion to the reverse stock split, and the exercise prices of outstanding warrants were proportionately increased.

Liquidity and Financial Condition

In accordance with Accounting Standards Update ("ASU") No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Subtopic 205-40) ("ASU 205-40")*, the Company has evaluated whether there are certain conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the Condensed Consolidated Financial Statements are issued.

At March 31, 2024, the Company has an accumulated deficit of $53,455, negative working capital of $22,418, including current debt obligations of $12,770, and cash of $2,899. For the three months ended March 31, 2024, the Company incurred an operating loss of $76 and generated positive net cash flows from operations of $1,938. Pursuant to the Second Amended and Restated Credit and Security Agreement (the "Credit Agreement") between the Company and Slipstream Communications, LLC ("Slipstream"), the Company is required and began to make monthly repayments of principal on the Consolidation Term Loan on September 1, 2023. The monthly principal payment is approximately $370 and will continue on the first day of each month thereafter until the Maturity Date on February 17, 2025, with total principal repayments of $3,593 during the twelve months subsequent to the reporting date of these Condensed Consolidated Financial Statements. In addition, the Company is required to repay the principal balance on the Acquisition Term Loan of $10,000 at maturity and resolve the contingent consideration, currently estimated for accounting purposes at $10,603, each of which mature on February 17, 2025. The Company does not have sufficient cash on hand or liquidity to make these principal repayments. The conditions and events raise substantial doubt about the Company's ability to continue as a going concern under the technical framework within ASU 205-40.

In response to these conditions, the Company plans to evaluate its available options for refinancing, via recapitalization, debt financing or equity financing, its upcoming obligations associated with the Acquisition Term Loan, Consolidation Term Loan, and contingent consideration. However, these plans have not been finalized, are subject to market conditions, and are not within the Company's control, and therefore cannot be deemed probable. As a result, the Company has concluded that management's plans do not alleviate substantial doubt about the Company's ability to continue as a going concern.

The Condensed Consolidated Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for 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, 2023, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 21, 2024, as amended on April 26, 2024.

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

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

2. Recently Issued Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities to disclose information about their reportable segments' significant expenses and other segment items on an interim and annual basis. Public entities with a single reportable segment are required to apply the disclosure requirements in ASU 2023-07, as well as all existing segment disclosures and reconciliation requirements in ASC 280 on an interim and annual basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-07.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires public entities, on an annual basis, to provide disclosure of specific categories in the rate reconciliation, as well as disclosure of income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2023-09.

3. Revenue Recognition

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

If an arrangement involves multiple performance obligations, the obligations are analyzed to determine the separate units of accounting, whether the obligations 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 customer and variable services being performed, the range of possible revenue amounts and the magnitude of the variable consideration to the overall arrangement. The Company receives variable consideration in very few instances.

Revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company has very few contracts with material extended payment terms as payment is typically due at or shortly after the time of the sale, typically ranging between thirty and ninety days. In those instances where the Company has material extended payment terms (most commonly in multi-year arrangements where the Company acts as an agent to a transaction on behalf of its customers), the Company evaluates and applies constraints to arrive at the revenue recognized in the period in which a contract is entered. 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 customers. A contract liability is recognized as deferred revenue when the Company invoices customers in advance of performing the related services under the terms of a contract. Deferred revenue is recognized as revenue when the Company has satisfied the related performance obligation.

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

4. Allowance for Credit Losses

The allowance for credit losses is the Company's best estimate of the amount of expected lifetime credit losses in the Company's accounts receivable. The Company regularly reviews the adequacy of its allowance for credit losses. The Company estimates losses over the contractual life using assumptions to capture the risk of loss, even if remote, based principally on how long a receivable has been outstanding. Account balances are charged off against the allowance for credit losses after all reasonable means of collection have been exhausted and the potential for recovery is considered remote. Other factors considered include historical write-off experience, current economic conditions, customer credit, and past transaction history with the customer. The allowance for credit losses is included in accounts receivable, net in the accompanying Condensed Consolidated Balance Sheets.

The Company had the following activity for its allowance for credit losses from December 31, 2023 to March 31, 2024:

	March 31, 2024	March 31, 2023
Balance as of beginning of year	$ 701	$ 984
Amounts accrued	-	237
Write-offs charged against the allowance	-	(4)
Balance as of end of period	$ 701	$ 1,217

5. Inventories

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

	March 31, 2024	December 31, 2023
Raw materials	$ 2,384	$ 2,063
Work-in-process	681	504
Total inventories	$ 3,065	$ 2,567

6. 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.

7. Basic and Diluted Loss per Common Share

Basic and diluted loss per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method.

Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 6,222,800 and 7,339,582 at March 31, 2024 and 2023, respectively, were excluded from the computation of loss per share as the strike price on the options and warrants were higher than the Company's market price and therefore anti-dilutive.

8. 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 a number of matters including, but not limited to, 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 March 31, 2024 and December 31, 2023.

9. Goodwill and Intangible Assets

We follow the provisions of ASC 350, *Goodwill and Other Intangible Assets*. Pursuant to ASC 350, goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually. The Company uses an annual measurement date of September 30 to assess impairment of goodwill and indefinite-lived intangible assets, or as indicators are identified.

Definite-lived intangible assets are amortized straight-line in accordance with their identified useful lives.

10. 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: contingent purchase consideration valuation, allowance for credit losses, valuation allowances related to deferred taxes, the fair value of acquired assets and liabilities, the fair value of liabilities reliant upon the appraised fair value of the Company, valuation of stock-based compensation awards and other assumptions and estimates used to evaluate the recoverability of long-lived assets, goodwill and other intangible assets and the related amortization methods and periods. Actual results could differ from those estimates.

11. Contingent Consideration

On November 12, 2021, the Company, Reflect, and other parties, entered into an Agreement and Plan of Merger (as amended on February 8, 2022 and February 11, 2023, the “Merger Agreement") pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, would merge with and into Reflect, with Reflect surviving the merger and becoming our wholly owned subsidiary, which transaction is referred to herein as the “Merger.” On February 17, 2022, the parties consummated the Merger. The Merger Agreement requires the Company to pay to the former Reflect stockholders additional contingent supplemental cash payments (the “Guaranteed Consideration”), if any, payable on or after February 17, 2025 (subject to the Extension Option described below, the “Guarantee Date”), in an amount by which the value of the CREX shares on such anniversary is less than $6.40 per share (such applicable amount, the “Guaranteed Price”), multiplied by the amount of CREX shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below). The Company has recorded contingent liabilities related to the Guaranteed Consideration to reflect the Company's 1-for-3 reverse stock split that occurred on March 23, 2023. Accordingly, the amount of the Company's potential liability related to the contingent consideration is recorded at $19.20 per share.

The Company may exercise an extension option (the “Extension Option”) to extend the Guarantee Date by six (6) months, from February 17, 2025 to August 17, 2025, if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) the Company provides written notice of its election to exercise the Extension Option no later than February 7, 2025. The “Extension Threshold Price” means the average closing price per share of Creative Realities common stock as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending February 2, 2025. The Merger Agreement provides that if the Extension Threshold Price is less than 80% of the Guaranteed Price, then the Guaranteed Price will be increased by $1.00 per share.

NOTE 3: 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 calculation of the fair value of the contingent consideration contains inputs which are unobservable and involve management judgment and are considered Level 3 estimates. Additionally, the separately identifiable intangible assets rely on a discounted cash flow model which utilizes inputs including the calculation of the weighted average cost of capital and management's forecast of future financial performance which are unobservable and involve management judgment and are considered Level 3 estimates.

The calculation of the weighted average cost of capital and management's forecast of future financial performance utilized within our discounted cash flow model for the impairment of goodwill contains inputs which are unobservable and involve management judgment and are considered Level 3 estimates.

NOTE 4: REVENUE RECOGNITION

The Company applies ASC 606 for revenue recognition. The following table disaggregates the Company's revenue by major source for the three months ended March 31, 2024 and 2023:

(in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Hardware	$ 4,144	$ 4,322
Services:		
Managed Services	4,774	4,072
Installation Services	2,160	947
Other Services	1,207	603
Total Services	8,141	5,622
Total Hardware and Services	$ 12,285	$ 9,944

Hardware

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.

Managed Services

Software as a service ("SaaS") license sales

Software as a service includes revenue from software licensing and delivery in which software is licensed on a subscription basis and is centrally hosted by the Company. 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.

Maintenance and support services

The Company sells support services that 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 and typically have autorenewal terms. 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 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.

Installation Services

The Company performs installation services associated with system hardware sales to customers and recognizes revenue upon completion of the installations. Installation services also include engineering and configuration services required to be performed to design and deploy a digital signage system that subsequently becomes an installation project.

When system hardware sales include installation services to be performed by the Company, the goods and services in the contract are, in certain instances, not distinct as the customer contract contemplates an installed solution, inclusive of system hardware. In those instances, the arrangement is accounted for as a single performance obligation. Our customers may control the work-in-process and can make changes to the design specifications over the contract term. In these circumstances, 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. Typically, in large scale deployments that include installation services, the contract terms segregate performance obligations related to hardware sales and installation services by providing for different legal transfer of title and risk of loss. In those circumstances, installation services are deemed to be a separate performance obligation. In each instance, installation services are recognized at the time of completion. Installation services revenues are classified as "Installation Services" within our disaggregated revenue.

Other Services

Software design and development services

Software design and custom development sales represent fixed fee orders for work on a time and materials basis and are recognized as revenue when the application, feature, or custom software code 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.

Media sales

Media revenues are derived from selling (i) promotion and sponsorship packages to monetize customer infrastructure assets, including mobile takeover or physical presence, or (ii) digital advertising inventory to advertisers on digital displays or other outdoor structures, owned or controlled by our customers, each within physical venues. We generally do not own the physical structures on which digital advertising we sell is displayed but instead sell advertising or sponsorship opportunities on behalf of our media network owner customers to brands and advertisers. The Company has concluded that it acts as an agent and reports media revenues on a net basis, with the Company recording its commission, which typically is between thirty percent (30%) and forty percent (40%) of the total media sales contract, as revenue in the consolidated financial statements.

The media sales contracts we facilitate on behalf of our customers range from a single day to eight years. The Company facilitates billing advertisers on behalf of our customers and does not remit the net cash to our customer until the advertiser has paid the Company the fees owed for such advertising. Media revenue services are recognized when the Company has completed its performance obligations under the contract with our customers, which typically has concluded upon facilitating execution of contracts between our customer and a brand/advertiser. The Company applies time-based constraints in accordance with ASC 606 to evaluate the earned portion of the contract to record at execution.

For revenues generated through the use of a subcontracted advertising agency, commissions are calculated based on a stated percentage of gross advertising revenue and reported in the Condensed Consolidated Statements of Operations within Sales and Marketing Expenses.

NOTE 5: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Three Months Ended March 31,	
	2024	**2023**
Supplemental non-cash investing activities		
Capitalized software in accounts payable	$ 89	$ 369
Property and equipment in accounts payable	$ -	$ 10
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 9	$ 40
Supplemental disclosure information for cash flow		
Cash paid during the period for:		
Interest	$ 323	$ 287
Operating leases	$ 190	$ 188
Income taxes, net	$ -	$ 2

NOTE 6: INTANGIBLE ASSETS, INCLUDING GOODWILL

Intangible Assets

Intangible assets consisted of the following at March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	$ 6,900	$ 2,447	$ 6,900	$ 2,255
Purchased and developed software	5,615	3,629	5,284	3,405
In-Process internally developed software platform	6,462	-	6,080	-
Customer relationships	13,910	3,378	13,910	3,054
Trademarks and trade names	1,260	708	1,260	660
Non-compete	30	30	30	28
	34,177	10,192	33,464	9,402
Accumulated amortization	10,192		9,402	
Net book value of amortizable intangible assets	$ 23,985		$ 24,062	

For the three months ended March 31, 2024 and 2023, amortization of intangible assets charged to operations was $790 and $754, respectively.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is subject to an impairment review at a reporting unit level, on an annual basis at September 30th each fiscal year, when an event occurs, or circumstances change that would indicate potential impairment. The Company has only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit.

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of its reporting unit. Fair value of the reporting unit was estimated using both (1) a market approach, leveraging recent industry merger and acquisition activity as well as comparable public company information, and (2) 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 current and preceding three years, further informed by known backlog and customer acquisitions. Based on the Company's assessment, we determined that the fair value of our reporting unit exceeded its carrying value, and accordingly, the goodwill associated with the reporting unit was not considered to be impaired at September 30, 2023. No indicators of impairment were identified at March 31, 2024.

The Company recognizes that any changes in our projected 2024 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 7: LOANS PAYABLE

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

As of March 31, 2024

Debt Instrument	Issuance Date		Principal	Maturity Date	Warrants	Interest Rate Information
Acquisition Term Loan	2/17/2022	$	10,000	2/15/2025	833,334	8% per annum through maturity
Consolidation Term Loan	2/17/2022		4,038	2/15/2025	898,165	10% per annum through maturity
	Total debt, gross		14,038		1,731,499	
	Debt discount		(1,268)			
	Total debt, net	$	12,770			
	Less current maturities		(12,770)			
	Long term debt	$	-			

As of December 31, 2023

Debt Instrument	Issuance Date		Principal	Maturity Date	Warrants	Interest Rate Information
Acquisition Term Loan	2/17/2022	$	10,000	2/15/2025	833,334	8% per annum through maturity
Consolidation Term Loan	2/17/2022		5,147	2/15/2025	898,165	10% per annum through maturity
	Total debt, gross		15,147		1,731,499	
	Debt discount		(1,628)			
	Total debt, net	$	13,519			
	Less current maturities		(3,690)			
	Long term debt	$	9,829			

Our largest shareholder and investor, Slipstream, a related party is the holder of all of our outstanding debt instruments, including two term loans, and has beneficial ownership of approximately 29% of our common stock (on an as-converted, fully diluted basis including conversion of outstanding warrants, and assuming no other convertible securities, options and warrants are converted or exercised by other parties).

Second Amended and Restated Loan and Security Agreement

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

The Credit Agreement also provides that the Company’s outstanding loans from Slipstream at December 31, 2021, consisting of its pre-existing $4,767 senior secured term loan and $2,418 secured convertible loan, with an aggregate of $7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a term loan (the “Consolidation Term Loan”). The Consolidation Term Loan has an interest rate of 10.0%, with 75.0% warrant coverage (or 898,165 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest payments on the Consolidation Term Loan. Commencing on September 1, 2023, and on the first day of each month thereafter until the Maturity Date, the Borrowers will make a payment on the Consolidation Term Loan, in an equal monthly installment of principal sufficient to fully amortize the Consolidation Term Loan in eighteen equal installments.

In addition to refinancing the existing debt with Slipstream, the Company issued to Slipstream a $10,000, 36-month senior secured term loan (the “Acquisition Term Loan”) resulting in $10,000 in gross proceeds, or $9,950 in net proceeds. The Acquisition Term Loan matures on February 17, 2025 (the “Maturity Date”) and has an interest rate of 8.0%, with 50.0% warrant coverage (or 833,334 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only payments on the Acquisition Term Loan. No principal payments on the Acquisition Term Loan are payable until the Maturity Date.

NOTE 8: COMMITMENTS AND CONTINGENCIES

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

NOTE 9: 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 months ended March 31, 2024 and 2023, we reported tax liability of $9 and $43, respectively. At March 31, 2024, the net deferred tax liabilities were $77 after valuation allowance, compared to net tax liabilities of $73 at December 31, 2023.

NOTE 10: WARRANTS

The Company had outstanding warrants accounted for as equity instruments in the Company's Condensed Consolidated Financial Statements totaling 4,587,002 at March 31, 2024 and December 31, 2023 with a weighted average exercise price of $4.90. The weighted average remaining contractual life of the outstanding warrants was 3.86 and 4.11 at March 31, 2024 and December 31, 2023, respectively.

NOTE 11: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

Time Vesting Options

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$4.01 - $8.00	566,673	6.38	$ 7.42	566,673	$ 7.42
$8.01+	95,791	1.78	25.06	95,791	$ 25.06
	662,464	5.72	$ 9.97	662,464	

Performance Vesting Options

Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
240,000	6.17	$ 7.59	240,000	$ 7.59
240,000	6.17	$ 7.59	240,000	

Market Vesting Options

Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
733,334	0.88	$ 3.00	-	$ -
733,334	0.88	$ 3.00	-	

	Market Vesting Options		***Time Vesting Options***		***Performance Vesting Options***	
Date/Activity	**Options Outstanding**	**Weighted Average Exercise Price**	**Options Outstanding**	**Weighted Average Exercise Price**	**Options Outstanding**	**Weighted Average Exercise Price**
Balance, December 31, 2023	733,334	3.00	662,798	$ 10.00	240,000	$ 7.59
Granted	-	-	-	-	-	-
Forfeited or expired	-	-	(334)	71.10	-	-
Balance, March 31, 2024	733,334	3.00	662,464	9.97	240,000	$ 7.59

The weighted average remaining contractual life for options exercisable is 5.84 years as of March 31, 2024.

Employee Awards

Stock-based compensation expense recognized for the issuance of stock options to employees for the three months ended March 31, 2024 and 2023 of $3 and $225, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. At March 31, 2024, there was $12 of total unrecognized compensation expense related to unvested share-based awards with market vesting criteria for employees. Compensation expense related to market vesting options will be recognized over the next 11 months and will be adjusted for any future forfeitures as they occur.

Non-Employee Awards

Stock-based compensation expense recognized for the issuance of stock options to our non-employee Board of Directors, for the three months ended March 31, 2024 and 2023 was $0 and $43 and included in general and administrative expense in the Condensed Consolidated Financial Statements. At March 31, 2024, there was no unrecognized compensation expense related to share-based awards for non-employee directors.

NOTE 12: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had four customers that accounted for 19%, 12%, 12%, and 11% of accounts receivable at March 31, 2024 and three customers that accounted for 28%, 25%, and 11% of accounts receivable at December 31, 2023.

We had four customers that accounted for 13%, 12%, 11%, and 10% of revenue for the three months ended March 31, 2024, compared to two customers that accounted for 31% and 13% of revenue for the three months ended March 31, 2023.

Significant Vendors

We had two vendors that accounted for 26% and 13% of outstanding accounts payable at March 31, 2024, and one vendor that accounted for 38% of outstanding accounts payable at December 31, 2023.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words "anticipates," "believes," "expects," "intends," "plans," "estimates," "projects," "should," "may," "propose," and similar expressions (or the negative versions of such words or expressions), as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated, and many of which are beyond our control. Factors that could cause actual results to differ materially from those anticipated are set forth under the caption "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on March 21, 2024.

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

The Company transforms environments through digital solutions by providing innovative digital signage solutions for key market segments and use cases, including:

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

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

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

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

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

- **Breadth of solutions** – Creative Realities offers a wide breadth of solutions to our customers. Creative Realities is one of only a few companies in the industry capable of providing the full portfolio of products and services required to implement and run an effective digital signage network. We leverage a 'single vendor' approach, providing customers with a one-stop-shop for sourcing digital signage solutions from design through day two services.

- **Managed labor pool** – Unlike most companies in our industry, we have a curated labor pool of qualified and vetted field technicians available to service customers quickly nationwide. We can meet tight schedules even in exceptionally large deployments and still ensure quality and consistency.

- **In-house creative resources** – We assist customers in creating new content or repurposing existing content for digital signage experiences, an activity for which the Company has won several design awards in recent years. In each instance, our services can be essential in helping customers develop an effective content program.

- **Network scalability and reliability** – Our SaaS content management platforms power some of the largest and most complex digital signage networks in North America, evidencing our ability to manage enterprise scale projects. This also provides us purchasing power to source products and services for our customers, enabling us to deliver cost effective, reliable and powerful solutions to small and medium size business customers.

- **Ad management platform** – Our customers are increasingly interested in monetizing their digital signage networks through advertising content. However, efficiently scheduling advertising content into digital signage playlists to meet campaign objectives can be a challenging and labor-intensive process for our customers. AdLogic, our home-grown, content management-agnostic platform, automates this process, allowing network owners to capture more revenue with less expense.

- **Media sales** – Few digital signage solution providers offer their customers media sales as a service. We have in-house media sales expertise to elevate conversations with our customers interested in better understanding network monetization. We believe this meaningful differentiation in the sales process provides us an additional revenue stream compared to our competitors.

- **Market sector expertise** – Creative Realities has in-house experts in key market segments such as automotive, retail, QSRs, convenience stores, and DOOH advertising. Our expertise in these business segments enable our teams to provide meaningful business conversations and offer tailored solutions with prospects and customers to their unique business objectives. These experts build industry relationship and create thought leadership that drives lead flow and new opportunities for our business.

- **Logistics** – Implementing a large digital signage project can be a logistical nightmare that can stall an initiative, even before deployment. Our expertise in logistics improves deployment efficiency, reduces delays and problems, and saves customers time and money.

- **Technical support** – Digital signage networks present unique challenges for corporate IT departments. We simplify and improve end user support by leveraging our own NOC in Louisville, Kentucky. The NOC resolves many issues remotely and when field support is required, it can be dispatched quickly from the NOC, leveraging our managed labor pool to resolve customer issues quickly and effectively.

- **Integrations and application development** – The future of digital signage is not still images and videos on a screen. We believe that interactive applications and integrations with other data sources will dominate the future. From social media feeds, mobile integrations, corporate data stores, or point of sale systems, our proven ability to build scalable applications and integrations is a key advantage that customers can leverage to deliver more compelling and engaging experiences for their customers.

- **Hardware support** – A number of digital signage providers sell a proprietary media player or align themselves with just one operating system. We utilize a range of media players including Windows, Android and BrightSign to provide customers the flexibility they need to select the appropriate hardware for any application knowing the entire network can still be served by a single digital signage platform, reducing complexity and improving the productivity of our customers.

Our Sources of Revenue

The three primary sources of revenue for the Company are:

- Hardware sales from reselling digital signage hardware from original equipment manufacturers such as Samsung and BrightSign.

- Services revenue from helping customers design, deploy and manage their digital signage network, including:

  - Hardware system design/engineering

  - Hardware installation

  - Content development

  - Content scheduling

  - Post-deployment network and field support

  - Media sales

- Recurring subscription licensing and support revenue from our digital signage software platforms, which are generally sold via a SaaS model. Our platforms:

  - **ReflectView**, the Company's core digital signage platform for most applications, scalable and cost effective from 10 to 100,000+ devices;

  - **Reflect Xperience**, a web-based interface that allows customers to give content scheduling access to local users via the web or mobile devices, while still maintaining centralized programming control;

  - **Reflect AdLogic**, the Company's ad management platform for digital signage networks, which presently delivers approximately 50 million ads daily;

  - **Clarity**, the Company's menu board solution, which has become a market leader for a range of restaurant and convenience store applications;

  - **Reflect Zero Touch**, which allows customers to turn any screen into an interactive experience by allowing guests to engage using their mobile device;

  - **iShowroomProX**, an omni-channel digital sales support platform targeted at original equipment manufacturers in the transportation sector, which integrates with dozens of key data services including dealer inventory at the VIN level; and

  - **OSx+**, a digital VIN-level checklist used to assist in the tracking and delivery of new vehicles in the transportation sector, providing measurable lift in customer satisfaction scores and connected vehicle enrollments and subscription activations.

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

Our Operating Expenses

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

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in Note 2 *Summary of Significant Accounting Policies* of the Company's Condensed Consolidated Financial Statements included elsewhere in this Report. The Company's Condensed Consolidated Financial Statements are prepared in conformity with GAAP. 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 share and per-share information.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

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

	For the three months ended March 31,		Change	
	2024	**2023**	**$**	**%**
Sales	$ 12,285	$ 9,944	$ 2,341	24%
Cost of sales	6,521	4,855	$ 1,666	34%
Gross profit	5,764	5,089	675	13%
Sales and marketing expenses	1,465	1,136	329	29%
Research and development expenses	508	366	142	39%
General and administrative expenses	3,028	2,898	130	4%
Depreciation and amortization expense	839	779	60	8%
Total operating expenses	5,840	5,179	661	13%
Operating loss	(76)	(90)	14	16%
Other expenses (income):				
Interest expense, including amortization of debt discount	663	803	(140)	17%
Change in fair value of contingent consideration	(604)	76	(680)	895%
Other expense (income)	(35)	(12)	(23)	192%
Total other expenses (income)	24	867	(843)	97%
Net loss before income taxes	(100)	(957)	857	90%
Provision for income taxes	(9)	(43)	34	79%
Net loss	$ (109)	$ (1,000)	891	89%

Sales

Sales increased $2,341, or 24%, for the three-month period ended March 31, 2024 as compared to the same period in 2023. Hardware revenues were $4,144, a decrease of $178, or 4%, for the three-month period ended March 31, 2024 as compared to the same period in 2023. While hardware revenues were effectively flat year over year, the composition in each period was substantially different, with the current period comprised of lower customer concentration (including no customer greater than 20% of hardware revenues) and an increasing number of customers making consistent, repeated purchases of similar solutions on a regular cadence. The prior period included a single customer that represented 62% of hardware revenues. Services and other revenues were $8,141, an increase of $2,519 or 45%, driven by increases in both installation and managed services revenues. Installation services revenue increased $1,213, or 128%, as a result of significant installation deployment activity during the period. Managed services revenue, which includes both SaaS and help desk technical subscription services were $4,774, an increase of $702, or 17%. The increase was driven by a combination of an increase in the quantity of licenses subject to software subscriptions on our platforms and an expansion in the average price per subscription license per month. The annual recurring run rate of our subscription license revenue, our highest margin service, grew 11% from $14,826 as of December 31, 2022 to $16,336 as of December 31, 2023 and has since expanded to $17,689 as of March 31, 2024.

Gross Profit

Gross profit increased $675, or 13%, for the three-month period ended March 31, 2024 as compared to the same period in 2023 driven by a 17% increase in our managed service revenue, which is our highest margin, typically subscription-based revenue.

Gross profit margin decreased to 47% from 51% driven by revenue mix during the current period as installation services, which is historically our lowest margin service, increased to 18% of total revenue as compared to 10% of total revenues in the prior 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 $329, or 29%, for the three-month period ended March 31, 2024 as compared to the same period in 2023, driven primarily by the Company's enhanced investments into sales and marketing activities, including incremental sales personnel and increased participation in industry trade show events.

Research and Development Expenses

Research and development expenses generally include personnel and development tools costs associated with the continued development of the Company's content management systems and other related application development. The Company capitalizes certain of these expenses and amortizes those costs through the Condensed Consolidated Statements of Operations on a straight-line basis over the economic useful life of the software feature or functionality. Research and development expenses increased by $142, or 39%, for the three-month period ended March 31, 2024 as compared to the same period in 2023 driven primarily by incremental headcount and a higher rate of bug and maintenance work as compared to capitalized activities during the quarter ended March 31, 2024.

General and Administrative Expenses

General and administrative expenses were effectively flat, increasing $130, or 4% during the three months ended March 31, 2024 as compared to the same period in 2023. The change is driven by an increase of $408 in personnel costs in the current period as a result of higher headcount due to scaled up operations in response to an increase in customer acquisition and associated planned deployments. This increase was partially offset by a $294 decrease in stock compensation expense in the current period as all outstanding time vested and performance awards for employees and directors were fully expensed as of December 31, 2023.

Depreciation and Amortization Expenses

Depreciation and amortization expenses were effectively flat, increasing $60, or 8%, in the three months ended March 31, 2024 compared to the same period in 2023. The Company currently expects depreciation and amortization expense to be approximately $800 per quarter for the remainder of 2024.

Interest Expense

See Note 7 *Loans Payable* to the Condensed Consolidated Financial Statements for a discussion of the Company's debt and related interest expense obligations.

Changes in fair value of contingent consideration

The Company has a contingent consideration arrangement related to the Merger to potentially pay additional cash amounts in future periods based on the lack of achievement of certain share price performance goals of our common stock. Such contingent consideration arrangements are recorded at fair value and are classified as liabilities on the acquisition date and are remeasured at each reporting period in accordance with ASC 805-30-35-1 using a Monte Carlo simulation model. The change in the period represents the mark-to-market adjustment as of the balance sheet date.

Summary Unaudited Quarterly Financial Information

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

	Quarters Ended				
Quarters ended	**March 31 2024**	**December 31 2023**	**September 30 2023**	**June 30 2023**	**March 31 2023**
GAAP net (loss) income	$ (109)	$ 1,419	$ (1,931)	$ (1,425)	$ (1,000)
Interest expense:					
Amortization of debt discount	360	366	363	358	356
Other interest, net	303	302	371	429	447
Depreciation/amortization:					
Amortization of intangible assets	790	781	766	754	754
Amortization of employee share-based awards	3	4	3	151	225
Depreciation of property & equipment	49	48	50	43	25
Income tax (benefit) expense	9	10	(15)	45	43
EBITDA	$ 1,405	$ 2,930	$ (393)	$ 355	$ 850
Adjustments					
Loss (Gain) on fair value of contingent consideration	(604)	(42)	1,369	16	76
Stock-based compensation – Director grants	-	21	43	43	43
Other (income) expense	(35)	(79)	3	(123)	(12)
Adjusted EBITDA	$ 766	$ 2,830	1,022	$ 291	957

Liquidity and Capital Resources

See Note 1 *Nature of Organization and Operations* to the accompanying Condensed Consolidated Financial Statements for a discussion of liquidity and financial resources.

Operating Activities

The net cash provided by operating activities during the three months ended March 31, 2024, was $1,938, compared to $3,868 for the same period in 2023. During the three-month period ending March 31, 2024, the Company generated a net loss of $100, which included depreciation and amortization expense (inclusive of amortization of debt discount) of $1,199 and a gain on the change in fair value of contingent consideration of $605. The Company generated a $1,441 increase in cash provided by changes in operating assets and liabilities. The decrease in accounts receivable of $2,952 was effectively offset by a decrease in accounts payable of $2,976.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2024, was $830, compared to $1,034 during the same period in 2023. We currently do not have any material commitments for capital expenditures as of March 31, 2024; however, we anticipate a reduction in capital expenditures entering 2024 as we complete the modernization and internationalization of our automotive platform in an effort to capture incremental SaaS-based revenue contracts.

Financing Activities

Net cash used in financing activities during the three months ended March 31, 2024, was $1,119, compared $562 for the same period in 2023. Net cash used in financing activities during the three-month period ended March 31, 2024, is primarily the result of repayments made on the Consolidation Term Loan of $1,109.

Off-Balance Sheet Arrangements

During the three months ended March 31, 2024, we did not engage in any off-balance sheet arrangements set forth in Item 303(a)(4) of Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this Report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2024, and were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item; however, the discussion of our business and operations should be read together with the Risk Factors set forth in our Annual Report on Form 10-K filed with the SEC on March 21, 2024, as amended on April 26, 2024, and subsequent filings made with the SEC. Such risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flow, strategies or prospects in a material and adverse manner. In addition, below is an updated risk factor for which you should be aware:

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

The market for interactive marketing technologies is highly competitive and we expect competition to increase in the future. Many competitors have significantly greater financial, technical, and marketing resources than us. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer preferences or requirements. They may also devote greater resources to the development, promotion and sale of their products and services than us. There currently exist hardware manufacturers, including Samsung, that have begun including customizable display technology software in its screens that offer users the ability to create basic marketing displays. While we currently believe that our existing technologies offer a more comprehensive solution to this offering, for customers that do not require these offerings could be viewed as a competitive solution.

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

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

Rule 10b5-1 Trading Plans

During the quarter ended March 31, 2024, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

Earnings Release

On May 10, 2024, the Company issued a press release announcing its financial condition and results of operations for the three months ended March 31, 2024. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference into this Item 5 in lieu of separately furnishing such press release under Item 2.02 of Form 8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 6. Exhibits

Exhibit No.	Description
31.1	Chief Executive Officer Certification pursuant to Exchange Act Rule 13a-14(a).
31.2	Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
99.1	Press Release dated May 10, 2024
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith

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: May 10, 2024	By	/s/ Richard Mills
		Richard Mills Chief Executive Officer
	By	/s/ Will Logan
		Will Logan Chief Financial Officer

EXHIBIT 31.1

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

I, Richard Mills, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended March 31, 2024, 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: May 10, 2024

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

EXHIBIT 31.2

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

I, Will Logan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended March 31, 2024, 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: May 10, 2024

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three months ended March 31, 2024, 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: May 10, 2024

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Creative Realities, Inc. (the “Company”) on Form 10-Q for the three months ended March 31, 2024, 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: May 10, 2024

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

Exhibit 99.1

FOR IMMEDIATE RELEASE

Creative Realities Reports Fiscal 2024 First Quarter Results

Strong Revenue Growth, Refinancing Underway, 2024 Outlook Reaffirmed

LOUISVILLE, KY – May 10, 2024 – Creative Realities, Inc. ("Creative Realities," "CRI," or the "Company") (NASDAQ: CREX), a leading provider of digital signage and media solutions, announced its financial results for the fiscal first quarter ended March 31, 2024.

Highlights:

- Record first quarter revenue of $12.3 million, up 24% from $9.9 million in the prior-year period
- Gross profit of $5.8 million for the three months ended March 31, 2024 versus $5.1 million in the first quarter of fiscal 2023
- Adjusted EBITDA* of $0.8 million for the first quarter of 2024 versus $1.0 million in the prior-year period
- Annual recurring revenue ("ARR") of approximately $17.7 million at the end of the first quarter versus $16.3 million at the beginning of the fiscal year; the Company reaffirms its 2024 exit run rate guidance of $20.0 million
- Refinancing strategy is being implemented to increase financial flexibility and lower long-term interest expense through a new $20 million senior revolving credit facility and $5 million accordion, with no prepayment penalties or fixed amortization schedule

"We're off to a great start in fiscal 2024 with strong revenue growth and solid margins, on track to deliver record results this year," said Rick Mills, Chief Executive Officer. "Revenue rose more than 20% year-over-year in the first quarter, to $12.3 million, even as the first quarter is typically light due to seasonality and budget cycles. While our consolidated gross margin was lower than the 2023 first quarter, on a percentage basis, this was primarily due to the significant 45% growth in service revenue that included a higher percentage of installations – increasing to 18% of revenue as compared to 10% in the prior-year period. While dampening margins in the quarter, such installs will lead to greater subscription revenues going forward, and we ended the quarter with a record ARR of approximately $17.7 million.

"In addition, as recently announced, on May 8, 2024, we signed a non-binding commitment letter for a transformational refinancing agreement, expected to close next week, that provides a $20 million revolver as well as access to a $5 million accordion feature. Not only will this allow for greater financial flexibility, it will enable the Company to lower its interest rate exposure and move towards a more optimal capital structure. By the end of the first quarter we had, once again, reduced our outstanding debt, and we remain focused on de-levering the balance sheet going forward. Overall, given a strong pipeline of opportunities, increasing installations, and sound operating execution, we are well positioned to see substantial growth in the quarters to come and remain on track for our best year ever, including a $20 million ARR by the end of 2024."

*Adjusted EBITDA is a non-GAAP financial measure. A reconciliation is provided in the tables of this press release.

2024 First Quarter Financial Results

Sales were $12.3 million for the fiscal 2024 first quarter, an increase of $2.4 million, or 24%, as compared to the same period in fiscal 2023. Hardware revenue was $4.1 million, versus $4.3 million in the prior-year period, while service revenue rose to $8.1 million from $5.6 million in fiscal 2023, an increase of 45%, reflecting higher installation and managed services. Installation service revenue increased $1.2 million year-over-year – or 128% – due to significant deployment activity during the period.

Consolidated gross profit was $5.8 million for the fiscal 2024 first quarter versus $5.1 million in the prior-year period, and consolidated gross margin was 46.9% versus 51.2% in the fiscal 2023 first quarter. Gross margin on hardware revenue was 22.9% in fiscal 2024 as compared to 25.8% in the prior-year period, largely reflecting product mix and contract timing. Gross margin on service amounted to 59.1%, versus 70.7% in the fiscal 2023 first quarter, reflecting the fact that installations – historically the Company's lowest margin service – increased to 18% of total revenue as compared to 10% in the prior-year period. Software subscription run-rates continued to rise, however, and the Company ended the quarter with record ARR of approximately $17.7 million on an annualized run rate.

Sales and marketing expenses in the first quarter rose to $1.5 million, versus $1.1 million in the prior-year period, reflecting enhanced investment in business development activities. Research and development expenses were $0.5 million versus $0.4 million in the fiscal 2023 first quarter. First quarter general and administrative expenses were $3.0 million, up slightly year-over-year, primarily reflecting increases in deployment personnel and the implementation of a new ERP system.

The Company posted an operating loss of approximately $0.1 million in the first quarter of both fiscal 2024 and 2023. CRI reported a net loss of $0.1 million, or $(0.01) per diluted share, in the quarter ended March 31, 2024 versus a net loss of $1.0 million, or $(0.14) per diluted share, in the prior-year period.

Adjusted EBITDA (defined later in this release) was $0.8 million in the first quarter of 2024 as compared to $1.0 million in the prior-year period.

Balance Sheet

As of March 31, 2024, the Company had cash on hand of approximately $2.9 million, virtually equivalent to December 31, 2023. The Company had outstanding principal debt of approximately $14.0 million as of March 31, 2024 versus $15.1 million at the start of the fiscal year. The Company's net debt as of the date of this release is approximately $11.7 million. CRI continues to repay approximately $0.4 million in debt principal monthly, with a focus to reduce its leverage ratio going forward. As of the end of the first quarter, the trailing twelve month leverage ratio was 2.86 and 2.27 on a gross and net basis, respectively, versus 2.97 and 2.40 at the beginning of 2024. Net debt is equal to the Company's cash on hand less outstanding debt.

Conference Call Details

The Company will host a conference call to review the results of the first quarter 2024, and provide additional commentary about recent performance, today, May 10, at 9:00 am Eastern Time, which will include prepared remarks and materials from management, followed by a live Q&A. The call will be hosted by Rick Mills, Chief Executive Officer, and Will Logan, Chief Financial Officer.

Prior to the call, participants should register at https://bit.ly/CRIearnings2024Q1. Once registered, participants can use the weblink provided in the registration email to participate in the live webcast. An archived edition of the earnings conference call will also be posted on the Company's website later today and will remain available for one year.

About Creative Realities, Inc.

Creative Realities helps clients use place-based digital media to achieve business objectives such as increased revenue, enhanced customer experiences, and improved productivity. The Company designs, develops and deploys digital signage experiences for enterprise-level networks, and is actively providing recurring SaaS and support services across diverse vertical markets, including but not limited to retail, automotive, digital-out-of-home (DOOH) advertising networks, convenience stores, foodservice/QSR, gaming, theater, and stadium venues.

Use of Non-GAAP Measures

Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles ("GAAP"). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding "EBITDA" and "Adjusted EBITDA." CRI defines "EBITDA" as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines "Adjusted EBITDA" as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, EBITDA and Adjusted EBITDA are used internally in planning and evaluating the Company's operating performance. Accordingly, management believes that disclosure of these metrics offers investors, bankers and other stakeholders an additional view of the Company's operations that, when coupled with the GAAP results, provides a more complete understanding of the Company's financial results. EBITDA and Adjusted EBITDA should not be considered as an alternative to net income/(loss) or to net cash used in operating activities as measures of operating results or liquidity. Our calculation of EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures used by other companies, and the measures exclude financial information that some may consider important in evaluating the Company's performance. A reconciliation of GAAP net income/(loss) to EBITDA and Adjusted EBITDA is included in the accompanying financial schedules. For further information, please refer to Creative Realities, Inc.'s filings available online at www.sec.gov, including its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 21, 2024.

Cautionary Note on Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, and includes, among other things, discussions of our business strategies, product releases, future operations and capital resources. Words such as "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose" and variations of these words or similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance, conditions or results. They are based on the opinions, estimates and beliefs of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties, assumptions and other factors, many of which are outside of our control, that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Some of these risks are discussed in the “Risk Factors” section contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, as amended, and the Company’s subsequent filings with the U.S. Securities and Exchange Commission. Important factors, among others, that may affect actual results or outcomes include: our ability to consummate the refinancing arrangement; our strategy for customer retention, growth, product development, market position, financial results and reserves, our ability to execute on our business plan, our ability to retain key personnel, our ability to remain listed on the Nasdaq Capital Market, our ability to realize the revenues included in our future guidance and backlog reports, our ability to satisfy our upcoming debt obligations, contingent liabilities and other liabilities, the ability of the Company to continue as a going concern, potential litigation, supply chain shortages, and general economic and market conditions impacting demand for our products and services. Readers should not place undue reliance upon any forward-looking statements. We assume no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Contact

Christina Davies
cdavies@ideagrove.com

Investor Relations:
Chris Witty
cwitty@darrowir.com
646-438-9385
ir@cri.com
https://investors.cri.com/

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

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,899	$ 2,910
Accounts receivable, net	9,516	12,468
Inventories, net	3,065	2,567
Prepaid expenses and other current assets	837	665
Total Current Assets	$ 16,317	$ 18,610
Property and equipment, net	464	499
Goodwill	26,453	26,453
Other intangible assets, net	23,985	24,062
Operating lease right-of-use assets	875	1,041
Other non-current assets	112	112
Total Assets	$ 68,206	$ 70,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,788	$ 7,876
Accrued expenses and other current liabilities	3,955	3,761
Deferred revenues	1,777	1,132
Customer deposits	4,411	3,233
Current maturities of operating leases	431	505
Short-term portion of related party Acquisition Term Loan, net of $613 and $0 discount, respectively	9,387	-
Short-term portion of related party Consolidation Term Loan, net of $655 and $747 discount, respectively	3,383	3,690
Short-term portion of contingent consideration, at fair value	10,603	-
Total Current Liabilities	38,735	20,197
Long-term related party Acquisition Term Loan, net of $0 and $787 discount, respectively	-	9,213
Long-term related party Consolidation Term Loan, net of $0 and $94 discount, respectively	-	616
Long-term obligations under operating leases	444	536
Long-term contingent consideration, at fair value	-	11,208
Other non-current liabilities	178	176
Total Liabilities	39,357	41,946
Shareholders' Equity		
Common stock, $0.01 par value, 66,666 shares authorized; 10,447 and 10,409 shares issued and outstanding, respectively	104	104
Additional paid-in capital	82,200	82,073
Accumulated deficit	(53,455)	(53,346)
Total Shareholders' Equity	28,849	28,831
Total Liabilities and Shareholders' Equity	$ 68,206	$ 70,777

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

	For the Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Sales		
Hardware	$ 4,144	$ 4,322
Services and other	8,141	5,622
Total sales	12,285	9,944
Cost of sales		
Hardware	3,193	3,206
Services and other	3,328	1,649
Total cost of sales	6,521	4,855
Gross profit	5,764	5,089
Operating expenses:		
Sales and marketing expenses	1,465	1,136
Research and development expenses	508	366
General and administrative expenses	3,028	2,898
Depreciation and amortization expense	839	779
Total operating expenses	5,840	5,179
Operating loss	(76)	(90)
Other expenses (income):		
Interest expense, including amortization of debt discount	663	803
Change in fair value of contingent consideration	(604)	76
Other expense (income)	(35)	(12)
Total other expenses (income)	24	867
Net loss before income taxes	(100)	(957)
Benefit (provision) for income taxes	(9)	(43)
Net loss	$ (109)	$ (1,000)
Basic loss per common share	$ (0.01)	$ (0.14)
Diluted loss per common share	$ (0.01)	$ (0.14)
Weighted average shares outstanding - basic	10,421	7,351
Weighted average shares outstanding - diluted	10,421	7,351

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Operating Activities:		
Net loss	$ (109)	$ (1,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	839	779
Amortization of debt discount	360	356
Amortization of stock-based compensation	3	298
Bad debt expense	-	237
(Gain) loss on change in fair value of contingent consideration	(604)	76
Deferred income taxes	4	24
Changes to operating assets and liabilities:		
Accounts receivable	2,952	1,177
Inventories, net	(498)	788
Prepaid expenses and other current assets	(172)	1,015
Accounts payable	(2,976)	(486)
Accrued expenses and other current liabilities	317	(45)
Deferred revenue	645	2,382
Customer deposits	1,178	(1,693)
Other, net	(1)	(40)
Net cash provided by operating activities	1,938	3,868
Investing activities		
Purchases of property and equipment	(6)	(31)
Capitalization of labor for software development	(824)	(1,003)
Net cash used in investing activities	(830)	(1,034)
Financing activities		
Repayment of Consolidation Term Loan	(1,109)	-
Repayment of Secured Promissory Note	-	(310)
Repayment of Term Loan (2022)	-	(250)
Principal payments on finance leases	(10)	(2)
Net cash used in financing activities	(1,119)	(562)
Increase (decrease) in Cash and Cash Equivalents	(11)	2,272
Cash and Cash Equivalents, beginning of period	2,910	1,633
Cash and Cash Equivalents, end of period	$ 2,899	$ 3,905

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

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

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

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

	Quarters Ended				
Quarters ended	**March 31 2024**	**December 31 2023**	**September 30 2023**	**June 30 2023**	**March 31 2023**
GAAP net (loss) income	$ (109)	$ 1,419	$ (1,931)	$ (1,425)	$ (1,000)
Interest expense:					
Amortization of debt discount	360	366	363	358	356
Other interest, net	303	302	371	429	447
Depreciation/amortization:					
Amortization of intangible assets	790	781	766	754	754
Amortization of employee share-based awards	3	4	3	151	225
Depreciation of property & equipment	49	48	50	43	25
Income tax (benefit) expense	9	10	(15)	45	43
EBITDA	$ 1,405	$ 2,930	$ (393)	$ 355	$ 850
Adjustments					
Loss (Gain) on fair value of contingent consideration	(604)	(42)	1,369	16	76
Stock-based compensation – Director grants	-	21	43	43	43
Other (income) expense	(35)	(79)	3	(123)	(12)
Adjusted EBITDA	$ 766	$ 2,830	1,022	$ 291	957