UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

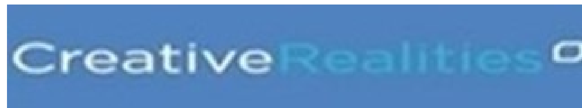
For the fiscal year ended December 31, 2019

OR

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

For the transition period from ___________ to ___________

Commission file number 001-33169



Creative Realities, Inc.
(Exact name of registrant as specified in its charter)

Minnesota	**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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	CREX	The Nasdaq Stock Market LLC
Warrants to purchase Common Stock	CREXW	The Nasdaq Stock Market LLC

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

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

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

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

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

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

Large accelerated filer ☐	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 ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $9,379,858 as of the last business day of the registrant's most recently completed second fiscal quarter.

As of March 11, 2020, the registrant had 9,794,971 shares of common stock outstanding.

TABLE OF CONTENTS

PART I		
ITEM 1	BUSINESS	1
ITEM 1A	RISK FACTORS	6
ITEM 2	PROPERTIES	18
ITEM 3	LEGAL PROCEEDINGS	18
ITEM 4	MINE SAFETY DISCLOSURES	18
PART II		
ITEM 5	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	19
ITEM 6	SELECTED FINANCIAL DATA	20
ITEM 7	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	20
ITEM 7A	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	29
ITEM 8	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	29
ITEM 9	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	29
ITEM 9A	CONTROLS AND PROCEDURES	29
ITEM 9B	OTHER INFORMATION	30
PART III		
ITEM 10	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	31
ITEM 11	EXECUTIVE COMPENSATION	33
ITEM 12	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	35
ITEM 13	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	38
ITEM 14	PRINCIPAL ACCOUNTANT FEES AND SERVICES	39
PART IV		
ITEM 15	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	40
SIGNATURES		41
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS		F-1
EXHIBIT INDEX		E-1

PART I

ITEM 1 BUSINESS

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

Our Company

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

On November 20, 2018, we closed on our acquisition of Allure Global Solutions, Inc. (the "Allure Acquisition"). While the Allure Acquisition expanded our operations, geographical footprint and customer base and also enhanced our current product offerings, the core business of Allure is consistent with the operations of Creative Realties, Inc.

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

We generate revenue in this business by:

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

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

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

Our digital marketing technology solutions have application in a wide variety of industries. The industries in which we sell our solutions are established and include automotive, apparel & accessories, banking, baby/children, beauty, CPG, department stores, digital out-of-home ("DOOH"), electronics, fashion, fitness, foodservice/quick service restaurant ("QSR"), financial services, gaming, luxury, mass merchants, mobile operators, and pharmacy retail; however, the planning, development, implementation and maintenance of technology-enabled experiences involving combinations of digital marketing technologies is relatively new and evolving. Moreover, a number of participants in these industries have only recently started considering or expanding the adoption of these types of technologies, solutions and experiences as part of their overall marketing strategies. As a result, we remain without an established history of profitability.

We believe that the adoption and evolution of digital marketing technology solutions will increase substantially in years to come both in the industries in which we currently focus and in others. We also believe that adoption of our solutions depends not only upon the services and solutions that we provide but also upon the cost of hardware used to process and display content. While the costs of hardware configurations and software media players have historically decreased and we believe they will continue to do so at an accelerating rate, flat panel displays and players typically constitute a large portion of the expenditure customers make relative to the entire cost of implementing a digital marketing system implementation and can be a barrier to customer deployment. As a result, we believe that the broader adoption of digital marketing technology solutions is likely to increase, although we cannot predict the rate at which such adoption will occur.

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

You may read and copy any materials we file with the SEC at the SEC's public reference room at 100 F Street NE, Washington, DC 20549. The public may obtain information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The website of the SEC is www.sec.gov. Additional information about the Company and its public disclosures is available on our website at www.cri.com.

Corporate Organization

Our principal offices are located at 13100 Magisterial Drive, Ste 100, Louisville, Kentucky 40223, and our telephone number at that office is (502) 791-8800.

We originally incorporated and organized as a Minnesota corporation under the name Wireless Ronin Technologies, Inc. in March 2003. Our business initially focused on the provision of expertise in digital media marketing solutions to customers, including digital signage, interactive kiosks, mobile, social media and web-based media solutions. We acquired the assets and business of Broadcast International, Inc., a Utah corporation and public registrant, through a merger transaction that was effective as of August 1, 2014. Then on August 20, 2014, we consummated a merger transaction with Creative Realities, LLC, a privately owned Delaware limited liability company, in which we issued a majority of our issued and outstanding shares of common stock. In that merger transaction, we acquired the interactive marketing technology business of Creative Realities that we currently operate. Shortly after that merger, we changed our corporate name from Wireless Ronin Technologies, Inc. to "Creative Realities, Inc." On October 15, 2015, we acquired the assets and business of ConeXus World Global, LLC, a privately-owned Kentucky limited liability company for which we issued preferred and common stock. In that merger transaction, we acquired the systems integration and marketing technology business of ConeXus World that we currently operate. On May 23, 2016, we dissolved Broadcast International, Inc. On November 20, 2018, we acquired Allure Global Solutions, Inc. ("Allure"), an enterprise software development company (as further described below).

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

Our fiscal year ends December 31. Neither we nor any of our predecessors have been in bankruptcy, receivership or any similar proceeding.

Business Strategy

We believe that our existing business model is highly scalable and can be expanded successfully as we continue to grow organically and integrate our recent merger transactions, acquire and integrate other companies which operate directly in our target markets, strengthen our operational practices and procedures, further streamline our administrative office functions, and continue to capitalize on various marketing programs and activities.

Industry Background

Over approximately the past 18-36 months, we believe certain digital marketing technology industry trends are creating the opportunity for retailers, brands, venue-operators, enterprises, non-profits and other organizations to create innovative shopping, marketing, and informational experiences for their customers and other stakeholders in various venues worldwide. These trends include: (i) the expectations of technology-savvy consumers; (ii) addressing on-line competitors by improving physical experiences; (iii) accelerating decline in the cost of hardware configurations (primarily flat panel displays) and software media players; (iv) the continued evolution of mobile, social, software and hardware technologies, applications and tools; (v) increasing sophistication of social networking platforms; (vi) increasingly complex customer requirements related to their specific digital marketing technology and solution objectives; and (vii) customers challenging service providers with the delivery of a satisfactory consumer experience with the traditional pressure on reducing installation and ongoing operating costs.

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

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

- Digital Merchandising Systems, which aim to inform and interact with customers through various types of content in an integrated experience, improve in-store customer experiences and increase overall sales, upsells, and/or cross-sales;

- Digital Sales Assistants, which aim to replace or augment existing sales resources and the level of interactive and informational sales assistance inside the store;

- Digital Way-Finders, which aim to help customers navigate their way around individual retail stores and multi-store locations or venues, or within individual brand categories;

- Digital Kiosks, which aim to provide data, specialized and customized broadcasts, promotional information and coupons, train, and other forms of information and interaction with customers in a variety of deployment forms, types, configurations and experiences;

- Digital Menu-Board Systems, which aim to enable various types of restaurant operators the ability to remotely and on a scheduled basis, update and modify menu information, promotions, and other forms of content dynamically;

- Dynamic Digital Signage which aims to deliver and manage in-store marketing and advertising campaigns, specialized and customized broadcasts, and various other forms of messaging targeting customers in a particular experience or environment.

Our Markets

We currently market and sell our marketing technology solutions through our direct sales force, inside sales team, and word-of-mouth referrals from existing customers. Select strategic partnerships and lead generation programs also drive business to the Company through targeted business development initiatives. We market to companies that seek digital marketing solutions across multiple connected devices and who specifically seek or could benefit from enhancements to the customer experience offered in their stores, venues, brands or organizations.

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

Seasonality

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

Effect of General Economic Conditions on our Business

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

Regulation

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

Competition

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

Major Customers

We had one (1) and two (2) customers that accounted for 18.5% and 48.3% of revenue for the years ended December 31, 2019 and 2018, respectively.

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

For the years ended December 31, 2019 and 2018, we had sales of $1,103 (3.5% of consolidated sales) and $1,566 (6.9% of consolidated sales), respectively, with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees").

Territories

We sell products and services primarily throughout North America.

Employees

We have approximately 100 employees as of March 12, 2020. We do not have any employees that operate under collective-bargaining agreements.

ITEM 1A RISK FACTORS

Our business involves a high degree of risk. In evaluating our business, you should carefully consider the specific risks described below, and any risks described in our other filings with the Securities and Exchange Commission, pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934. Any of the risks we describe below could cause our business, financial condition, results of operations or future prospects to be materially adversely affected. In addition, some of the following statements are forward-looking statements. For more information about forward-looking statements, please see the "Forward-Looking Statements" section included in Item 7 of this Annual Report. Amounts within the "Risk Factors" section are stated in thousands with the exception of share information.

RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

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

Except for the second, third and fourth quarters of 2019, we have incurred historical net losses. As of and for the year-ended December 31, 2019 we have a working capital deficit and have had negative cash flows from operations. We incurred a net loss for the year ended December 31, 2018. While we have been able to achieve profitability in recent periods, it is uncertain whether we will be able to sustain or increase our profitability in successive periods.

We have formulated our business plans and strategies based on certain assumptions regarding the acceptance of our business model and the marketing of our products and services. Nevertheless, our assessments regarding market size, market share, market acceptance of our products and services and a variety of other factors may prove incorrect. Our future success will depend upon many factors, including factors beyond our control and those that cannot be predicted at this time.

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

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

- establishing and maintaining broad market acceptance of our technology, solutions, services, and platforms, and converting that acceptance into direct and indirect sources of revenue;

- establishing and maintaining adoption of our technology, solutions, services, and platforms in and on a variety of environments, experiences, and device types;

- timely and successfully developing new technology, solution, service, and platform features, and increasing the functionality and features of our existing technology, solution, service, and platform offerings;

- developing technology, solutions, services, and platforms that result in a high degree of customer satisfaction and a high level of end-customer usage;

- successfully responding to competition, including competition from emerging technologies and solutions;

- developing and maintaining strategic relationships to enhance the distribution, features, content and utility of our technology, solutions, services, and platforms;

- identifying, attracting and retaining talented engineering, network operations, program management, technical services, creative services, and other personnel at reasonable market compensation rates in the markets in which we employ such personnel; and

- integration of acquisitions.

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

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

We will likely be required to raise additional funding through public or private financings, including equity financings, through 2020. Any additional equity financings may be dilutive to shareholders and may be completed at a discount to the then-current market price of our securities. Debt financing, if available, would likely involve restrictive covenants on our operations or pertaining to future financing arrangements. Nevertheless, we may not successfully complete any future equity or debt financing. Adequate funds for our operations, whether from financial markets, collaborative or other arrangements, may not be available when needed or on terms attractive to us. If adequate funds are not available, our plans to operate our business may be adversely affected and we could be required to curtail our activities significantly and/or cease operating.

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

As of the date of this filing, our majority shareholder and investor, Slipstream Communications LLC ("Slipstream") is the holder of 79.3% of our outstanding debt instruments including a term loan, secured revolving promissory note, secured escrow disbursement note, and secured special promissory note and has beneficial ownership of approximately 39.28% 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) as of December 31, 2019. Slipstream has also provided us with a continued support letter through March 31, 2021. If we are unable to extend the maturity or replace our existing financing agreements in the future, our plans to operate our business may be adversely affected and we could be required to curtail our activities significantly and/or cease operating.

We may be unable to implement our business plan if we cannot raise sufficient capital and may be required to pay a high price for capital.

We need to obtain additional capital to implement our business plan and meet our financial obligations as they become due. We may not be able to raise the additional capital needed or may be required to pay a high price for capital. Factors affecting the availability and price of capital may include the following:

- the availability and cost of capital generally;
- our financial results;
- the experience and reputation of our management team;
- market interest, or lack of interest, in our industry and business plan;
- the trading volume of, and volatility in, the market for our common stock and warrants;
- our ongoing success, or failure, in executing our business plan;
- the amount of our capital needs; and
- the amount of debt, options, warrants, and convertible securities we have outstanding.

We may be unable to meet our current or future obligations or to adequately exploit existing or future opportunities if we cannot raise sufficient capital. If we are unable to obtain capital for an extended period of time, we may be forced to discontinue operations.

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

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

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

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

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

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

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

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

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

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

Our continued growth and financial performance could be adversely affected by the loss of several key customers, including a significant related party customer.

Our largest customers account for a significant portion of our total revenue on a consolidated basis. We had one (1) and two (2) customers that accounted for 18.5% and 48.3% of revenue for the years ended December 31, 2019 and 2018, respectively.

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

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

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

It is common for our current and prospective customers to take a long time to evaluate our products, most especially during economic downturns that affect our customers' businesses. The lengthy and variable sales cycle makes it difficult to predict our operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our key personnel include our:

- Chief Executive Officer;
- Chief Financial Officer; and
- Vice President of Operations

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

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

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

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

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

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

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

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

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

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

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

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

In light of our limited resources in general, we have made no material investments in research and development over the past several years. This conserves capital in the short term. In the long term, as a result of our failure to invest in research and development, our technology and product offerings may not keep pace with the market, and we may lose any current existing competitive advantage. Over the long term, this may harm our revenues growth and our ability to become profitable.

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

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

- our platform, technology, products, and services and underlying infrastructure, or that of our key suppliers, may be damaged or destroyed by events beyond our control, such as fires, earthquakes, floods, power outages or telecommunications failures;

- we and our customers and/or partners may experience interruptions in service as a result of the accidental or malicious actions of Internet users, hackers or current or former employees;

- we may face liability for transmitting viruses to third parties that damage or impair their access to computer networks, programs, data or information. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to our customers; and

- failure of our systems or those of our suppliers may disrupt service to our customers (and from our customers to their customers), which could materially impact our operations (and the operations of our customers), adversely affect our relationships with our customers and lead to lawsuits and contingent liability.

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

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

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

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

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

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

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

- develop and deploy new products and services more quickly and effectively than we can;
- develop, improve and expand their platforms and related infrastructures more quickly than we can;
- reduce costs, particularly hardware costs, because of discounts associated with large volume purchases and longer-term relationships and commitments;
- offer less expensive products, technology, platform, and services as a result of a lower cost structure, greater capital reserves or otherwise;
- adapt more swiftly and completely to new or emerging technologies and changes in customer requirements;
- take advantage of acquisition and other opportunities more readily; and
- devote greater resources to the marketing and sales of their products, technology, platform, and services.

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

Risks Related to Our Securities and Our Company

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

We have limited resources as a result of, among other things, significant restructuring and integration costs incurred in connection with prior acquisition activities. As a result, we may not have in place systems, processes and protections that many of our competitors have or that may be essential to protect against various risks. For example, we have in place only limited resources and processes addressing human resources, timekeeping, data protection, business continuity, personnel redundancy, and knowledge institutionalization concerns. As a result, we are at risk that one or more adverse events in these and other areas may materially harm our business, balance sheet, revenues, expenses or prospects.

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

Our controlling shareholder, Slipstream Communications, LLC, has beneficial ownership of 6,322,858 shares of common stock, including common shares that are beneficially owned by its affiliate Slipstream Funding, LLC. These shares represent beneficial ownership of approximately 39.28% of our common stock (on an as-converted basis including conversion of outstanding warrants, and assuming no other convertible securities, options and warrants are converted or exercised by other parties) as of December 31, 2019. As a result, Slipstream Funding, LLC has the ability to strongly influence our management and affairs, including the election and removal of our Board of Directors and all other matters requiring shareholder approval, including the future merger, consolidation or sale of all or substantially all of our assets. This concentrated control could discourage others from initiating any potential merger, takeover or other change-of-control transaction that may otherwise be beneficial to our shareholders. Furthermore, this concentrated control will limit the practical effect of your participation in Company matters, through shareholder votes and otherwise.

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

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

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

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

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

There is not now and there may not ever be an active market for shares of our common stock.

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

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

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

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

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

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

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

Risks Related to Our Recently Completed Acquisition of Allure Global Solutions, Inc.

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

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

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

Because we acquired all of the capital stock of Allure, we obtained ownership of Allure subject to all of its liabilities, including contingent and unknown liabilities. Although the Purchase Agreement includes representations and warranties and indemnity covenants from the seller of Allure that may offer us some contractual remedies for breaches or certain other undisclosed or unknown liabilities, there are limitations and conditions to our ability to recoup any liabilities, and there may be other unknown obligations for which we have no contractual remedy. In such a case, our business could be materially and adversely affected. We may learn additional information about Allure’s business that adversely affects us, such as the existence of unknown liabilities, or issues that could affect our ability to comply with applicable laws. We are currently engaged in a dispute involving Allure and its legacy customer based upon alleged deficient products and services provided by Allure prior to our acquisition. The alleged claim seeks $3,200 in damages that, if successful, would materially adversely affect our business. We have also tendered an indemnity claim against the seller for the claimed damages in such dispute. There is no guarantee that we will prevail on any matter.

If Allure’s liabilities are greater than expected, or if there are material obligations of which we do not become aware until after the acquisition or we have no recourse against the Seller, our business could be materially and adversely affected. If we become responsible for substantial uninsured liabilities, such liabilities may have a material adverse effect on our financial condition and results of operations.

We have incurred and will continue to incur significant transaction and integration costs in connection with the Allure Acquisition.

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

The variable sales cycle of some of the combined company’s products will likely make it difficult to predict operating results.

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

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

ITEM 2 PROPERTIES

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

Our headquarters is located at 13100 Magisterial Drive, Suite 100, Louisville, KY 40223. There, we have approximately 17,500 square-feet of office space and 6,500 square-feet of warehouse space, which we believe is sufficient for our projected near-term future growth. The monthly lease amount is currently $30 and escalates 1% annually through the end of the lease term in December 2023. The corporate phone number is (502) 791-8800.

We lease office space of approximately 10,000 square feet to support our Canadian operations at a facility located at 4510 Rhodes Drive, Suite 800, Windsor, Ontario under a lease that expired June 30, 2018 and operates month-to-month with a monthly rental of $6 CAD per month.

We lease office space of approximately 11,000 square feet to support our Atlanta operations at a facility known as Embassy Row 400 and having as its street address 6600 Peachtree Dunwoody Road, Atlanta, Georgia 30328. This property is under lease until September 30, 2020 with a monthly rental of $22.

We also lease 3,650 square feet of office space in Dallas, Texas, and 4,100 square feet of office space and 5,100 square feet of warehouse space in El Segunda, California for monthly lease payments of $4 and $4 per month, respectively. The lease term for Dallas expires on December 31, 2021 and the term for California expired on June 30, 2019 and operates month-to-month.

ITEM 3 LEGAL PROCEEDINGS

On August 2, 2019, the Company filed suit in Jefferson Circuit Court, Kentucky, against a supplier of Allure for breach of contract, breach of warranty, and negligence with respect to equipment installations performed by such supplier for an Allure customer.

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

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

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller (Christie Digital Systems, Inc.) for breach of contract, indemnification, and fraudulent misrepresentation under the Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. We continue to assert the offset right under the Purchase Agreement and Amended and Reseller Note.

Information regarding legal proceeding can be found in Note 10 *Commitments and Contingencies* to the Company's Consolidated Financial Statements.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

Market Information

Our common stock is listed for trading on the Nasdaq Capital Markets (“Nasdaq”) under the symbol “CREX”. Trading of our common stock on Nasdaq commenced on November 19, 2018. Prior to November 19, 2018, our common stock was listed for trading on the OTC Bulletin Board, the “OTCQX,” under the symbol “CREX.” The transfer agent and registrar for our common stock is Computershare Limited, 401 2nd Avenue North, Minneapolis, Minnesota 55401.

Shareholders

As of February 27, 2020, we had 371 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

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

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

Recent Sales of Unregistered Securities

On December 30, 2019, the Company entered into a Seventh Amendment to Loan and Security Agreement (the “Seventh Amendment”) with its subsidiaries and Slipstream Communications, LLC (“Lender”). Pursuant to the Seventh Amendment, Lender made a $2,000 loan to the Company (the “Special Loan”) under the terms of the Company’s existing Loan and Security Agreement with Lender (as amended by the Seventh Amendment, the “Loan Agreement”). The Special Loan is evidenced by a Secured Convertible Special Loan Promissory Note (the “Note”). The Note bears simple interest at 8% per annum, of which 6% is payable in cash (the “Interest”) and 2% is payable in kind as additional principal under the Note (“Additional Principal”), which is payable monthly commencing February 1, 2020. The entire unpaid principal balance of the Note (including the Additional Principal) together with all accrued but unpaid interest is due on June 30, 2021 (the “Maturity Date”). The Company may prepay the Note, in whole or in part, at any time and from time to time, without penalty or premium. The principal (including the Additional Principal) and accrued but unpaid interest will be converted into a new class of senior preferred stock of the Company upon any event of default or in the event that the Company does not refinance the Note prior to October 1, 2020, with such class of senior preferred stock of the Company to be created in advance of such conversion, having those rights and preferences set forth in the Loan Agreement and as otherwise agreed to by the Company and Lender. For this issuance, we relied on the statutory exemptions from registration under Section 4(a)(2) of the Securities Act, including Rule 506 promulgated thereunder. We relied on this exemption based on the fact that the investor was an accredited investor.

ITEM 6 SELECTED FINANCIAL DATA

Not applicable.

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

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

Forward-Looking Statements

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words "anticipates," "believes," "expects," "intends," "plans," "estimates" and similar expressions, as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause actual results to differ materially from those anticipated, certain of which are beyond our control, are set forth in Item 1A under the caption "Risk Factors."

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

Overview

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

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

We generate revenue in our business by:

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

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

Our Sources of Revenue

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

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

Our Expenses

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

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Under ASC 606, we account for revenue using the following steps:

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

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

Accounts Receivable

We have not made any material changes in the accounting methodology we use to measure the estimated liability for doubtful accounts during the past two fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to establish the liability for doubtful accounts. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

Goodwill and Intangible Assets

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

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

We have not made any material changes in our reporting units or the accounting methodology we used to assess impairment of goodwill since September 30, 2019. We updated our goodwill analysis as of December 31, 2019 using actual fourth quarter 2019 results and updated projected 2020 results and concluded no impairment exists. The valuation of goodwill and intangible assets is subject to a high degree of judgment, uncertainty and complexity. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

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

Acquired Intangible Asset:	*Amortization Period: (years)*
Technology platform and patents	4 - 7
Trademark	3-5
Customer relationships	15

Intangible assets are evaluated for impairment if events and circumstances warrant by comparing the fair value of the intangible asset with its carrying amount. The impairment evaluation involves testing the recoverability of the asset on an undiscounted cash-flow basis, and, if the asset is not recoverable, recognizing impairment charge, if necessary, to reduce the asset's carrying amount to its fair value. There were no indicators of impairment identified in 2019 and no impairments were recorded for the years ended December 31, 2019 or 2018.

Income Taxes

Accounting for income taxes requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. These deferred taxes are measured by applying the provisions of tax laws in effect at the balance sheet date, including the impact of the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017. The Tax Act made broad and significant changes to the U.S. tax code that affects the year ended December 31, 2017, including, but not limited to, a change in the federal rate from 35% to 21% effective January 1, 2018.

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

As of December 31, 2019 and 2018, a full valuation allowance is recorded against our deferred tax assets to reduce the consolidated deferred tax asset to zero, with the exception of those deferred tax assets generated by net operating losses post-Tax Act. The valuation allowance is based, in part, on our estimate of future taxable income, the expected utilization of federal and state tax loss carryforwards, and credits and the expiration dates of such tax loss carryforwards. Significant assumptions are used in developing the analysis of future taxable income for purposes of determining the valuation allowance for deferred tax assets which, in our opinion, are reasonable under the circumstances.

Impact of Recently Issued Accounting Pronouncements

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

Results of Operations

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

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

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

	For the Years Ended December 31,		Change	
	2019	2018	Dollars	%
Sales	$ 31,598	$ 22,475	$ 9,123	41%
Cost of sales	17,859	12,252	5,607	46%
Gross profit	13,739	10,223	3,516	34%
Sales and marketing expenses	2,344	2,075	269	13%
Research and development expenses	1,413	1,257	156	12%
General and administrative expenses	9,092	9,714	(622)	-6%
Depreciation and amortization expense	1,250	1,185	65	5%
Lease termination expense	-	474	(474)	-100%
Gain on earnout liability	(250)	-	(250)	-100%
Total operating expenses	13,849	14,705	(856)	-6%
Operating loss	(110)	(4,482)	4,372	-98%
Other income (expenses):				
Interest expense	(831)	(2,606)	1,775	-68%
Change in fair value of warrant liability	21	837	(816)	-97%
Gain on settlement of obligations	2,046	294	1,752	596%
Debt conversion expense	-	(5,055)	5,055	-100%
Other income/(expense)	5	(6)	11	-183%
Total other income / (expense)	1,241	(6,536)	7,777	-119%
Net income/(loss) before income taxes	1,131	(11,018)	12,149	-110%
Benefit/(provision) from income taxes	(93)	398	(491)	-123%
Net income/(loss)	$ 1,038	$ (10,620)	$ 11,658	-110%
Dividends on preferred stock	-	345	(345)	-100%
Preferred stock conversion expense	-	3,932	(3,932)	-100%
Net income/(loss) attributable to common shareholders	$ 1,038	$ (14,897)	$ 15,935	-107%

Sales

Sales increased by $9,123, or 41% in 2019 compared to 2018 driven by (1) $3,458 from new customers in 2019, (2) $5,290 contributed by legacy Allure customers, and (3) expansion of revenue within pre-existing customer base. Organic growth accounted for approximately $4,434 of the increase, representing an organic growth rate of approximately 20% as compared to 2018. The remaining growth of approximately $4,689 year-over-year represents the revenue growth contributed by the inclusion of Allure in our consolidated results for a full year in 2019, which contributed approximately $601 revenue to our consolidated 2018 results.

Gross Profit

Gross profit increased $3,516 in absolute dollars to $13,739 in 2019 from $10,223 in 2018, or 34% driven by an increase in sales, partially offset by a reduction in gross margin. Gross margin decreased from 45.5% for the year-ended December 31, 2018 to 43.5% in 2019 during the same period, primarily driven by product mix.

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 $269 or 13% in 2019 compared to 2018 as a result of increased sales headcount following the Allure Acquisition and participation in an increased number of trade shows and customer-facing events.

Research and Development Expenses

Research and development expenses increased 12% to $1,413 in 2019 from $1,257 in 2018 as the result of an increase in amortization expense related to capitalized software and salary costs driven by an increased investment in products and offerings in the most recent twelve months, including further development of the content management system application acquired by the Company as part of the acquisition of Allure in November 2018. Allure contributed approximately $31 in the period between the acquisition date and December 31, 2018.

General and Administrative Expenses

Total general and administrative expenses decreased 6% to $9,092 in 2019 from $9,714 in 2018, a decrease of $622. The primary drivers of this decrease were (1) $936 reduction in compensation expense related to (a) shares of common stock granted to our current CEO during 2018 which did not recur in 2019 and (b) a reduction in amortization of stock compensation expenses as a result of previously issued option awards fully vesting in 2018 and 2019, and (2) $710 reduction in transaction costs incurred in 2018 as a result of the Allure Acquisition which did not recur in 2019, partially offset by (1) $480 increase in bonus expense in 2019 and (2) $408 increase in rent as a result of the Allure Acquisition and expansion of the Company's headquarters.

Depreciation and Amortization Expenses

Depreciation and amortization expense increased 5% from $1,185 in 2019 to $1,250 in 2018, driven by a combination of legacy Company recorded tangible and intangible assets reaching the end of their depreciable lives during the period and partially offset by increases in depreciation and amortization recorded for assets acquired in the Allure Acquisition for the period between the acquisition date and December 31, 2018.

Lease Termination Expense

On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004, which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we recorded a one-time non-cash charge of $474 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income. Effective June 30, 2018, we entered into a settlement agreement to exit this lease agreement, resulting in the Company recording a gain on settlement of $39. There were no such lease terminations during 2019.

Gain on Earnout Liability

The Company completed an updated fair value analysis at December 31, 2019 of the contingent consideration earnout liability initially recorded at $250 in the opening balance sheet at the time of the Allure Acquisition on November 20, 2018. As a result of that analysis, the Company concluded the fair value of the liability was $0, resulting in a gain of $250 in the current year.

Interest Expense

See Note 9 *Loans Payable* to the Consolidated Financial Statements for a discussion of the Company's debt and related interest expense obligations.

Change in Fair Value of Warrant Liability

All of the Company's outstanding warrants classified as liabilities expired during the three months ended September 30, 2019. See Note 6 *Fair Value Measurement* to the Consolidated Financial Statements for a discussion of the Company's non-cash change in Warrant Liability.

Gain on Settlement of Obligations

During the year ended December 31, 2019, the Company settled and/or wrote off obligations of $3,178 for $1,132 cash payment and recognized a gain of $2,046. $1,619 of this gain related to settlement of legacy sales commissions due to a third-party vendor which were settled with a cash payment of $1,100 during the three-months ended December 31, 2019. The remaining settlements related to legacy accounts payable deemed to no longer be legal obligations to vendors.

In 2018, the Company settled and/or wrote off obligations of $313 for $58 cash payment and recognized a gain of $255. This obligation included $30 of accrued wage labor liabilities no longer anticipated to be pursued against the Company.

Debt Conversion Expense

The Company recorded debt conversion expense of $5,055 in connection with issuance of incentive shares issued upon conversion of the convertible promissory notes into common stock on November 19, 2018 in conjunction with the Public Offering. See Note 9 *Loans Payable* to the Consolidated Financial Statements. There was no such corresponding activity and expense in 2019.

Dividends on Preferred Stock

The Company issued common stock dividends on Series A Convertible Preferred Stock of $345 during the year-ended December 31, 2018. There was no outstanding preferred stock in 2019 and no such dividends were issued during the year-ended December 31, 2019.

Preferred Stock Conversion Expense

The Company recorded preferred stock conversion expense of $3,932, which is reflected as a loss to common shareholders, in connection with issuance of incentive shares issued upon conversion of the Series A preferred stock into common stock on November 19, 2018 in conjunction with the Public Offering. See Note 13 *Convertible Preferred Stock* to the Consolidated Financial Statements. There was no such corresponding activity and expense in 2019.

Summary Unaudited Quarterly Financial Information

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

Quarters ended	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Net sales	$ 6,077	$ 6,723	$ 9,314	$ 9,484
Cost of sales	3,553	3,417	5,086	5,803
Gross profit	2,524	3,306	4,228	3,681
Operating expenses, excluding depreciation and amortization	2,872	2,942	3,425	3,360
Depreciation/amortization	378	278	308	286
Operating (loss)/income	(726)	86	495	35
Other expenses/(income)	(1,289)	(156)	78	219
Net income/(loss)	$ 563	$ 242	$ 417	$ (184)

Quarters ended	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Net sales	$ 5,229	$ 6,001	$ 7,179	$ 4,066
Cost of sales	3,346	2,260	4,089	2,557
Gross profit	1,883	3,741	3,090	1,509
Operating expenses, excluding depreciation and amortization	3,827	3,919	2,773	3,001
Depreciation/amortization	204	330	324	327
Operating (loss)/income	(2,148)	(508)	(7)	(1,819)
Other expenses/(income)	4,744	370	605	419
Net (loss)/income	$ (6,892)	$ (878)	$ (612)	$ (2,238)

Supplemental Operating Results on a Non-GAAP Basis

The following non-GAAP data, which adjusts for the categories of expenses described below, is a non-GAAP financial measure. Our management believes that this non-GAAP financial measure is useful information for investors, shareholders and other stakeholders of our Company in gauging our results of operations on an ongoing basis. We believe that EBITDA is a performance measure and not a liquidity measure, and therefore a reconciliation between net loss/income and EBITDA and Adjusted EBITDA has been provided. EBITDA should not be considered as an alternative to net loss/income as an indicator of performance or as an alternative to cash flows from operating activities as an indicator of cash flows, in each case as determined in accordance with GAAP, or as a measure of liquidity. In addition, EBITDA does not take into account changes in certain assets and liabilities as well as interest and income taxes that can affect cash flows. We do not intend the presentation of these non-GAAP measures to be considered in isolation or as a substitute for results prepared in accordance with GAAP. These non-GAAP measures should be read only in conjunction with our Consolidated Financial Statements prepared in accordance with GAAP.

	Year Ended 2019	Quarters ended December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
GAAP net income/(loss)	$ 1,038	$ 563	$ 242	$ 417	$ (184)
Interest expense:					
Amortization of debt discount	524	105	105	158	156
Other interest, net	306	109	94	55	48
Depreciation/amortization	1,250	378	278	308	286
Income tax expense/(benefit)	93	128	51	(107)	21
EBITDA	$ 3,211	$ 1,283	$ 770	$ 831	$ 327
Adjustments					
Change in warrant liability	(21)	-	-	(22)	1
Gain on settlement of obligations	(2,051)	(1,632)	(406)	(6)	(7)
Gain on earnout liability	(250)	(250)	-	-	-
Stock-based compensation	447	52	62	291	42
Adjusted EBITDA	$ 1,336	$ (547)	$ 426	$ 1,094	$ 363

Liquidity and Capital Resources

We produced net income for the year ended December 31, 2019 but incurred a net loss for the year ended December 31, 2018 and have negative cash flows from operating activities as of December 31, 2019. As of December 31, 2019, we had cash and cash equivalents of $2,534 and a working capital deficit of $2,449.

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

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

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

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

On November 9, 2018, Slipstream extended the maturity date of our term loan and revolving loan to August 16, 2020. In conjunction with the extension of the maturity date of our term loan, we agreed that the cash portion of the interest rate would increase from 8.0% per annum to 10.0% per annum effective July 1, 2019.

Management believes that, based on (i) the extension of the maturity date on our term loan and revolving loans, and (ii) our operational forecast through 2021, we can continue as a going concern through at least March 31, 2021. However, given our net losses, cash used in operating activities and working capital deficit, we obtained a continued support letter from Slipstream through March 31, 2021. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

See Note 9 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company's debt obligations.

Operating Activities

We do not currently generate positive cash flow. Our operational costs have been greater than sales generated to date. As of December 31, 2019, we had an accumulated deficit of $35,643. The cash flows used in operating activities was ($970) and ($1,564) for the years ended December 31, 2019 and 2018, respectively. The majority of the cash consumed by operations for both periods was attributed to our net losses. For the years ended December 31, 2019 and 2018, our net loss attributable to common shareholders was $(1,008) and ($15,191) when adjusted for gain on settlements of obligations, respectively. Included in our net losses were non-cash charges consisting of depreciation, amortization of debt discount related to convertible preferred stock / issued for debt-issuance costs, change in warrant liability, stock-based compensation, stock issuance expenses related to the Allure acquisition, settlement of lease termination, and changes in the allowance for doubtful accounts totaling $2,420 and $2,951 for the years ended December 31, 2019 and 2018, respectively.

Investing Activities

Net cash used in investing activities during the years ended December 31, 2019 were $(687) compared to ($6,582) during 2018. The decrease in cash used in investing activities is primarily due to completion of our acquisition of Allure during the prior period, partially offset by the loss recorded on conversion of related party promissory notes, and the current year proceeds from net working capital settlement. We currently do not have any material commitments for capital expenditures as of December 31, 2019, nor do we anticipate any significant expenditures for investing in 2020.

Financing Activities

Net cash provided by financing activities during the years ended December 31, 2019 and 2018 was $1,473 and $9,861, respectively. The decrease was driven by smaller loans from a related party in 2019 as compared to proceeds from of our public offering in November 2018.

Off-Balance Sheet Arrangements

During the year ended December 31, 2019, we did not engage in any off-balance sheet arrangements set forth in Item 303(a) (4) of Regulation S-K.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2019, and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment and those criteria, management believes that we maintained effective internal control over financial reporting as of December 31, 2019.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our Board of Directors consists of Dennis McGill (Chairman), Richard Mills (CEO), David Bell, Donald Harris, Joseph Manko, and Stephen Nesbit. The following table sets forth the name and position of each of our current directors and executive officers.

Name	Age	Positions
Dennis McGill	64	Director (Chairman)
David Bell	74	Director
Donald A. Harris	67	Director
Richard Mills	64	Chief Executive Officer and Director
Joseph Manko	54	Director
Stephen Nesbit	68	Director
Will Logan	35	Chief Financial Officer

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

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

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

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

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

Joseph Manko is an experienced Board member and Senior Principal in Horton Capital Management LLC, the investment manager for the Horton Capital Partners Fund, LP ("Horton Fund"), and significant shareholder in the Company. Mr. Manko was appointed to our Board in 2018. Mr. Manko has over 20 years of investment experience in the asset management, investment banking, private equity and corporate securities markets, including senior roles at Deutsche Bank in London and Merrill Lynch in Hong Kong. Prior to founding the Horton Fund, Mr. Manko was a Partner and Chief Executive Officer of Switzerland-based BZ Fund Management Limited. Mr. Manko has served on the board of several companies and currently serves as a director of Safeguard Scientifics, Inc., Wireless Telecom Group, Inc., and Repro Med Systems, Inc. (doing business as KORU Medical Systems). Mr. Manko began his career as a corporate finance attorney at Skadden, Arps, Slate, Meagher & Flom and earned both his B.A. and Juris Doctorate from the University of Pennsylvania.

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

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

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

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

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

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

Board Committees

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

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

Communications with Board Members

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

Code of Ethics

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

ITEM 11 EXECUTIVE COMPENSATION

Executive Compensation

Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for 2019 and 2018:

Name and Principal Position (a)	Years	Salary ($)	Bonus ($)(c)(f)	Stock Awards ($) (d)	Option Awards ($) (e)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Richard Mills	2019	330,000	150,000	77,668	-	-	9,481	567,149
Chief Executive Officer and Director	2018	330,000	-	413,332	-	-	5,775	749,107
Will Logan	2019	189,000	25,000	-	-	-	5,430	219,430
Chief Financial Officer	2018	156,000	-	-	76,410	-	3,510	235,920
John Walpuck Chief Operating Officer	2019	212,000, including 18,000 for consulting (b)	-	-	-	-	-	212,000, including 18,000 for consulting (b)
	2018	240,000	-	-	-	-	-	240,000

(a) Mr. Mills joined the Company effective October 15, 2015. Effective March 13, 2019, the Board of Directors removed John Walpuck as Chief Operating Officer. Effective December 31, 2018, the Company entered into a separation agreement with Mr. Walpuck. Mr. Logan joined the Company effective November 2017.

(b) Pursuant to the terms of Mr. Walpuck's employment agreement, Mr. Walpuck received $194,000 in severance payments in even monthly installments through December 2019. Mr. Walpuck provided consulting services to the Company and was paid an additional $18,000 for such services in 2019.

(c) On September 20, 2018, the Compensation Committee of the Board of Directors (1) adjusted the salary of Mr. Mills, CEO, to $330 annually, retroactive to January 1, 2018 and (2) granted 166,667 shares of common stock to Mr. Mills. The chart above reflects the fair value of the unrestricted shares which vested and received by Mr. Mills on the date the shares were formally issued, December 19, 2018 (133,333) and January 11, 2019 (33,334).

(d) Represents the grant date fair value based on the Black-Scholes value determined as of September 20, 2018, the grant dates.

(e) On January 28, 2019, the Board approved payment of a $25 bonus to Mr. Logan for his efforts related to the Company's public offering completed in November 2018, including work related to the acquisition of Allure, uplisting to Nasdaq, conversion of debt and equity securities into common stock, and the completion of the capital raise.

(f) On November 6, 2019, the Board approved payment of a $150 cash bonus to Mr. Mills for his significant contributions to the Company's performance in 2018. $100 was paid during December 2019 and $50 was recorded in accrued expenses as of December 31, 2019 and paid in January 2020.

The material terms of employment agreements and payments to be made upon a change in control are discussed below, in the narrative following "Employment Agreements."

Our named executive officers are eligible for retirement benefits on the same terms as non-executives under the Company's defined contribution 401(k) retirement plan. Employees may contribute pretax compensation to the plan in accordance with current maximum contribution levels proscribed by the Internal Revenue Service. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%.

Richard Mills Employment Agreement

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

Will Logan Employment Arrangement

Will Logan, the Company's Chief Financial Officer, has an employment arrangement with the Company pursuant to which, during fiscal 2019, he received an annual base salary of $189 and a performance bonus of $25. Mr. Logan participates in our employee benefit plans, policies, programs, perquisites and arrangements to the extent he meets applicable eligibility requirements, and also received the stock options discussed under "Outstanding Equity Awards at Fiscal Year-End" below.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information concerning outstanding stock options and restricted stock awards held by our named executive officers as of December 31, 2019:

	Option Awards (a)				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Non-Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of shares or units of stock that has not vested (#)	Market value of shares or units of stock that have not vested ($)
Richard Mills	-	-	-	-	-	-
Will Logan	9,584(a)	9,584(a)	$ 8.70	11/6/2027	-	-
	4,167(b)	12,500(b)	$ 7.50	9/20/2028	-	-

(a) This stock option becomes exercisable to the extent of 25 percent of the shares purchasable thereunder on November 6, 2018, with additional increments of 25 percent becoming exercisable annually thereafter.

(b) This stock option becomes exercisable to the extent of 25 percent of the shares purchasable thereunder on September 20, 2019, with additional increments of 25 percent becoming exercisable annually thereafter.

Director Compensation

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

During 2019, non-employee directors were issued a total of 31,760 shares. Non-employee directors received no compensation during 2018. The table below sets forth the compensation paid to our non-employee directors during 2019:

Director Compensation

Name (a)	Fees earned or paid in cash ($) (b)	Stock awards ($) (c)	Option awards ($) (d)	Non-equity incentive plan compensation ($) (e)	Nonqualified deferred compensation earnings ($) (f)	All other compensation ($) (g)	Total ($) (h)
Dennis McGill	–	-	29,758(3)	–	–	5,000(4)	34,758
David Bell	–	12,500(2)	–	–	–	–	12,500
Donald A. Harris	–	12,500(2)	–	–	–	–	12,500
Joseph Manko	–	12,500(2)	–	–	–	–	12,500
Stephen Nesbit	–	12,500(2)	–	–	–	–	12,500
Alec Machiels(1)		12,500(2)					12,500

(1) Mr. Machiels resigned from the Board of Directors effective November 8, 2019.
(2) Each director was awarded shares for his service having an aggregate value of $6,250 on a quarterly basis in arrears commencing in the third quarter of 2019 for services completed in the second quarter of 2019.
(3) Mr. McGill was granted the option to purchase 25,000 shares of the Company's common stock at an exercise price of $1.88 per share. The options vest in three equal annual installments beginning on the one-year anniversary of the issuance, November 7, 2020.
(4) Under a Consulting Agreement (described below), Mr. McGill receives compensation of $5,000 per month.

Consulting Agreement

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

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

The following table sets forth the number of common shares, and percentage of outstanding common shares, beneficially owned as of March 11, 2020, by:

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

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

Name and Address	Common Shares Beneficially Owned [1]	Percentage of Common Shares 1
Slipstream Funding, LLC [2] c/o Pegasus Capital Advisors, L.P. 99 River Road Cos Cob, CT 06807	952,365	8.86%
Slipstream Communications, LLC [3] c/o Pegasus Capital Advisors, L.P. 99 River Road Cos Cob, CT 06807	6,322,848	39.23%
Horton Capital Partners Fund, L.P. [4]	868,240	8.16%
Joseph Manko [5]	879,397	8.24%
Stephen Nesbit [6]	11,157	*
Donald A. Harris [7]	121,144	1.22%
Dennis McGill [8]	4,805	*
David Bell [9]	11,157	*
Richard Mills [10]	765,833	7.27%
Will Logan [11]	19,818	*
All current executive officers and directors as a group [12]	1,813,311	15.62%

* less than 1%

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

(2) Investment and voting power over shares held by Slipstream Funding, LLC is held by Slipstream Communications, LLC, its sole member, and may deemed to be directly or indirectly controlled by Craig Cogut, Chairman and Chief Executive Officer of Pegasus Capital Advisors, LLC. See table footnote 3 for further information regarding Slipstream Communications, LLC.

(3) Investment and voting power over shares held by Slipstream Communications, LLC may be deemed to be directly or indirectly controlled by Craig Cogut, Chairman and Chief Executive Officer of Pegasus Capital Advisors, LLC. Slipstream Communications, LLC ("Slipstream Communications") is the sole member of Slipstream Funding, LLC ("Slipstream Funding"). BCOM Holdings, LP ("BCOM Holdings") is the managing member of Slipstream Communications. BCOM GP LLC ("BCOM GP") is the general partner of BCOM Holdings. Business Services Holdings, LLC ("Business Services Holdings") is the sole member of BCOM GP. PP IV BSH, LLC ("PP IV BSH"), Pegasus Investors IV, L.P. ("Pegasus Investors") and Pegasus Partners IV (AIV), L.P. ("Pegasus Partners (AIV)") are the members of Business Services Holdings. Pegasus Partners IV, L.P. ("Pegasus Partners") is the sole member of PP IV BSH. Pegasus Investors IV, L.P. ("Pegasus Investors") is the general partner of each of Pegasus Partners (AIV) and Pegasus Partners and Pegasus Investors IV GP, L.L.C. ("Pegasus Investors GP") is the general partner of Pegasus Investors. Pegasus Investors GP is wholly owned by Pegasus Capital, LLC ("Pegasus Capital"). Pegasus Capital may be deemed to be directly or indirectly controlled by Craig Cogut. The share figure includes the 952,365 shares of common stock issued to and held by Slipstream Funding, LLC in connection with the merger transaction with Creative Realities, LLC. Share figure also includes 2,143,539 common shares purchasable upon exercise of outstanding warrants issued to and held by Slipstream Communications, LLC.

(4) Investment and voting power over shares held by Horton Capital Partners Fund, L.P. ("HCPF") may be deemed to be directly or indirectly controlled by Joseph M. Manko, Jr. The share figure includes 230,050 common shares purchasable upon exercise of outstanding warrants. The warrants to purchase shares held by HCPF contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding. The calculation of beneficial ownership does not take into account the effect of such "blocker" provisions.

(5) Mr. Manko is a director of the Company. Includes shares that Mr. Manko may be deemed to beneficially own that are held by HCPF described in footnote 4. Mr. Manko disclaims beneficial ownership of such shares.

(6) Mr. Nesbit is a director of the Company.

(7) Mr. Harris is a director of the Company. Share figure includes 23,119 shares purchasable upon the exercise of outstanding warrants.

(8) Mr. McGill is a director of the Company and Chairman of the Board.

(9) Mr. Bell is a director of the Company.

(10) Mr. Mills is a director of the Company and Chief Executive Officer. Includes 756,904 common shares and 8,929 common shares purchasable upon exercise of outstanding warrants, each held by RFK Communications, LLC. The warrants to purchase shares held by RFK Communications, LLC contain "blocker" provisions that limits its ability to exercise such warrants to the extent that such exercise would cause the shareholder's beneficial ownership in the Company to exceed 4.99% of the Company's shares outstanding. The calculation of beneficial ownership does not take into account the effect of such "blocker" provisions.

(11) Mr. Logan is the Chief Financial Officer of the Company.

(12) Includes Messrs. McGill, Mills, Manko, Bell, Harris, Nesbit and Logan.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth certain information, as of the close of business on December 31, 2019, regarding equity compensation plans (including individual compensation arrangements) under which our securities were then authorized for issuance.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (excluding securities reflected in column a)
Equity compensation plans approved by stockholders	None(1)	N/A	None
Equity compensation plans not approved by stockholders	313,860(1)	$ 8.06	17,698,326(2)

(1) All shares reflected in the table are issuable upon exercise of outstanding stock options issued under the 2006 Amended and Restated Equity Incentive Plan or the 2014 Stock Incentive Plan.

(2) Reflects number of securities remaining available for issuance under the 2014 Stock Incentive Plan.

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

Slipstream Financings

On August 17, 2016, we entered into a Loan and Security Agreement with Slipstream, and obtained a $3,000 term loan, with interest thereon at 8% per annum. The term loan contains certain customary restrictions including, but not limited to, restrictions on mergers and consolidations with other entities, cancellation of any debt or incurring new debt (subject to certain exceptions), and other customary restrictions.

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

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

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

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

33 Degrees

On August 14, 2018, we entered into a payment agreement with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees"), outlining terms for repayment of $2,567 of aged accounts receivable as of that date. The payment agreement stipulated a simple interest rate of 12% on aged accounts receivable to be paid on the tenth day of each month through the maturity date of December 31, 2019. As of December 31, 2019, 33 Degrees paid the note in full and had a remaining outstanding accounts receivable balance of $1 in the Consolidated Financial Statements. 33 Degrees has continued to purchase additional hardware and services from the Company on a prepaid basis.

For the years ended December 31, 2019 and 2018, we had sales of $1,103 (3.5% of consolidated revenue) and $1,566 (6.9% of consolidated revenue), respectively, with 33 Degrees. Accounts receivable due from 33 Degrees was $1, or 0.0%, and $1,933, or 30.0% of consolidated accounts receivable at December 31, 2019 and December 31, 2018, respectively.

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

Independence

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

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

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

The following table presents fees for audit and other services provided by EisnerAmper LLP for 2019 and 2018. Fees for tax services were provided by Ernst & Young, LLP beginning in the second quarter of 2018 and were provided by Eichen & Dimeglio, CPAs, PC in the first quarter of 2018. Fees to EisnerAmper LLP were as follows:

	2019	2018
Audit fees (a)	$ 210	$ 254
Audit related fees (b)	-	-
Tax fees (c)	-	-
	$ 210	$ 254

(a) Audit fees for 2019 and 2018 relate to professional services provided in connection with the audit of our consolidated financial statements, the reviews of our quarterly condensed consolidated financial statements, services provided in connection with filing Form S-1 and audit services provided in connection with other regulatory filings.

(b) There were no audit-related fees.

(c) There were no tax fees to EisnerAmper LLP. Tax fees to other service providers consisted of the aggregate fees billed for tax compliance, tax advice, and tax planning of $32 and $55 for 2019 and 2018, respectively.

Our Board of Directors pre-approved the audit services rendered by EisnerAmper, LLP during 2019 and 2018 and concluded that such services were compatible with maintaining the auditor's independence.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Louisville, State of Kentucky, on March 12, 2020.

Creative Realities, Inc.

By /s/ Richard Mills
Richard Mills
Chief Executive Officer

By /s/ Will Logan
Will Logan
Chief Financial Officer

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

Signature	Title	Date
/s/ Richard Mills Richard Mills	Chief Executive Officer and Director	March 12, 2020
/s/ Will Logan Will Logan	Chief Financial Officer (Principal Financial and Principal Accounting Officer)	March 12, 2020
/s/ Dennis McGill Dennis McGill	Chairman of the Board of Directors	March 12, 2020
/s/ David Bell David Bell	Director	March 12, 2020
/s/ Donald Harris Donald Harris	Director	March 12, 2020
/s/ Joseph Manko Joseph Manko	Director	March 12, 2020
/s/ Steve Nesbit Steve Nesbit	Director	March 12, 2020

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firms	F-2
Consolidated Financial Statements	
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Shareholders’ Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Creative Realities, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019.

Basis for Opinion

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

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

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

/s/ EisnerAmper LLP

We have served as the Company's auditor since 2015.

EISNERAMPER LLP
Iselin, New Jersey
March 12, 2020

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

	December 31, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,534	$ 2,718
Accounts receivable, net of allowance for doubtful accounts of $617 and $583, respectively	4,663	6,479
Unbilled receivables	86	1,202
Work-in-process and inventories	379	379
Prepaids and other current assets	320	1,581
Total current assets	7,982	12,359
Operating lease right-of-use assets	1,728	-
Property and equipment, net	1,553	1,230
Intangibles, net	4,407	5,060
Goodwill	18,171	18,900
Other assets	135	179
TOTAL ASSETS	$ 33,976	$ 37,728
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term seller note payable	$ 1,637	$ -
Short-term related party convertible loans payable, at fair value	2,000	-
Accounts payable	1,849	1,995
Accrued expenses	2,751	3,847
Deferred revenues	772	6,454
Customer deposits	755	2,687
Current maturities of operating leases	646	-
Current maturities of financing leases	21	-
Warrant liability	-	21
Total current liabilities	10,431	15,004
Long-term related party loans payable, net of $507 and $1,031 discount, respectively	3,757	3,233
Long-term seller note payable	-	2,303
Long-term obligations under operating leases	1,100	-
Long-term obligations under financing leases	5	-
Deferred tax liabilities	175	128
Other liabilities	-	239
TOTAL LIABILITIES	15,648	20,907
SHAREHOLDERS' EQUITY		
Common stock, $.01 per value, 200,000 shares authorized; 9,775 and 9,725 shares issued and outstanding, respectively	98	97
Additional paid-in capital	54,052	53,575
Accumulated deficit	(35,642)	(36,851)
Total shareholders' equity	18,508	16,821
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 33,976	$ 37,728

See accompanying Notes to Consolidated Financial Statements.

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

	For the Years Ended December 31,	
	2019	**2018**
Sales		
Hardware	$ 8,229	$ 6,981
Services and other	23,369	15,494
Total sales	31,598	22,475
Cost of sales		
Hardware	6,245	4,776
Services and other	11,614	7,476
Total cost of sales	17,859	12,252
Gross profit	13,739	10,223
Operating expenses:		
Sales and marketing	2,344	2,075
Research and development	1,413	1,257
General and administrative	9,092	9,714
Depreciation and amortization	1,250	1,185
Lease termination expense	-	474
Gain on reversal of earnout liability	(250)	-
Total operating expenses	13,849	14,705
Operating loss	(110)	(4,482)
Other income/(expenses):		
Interest expense, including amortization of debt discount	(831)	(2,606)
Change in fair value of warrant liability	21	837
Gain on settlement of obligations	2,046	294
Debt conversion expense	-	(5,055)
Other income/(expense), net	5	(6)
Total other income/(expense)	1,241	(6,536)
Net income/(loss) before income taxes	1,131	(11,018)
Benefit from income taxes	(93)	398
Net income/(loss)	1,038	(10,620)
Dividends on preferred stock	-	345
Preferred stock conversion expense	-	3,932
Net income/(loss) attributable to common shareholders	$ 1,038	$ (14,897)
Net income/(loss) per common share - basic	$ 0.11	$ (2.95)
Net income/(loss) per common share - diluted	$ 0.11	$ (2.95)
Net income/(loss) per common share attributable to common shareholders	$ 0.11	$ (4.14)
Weighted average shares outstanding - basic	9,748	3,602
Weighted average shares outstanding - diluted	9,759	3,602

See accompanying Notes to Consolidated Financial Statements.

CREATIVE REALITIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2019 and 2018
(in thousands, except shares)

	Common Stock		Additional paid in	(Accumulated	
	Shares	Amount	capital	Deficit)	Total
Balance as of December 31, 2017	2,752,742	28	30,555	(26,231)	4,352
Shares issued upon conversion of preferred stock	16,339	-	125	-	125
Shares issued upon conversion of preferred stock in public offering	1,846,928	18	1,784	-	1,802
Shares issued upon conversion of promissory notes in public offering	2,039,152	20	10,031	-	10,051
Shares issued in public offering, net of expenses	2,857,142	29	8,890	-	8,919
Vesting of performance shares granted to CEO	166,667	2	998	-	1,000
Issuance of warrants with debt extension	-	-	809	-	809
Common stock issued as dividend	45,856	-	-	-	-
Stock-based compensation	-	-	383	-	383
Net loss	-	-	-	(10,620)	(10,620)
Balance as of December 31, 2018	9,724,826	$ 97	$ 53,575	$ (36,851)	$ 16,821
Adjustment due to adoption of ASU 2016-02 (Topic 842, Leases)	-	-	-	171	171
Vesting of performance shares previously granted to CEO	-	-	250	-	250
Shares issued for services	17,960	-	30	-	30
Shares issued to directors as compensation	31,760	1	62	-	63
Stock-based compensation	-	-	135	-	135
Net income	-	-	-	1,038	1,038
Balance as of December 31, 2019	9,774,546	$ 98	$ 54,052	$ (35,642)	$ 18,508

See accompanying Notes to Consolidated Financial Statements.

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

	For the Years Ended December 31,	
	2019	**2018**
Operating Activities:		
Net income/(loss)	$ 1,038	$ (10,620)
Adjustments to reconcile net income/(loss) to be used in operating activities:		
Depreciation and amortization	1,217	1,186
Amortization of debt discount	524	1,694
Stock-based compensation	448	1,383
Shares issued for services	30	-
Change in warrant liability	(21)	(837)
Allowance/(reversal) for doubtful accounts	253	(7)
Non-cash interest expense on convertible notes	-	78
Non-cash interest expense on related party loans	-	58
Deferred tax benefit	47	(421)
Loss on conversion of related party promissory notes	-	5,055
Gain on obligation settlement	(2,046)	(294)
Gain on reversal of earnout liability	(250)	-
Changes to operating assets and liabilities, net of acquisition:		
Accounts receivable and unbilled receivables	2,319	1,013
Inventories	-	613
Prepaid expenses and other current assets	1,260	(533)
Other assets	44	-
Operating lease right of use asset, net	535	-
Accounts payable	284	(98)
Deferred revenue	(5,682)	(543)
Accrued expenses	1,474	(248)
Customer deposits	(1,924)	938
Operating lease liabilities	(517)	-
Other non-current liabilities	(3)	19
Net cash used in operating activities	(970)	(1,564)
Investing activities		
Proceeds from net working capital settlement	210	-
Purchases of property and equipment	(897)	(308)
Acquisition of business, net of cash acquired	-	(6,274)
Net cash used in investing activities	(687)	(6,582)
Financing activities		
Proceeds from common stock issuance, net of issuance costs	-	8,919
Proceeds from related party loans	2,000	2,100
Payment of related party loans	-	(1,158)
Principal payments on finance leases	(31)	-
Repayment of seller note	(498)	-
Other financing activities, net	2	-
Net cash provided by financing activities	1,473	9,861
(Decrease)/increase in Cash and Cash Equivalents	(184)	1,715
Cash and Cash Equivalents, beginning of year	2,718	1,003
Cash and Cash Equivalents, end of year	$ 2,534	$ 2,718

See accompanying Notes to Consolidated Financial Statements.

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

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

Unless the context otherwise indicates, references in these Notes to the accompanying Consolidated Financial Statements to "we," "us," "our" and "the Company" refer to Creative Realities, Inc. and its subsidiaries.

Nature of the Company's Business

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

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

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

Liquidity and Financial Condition

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

We produced net income for the year ended December 31, 2019 but incurred a net loss for the year ended December 31, 2018 and have negative cash flows from operating activities as of December 31, 2019. As of December 31, 2019, we had cash and cash equivalents of $2,534 and a working capital deficit of $2,449.

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

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

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

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

See Note 9 *Loans Payable* to the Consolidated Financial Statements for discussion of the accounting for the Special Loan.

On November 9, 2018, Slipstream extended the maturity date of our term loan and revolving loan to August 16, 2020. In conjunction with the extension of the maturity date of our term loan, we agreed that the cash portion of the interest rate would increase from 8.0% per annum to 10.0% per annum effective July 1, 2019.

Management believes that, based on (i) the extension of the maturity date on our term loan and revolving loans, and (ii) our operational forecast through 2021, we can continue as a going concern through at least March 31, 2021. However, given our history of net losses, cash used in operating activities and working capital deficit, we obtained a continued support letter from Slipstream through March 31, 2021. We can provide no assurance that our ongoing operational efforts will be successful which could have a material adverse effect on our results of operations and cash flows.

See Note 9 *Loans Payable* to the Consolidated Financial Statements for an additional discussion of the Company's debt obligations.

Acquisitions

Acquisition of Allure Global Solutions, Inc.

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

Subject to the terms and conditions of the Purchase Agreement, upon the closing of the Allure Acquisition, we acquired ownership of all of Allure’s issued and outstanding capital shares in consideration for a total purchase price of approximately $8,450, subject to a post-closing working capital adjustment. Of this purchase price amount, we paid $6,300 in cash. Of the remaining purchase price amount, approximately $1,250 was to be paid to former management of Allure, and approximately $900 is due from Allure to Seller, under an existing Seller note which was amended and restated for this reduced amount (as so amended and restated, the “Amended and Restated Seller Note”). The Amended and Restated Seller Note accrued interest at 3.5% per annum and required us to make quarterly payments of interest only through February 19, 2020, on which date the Amended and Restated Seller Note matured and all remaining amounts owing thereunder were due.

On May 10, 2019, we reached a settlement agreement with Seller on, among other things, the final net working capital as of the acquisition date resulting in (i) a payment to us from Seller in the amount of $210, and (ii) a reduction of the amount due under the Amended and Restated Seller Note of $168 of cash collected by the Company which had been previously designated for payment on the Amended and Restated Seller Note but was not ultimately remitted to the Seller and (b) $20 of unpaid accrued interest. In addition to this net working capital settlement, Seller accepted collection risk for one acquired receivable in the amount of $666, which was net settled through the Amended and Restated Seller Note. Our consolidated balance sheet reflects a reduction in both accounts receivable and the Amended and Restated Seller Note of $666. The outstanding principal balance of the Amended and Restated Seller Note as of December 31, 2019 is $1,637.

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

The Purchase Agreement contemplates additional consideration of $2,000 to be paid by us to Seller in the event that Allure’s revenue exceeds $13,000, provided that revenues from one specifically-named customer is capped at 70% of their gross revenue as part of the aggregate revenue calculation, for any of (i) the 12-month period ending December 31, 2019, or (ii) any of the next following trailing 12-month periods ending on each of March 31, June 30, September 30 and December 31, 2020. We currently do not expect to owe any amount of additional consideration to Seller and no liability has been recorded in the Consolidated Financial Statements for this contingent liability as of December 31, 2019.

See Note 5 *Business Combinations* for further discussion of the Company’s Allure Acquisition.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-K and Article 3 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for annual financial reporting.

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

2. Revenue Recognition

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

3. Inventories

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

	December 31, 2019	December 31, 2018
Raw materials, net of reserve of $134 and $207, respectively	$ 200	$ 220
Work-in-process	179	159
Total inventories	$ 379	$ 379

4. Impairment of Long-Lived Assets

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

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

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

Basic and diluted income/(loss) per common share for all periods presented is computed using the weighted average number of common shares outstanding. Basic weighted average shares outstanding includes only outstanding common shares. Diluted weighted average shares outstanding includes outstanding common shares and potential dilutive common shares outstanding in accordance with the treasury stock method. Shares reserved for outstanding stock options and warrants totaling approximately 5,046,888 and 5,320,162 at December 31, 2019 and 2018, respectively were excluded from the computation of income/(loss) per share as no options or warrants were in the money for 2019 and all options and warrants were anti-dilutive in 2018 due to the net loss. In calculating diluted earnings per share for 2019, in accordance with ASC 260 *Earnings per share*, we included the dilutive issuance of the potential issuance of common stock upon an assumed conversion of the Special Loan. Net loss attributable to common shareholders for the years ended December 31, 2018 is after common stock dividends on Series A Convertible Preferred Stock ("preferred stock") of $345 and a preferred stock conversion expense of $3,932 as discussed further in Note 13 *Convertible Preferred Stock*.

6. Income Taxes

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

7. Goodwill and Definite-Lived Intangible Assets

We follow the provisions of ASC 350, Goodwill and Other Intangible Assets. Pursuant to ASC 350, goodwill acquired in a purchase business combination is not amortized, but instead tested for impairment at least annually. The Company uses a measurement date of September 30. There was no impairment loss recognized on goodwill or definite-lived intangible assets during the years ended December 31, 2019 and 2018 (see Note 8 *Intangible Assets and Goodwill*).

8. Use of Estimates

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

9. Stock Split

On October 17, 2018, the Company effectuated a l-for-30 reverse stock split of its outstanding common stock, which was approved by the Company's board of directors on October 17, 2018. The accompanying financial statements and notes to the financial statements give retroactive effect to the reverse stock split for all periods presented. The shares of common stock retained a par value of $0.01 per share.

10. Business Combinations

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

11. Property and Equipment

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

Property and equipment consist of the following at December 31, 2019 and 2018:

	December 31,	
	2019	**2018**
Equipment	$ 83	$ 159
Leasehold improvements	136	58
Purchased and developed software	2,563	1,758
Furniture and fixtures	102	82
Other depreciable assets	65	57
Total property and equipment	2,949	2,114
Less: accumulated depreciation and amortization	(1,396)	(884)
Net property and equipment	$ 1,553	$ 1,230

During 2018, we wrote-off fully depreciated property and equipment and the related accumulated depreciation of $3,628.

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

Asset class	**Useful life assigned**
Equipment	3 – 5 years
Furniture and fixtures	5 years
Purchased and developed software	3 years
Leasehold improvements	Shorter of 5 years or term of lease

Depreciation expense was $564 and $391 for the years ended December 31, 2019 and 2018, respectively.

12. Research and Development and Software Development Costs

Research and development expenses consist primarily of development personnel and non-employee contractor costs related to the development of new products and services, enhancement of existing products and services, quality assurance and testing. The Company capitalizes its costs incurred for additional functionality to its internal software. We capitalized approximately $805 and $243 for the years ended December 31, 2019 and 2018, respectively. These software development costs include both enhancements and upgrades of our client-based systems including functionality of our internal information systems to aid in our productivity, profitability and customer relationship management. We are amortizing these costs over 3 years once the new projects are completed and placed in service. These costs are included in property and equipment, net on the consolidated balance sheets.

13. Leases

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

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

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

Upon adoption, we recognized total ROU assets of $2,319, with corresponding liabilities of $2,319 on the consolidated balance sheets. This included $54 of pre-existing finance lease ROU assets previously reported in computer equipment within property and equipment, net. The ROU assets include adjustments for prepayments and accrued lease payments. The effect of the adoption resulted in a $171 cumulative effect adjustment to retained earnings on January 1, 2019 but did not impact our prior year consolidated statements of income, statements of cash flows, or statements of shareholders’ equity.

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

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

NOTE 3: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently adopted

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

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

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

Not yet adopted

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

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

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

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

NOTE 4: REVENUE RECOGNITION

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

Under ASC 606, the Company accounts for revenue using the following steps:

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

The Company combines contracts with the same customer into a single contract for accounting purposes when the contracts are entered into at or near the same time and the contracts are negotiated as a single commercial package, consideration in one contract depends on the other contract, or the services are considered a single performance obligation. If an arrangement involves multiple performance obligations, the items are analyzed to determine the separate units of accounting, whether the items have value on a standalone basis and whether there is objective and reliable evidence of their standalone selling price. The total contract transaction price is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The standalone selling price is based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost plus margin approach.

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

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

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

Deferred contract acquisition costs were evaluated for inclusion in other assets; however, the Company elected to use the practical expedient for recording an immediate expense for those incremental costs of obtaining contracts, including certain design/engineering services, commissions, incentives and payroll taxes, as these incremental and recoverable costs have terms that do not exceed one year.

The Company provides innovative digital marketing technology and solutions to retail companies, individual retail brands, enterprises and organizations throughout the United States and in certain international markets. The Company’s technology and solutions include: digital merchandising systems and omni-channel customer engagement systems, interactive digital shopping assistants, advisors and kiosks, and other interactive marketing technologies such as mobile, social media, point-of-sale transactions, beaconing and web-based media that enable our customers to transform how they engage with consumers.

We typically generate revenue through the following sources:

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

The following table disaggregates the Company’s revenue by major source for the year-ended December 31, 2019:

(in thousands)	**Year Ended December 31, 2019**
Hardware	$ 8,229
Services:	
Installation Services	7,500
Software Development Services	9,303
Managed Services	6,566
Total Services	23,369
Total Hardware and Services	$ 31,598

System hardware sales

Included in “hardware” are system hardware sales whereby 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.

The company generally provides a warranty on hardware sales in-line with the warranty provided by the original equipment manufacturer and therefore has not identified hardware warranties as a significant estimate or additional performance obligation at the date of sale.

Installation services

The Company performs outsourced installation services for customers and recognizes revenue upon completion of the installations.

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

The aggregate amount of the transaction price allocated to installation service performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2019 and 2018 were $0 and $52, respectively.

Software design and development services

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

Software as a service

Software as a service includes revenue from software licensing and delivery in which software is licensed on a subscription basis and is centrally hosted. These services often include software updates which provide customers with rights to unspecified software product upgrades and maintenance releases and patches released during the term of the support period. We account for revenue from these services in accordance with ASC 985 *Software* and recognize revenue ratably over the performance period. These services are classified as Managed Services.

Maintenance and support services

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

Maintenance and support 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. These services are classified as Managed Services.

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. Certain portions of these revenues are classified as Hardware, Installation Services and Managed Services, depending on the customer and related contractual terms.

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

NOTE 5: BUSINESS COMBINATION

On November 20, 2018, the Company completed the Allure Acquisition. Pursuant to the Stock Purchase Agreement, the total purchase price was $8,450, which was primarily funded using cash from the Company's public offering closed on November 19, 2018. The difference between the total purchase price and the net consideration transferred is driven by the cash acquired in the acquisition, including cash received by the Company as a result of a net working capital settlement with Seller. During the fourth quarter of 2019, the Company finalized the purchase price accounting of Allure. The final purchase price consisted of the following items:

(in thousands)	**Consideration**
Cash consideration for stock	$ 6,300 (1)
Payable to former Allure management	1,021 (2)
Seller note payable	900 (3)
Earnout liability	250 (4)
Total consideration	8,471
Cash acquired	(424) (5)
Net consideration transferred	$ 8,047

(1) Cash consideration for outstanding shares of Allure common stock per Stock Purchase Agreement.

(2) Represents a payable due to two former members of the Allure management team for a total of $1,250 as a result of the acquisition; 30% due in November 2018 and 70% due in November 2019. The fair value of the payable as of the acquisition date was deemed to be $1,021. During November 2019, the Company entered a payment plan with each former member of Allure management to spread the remaining payments due from the Company throughout 2020. As of December 31, 2019, the Company's consolidated balance sheet includes $535 related to this liability within accrued expenses.

(3) Represents a note payable due from Allure to Seller, under a pre-existing Seller Note which was amended and restated for this amount through the Stock Purchase Agreement. At the closing date, the estimated net working capital deficit of Allure was $801 in excess of the target net working capital as defined in the stock purchase agreement. As of the acquisition date, Allure also had accounts payable to Seller for outsourced services of $2,204. We agreed with the Seller to settle the estimated net working capital deficit through a reduction in the accounts payable to Seller as of the acquisition date and to further amend the Seller Note to include the remaining $1,403 accounts payable due from Allure to Seller. The Seller Note thereby increased from $900 per the Stock Purchase Agreement to $2,303 at the opening balance sheet. That debt is represented by our issuance to the Seller of a promissory note accruing interest at 3.5% per annum. The promissory note required us to make quarterly payments of interest through February 19, 2020, on which date the promissory note matured and all remaining amounts owing thereunder were due. See Note 10 *Commitments and Contingencies* in the consolidated financial statements for further discussion of this note, which is now past due.

(4) The Stock Purchase Agreement contemplates additional consideration or $2,000 to be paid by us to Seller in the event that acquiree revenue exceeds $13,000, as defined in the underlying agreement. The fair value of the earnout liability was initially determined to be $250 at the time of acquisition but has since been adjusted to $0, resulting in a gain on reversal of earnout liability of $250 in the fourth quarter of 2019. We currently do not expect to owe any amount of additional consideration to Seller and no liability has been recorded in the Consolidated Financial Statements for this contingent liability as of December 31, 2019. We utilized a third-party valuation specialist to assist in evaluating this liability as of the opening balance sheet date. Should revenues from Allure customers exceed $13,000 during 2020, the $2,000 liability generated would be recorded through the Company's statement of operations.

(5) Represents the Allure cash balance acquired at acquisition ($26) and the cash received from Seller in settlement of our net working capital claim ($398).

On May 10, 2019, we reached a settlement agreement with Seller on, among other things, the final net working capital as of the acquisition date resulting in (i) a payment to us from Seller in the amount of $210, and (ii) a reduction of the amount due under the Amended and Restated Seller Note of $168 of cash collected by the Company which had been previously designated for payment on the Amended and Restated Seller Note but was not ultimately remitted to the Seller and (b) $20 of unpaid accrued interest. In addition to this net working capital settlement, Seller accepted collection risk for one acquired receivable in the amount of $666, which was net settled through the Amended and Restated Seller Note. As a result, our consolidated balance sheet reflects a reduction in both accounts receivable and the Amended and Restated Seller Note of $666. The outstanding principal balance of the Amended and Restated Seller Note as of December 31, 2019 is $1,637.

The Company incurred $710 of direct transaction costs for the year ended December 31, 2018. These costs are included in general, administrative expense in the accompanying consolidated statement of operations. In addition, the Company incurred $9 of incremental interest expense for the year ended December 31, 2018, representing interest on the Allure Amended and Restated Note for the period from November 20, 2018 to December 31, 2018.

The Company accounted for the Allure Acquisition using the acquisition method of accounting. The allocation of the purchase price, which was finalized in November 2019 in conjunction with the close of the one-year measurement period, is based on estimates of the fair value of assets acquired and liabilities assumed as of November 20, 2018. The components of the final purchase price allocation are as follows:

(in thousands)	**Total**
Accounts receivable	$ 1,452
Unbilled receivables	221
Inventory	142
Prepaid expenses & other current assets	17
Property and equipment	177
Other assets	7
Identified intangible assets:	
Definite-lived trade names	340
Developed technology	1,770
Customer relationships	2,870
Goodwill	3,812
Accounts payable	(330)
Accrued expenses	(294)
Customer deposits	(494)
Deferred revenues	(276)
Accounts payable converted into Seller Note	(737)
Net consideration transferred	$ 8,047

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

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

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

The Company is amortizing the identifiable intangible assets on a straight-line basis over the weighted average lives ranging from 3 to 15 years.

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

(in thousands)	Preliminary Valuation	Amortization Period
Identifiable intangible assets:		
Definite-lived trade names	$ 340	3-5 years
Developed technology	1,770	7 years
Customer relationships	2,870	15 years
Total	$ 4,980	

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

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

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

(in thousands, except earnings per common share)	Year Ended December 31, 2019	Year Ended December 31, 2018
	(unaudited)	
Net sales	$ 31,598	$ 31,477
Net income/(loss)	$ 1,038	$ (11,615)
Earnings per common share	$ 0.11	$ (3.22)

The information above does not include the pro forma adjustments that would be required under Regulation S-X for pro forma financial information and does not reflect future events that may occur after December 31, 2018 or any operating efficiencies or inefficiencies that may result from the Allure Acquisition and related financing. Therefore, the information is not necessarily indicative of results that would have been achieved had the businesses been combined during the periods presented or the results that the Company will experience going forward.

NOTE 6: FAIR VALUE MEASUREMENT

We measure certain financial assets, including cash equivalents, at fair value on a recurring basis. In accordance with ASC 820, 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 establishes a three-level hierarchy that prioritizes the inputs used in measuring fair value. The three hierarchy levels are defined as follows:

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

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

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

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

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

As discussed in Note 9 *Loans Payable*, the Special Loan is reported at fair value. This liability is deemed to be a Level 3 valuation. As the Special Loan was entered into on December 30, 2019, we have concluded that the fair value on December 31, 2019 approximates the cash proceeds received on the issuance of the debt.

NOTE 7: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Year Ended December 31,	
	2019	2018
Supplemental non-cash Investing and Financing Activities		
Issuance of common stock upon conversion of preferred stock	$ -	$ 1,927
Issuance of warrants with term loan extensions / revolver draws	$ -	$ 809
Noncash preferred stock dividends	$ -	$ 345
Conversion of promissory notes	$ -	$ 10,031
Noncash preferred stock conversion expense	$ -	$ 3,932
Supplemental disclosure information for cash flow		
Cash paid during the period for:		
Interest	$ 403	$ 630
Income taxes, net	$ 25	$ 34

NOTE 8: INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

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

	December 31, 2019		December 31, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	$ 4,635	3,147	$ 4,635	2,895
Customer relationships	5,330	2,679	5,330	2,477
Trademarks and trade names	1,020	752	1,020	553
	10,985	6,578	10,985	5,925
Accumulated amortization	6,578		5,925	
Net book value of amortizable intangible assets	$ 4,407		$ 5,060	

For the year ended December 31, 2018, the gross carrying amount of technology platform, customer relationships, and trademarks and trade names increased $1,770, $2,870, and $340, respectively, from the Allure acquisition completed on November 19, 2018. For the years ended December 31, 2019 and 2018, amortization of intangible assets charged to operations was $654 and $795, respectively, inclusive of amortization expense for the acquired intangible assets for the six-week period from November 19, 2018 to December 31, 2018.

Estimated amortization is as follows:

Year ending December 31,	Estimated Future Amortization
2020	$ 616
2021	544
2022	444
2023	444
Thereafter	2,359

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

Acquired Intangible Asset:	***Amortization Period: (years)***
Technology platform and patents	4 - 7
Trademark	3-5
Customer relationships	15

Goodwill

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

	Total
Balance as of January 1, 2019	$ 18,900
Adjustments due to finalization of purchase price allocation (Note 5)	(729)
Balance as of December 31, 2019	$ 18,171

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

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit was estimated using a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur, specifically, the Company gave significant consideration to actual historic financial results, including revenue growth rates in the preceding three years. Based on the Company's assessment, we determined that the fair value of our reporting unit exceeds its carrying value, and accordingly, the goodwill associated with the reporting unit is not considered to be impaired at September 30, 2019.

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

NOTE 9: LOANS PAYABLE

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

Debt Type	**Issuance Date**	**Principal**	**Maturity Date**	**Warrants**	**Interest Rate Information**
A	6/30/2018	$ 264	6/30/2021	-	0.0% interest (1)
B	1/16/2018	1,000	6/30/2021	61,729	8.0% interest (2)
C	8/17/2016	3,000	6/30/2021	588,236	8.0% interest (2)
D	11/19/2018	1,637	2/15/2020	-	3.5% interest (3)
E	12/30/2019	2,000	6/30/2021 (4)	-	8.0% interest (4)
		$ 7,901		649,965	
	Debt discount	(507)			
	Total debt	$ 7,394			
	Less current maturities	(3,637)			
	Long term debt	3,757			

A – Secured Disbursed Escrow Promissory Note with related party
B – Revolving Loan with related party
C – Term Loan with related party
D – Amended and Restated Seller Note from acquisition of Allure
E – Secured Convertible Special Loan Promissory Note, at fair value

(1) 0.0% interest per annum.

(2) 8.0% cash interest per annum when total borrowings under the term and revolver loans, in aggregate, are below $4,100 in principal (disregarding PIK interest); 8.0% cash, 2.0% PIK when total borrowing under the term and revolver loans, in aggregate, exceed $4,100 in principal (disregarding PIK interest).

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

(4) 8.0% cash interest per annum, comprised of 6.0% cash, 2.0% PIK. Interest payable monthly with the first payment due on February 1, 2020. In an event of default, the interest rate increases by 6.0% to 14.0%. Debt is convertible to preferred stock at the earlier of an event of default or October 1, 2020. While the stated maturity date of the Special Loan is June 30, 2021, the mandatory conversion feature into preferred stock as of October 1, 2020 results in the classification of this debt instrument as a current liability on the consolidated balance sheet.

Term Note, Revolving Promissory Note, Secured Convertible Special Loan and Secured Disbursed Escrow Promissory Note

On August 17, 2016, we entered into a Loan and Security Agreement with Slipstream, and obtained a $3,000 term loan, with interest thereon at 8% per annum. The term loan contains certain customary restrictions including, but not limited to, restrictions on mergers and consolidations with other entities, cancellation of any debt or incurring new debt (subject to certain exceptions), and other customary restrictions.

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

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

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

- be the most senior equity security of CRI, including with respect to the payment of dividends and other distributions;
- be on substantially the same terms and conditions as CRI’s Series A-1 6% Convertible Preferred Stock as set forth in its Certificate of Designation immediately before the same was cancelled pursuant to a Certificate of Cancellation dated as of March 13, 2019;
- not be subject to a right of redemption upon the part of a holder thereof;
- accrue and pay quarterly dividends at the rate of twelve percent (12%) per annum which shall be payable in cash;

- have a Stated Value that is an amount mutually agreed by CRI and the Lender at the time of issuance;
- Conversion Price shall be an amount equal to 80% of the average for the 30-day period ending two days prior to the required conversion date of the daily average of the range of CRI's common stock (calculated pursuant to information on The Wall Street Journal Online Edition), subject to appropriate adjustments; and
- neither section 6(e) of the Series A-1 Certificate of Designation nor any similar provision shall apply to the New Preferred.

In entering the Seventh Amendment and Special Loan, pursuant to ASC 825-10-25-1, *Fair Value Option*, we made an irrevocable election to report the Special Loan at fair value, with changes in fair value recorded through the Company's consolidated statements of operations in each reporting period.

On November 19, 2018, we used proceeds from our common stock offering to repay Slipstream $1,283, inclusive of $125 of accrued interest, to reduce borrowings under the Loan and Security Agreement to an aggregate of $4,264, comprised of $3,000 term loan, $1,000 revolving loan and $264 secured disbursed escrow promissory note. The consolidated balance sheet includes $27 of accrued interest as of December 31, 2018 representing one month's interest at 8.0% on the $4,000 outstanding balance.

On November 9, 2018, Slipstream, extended the maturity date of our term loan and revolver loan to August 16, 2020 through the Fifth Amendment to the Loan and Security Agreement. In conjunction with the extension of the maturity date of our term loan, we agreed that the interest rate would increase from 8.0% per annum to 10.0% per annum effective July 1, 2019.

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream and obtained a $1,000 revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019, which was amended to August 16, 2020 in conjunction with the Fifth Amendment to the Loan and Security Agreement. In connection with the loan, we issued Slipstream a five-year warrant to purchase up to 61,729 shares of Creative Realities' common stock at a per share price of $8.10 (subject to adjustment and subsequently adjusted to $8.09 in April 2018). The fair value of the warrants was $266, which was accounted for as an additional debt discount and amortized over the remaining life of the loan.

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream, under which we obtained a $1,100 revolving loan, with interest thereon at 8% per annum, provided, however, at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan (excluding the additional principal added pursuant to this proviso) exceeds $4,000 then the Loan Rate shall be 10%, of which eight percent 8% shall be payable in cash and 2% shall be paid by the issuance of and treated as additional principal of the Term Loan ("PIK"); provided, further, however, that the Loan Rate with respect to the Disbursed Escrow Loan shall be 0%. The revolving loan was originally set to mature on January 16, 2019, which was amended to August 16, 2020 in conjunction with the Fifth Amendment to the Loan and Security Agreement. In connection with the loan, we issued the lender a five-year warrant to purchase up to 143,791 shares of Creative Realities' common stock at a per share price of $7.65 (subject to adjustment). The fair value of the warrants was $543, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

The Fourth Amendment to the Loan and Security Agreement included entry into a Secured Disbursed Escrow Promissory Note between the Company and Slipstream, and, effective June 30, 2018 we drew $264 in conjunction with our exit from a previously leased operating facility. The principal amount of the Secured Disbursed Escrow Promissory Note will bear simple interest at the 8%; provided, further, however, that the Loan Rate with respect to the Secured Disbursed Escrow Promissory Note shall be 0% at all times when the aggregate outstanding principal amount of the Term Loan and the Revolving Loan (excluding the additional principal added pursuant to this proviso) is at or below $4,000.

See Note 13 *Convertible Preferred Stock* for the Black Scholes inputs used to calculate the fair value of the warrants.

Convertible Promissory Notes

On October 29, 2018, Slipstream, the holder of convertible promissory notes, agreed to convert $4,955 of outstanding principal, including paid-in-kind interest and all accrued interest thereon into shares of our common stock and warrants at a conversion price equal to the lower of $7.65, or 80% of the price at which shares of common stock were sold in the Company's common stock offering completed on November 19, 2018 ("Public Offering"). The conversion was contingent upon (i) the conversion of the Company's Series A Preferred Stock, and (ii) the successful completion of a Public Offering of at least $10,000, each of which were successfully completed on November 19, 2018. In exchange for participation in the Public Offering, subject to a minimum participation requirement as agreed between the underwriters and the Company, and Slipstream's execution of a lock-up agreement, Slipstream received, as a one-time incentive, additional common stock and warrants in such number that decreased the effective conversion price of the convertible notes to 70% of the lowest of those scenarios outlined above. Upon completion of the Company's Public Offering on November 19, 2018, the convertible promissory notes were converted into shares of the Company's common stock. The Company issued 653,062 shares of common stock at the stated conversion rate and an additional 1,386,090 shares of common stock in exchange for conversion of the convertible promissory notes as a result of the one-time incentive. The lock-up agreement applied to all shares of common stock and warrants issued to Slipstream.

Amended and Restated Seller Note from acquisition of Allure

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

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

On February 20, 2020, the Company and Allure filed a demand for arbitration against Seller for (1) breach of contract, (2) indemnification, and (3) fraudulent misrepresentation under the Purchase Agreement. This demand included a claim for the right to offset the amounts owing under the Amended and Restated Seller Note due February 20, 2020. We have not paid, nor do we intend to pay, the Amended and Restated Seller Note, which is now past its maturity date, without resolution of our demand for arbitration. On February 27, 2020, Seller sent the Company a notice of breach for failure to pay the Amended and Restated Seller Note on the maturity date of February 20, 2020 and demanding immediate payment. See Note 10 *Commitments and Contingencies* in the consolidated financial statements for further discussion.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Lease termination

On August 10, 2017, we announced the planned closure of our office facilities located at 22 Audrey Place, Fairfield, New Jersey 07004, which housed our previous operations center and ceased use of the facilities in February 2018. In ceasing use of these facilities, we recorded a one-time non-cash charge of $474 to accrue for the remaining rent under the lease term, net of anticipated subtenant rental income. Effective June 30, 2018, we entered into a settlement agreement to exit this lease agreement, resulting in the Company recording a gain on settlement of $39. There were no such lease terminations during 2019.

Settlement of obligations

During the year ended December 31, 2019, the Company settled and/or wrote off obligations of $3,178 for $1,132 cash payment and recognized a gain of $2,046. $1,619 of this gain related to settlement of legacy sales commissions due to a third party vendor which were settled with a cash payment of $1,100 during the three-months ended December 31, 2019. The remaining settlements related to legacy accounts payable deemed to no longer be legal obligations to vendors.

In 2018, the Company settled and/or wrote off obligations of $313 for $58 cash payment and recognized a gain of $255. This obligation included $30 of accrued wage labor liabilities no longer anticipated to be pursued against the Company.

Litigation

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

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

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

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

(b) The Company is not party to any other material legal proceedings, other than ordinary routine litigation incidental to the business, as of March 11, 2020, and there were no other such proceedings pending during the period covered by this Report.

Termination benefits

Effective December 31, 2018, the Company entered into a separation agreement with Mr. Walpuck, the Company’s former Chief Operating Officer. Mr. Walpuck and the Company agreed to a transition of Mr. Walpuck’s duties commencing January 31, 2019. Mr. Walpuck began consulting for the Company commencing February 1, 2019, and such services ended May 1, 2019. Mr. Walpuck was paid $100 per hour, with a maximum of 80 hours each month during the term of the consulting arrangement.

Pursuant to the terms of Mr. Walpuck’s employment agreement, Mr. Walpuck received a total of $220 in severance payments in even monthly installments through December 2019. The Company agreed to fully vest all stock options of Mr. Walpuck, such options do not terminate as a result of Mr. Walpuck’s termination of employment and remain exercisable throughout the term of the options.

On December 21, 2018, the Company announced certain restructuring activities following completion of its acquisition of Allure and accrued one-time termination benefits related to severance to the affected employees of $386. During the three-months ended December 31, 2018, cash payments for termination benefits were $31, with the remaining cash payments of $355 paid during the year-ended December 31, 2019.

On August 10, 2017, the Company announced that it was closing its New Jersey and Minnesota locations and accrued one-time termination benefits related to severance to the affected employees of $75 in the third quarter of 2017 which were included in general and administrative expenses on the consolidated statement of operations. During the three-months ended June 30, 2018, the remaining cash payments for termination benefits were paid and no liability remains recorded on the consolidated balance sheet as of December 31, 2018.

NOTE 11: RELATED PARTY TRANSACTIONS

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

On August 14, 2018, we entered into a payment agreement with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees"), outlining terms for repayment of $2,567 of aged accounts receivable as of that date. The payment agreement stipulated a simple interest rate of 12% on aged accounts receivable to be paid on the tenth day of each month through the maturity date of December 31, 2019. As of December 31, 2019, 33 Degrees paid the note in full and had a remaining outstanding accounts receivable balance of $1 in the Consolidated Financial Statements. Interest income of $118 related to the agreement has been included in interest expense in the consolidated statement of operations for the year ended December 31, 2019. 33 Degrees has continued to purchase additional hardware and services from the Company on a prepaid basis.

For the years ended December 31, 2019 and 2018, we had sales of $1,103 (3.5% of consolidated revenue) and $1,566 (6.9% of consolidated revenue), respectively, with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management ("33 Degrees").

Accounts receivable due from 33 Degrees was $1, or 0.0%, and $1,933, or 30.0% of consolidated accounts receivable at December 31, 2019 and December 31, 2018, respectively.

On December 30, 2019, we entered into the Special Loan as part of the Seventh Amendment of the Loan and Security Agreement with Slipstream, under which we obtained $2,000, with interest thereon at 8% per annum payable 6% in cash and 2% via the issuance of SLPIK interest, provided however that upon occurrence of an event of default the interest rate shall automatically be increased by 6% per annum payable in cash. See Note 9 *Loans Payable* for additional information regarding the loans.

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

On September 20, 2018, the Compensation Committee of the Board of Directors (1) adjusted the salary of Mr. Mills, CEO, to $330,000 annually, retroactive to January 1, 2018 and (2) granted 166,667 shares of common stock to Mr. Mills, CEO as compensation for his performance and direction of the Company since taking over as CEO in October 2015. The chart above reflects the fair value of the unrestricted shares which vested and received by Mr. Mills on the date the shares were formally issued, December 19, 2018 (133,333) and January 11, 2019 (33,334).

NOTE 12: INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law, making significant changes to U.S. tax law. Changes include, but are not limited to, a corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. In accordance with the Act, the Company recorded an income tax benefit of $200 in the fourth quarter of 2017, the period in which the legislation was enacted.

The income tax provision/(benefit) consisted of the following:

	Year ended December 31,	
	2019	2018
Tax provision summary:		
State income tax	$ 46	$ 23
Deferred tax benefit - federal	17	(454)
Deferred tax expense – state	30	33
Tax benefit	$ 93	$ (398)

The income tax provision/(benefit) includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between financial statement and tax bases of assets and liabilities. The Company records income taxes under the liability method. Under this method, deferred income taxes are recognized for the estimated future tax effects of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws. The amount provided for deferred income taxes reflects that impact of the revaluation of the Company's deferred income tax assets and liabilities required as the result of the change in the U.S. federal and state income tax rates, as discussed above.

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

	2019	2018
Federal statutory rate	21.00%	21.00%
State taxes, net of federal benefit	9.85%	1.36%
Foreign rate differential	-9.69%	0.58%
IRC 162(m) limitation	0%	-0.63%
Meals and entertainment	0.81%	0%
Discrete items, Transaction items, and Other	44.05%	239.77%
Changes in valuation allowance	-57.76%	-258.44%
Effective tax rate	8.25%	3.64%

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

	December 31,	
	2019	2018
Deferred tax assets (liabilities):		
Reserves	$ 175	$ 233
Property and equipment	(83)	462
Accrued expenses	265	822
Right-of-use Asset	(414)	-
Right-of-use Liability	419	-
Severance	-	65
IRC 163(j) Interest Deduction	17	591
Non-qualified stock options	528	336
R&D credits	1,801	1,538
Net foreign carryforwards	2,768	2,214
Net operating loss and credit carryforwards	34,754	33,988
Intangibles	(1,128)	(672)
Total deferred tax assets, net	39,102	39,577
Valuation allowance	(39,277)	(39,705)
Net deferred tax liabilities	$ (175)	$ (128)

Our deferred tax assets are primarily related to net federal and state operating loss carryforwards (NOLs). We have substantial NOLs that are limited in its 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. The estimated federal NOL carryforward after application of the IRC Section 382 limitation is $33,817 and foreign NOL carryforward is $2,768 as of December 31, 2019. 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.

NOTE 13: CONVERTIBLE PREFERRED STOCK

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

On November 5, 2018, the shareholders of preferred stock agreed to convert the entire class of preferred stock into common stock at an exchange ratio of $7.65 per share. The conversion was contingent upon a successful Public Offering of at least $10,000, which the Company completed on November 19, 2018.

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

NOTE 14: WARRANTS

On November 19, 2018, the Company announced the closing of its underwritten public offering of 2,857,142 shares of its common stock and warrants to purchase 1,428,571 shares of common stock at a combined public offering price of $3.50 per share and warrant. The gross proceeds to the Company from this the Public Offering were approximately $10,000, before deducting underwriting discounts and commissions and other estimated offering expenses. The proceeds were primarily used in the Allure Acquisition and in the repayment of approximately $1,283 of debt.

On April 27, 2018, we entered into the Fourth Amendment to the Loan and Security Agreement with Slipstream, under which we obtained a $1,100 revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 143,791 shares of Creative Realities' common stock at a per share price of $7.65 (subject to adjustment and subsequently adjusted to $6.25 in November 2018). The fair value of the warrants was $543, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

On January 16, 2018, we entered into the Third Amendment to the Loan and Security Agreement with Slipstream, under which we obtained a $1,000 revolving loan, with interest thereon at 8% per annum, maturing on January 16, 2019. In connection with the loan, we issued the lender a five-year warrant to purchase up to 61,729 shares of Creative Realities' common stock at a per share price of $8.10 (subject to adjustment and subsequently adjusted to $6.09 in November 2018). The fair value of the warrants on the issuance date was $266, which is accounted for as an additional debt discount and amortized over the remaining life of the loan.

Listed below are the range of inputs used for the probability weighted Black Scholes option pricing model valuations for when the warrants were issued and at December 31, 2019.

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

Remaining Expected Term at December 31, 2019	Risk Free Interest Rate at December 31, 2019	Volatility at December 31, 2019	Stock Price at December 31, 2019
0.13 - 3.92	1.69%	74.49%	$ 1.53

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

	Warrants (Equity)			Warrants (Liability)		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance January 1, 2019	4,815,047	$ 4.90	4.34	216,255	$ 7.34	0.64
Warrants issued	-	-	-	-	-	-
Warrants expired	(82,019)	8.25	-	(216,255)	7.34	-
Balance December 31, 2019	4,733,028	$ 4.83	3.41	-	$ -	-

NOTE 15: STOCK-BASED COMPENSATION

A summary of outstanding options, including non-employee directors, is included below:

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.01 - $5.39	25,000	9.86	$ 1.88	-	$ -
$5.40 - $19.50	287,341	6.04	$ 8.35	250,257	$ 8.45
$19.51 - $23.70	1,000	4.04	23.70	1,000	$ 23.70
$23.71 - $367.50	519	2.58	112.30	519	$ 112.30
	313,860	6.33	$ 8.06	251,776	

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2018	288,860	$ 8.59
Granted	25,000	1.88
Exercised	-	-
Forfeited or expired	-	-
Balance, December 31, 2019	313,860	$ 8.06

The weighted average remaining contractual life for options exercisable is 5.68 years as of December 31, 2019.

Valuation Information for Stock-Based Compensation

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

On November 7, 2019, the Company granted 10-year options to purchase an aggregate of 25,000 shares of its common stock to one non-employee director. The options vest over 3 years and have an exercise price of $1.88, the market value of the Company's common stock on the grant date. The fair value of the options on the grant date was $1.19 and was determined using the Black-Scholes model. These values were calculated using the following weighted average assumptions:

Risk-free interest rate	1.92%
Expected term	6.25 years
Expected price volatility	68.77%
Dividend yield	0%

On September 7 and September 20, 2018, the Company granted 10-year options to purchase an aggregate of 33,334 shares of its common stock to two employees, 16,667 of which were granted to an Officer. The options vest over 4 years and have an exercise price of $7.50. The fair value of the options on the grant date was $4.58 and was determined using the Black-Scholes model. These values were calculated using the following weighted average assumptions:

Risk-free interest rate	2.82 – 2.96%
Expected term	6.25 years
Expected price volatility	63.45%
Dividend yield	0%

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

Stock Compensation Expense Information

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

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. There are 301,674 options outstanding under the 2014 Stock Incentive Plan.

Compensation expense recognized for the issuance of stock options for the years ended December 31, 2019 and 2018 of $447 and $1,383, respectively, was included in general and administrative expense in the Consolidated Financial Statements.

At December 31, 2019, there was approximately $174 of total unrecognized compensation expense related to unvested share-based awards. Generally, this expense will be recognized over the next three years and will be adjusted for any future forfeitures as they occur.

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

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

On December 31, 2018, the Company recorded $35 in additional compensation expense for the accelerated vesting of outstanding, unvested stock options in conjunction with the separation agreement executed between the Chief Operating Officer and the Company during the year ended December 31, 2018.

NOTE 16: SHARE REPURCHASE PROGRAM

On August 9, 2017, our Board of Directors authorized a program to repurchase up to 166,667 shares of our outstanding common stock through August 9, 2019. The authorization allowed for the repurchases to be conducted through open market or privately negotiated transactions. Shares acquired under the stock repurchase program are expected to be retired and returned to the status of authorized but unissued shares of common stock. The stock repurchase program can be suspended, modified or discontinued at any time at our discretion. No shares were repurchased by the Company during 2019 or 2018 and the program terminated August 9, 2019.

NOTE 17: LEASES

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

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

(in thousands)	Year Ended December 31, 2019
Finance lease cost	
Amortization of right-of-use assets	$ 32
Interest	5
Operating lease cost	736
Total lease cost	$ 773
Weighted Average Remaining Lease Term	
Operating leases	3.4 years
Finance leases	1.2 years
Weighted Average Discount Rate	
Operating leases	10.0%
Finance leases	13.64%

The following is a schedule, by years, of maturities of lease liabilities as of December 31, 2019:

(in thousands)	Operating Leases	Finance Leases
2020	681	23
2021	630	4
2022	377	1
2023	375	-
2024	-	-
Thereafter	-	-
Total undiscounted cash flows	2,063	28
Less imputed interest	(317)	(2)
Present value of lease liabilities	1,746	26
Lease liabilities, current	646	21
Lease liabilities, non-current	1,100	5
Present value of lease liabilities	1,746	26

Supplemental cash flow information related to leases are as follows:

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 719
Operating cash flows from finance leases	$ 1
Financing cash flows from finance leases	$ 31

Future minimum lease payments under leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2018 were as follows in accordance with ASC 840:

Year ending December 31,	Lease Obligations
2019	$ 726
2020	613
2021	423
2022	374
Thereafter	375
Total future minimum obligations	$ 2,511

Rent expense totaled $488 for the year ended December 31, 2018 and is included in General and Administrative expenses.

NOTE 18: PROFIT-SHARING PLAN

We have a defined contribution 401(k) retirement plans for eligible associates in the United States. Associates may contribute up to 15% of their pretax compensation to the plan subject to IRS limitations. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%. The Company contributed $155 and $101 to employee 401(k) retirement plans for the year-ended December 31, 2019 and 2018, respectively.

During 2018, employees who joined the Company via acquisition of Allure participated in a defined contribution 401(k) retirement plans. Associates were able to contribute up to 15% of their pretax compensation to the plan subject to IRS limitations. There was no employer match on this plan during 2018. Allure personnel became eligible for the Creative Realities 401(k) retirement plan effective January 1, 2019 and the related employer match program.

We have a Registered Retirement Savings Plan for eligible associates in Canada. Associates may contribute up to 18% of earned income reported on their tax return in the previous year, subject to legal contribution limits. Beginning on April 1, 2018, the Company began contributing an employer contribution match of 50% of employee wages up to 6%, for an effective match of 3%.

NOTE 19: SEGMENT INFORMATION AND SIGNIFICANT CUSTOMERS/VENDORS

Segment Information

We currently operate in one reportable segment, marketing technology solutions. Substantially all property and equipment is located at our offices in the United States, and a data center located in the United States. All material sales for the years ended December 31, 2019 and 2018 were in the United States and Canada.

Significant Customers

We had one (1) and two (2) customers that accounted for 18.5% and 48.3% of revenue for the years ended December 31, 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, we had sales of $1,103 (3.5% of consolidated sales) and $1,566 (6.9% of consolidated sales), respectively, with 33 Degrees Convenience Connect, Inc., a related party that is approximately 17.5% owned by a member of our senior management (“33 Degrees”).

We had one (1) and two (2) customers that in the aggregate accounted for 14.4% and 40.0% of accounts receivable as of December 31, 2019 and December 31, 2018, respectively. Accounts receivable due from 33 Degrees was $1 and $1,933 at December 31, 2019 and 2018, respectively.

Significant Vendors

We had one (1) vendor that accounted for 50% of outstanding accounts payable at December 31, 2019. There were no vendors in excess of 10% of outstanding accounts payable at December 31, 2018.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Amendment to Agreement and Plan of Merger and Reorganization and Waiver dated as of September 1, 2017 (incorporated by reference to the registrant's Form 10-Q filed with the SEC on November 14, 2017)
2.2	Stock Purchase Agreement, dated as of September 20, 2018, by and between the registrant and Christie Digital System, Inc. (incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on September 20, 2018).
3.1	Articles of Incorporation, as amended (incorporated by reference to registrant's Amendment No. 1 to Form SB-2 filed on October 12, 2006).
3.2	Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on September 17, 2014)
3.3	Articles of Amendment Filed on October 17, 2018 (incorporate by reference to Exhibit 3.3 to the registrant's registration statement on Form S-1 filed October 17, 2018)
3.4	Series A-1 Convertible Preferred Stock Certificate of Designation of Preferences, Rights and Limitations filed October 30, 3015 (incorporated by reference to Exhibit 4.2 of the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)
3.5	Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on September 17, 2014)
3.6	Articles of Amendment (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on October 16, 2014)
3.7	Articles of Amendment Filed on October 17, 2018 (incorporated by reference to Exhibit 3.3 to the registrant's registration statement on Form S-1 filed October 17, 2018)
3.8	Statement of Cancellation of Certificate of Designation of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on March 18, 2019)
3.9	Statement of Cancellation of Certificate of Designation of Series A-1 Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the registrant's Form 8-K filed with the SEC on March 18, 2019)
3.10	Amended and Restated Bylaws (incorporated by reference to the registrant's Current Report on Form 8-K filed on November 2, 2011)
4.1	Warrant dated February 18, 2015, issued in favor of Mill City Ventures III, Ltd. (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K filed with the SEC on February 24, 2015)
4.2	Warrant to Purchase Common Stock, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrants Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)
4.3	Warrant to Purchase Common Stock, issued in favor of Equity Trust company, custodian FBO Leonid Frenkel IRA (incorporated by reference to the registrants Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)
4.4	Form of Warrant (for use in connection with Form of Securities Purchase Agreement dated June 23, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)
4.5	Warrant dated August 10, 2017, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form 10-Q filed with the SEC on November 14, 2017)
4.6	Warrant dated November 13, 2017, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
4.7	Warrant dated January 16, 2018, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
4.8	Warrant dated December 22, 2015, issued in favor of Slipstream Communications, LLC (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on April 4, 2016)

Exhibit No.	Description
4.9	Form of Warrant (for use in connection with Form of Securities Purchase Agreement dated December 28, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)
4.10	Warrant to Purchase Common Stock issued to Slipstream Communications, LLC on April 27, 2018 (incorporated by reference to Exhibit 10.31 of the registrant's Form S-1 filed with the SEC on June 25, 2018).
4.11	Warrant to Purchase Common Stock (entered into in connection with Loan and Security Agreement dated August 17, 2016) (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)
4.12	Form of Investor Warrant issued November 19, 2018 (incorporated by reference to Exhibit 4.3 to the registrant's Amendment No. 5 to Form S-1/A filed with the SEC on November 14, 2018)
4.13	Form of Representative's Warrant (incorporated by reference to Exhibit 4.4 to the registrant's Amendment No. 3 to Form S-1/A filed with the SEC on October 22, 2018)
4.14	Description of Registrant's Securities*
10.1	Security Agreement dated February 18, 2015, by and among Creative Realities, Inc. and Broadcast International, Inc., Creative Realities, LLC, and Wireless Ronin Technologies Canada, Inc. (incorporated by reference to Exhibit 10.4 to the registrant's Current Report on Form 8-K filed with the SEC on February 24, 2015)
10.2	Subordinated Secured Promissory Note issued on May 20, 2015 to Slipstream Communications, LLC, in the original principal amount of $465,000 (incorporated by reference to the registrants Quarterly Report on Form 10-Q filed with the SEC on August 14, 2015)
10.3	Form of Secured Convertible Promissory Note (for use in connection with Form of Securities Purchase Agreement dated June 23, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)
10.4	Form of Security Agreement (for use in connection with Form of Securities Purchase Agreement dated June 23, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)
10.5	Form of Secured Convertible Promissory Note (for use in connection with Form of Securities Purchase Agreement dated December 28, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)
10.6	Form of Registration Rights Agreement (for use in connection with Form of Securities Purchase Agreement dated December 28, 2015) (incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the SEC on February 11, 2016)
10.7	Loan and Security Agreement with Slipstream Communications, LLC, dated as of August 17, 2016 (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)
10.8	First Amendment to Loan and Security Agreement dated as of August 10, 2017 among Slipstream Communications, LLC, registrant and registrant's subsidiaries. (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 26, 2018).
10.9	Second Amendment to Loan and Security Agreement dated as of November 13, 2017 among Slipstream Communications, LLC, registrant and registrant's subsidiaries. (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)

Exhibit No.	Description
10.10	Third Amendment to Loan and Security Agreement dated as of January 16, 2018 among Slipstream Communications, LLC, registrant and registrant's subsidiaries. (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.11	Secured Term Promissory Note in favor of Slipstream Communications, LLC (entered into in connection with Loan and Security Agreement dated August 17, 2016) (incorporated by reference to the registrant's Quarterly Report on Form 10-Q filed with the SEC on November 21, 2016)
10.12	Secured Revolving Promissory Note in favor of Slipstream Communications, LLC (entered into in connection with Third Amendment to Loan and Security Agreement dated January 16, 2018) subsidiaries (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 26, 2018).
10.13	Fourth Amendment to Loan and Security Agreement with Slipstream Communications, LLC, dated as of April 27, 2018 (incorporated by reference to Exhibit 10.31 of the registrant's Form S-1 filed with the SEC on June 25, 2018).
10.14	Second Allonge to Secured Revolving Promissory Note issued in favor of Slipstream Communications, LLC., dated as of April 27, 2018. (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.15	Second Allonge to Amended and Restated Secured Term Promissory Note issued in favor of Slipstream Communications, LLC., dated as of April 27, 2018 (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.16	Secured Disbursed Escrow Promissory Note issued in favor of Slipstream Communications, LLC, in principal amount of $264,000 dated as of April 27, 2018 (incorporated by reference to the registrant's Form S-1 filed with the SEC on June 25, 2018)
10.17	Employment Agreement with Richard Mills (incorporated by reference to the registrant's Annual Report on Form 10-K filed with the SEC on March 28, 2017)
10.18	Form of Securities Purchase Agreement dated June 23, 2015 (incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the SEC on July 9, 2015)
10.19	Form of Warrant Agency Agreement between the Company and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.5 of the registrant's registration statement on Form S-1 filed October 22, 2018)
10.20	2014 Stock Incentive Plan as amended (incorporated by reference to the registrant's definitive proxy statement filed with the SEC on July 24, 2018)
10.21	Fifth Amendment to Loan and Security Agreement (incorporated by reference to Exhibit 10.1 of registrant's report on Form 8-K filed with the SEC on November 20, 2018)
10.22	Third Allonge to Amended and Restated Secured Term Promissory Note issued in favor of Slipstream Communications, LLC (incorporated by reference to Exhibit 10.2 of registrant's report on Form 8-K filed with the SEC on November 20, 2018)
10.23	Amended and Restated Convertible Promissory Note dated November 20, 2018 issued by Allure Global Solutions, Inc. in favor of Christie Digital Systems, Inc. (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on November 26, 2018)
10.24	Restricted Stock Agreement dated December 14, 2018 with Richard Mills (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on December 20, 2018)

Exhibit No.	Description
10.25	Seventh Amendment to Loan and Security Agreement dated December 30, 2019 by and among the Company, its Subsidiaries and Slipstream Communications, LLC (incorporated by reference to Exhibit 10.1 of the registrant's report on Form 8-K filed with the SEC on January 3, 2020)
10.26	Secured Convertible Special Loan Promissory Notes dated December 30, 2019 issued by the Company to Slipstream Communications, LLC (incorporated by reference to Exhibit 10.2 of the registrant's report on Form 8-K filed with the SEC on January 3, 2020)
14.1	Code of Business Conduct and Ethics
21.1	List of Subsidiaries
23.1	Consent of EisnerAmper LLP*
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 March 12, 2020*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

*Filed herewith

Exhibit 4.14

Description of Registrant’s Securities

As of March 12, 2020, Creative Realities, Inc. has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”): (1) our Common Stock; and (2) Warrants.

Description of Common Stock

The following is a description of our common stock, and certain material provisions of Minnesota law, our Articles of Incorporation, and our corporate bylaws. The following is only a summary and is qualified by applicable law, our Articles of Incorporation, and our corporate bylaws. Copies of our Articles of Incorporation and corporate bylaws are included as exhibits to the Annual Report on Form 10-K of which this Exhibit is a part.

Voting. The holders of our common stock are entitled to one vote for each outstanding share of common stock owned by that shareholder on every matter properly submitted to the shareholders for their vote. Shareholders are not entitled to vote cumulatively for the election of directors.

Dividend Rights. Subject to the dividend rights of the holders of any outstanding series of preferred stock, holders of our common stock are entitled to receive ratably such dividends and other distributions of cash or any other right or property as may be declared by our Board of Directors out of our assets or funds legally available for such dividends or distributions.

Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, holders of our common stock would be entitled to share ratably in our assets that are legally available for distribution to shareholders after payment of liabilities and after the satisfaction of any liquidation preference owed to the holders of any outstanding series of preferred stock.

Conversion, Redemption and Preemptive Rights. Holders of our common stock have no conversion, redemption, preemptive, subscription or similar rights.

Warrants

The following summary of certain terms and provisions of our warrants is not complete and is subject to, and qualified in its entirety by the provisions of the form of the warrant, which is filed as an exhibit to the Annual Report on Form 10-K of which this Exhibit is a part.

Exercisability. The warrants are exercisable immediately upon issuance and at any time up to the date that is five years from the date of issuance. The warrants will be exercisable, at the option of each holder, in whole or in part by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise (except in the case of a cashless exercise as discussed below).

Cashless Exercise. In the event that a registration statement covering shares of common stock underlying the warrants, or an exemption from registration, is not available for the resale of such shares of common stock underlying the warrants, the holder may, in its sole discretion, exercise the warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to us upon such exercise in payment of the aggregate exercise price, elect instead to receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. In no event shall we be required to make any cash payments or net cash settlement to the registered holder in lieu of issuance of common stock underlying the warrants.

Exercise Price. The initial exercise price per share of common stock purchasable upon exercise of the warrants is $4.375. The exercise price is subject to appropriate adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock and also upon any distributions of assets, including cash, stock or other property to our stockholders.

Certain Adjustments. The exercise price and the number of shares of common stock purchasable upon the exercise of the warrants are subject to adjustment upon the occurrence of specific events, including stock dividends, stock splits, combinations and reclassifications of our common stock.

Transferability. Subject to applicable laws, the warrants may be transferred at the option of the holders upon surrender of the warrants to us together with the appropriate instruments of transfer.

Fundamental Transaction. If, at any time while the warrants are outstanding, (1) we consolidate or merge with or into another corporation and we are not the surviving corporation, (2) we sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of our assets, (3) any purchase offer, tender offer or exchange offer (whether by us or another individual or entity) is completed pursuant to which holders of our shares of common stock are permitted to sell, tender or exchange their shares of common stock for other securities, cash or property and has been accepted by the holders of 50% or more of our outstanding shares of common stock, (4) we effect any reclassification or recapitalization of our shares of common stock or any compulsory share exchange pursuant to which our shares of common stock are converted into or exchanged for other securities, cash or property, or (5) we consummate a stock or share purchase agreement or other business combination with another person or entity whereby such other person or entity acquires more than 50% of our outstanding shares of common stock, each, a “Fundamental Transaction,” then upon any subsequent exercise of the warrants, the holders thereof will have the right to receive the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of warrant shares then issuable upon exercise of the warrant, and any additional consideration payable as part of the Fundamental Transaction.

Rights as a Stockholder. Except as otherwise provided in the warrants or by virtue of such holder’s ownership of shares of our common stock, the holder of a warrant does not have the rights or privileges of a holder of our common stock, including any voting rights, until the holder exercises the warrant.

Anti-Takeover Provisions

The following is a description of certain provisions of the Minnesota Business Corporation Act and our corporate bylaws that are likely to discourage any unfriendly attempt to obtain control of the Company. This summary does not purport to be complete and is qualified in its entirety by reference to the Minnesota Business Corporation Act and our corporate bylaws.

Minnesota Business Combination Act

We are subject to the Minnesota Business Combination Act, Section 302A.673 of the Minnesota Business Corporation Act. Subject to certain qualifications and exceptions, the statute prohibits an “interested shareholder” of certain Minnesota corporations that are termed “issuing public corporations” (which definition Creative Realities satisfies) from effecting any “business combination” with the corporation for a period of four years from the date the shareholder becomes an “interested shareholder” unless the corporation’s Board of Directors approved the business combination prior to the shareholder becoming an “interested shareholder” or otherwise approved the shareholder becoming an “interested shareholder.”

An “interested shareholder” is defined to include (i) any beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation, or (ii) any affiliate or associate of the corporation, that, within the prior four-year period has at any time directly or indirectly beneficially owned 10% or more of the voting power of the then-outstanding stock of the corporation.

The term “business combination” is defined broadly to include, among other things:

- the merger, consolidation or share exchange of the corporation with the interested shareholder or any corporation that is, or after the merger, consolidation or share exchange would be, an affiliate or associate of the interested shareholder (subject to certain exceptions);

- the sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with an interested shareholder or any affiliate or associate of the interested shareholder, of assets of the corporation or any subsidiary (i) having an aggregate market value of 10% or more of the corporation’s consolidated assets, (ii) having an aggregate market value of 10% or more of the market value of all outstanding shares of the corporation, or (iii) representing 10% or more of the earning power or net income of the corporation determined on a consolidated basis (subject to certain exceptions); or

- the issuance or transfer to an interested shareholder or any affiliate or associate of the interested shareholder of 5% or more of the aggregate market value of the outstanding stock of the corporation (subject to certain exceptions).

The statute is designed to protect minority shareholders by prohibiting transactions in which an acquirer could favor itself at the expense of minority shareholders. The statute's prohibition on the issuance or transfer to an interested shareholder of 5% or more of the aggregate market value of the outstanding stock of a corporation is subject to an exemption for shares purchased pursuant to the exercise of rights offered on a pro rata basis to all shareholders, such as this rights offering.

Bylaws

Certain provisions of our corporate bylaws could have anti-takeover effects. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our corporate policies formulated by our Board of Directors. In addition, these provisions also are intended to ensure that our Board of Directors will have sufficient time to act in what our Board of Directors believes to be in the best interests of our Company and our shareholders. Nevertheless, these provisions could delay or frustrate the removal of incumbent directors or the assumption of control of us by the holder of a large block of common stock, and could also discourage or make more difficult a merger, tender offer, or proxy contest, even if such event would be favorable to the interest of our shareholders. These provisions are summarized below.

Advance Notice Provisions for Raising Business or Nominating Directors. Sections 2.2 and 3.3 of our bylaws contain advance-notice provisions relating to the ability of shareholders to raise business at a shareholder meeting and make nominations for directors to serve on our Board of Directors. These advance-notice provisions generally require shareholders to raise business within a specified period of time prior to a meeting in order for the business to be properly brought before the meeting. Similarly, our bylaws prescribe the timing of submissions for nominations to our Board of Directors and the certain of factual and background information respecting the nominee and the shareholder making the nomination.

Limited Shareholder Action in Writing. Our bylaws provide that shareholder action can be taken only at an annual or special meeting of shareholders and cannot be taken by written consent in lieu of a meeting by fewer than all shareholders entitled to vote. This provision is consistent with the Minnesota Business Corporation Act, which does not allow for fewer than all shareholders of a public corporation to take action other than at an actual meeting of the shareholders.

Number of Directors and Vacancies. Our bylaws provide that the number of directors shall initially consist of seven persons, with the precise number of directors comprising the board shall be determined from time to time by the board itself. The prescribed number of directors comprising the board may be increased (but not decreased) by a majority of the directors then serving on the board. The bylaws also provide that our board has the right, except as may be provided in the terms of any series of preferred stock created by resolutions of the board, to fill vacancies, including vacancies created by any decision of our board to increase the number of directors comprising the board.

Articles of Incorporation – Blank-Check Preferred Stock Power

Under our Articles of Incorporation, our board has the authority to fix by resolution the terms and conditions of one or more series of preferred stock and provide by resolution for the issuance of shares of such series.

We believe that the availability of our preferred stock, in each case issuable in series, and additional shares of common stock could facilitate certain financings and acquisitions and provide a means for meeting other corporate needs which might arise. The authorized shares of our preferred stock, as well as authorized but unissued shares of common stock, will be available for issuance without further action by our shareholders, unless shareholder action is required by applicable law or the rules of any stock exchange on which any series of our stock may then be listed, or except as may be provided in the terms of any preferred stock created by resolution of our board.

These provisions give our board the power to approve the issuance of a series of preferred stock, or additional shares of common stock, that could, depending on its terms, either impede or facilitate the completion of a merger, tender offer or other takeover attempt. For example, the issuance of new shares of preferred stock might impede a business combination if the terms of those shares include voting rights which would enable a holder to block business combinations or, alternatively, might facilitate a business combination if those shares have general voting rights sufficient to cause an applicable percentage vote requirement to be satisfied.

Listing

Our common stock and warrants are listed on The Nasdaq Capital Market under the symbol "CREX" and "CREXW", respectively.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of Creative Realities, Inc. and Subsidiaries (the “Company”) on Form S-1/A (No. 333-209847) and Form S-8 (Nos. 333-189318, 333-181999, 333-174861, 333-167454, 333-159927, 333-147458 and 333-145795) of our report dated March 12, 2020, on our audits of the consolidated financial statements as of December 31, 2019 and 2018, and for each of the years then ended, which report is included in this Annual Report on Form 10-K.

/s/ EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
March 12, 2020

Exhibit 31.1

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

I, Richard Mills, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019, of Creative Realities, Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: March 12, 2020

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

Exhibit 31.2

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

I, Will Logan, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019, of Creative Realities, Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: March 12, 2020

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

Exhibit 32.1

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

In connection with the Annual Report of Creative Realities, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: March 12, 2020

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

Exhibit 32.2

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

In connection with the Annual Report of Creative Realities, Inc. (the “Company”) on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Dated: March 12, 2020

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

Exhibit 99.1

FOR IMMEDIATE RELEASE

Creative Realities Reports Fourth Quarter and Full Year 2019 Results
Achieves revenue growth of 41% in 2019

- Annual revenue growth of approximately 41% versus 2018
- Net income of approximately $1 million
- Earnings call scheduled for Friday, March 13th at 9am Eastern

LOUISVILLE, KY – March 12, 2020 – Creative Realities, Inc. ("Creative Realities," "CRI," or the "Company") (NASDAQ: CREX, CREXW), a leading provider of digital marketing solutions, announced its financial results for the year ended December 31, 2019, including the quarter ended as of the same date.

Rick Mills, Chief Executive Officer, remarked, "During 2019, we were focused on and achieved three primary goals: continuing the rapid acceleration of our top-line revenue growth, furthering the integration of our acquisition of Allure Global Solutions, Inc. ("Allure"), which closed on November 20, 2018, and driving improvements in our operating model to achieve profitability. Our revenue grew approximately 41%, which included approximately 20% organic growth in addition to the contribution of Allure and continues to significantly outpace our competitors and the industry as a whole, while maintaining stable margins."

"Our 2019 results include the incremental operations of Allure for a full year. Despite the completion of the Allure acquisition in late 2018, our total operating expenses were effectively flat year-over-year when adjusted for one-time, non-cash activities, and decreased by 6%, or approximately $0.8 million in reported results. This evidences our previous statements about the operating leverage of our business and the ability of our management team to successfully integrate the operations of multiple businesses in a manner that maximizes the synergies between those businesses while producing only limited disruption to our ongoing operations."

2019 Financial Overview

- Revenues were $31.6 million for the year ended December 31, 2019, an increase of $9.1 million, or 41%, compared to the same period in 2018. Organic growth accounted for approximately $4.4 million of the increase, representing an organic growth rate of approximately 20% as compared to 2018. The remaining growth of approximately $4.7 million year-over-year represents the revenue growth contributed by the inclusion of Allure in our consolidated results for a full year in 2019.
- Hardware revenue increased approximately $1.2 million, or 18%, in 2019 as compared to prior year. Gross margin on hardware revenue was 24% in 2019 as compared to 32% in 2018. The current year margin on hardware is more in-line with our expectations for the business moving forward than the margin provided in 2018, which was buoyed by a material, one-time transaction.
- Services and other revenue grew approximately $7.9 million, or 51%, in 2019 as compared to the prior year. Gross margin on services and other revenue was consistent year-over-year at 50% in 2019 compared to 52% in 2018.
- Managed services revenue, which includes both SaaS and help desk technical subscription services, represented approximately $6.6 million revenue in 2019, an increase of $3.6 million, or 122%, as compared to the same period in the prior year.

- Gross profit was $13.8 million for the year ended December 31, 2019, an increase of $3.5 million, or 34%, compared to the same period in 2019. Gross margin decreased to 43% in 2019 from 45% in 2018, driven primarily by the mix of hardware and services and other revenue.
- Total operating expenses decreased $0.9 million, or 6%, to $13.8 million in 2019 as compared to $14.7 million in 2018 despite the inclusion of a full year of operating results of Allure in our 2019 results.
- The Company had an operating loss of $0.1 million during 2019, an improvement of $4.4 million as compared to the operating loss of $4.5 million in 2018.
- The Company produced net income of $1.0 million during 2019 as compared to a net loss of $10.6 million for the same period in 2018, an improvement of $11.7 million.
- EBITDA was $3.2 million for the year ended December 31, 2019 compared to ($7.2) million the same period in 2018. Adjusted EBITDA was $1.3 million for the year ended December 31, 2019, compared to ($0.3) million in Adjusted EBITDA for the same period in 2018.

Mr. Mills concluded, “We continue to believe that market data and our acquisition of Allure supports three key factors about the digital signage industry moving forward: (1) the industry is ripe for consolidation amongst smaller and mid-size competitors into an enterprise provider, (2) the industry offers significant synergies through those consolidations, and (3) that there will ultimately be a handful of enterprise-level companies which own a dominant portion of the market share within the digital signage industry. We continue to believe that our ability to both outgrow our competition and successfully integrate acquisition opportunities positions Creative Realities to be amongst those enterprise-level providers. Our end-to-end services offering positions us well within the industry to compete for new and growing opportunities with partners, particularly potential enterprise customers in a variety of key verticals. We remain committed to further execution of our strategy to gain more scale and act as a key participant in what we believe should be an industry rollup aimed at driving shareholder value.”

Conference Call Details
The Company will host a conference call to review the results and provide additional commentary about the Company's recent performance, which is scheduled for Friday, March 13, 2020 at 9:00 am Eastern Time.

Prior to the call, participants should register at http://bit.ly/criearnings2019. Once registered, participants can use the weblink provided in the registration email to listen to the live webcast. An archived edition of the second quarter earnings conference call will also be posted on our website at www.cri.com later that same day and will remain available to interested parties via the same link for one year.

About Creative Realities, Inc.
Creative Realities helps clients use the latest omnichannel technologies to inspire better customer experiences. Founded over 15 years ago, CRI designs, develops and deploys consumer experiences for high-end enterprise level networks, and is actively providing recurring SaaS and support services for more than fifteen diverse vertical markets, including Automotive, Advertising Networks, Apparel & Accessories, Convenience Stores, Foodservice/QSR, Gaming, Theater, and Stadium Venues. The Company acquired Allure Global Solutions, Inc. in November 2018, expanding the Company's operations to five offices across North America with active installations in more than 10 countries.

Use of Non-GAAP Measures
Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles ("GAAP"). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding EBITDA and Adjusted EBITDA, which differs from the term EBITDA as it is commonly used. Adjusted EBITDA excludes share-based compensation, impairment charges, fair value adjustments, and other cash and non-cash charges and gains. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, EBITDA and Adjusted EBITDA are used internally in planning and evaluating the Company's operating performance. Accordingly, management believes that disclosure of these metrics offers investors, bankers and other stakeholders an additional view of the Company's operations that, when coupled with the GAAP results, provides a more complete understanding of the Company's financial results.

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

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

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

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

Contact

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

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

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.

Years ended	**December 31, 2019**	**December 31, 2018**
GAAP net income/(loss)	$ 1,038	$ (10,620)
Interest expense:		
Amortization of debt discount	524	1,694
Other interest, net	306	912
Depreciation/amortization	1,250	1,185
Income tax expense/(benefit)	93	(398)
EBITDA	$ 3,211	$ (7,227)
Adjustments		
Change in warrant liability	(21)	(837)
Gain on settlement of obligations	(2,051)	(294)
Gain on earnout liability	(250)	-
Lease termination expense	-	474
Debt conversion expense	-	5,055
CEO share grant compensation expense	-	1,000
Stock-based compensation	447	1,383
Severance charges	-	385
Deal & transaction costs	-	710
Other expense/(income)	-	6
Adjusted EBITDA	$ 1,336	$ (345)