REFINITIV

DELTA REPORT

10-Q

CREX - CREATIVE REALITIES, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	2036
CHANGES	96
DELETIONS	1453
ADDITIONS	487

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023 March 31, 2024

or

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

For the transition period from ___________ to ___________

Commission File Number 001-33169

0001437749-24-015814crexlogonew.jpg

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

Minnesota	41-1967918
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
13100 Magisterial Drive, Suite 100, Louisville KY	40223
Address of Principal Executive Offices	Zip Code

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

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

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 9, 2023 May 9, 2024, the registrant had 10,409,027 10,446,659 shares of common stock outstanding.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2023	December 31, 2022
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,376	$ 1,633
Accounts receivable, net	5,865	8,263
Work-in-process and inventories, net	2,306	2,267
Prepaid expenses and other current assets	960	1,819
Total current assets	17,507	13,982
Property and equipment, net	513	201
Operating lease right-of-use assets	1,198	1,584
Intangibles, net	23,975	23,752
Goodwill	26,453	26,453
Other assets	43	43
TOTAL ASSETS	$ 69,689	$ 66,015
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,340	$ 3,757
Accrued expenses	4,499	3,828
Deferred revenues	3,507	1,223
Customer deposits	3,532	2,478
Current maturities of operating leases	575	711

Short-term portion of Secured Promissory Note	521	1,248
Short-term portion of related party Consolidation Term Loan, net of $747 and $745 discount, respectively	3,690	1,251
Short-term related party Term Loan (2022)	-	2,000
Total current liabilities	19,664	16,496
Long-term Secured Promissory Note	-	208
Long-term related party Acquisition Term Loan, net of $963 and $1,484 discount, respectively	9,037	8,516
Long-term related party Consolidation Term Loan, net of $282 and $840 discount, respectively	1,537	4,349
Long-term obligations under operating leases	623	873
Contingent acquisition consideration, at fair value	11,250	9,789
Other liabilities	175	205
TOTAL LIABILITIES	42,286	40,436
SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 66,666 shares authorized; 10,409 and 7,266 shares issued and outstanding, respectively	104	72
Additional paid-in capital	82,064	75,916
Accumulated deficit	(54,765)	(50,409)
TOTAL SHAREHOLDERS' EQUITY	27,403	25,579
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 69,689	$ 66,015

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,899	$ 2,910
Accounts receivable, net	9,516	12,468
Inventories, net	3,065	2,567
Prepaid expenses and other current assets	837	665
Total Current Assets	$ 16,317	$ 18,610
Property and equipment, net	464	499
Goodwill	26,453	26,453
Other intangible assets, net	23,985	24,062
Operating lease right-of-use assets	875	1,041
Other non-current assets	112	112
Total Assets	$ 68,206	$ 70,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,788	$ 7,876
Accrued expenses and other current liabilities	3,955	3,761
Deferred revenues	1,777	1,132
Customer deposits	4,411	3,233
Current maturities of operating leases	431	505
Short-term portion of related party Acquisition Term Loan, net of $613 and $0 discount, respectively	9,387	-
Short-term portion of related party Consolidation Term Loan, net of $655 and $747 discount, respectively	3,383	3,690
Short-term portion of contingent consideration, at fair value	10,603	-
Total Current Liabilities	38,735	20,197

Long-term related party Acquisition Term Loan, net of $0 and $787 discount, respectively	-	9,213
Long-term related party Consolidation Term Loan, net of $0 and $94 discount, respectively	-	616
Long-term obligations under operating leases	444	536
Long-term contingent consideration, at fair value	-	11,208
Other non-current liabilities	178	176
Total Liabilities	39,357	41,946
Shareholders' Equity		
Common stock, $0.01 par value, 66,666 shares authorized; 10,447 and 10,409 shares issued and outstanding, respectively	104	104
Additional paid-in capital	82,200	82,073
Accumulated deficit	(53,455)	(53,346)
Total Shareholders’ Equity	28,849	28,831
Total Liabilities and Shareholders' Equity	$ 68,206	$ 70,777

See accompanying notes to condensed consolidated financial statements

CREATIVE REALITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Sales						
Hardware	$ 4,847	$ 5,015	$ 12,606	$ 17,141	$ 4,144	$ 4,322
Services and other	6,721	6,165	18,102	15,719	8,141	5,622
Total sales	11,568	11,180	30,708	32,860	12,285	9,944
Cost of sales						
Hardware	3,384	3,811	9,314	13,803	3,193	3,206
Services and other	2,881	2,855	6,704	5,989	3,328	1,649
Total cost of sales	6,265	6,666	16,018	19,792	6,521	4,855
Gross profit	5,303	4,514	14,690	13,068	5,764	5,089
Operating expenses:						
Sales and marketing expenses	1,301	718	3,666	2,572	1,465	1,136
Research and development expenses	393	238	1,136	897	508	366
General and administrative expenses	2,632	2,847	8,125	8,269	3,028	2,898
Depreciation and amortization expense	817	885	2,393	2,060	839	779
Deal and transaction expenses	-	110	-	538		
Total operating expenses	5,143	4,798	15,320	14,336	5,840	5,179
Operating income (loss)	160	(284)	(630)	(1,268)		
Operating loss					(76)	(90)
Other income (expenses):						

Other expenses (income):						
Interest expense, including amortization of debt discount	(734)	(757)	(2,324)	(1,956)	663	803
Change in fair value of warrant liability	-	-	-	7,902		
Change in fair value of equity guarantee	(1,369)	442	(1,461)	369		
Loss on debt waiver consent	-	-	-	(1,212)		
Loss on warrant amendment	-	-	-	(345)		
Gain/(loss) on settlement of obligations	-	37	-	(237)		
Other income (expense)	(3)	(2)	132	3		
Total other income (expense)	(2,106)	(280)	(3,653)	4,524		
Net (loss) income before income taxes	(1,946)	(564)	(4,283)	3,256		
Benefit (provision) for income taxes	15	10	(73)	(46)		
Net (loss) income	$ (1,931)	$ (554)	$ (4,356)	$ 3,210		
Basic (loss) earnings per common share	$ (0.22)	$ (0.08)	$ (0.56)	$ 0.50		
Diluted (loss) earnings per common share	$ (0.22)	$ (0.08)	$ (0.56)	$ 0.50		
Change in fair value of contingent consideration					(604)	76
Other expense (income)					(35)	(12)
Total other expenses (income)					24	867
Net loss before income taxes					(100)	(957)
Provision for income taxes					(9)	(43)
Net loss					$ (109)	$ (1,000)
Basic loss per common share					$ (0.01)	$ (0.14)
Diluted loss per common share					$ (0.01)	$ (0.14)
Weighted average shares outstanding - basic	8,713	7,250	7,775	6,461	10,421	7,351
Weighted average shares outstanding - diluted	8,713	7,250	7,775	6,461	10,421	7,351

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In in thousands)

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Operating Activities:				
Net (loss) income	$ (4,356)	$ 3,210		
Adjustments to reconcile net (loss) income to net cash provided by operating activities				
Net loss			$ (109)	$ (1,000)
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization	2,393	2,060	839	779
Amortization of debt discount	1,078	904	360	356
Amortization of stock-based compensation	539	1,587	3	298
Loss on debt waiver consent	-	1,212		
Loss on warrant amendment	-	345		
Loss on settlement of obligations	-	237		
Bad debt expense	318	105	-	237
Gain on change in fair value of warrants	-	(7,902)		

Loss (Gain) on change in fair value of contingent consideration	1,461	(369)		
(Gain) loss on change in fair value of contingent consideration			(604)	76
Deferred income taxes	44	-	4	24
Changes to operating assets and liabilities:				
Accounts receivable	2,080	(2,835)	2,952	1,177
Work-in-process and inventories	(39)	(1,032)		
Inventories, net			(498)	788
Prepaid expenses and other current assets	859	682	(172)	1,015
Accounts payable	(53)	(227)	(2,976)	(486)
Accrued expenses	683	533		
Deferred revenues	2,284	1,019		
Accrued expenses and other current liabilities			317	(45)
Deferred revenue			645	2,382
Customer deposits	1,054	(585)	1,178	(1,693)
Other	(39)	6		
Net cash provided by (used in) operating activities	8,306	(1,050)		
Other, net			(1)	(40)
Net cash provided by operating activities			1,938	3,868
Investing activities				
Acquisition of business, net of cash acquired	-	(17,186)		
Purchases of property and equipment	(287)	(123)	(6)	(31)
Capitalization of labor for software development	(2,851)	(2,959)	(824)	(1,003)
Net cash used in investing activities	(3,138)	(20,268)	(830)	(1,034)
Financing activities				
Principal payments on finance leases	(14)	-		
Proceeds from sale of common stock, net of offering expenses	5,454	-		
Proceeds from sale of common stock in PIPE, net of offering expenses	-	1,814		
Proceeds from sale & exercise of pre-funded warrants in PIPE, net of offering expenses	-	8,295		
Proceeds from Acquisition Loan, net of offering expenses	-	9,868		
Repayment of Term Loan (2022)	(2,000)	-		
Repayment of Consolidation Term Loan	(930)	-	(1,109)	-
Repayment of Secured Promissory Note	(935)	(723)	-	(310)
Net cash provided by financing activities	1,575	19,254		
Repayment of Term Loan (2022)			-	(250)
Principal payments on finance leases			(10)	(2)
Net cash used in financing activities			(1,119)	(562)
Increase (decrease) in Cash and Cash Equivalents	6,743	(2,064)	(11)	2,272
Cash and Cash Equivalents, beginning of period	1,633	2,883	2,910	1,633
Cash and Cash Equivalents, end of period	$ 8,376	$ 819	$ 2,899	$ 3,905

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except shares)

(Unaudited)

	Additional

	Common Stock		paid in	Accumulated	
	Shares	Amount	capital	Deficit	Total
Three Months Ended September 30, 2023					
Balance as of June 30, 2023	7,409,027	$ 74	$ 76,618	$ (52,834)	$ 23,858
Stock-based compensation	-	-	22	-	22
Issuance of common stock, net	3,000,000	30	5,424	-	5,454
Net loss	-	-	-	(1,931)	(1,931)
Balance as of September 30, 2023	10,409,027	$ 104	$ 82,064	$ (54,765)	$ 27,403

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

	Common Stock		Additional paid in	Accumulated	
	Shares	Amount	capital	Deficit	Total
Nine Months Ended September 30, 2023					
Balance as of December 31, 2022	7,266,382	$ 72	$ 75,916	$ (50,409)	$ 25,579
Stock-based compensation	-	-	436	-	436
Shares issued to directors as compensation	51,616	1	95	-	96
Shares issued to vendors as compensation	28,554	-	55	-	55
Shares issued to employees pursuant to the Retention Bonus Plan	62,475	1	138	-	139
Issuance of common stock, net	3,000,000	30	5,424	-	5,454
Net loss	-	-	-	(4,356)	(4,356)
Balance as of September 30, 2023	10,409,027	$ 104	$ 82,064	$ (54,765)	$ 27,403

	Common Stock		Additional paid in	Accumulated	
	Shares	Amount	capital	(Deficit)	Total
Three Months Ended September 30, 2022					
Balance as of June 30, 2022	7,247,955	$ 72	$ 74,886	$ (48,521)	$ 26,437
Stock-based compensation	-	-	514	-	514
Shares issued to vendors as compensation	2,561	-	5	-	5
Net loss	-	-	-	(554)	(554)
Balance as of September 30, 2022	7,250,516	$ 72	$ 75,405	$ (49,075)	$ 26,402

	Common Stock		Additional paid in	Accumulated	
	Shares	Amount	capital	(Deficit)	Total
Nine Months Ended September 30, 2022					
Balance as of December 31, 2021	4,002,843	$ 40	$ 60,943	$ (52,254)	$ 8,729
Stock-based compensation	-	-	1,406	-	1,406
Shares issued to vendors as compensation	25,504	-	70	-	70

	Shares	Amount	Additional paid in capital	Accumulated (Deficit)	Total
Shares issued and warrants exercised in private investment in public entity ("PIPE")	2,388,835	24	2,254	-	2,278
Shares issued in Reflect Systems, Inc. Merger	833,334	8	4,992	-	5,000
Warrant repricing events	-	-	31	(31)	-
Warrant amendment	-	-	5,709	-	5,709
Net income	-	-	-	3,210	3,210
Balance as of September 30, 2022	7,250,516	$ 72	$ 75,405	$ (49,075)	$ 26,402

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

See accompanying notes to condensed consolidated financial statements.

CREATIVE REALITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except shares and per share amounts)

(unaudited)

NOTE 1: NATURE OF ORGANIZATION AND OPERATIONS

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

Nature of the Company's Business

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

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

Reverse stock split

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

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

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

Public Offering

On August 17, 2023, the Company priced a "reasonable best efforts" public offering for the sale by the Company of an aggregate of 3,000,000 shares of common stock, par value $0.01 per share at a public offering price of $2.00 per share and received approximately $5,454 in net proceeds, after deducting underwriting fees of $478 and offering costs of $68.

Liquidity and Financial Condition

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

At September 30, 2023, March 31, 2024, the Company has an accumulated deficit of $54,765, $53,455, negative working capital of $2,157, $22,418, including current debt obligations of $4,211, $12,770, and cash of $8,376. $2,899. For the nine three months ended September 30, 2023, March 31, 2024, the Company incurred an operating loss of $630 $76 and generated positive net cash flows from operations of $8,306. $1,938. Pursuant to the Second Amended and Restated Credit and Security Agreement (the "Credit Agreement") made between the Company and Slipstream Communications, LLC ("Slipstream"), the Company is required and began to make monthly repayments of principal on the Consolidation Term Loan on September 1, 2023. The monthly principal payment is approximately $370 and will continue on the first day of each month thereafter until the Maturity Date on February 17, 2025, with total principal repayments of $4,440 $3,593 during the twelve months subsequent to the reporting date of these Condensed Consolidated Financial Statements. Servicing this In addition, the Company is required to repay the principal repayment raises balance on the Acquisition Term Loan of $10,000 at maturity and resolve the contingent consideration, currently estimated for accounting purposes at $10,603, each of which mature on February 17, 2025. The Company does not have sufficient cash on hand or liquidity to make these principal repayments. The conditions and events raise substantial doubt about the Company's ability to continue as a going concern under the technical framework within ASU 205-40.

Management In response to these conditions, the Company plans to control resource allocation evaluate its available options for refinancing, via recapitalization, debt financing or equity financing, its upcoming obligations associated with respect to new opportunities, implement more aggressive customer deposit protocols, transition portions of its workforce to just-in-time models, the Acquisition Term Loan, Consolidation Term Loan, and implement other cost cutting initiatives to align cash spend with revenue production to ensure adequate debt servicing; however the supplemental contingent consideration. However, these plans have not been fully implemented finalized, are subject to market conditions, and are not within the level of improvement to Company's control, and therefore cannot be achieved is uncertain. deemed probable. As a result, the Company has concluded that management's plans do not alleviate substantial doubt about the Company's ability to continue as a going concern.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the applicable instructions to Form 10-Q and Article 10 of Regulation S-X and include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("GAAP") for interim financial reporting. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements of the Company and related footnotes for the year ended December 31, 2022 2023, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2023. 21, 2024, as amended on April 26, 2024.

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

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

2. Recently Issued and Adopted Accounting PronouncementsNot Yet Adopted

Credit Losses. In June 2016, November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No.2016 2023-13, 07, *Financial Instruments—Credit Losses Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities to estimate expected lifetime credit losses disclose information about their reportable segments' significant expenses and other segment items on financial assets an interim and provide expanded disclosures. This annual basis. Public entities with a single reportable segment are required to apply the disclosure requirements in ASU replaced the incurred loss methodology with one that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We adopted ASU No.2016 2023-13 07, as well as all existing segment disclosures and reconciliation requirements in ASC 280 on January 1, 2023. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements, as the Company's primary financial assets are its trade accounts receivable, which are short-term financings under industry standard credit an interim and trade terms.

annual basis. ASU 6

Debt. In August 2020, the FASB issued Accounting Standards Update No.2020 2023-06, 07 *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity(ASU 2020-06)*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be is effective for us in the fiscal years beginning after first December 15, 2023, quarter of and for interim periods within fiscal years beginning after December 15, 2024, on a full or modified retrospective basis, with early adoption permitted. We do The Company is currently evaluating the impact of adopting ASU not 2023 intend to adopt this standard early, nor do we expect the adoption of this guidance to have a material impact on our Consolidated Financial Statements.
-07.

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

3. Revenue Recognition

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

If an arrangement involves multiple performance obligations, the obligations are analyzed to determine the separate units of accounting, whether the obligations have value on a standalone basis and whether there is objective and reliable evidence of their standalone selling price. The total contract transaction price is allocated to the identified performance obligations based upon the relative standalone selling prices of the performance obligations. The standalone selling price is based on an observable price for services sold to other comparable customers, when available, or an estimated selling price using a cost plus margin approach.

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

Revenue is recognized when a customer obtains control of promised goods or services under the terms of a contract and is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. The Company does not have any has very few contracts with material extended payment terms as payment is typically due at or shortly after the time of the sale, typically ranging between thirty and ninety days. In those instances where the Company has material extended payment terms (most commonly in multi-year arrangements where the Company acts as an agent to a transaction on behalf of its customers), the Company evaluates and applies constraints to arrive at the revenue recognized in the period in which a contract is entered. Observable prices are used to determine the standalone selling price of separate performance obligations or a cost plus margin approach when one is not available. Sales, value-added and other taxes collected concurrently with revenue producing activities are excluded from revenue.

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

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

4. Allowance for Credit Losses

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

The Company had the following activity for its allowance for credit losses from December 31, 2022 2023to September 30, 2023: March 31, 2024:

Balance as of December 31, 2022	$ 984
Amounts accrued	318
Write-offs charged against the allowance	(228)
Balance as of September 30, 2023	$ 1,074

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

5. Inventories

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Raw materials, net of reserve	$ 1,745	$ 1,671		
Raw materials			$ 2,384	$ 2,063
Work-in-process	561	596	681	504
Total inventories	$ 2,306	$ 2,267	$ 3,065	$ 2,567

The reserve for obsolete inventory at September 30, 2023 and December 31, 2022 was $192 and $1,777, respectively. The Company disposed of $1,707 related to Safe Space Solutions during the three month period ending September 30,2023, all of which was fully reserved at December 31, 2022. The Company is no longer actively promoting the sale of our Safe Space Solutions or purchasing inventory to support such solutions.

6. Impairment of Long-Lived Assets

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

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

7. Basic and Diluted (Loss)/Earnings Loss per Common Share

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

Shares reserved for outstanding stock options, including stock options with performance restricted vesting, and warrants totaling approximately 7,391,651 6,222,800 and 7,490,962 7,339,582 at September 30, 2023 March 31, 2024and 2022, 2023, respectively, were excluded from the computation of (loss)/earnings loss per share as the strike price on the options and warrants were higher than the Company's market price and therefore anti-dilutive.

8. Income Taxes

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from a number of matters including, but not limited to, net operating losses, differences in basis of intangibles, stock-based compensation, reserves for uncollectible accounts receivable and inventory, differences in depreciation methods, and accrued expenses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company accounts for uncertain tax positions utilizing an established recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We had no uncertain tax positions as of September 30, 2023 March 31, 2024 and December 31, 2022 2023.

9. Goodwill and Intangible Assets

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

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

10. Use of Estimates

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

11. 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.

12. 11. Contingent Consideration

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

The Company may exercise an extension option (the "Extension Option") to certain acquisitions extend the Guarantee Date by six (6) months, from February 17, 2025 to potentially pay additional cash amounts in future periods basedAugust 17, 2025, if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) the Company provides written notice of its election to exercise the Extension Option no later than February 7, 2025. The "Extension Threshold Price" means the average closing price per share of Creative Realities common stock as reported on the lack Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending February 2, 2025. The Merger Agreement provides that if the Extension Threshold Price is less than 80% of achievement of certain share price performance goals of our common stock. Such contingent consideration arrangements are recorded at fair value and are classified as liabilities on the acquisition date and are remeasured at each reporting period in accordance with ASC 805-30-35-1 using a Monte Carlo simulation model.

Guaranteed Price, then the Guaranteed Price will be increased by $1.00 per share.

NOTE 3: FAIR VALUE MEASUREMENT

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

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

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

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

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

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

NOTE 4: REVENUE RECOGNITION

The Company applies ASC 606 for revenue recognition. The following table disaggregates the Company's revenue by major source for the three and ninemonths ended September 30, 2023March 31, 2024 and 2022 2023:

(in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Hardware	$ 4,847	$ 5,015	$ 12,606	$ 17,141	$ 4,144	$ 4,322

Services:						
Managed Services					4,774	4,072
Installation Services	967	1,472	3,082	3,714	2,160	947
Software Development Services	203	105	1,023	405		
Managed Services	4,320	3,900	12,227	10,435		
Media Sales	1,231	688	1,770	1,165		
Other Services					1,207	603
Total Services	6,721	6,165	18,102	15,719	8,141	5,622
Total Hardware and Services	$ 11,568	$ 11,180	$ 30,708	$ 32,860	$ 12,285	$ 9,944

*System hardware sales*Hardware

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

Installation services

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

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

Software design and development services

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

Software as a service (“SaaS”) license sales

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

Maintenance and support services

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

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

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

Installation Services

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

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

Other Services

Software design and development services

Software design and custom development sales represent fixed fee orders for work on a time and materials basis and are recognized as revenue when the application, feature, or custom software code has been received and delivery has occurred to the customer. Revenue is recognized generally upon customer acceptance (point-in-time) of the software product and verification that it meets the required specifications. Software is delivered to customers electronically.

11

Media sales

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

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

Our media revenue contracts with customers range from four weeks to three years and billing commences at the beginning earned portion of the contract term, with payment generally due within ninety (90) days of billing. For the majority of our contracts, transaction prices are explicitly stated. Any contracts with transaction prices that contain multiple performance obligations are allocated primarily based on a relative standalone selling price basis. Any deferred revenues primarily consist of revenues paid in advance of being earned. to record at execution.

On a contract-by-contract basis, we evaluate whether we should be considered the principal (i.e., report revenues on a gross basis) or an agent (i.e., report revenues on a net basis). We are considered the principal in our arrangements and report revenues on a gross basis, wherein the amounts billed to customers are recorded as revenues and amounts paid to network owners are recorded as expenses. We are considered the principal because we control the advertising space before and after the contract term, are primarily responsible to our customers, and have discretion in pricing. For revenues generated through the use of a subcontracted advertising agency, commissions are calculated based on a stated percentage of gross advertising revenue and reported in the Condensed Consolidated Statement Statements of Operations within Sales and Marketing expenses. Expenses.

NOTE 5: BUSINESS COMBINATIONSUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

On November 12, 2021, the Company and Reflect entered into an Agreement and Plan of Merger (as amended on February 8, 2022 and February 11, 2023, the "Merger Agreement") pursuant to which a direct, wholly owned subsidiary of Creative Realities, CRI Acquisition Corporation, would merge with and into Reflect, with Reflect surviving the merger and becoming our wholly owned subsidiary, which transaction is referred to herein as the "Merger." On February 17, 2022, the parties consummated the Merger (the "Closing").

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

Subject to the terms and conditions of the Merger Agreement, at the Closing, Reflect stockholders as of the effective time of the Merger collectively received from the Company, in the aggregate, the following Merger consideration: (i) $16,166 in cash, (ii) 777,778 shares of common stock of Creative Realities (valued based on an issuance price of $6 per share) (the "CREX Shares"), (iii) the Secured Promissory Note (as described below), and (iv) supplemental cash payments (the "Guaranteed Consideration"), if any, payable on or after February 17, 2025 (subject to the Extension Option described below, the "Guarantee Date"), in an amount by which the value of the CREX Shares on such anniversary is less than $19.20 per share, or if certain customers of Reflect collectively achieve over 85,000 billable devices online at any time on or before December 31, 2022, is less than $21.60 per share (such applicable amount, the "Guaranteed Price"), multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option described below). At or before December 31, 2022, the condition of certain customers of Reflect collectively to achieve over 85,000 billable devices online was not met. Accordingly, the contingent cash payment amount was reduced at December 31, 2022 from $21.60 per share to $19.20 per share, a reduction of $2.40 per share.

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

The Company may exercise an extension option (the "Extension Option") to extend the Guarantee Date by six (6) months, from February 17, 2025 to August 17, 2025, if (i) the Extension Threshold Price is greater than or equal to 70% of the Guaranteed Price described above, and (ii) the Company provides written notice of its election to exercise the Extension Option no later than February 7, 2025. The "Extension Threshold Price" means the average closing price per share of Creative Realities common stock as reported on the Nasdaq Capital Market (or NYSE) in the fifteen (15) consecutive trading day period ending February 2, 2025. If the Extension Threshold Price is less than 80% of the Guaranteed Price, then the Guaranteed Price will be increased by $3.00 per share.

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

Retention Bonus Plan

On February 17,2022, in connection with the Closing, the Company adopted a Retention Bonus Plan, pursuant to which the Company is required to pay to key members of Reflect's management team an aggregate of $1,334 in cash, which was paid 50% at the Closing, and subject to continuous employment with Reflect or Creative Realities, 25% was paid on February 17, 2023 (the one-year anniversary of Closing) and 25% will be paid on February 17, 2024 (the two-year anniversary of the Closing). In connection with the closing of the Merger, the future cash payments due on the one-year and two-year anniversaries of the Closing were deposited into an escrow agreement. The Retention Bonus Plan also requires the Company to issue Common Stock having an aggregate value of $667 to the plan participants as follows: 50% of the value of such shares were issued at the Closing, and subject to continuous employment with Reflect or Creative Realities, 25% of the value of such shares was issued on February 17, 2023 (the one-year anniversary of Closing) and the remaining 25% of the value of such shares will be issued on February 17, 2024 (the two-year anniversary of the Closing). The shares issued on the Closing were valued at $6.00 per share. The shares issued on the one-year anniversary were valued at $2.22 based on the value of shares issuable divided by the trailing 10-day volume weighted average price ("VWAP") of the shares as of February 17, 2023 as reported on the Nasdaq Capital Market. The Company issued 62,475 shares to key members of Reflect's management team pursuant to the Retention Bonus Plan. Certain participants made an election to have stock withheld to cover applicable withholding taxes. In such cases, the Company reduced the stock award issued to the employee and settled the employees tax liability by remitting cash to the applicable taxing authorities. The shares to be issued on the two-year anniversary will be determined based on the value of shares issuable divided by the trailing 10-day VWAP of the shares as of February 17, 2024 as reported on the Nasdaq Capital Market.

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

Purchase price

The purchase price of Reflect consisted of the following items:

(in thousands)	**Consideration**

Cash consideration for Reflect stock	$ 16,664	(1)
Cash consideration for Retention Bonus Plan	1,334	(2)
Common stock issued to Reflect stockholders	4,667	(3)
Common stock issued to Retention Bonus Plan	333	(4)
Secured Promissory Note	2,500	(5)
Earnout liability	10,862	(6)
Total consideration	36,360	
Vendor deposit with the Company	(818)	(7)
Cash acquired	(812)	(8)
Net consideration transferred	$ 34,730	

(1) Cash consideration for outstanding shares of Reflect capital stock per Merger Agreement.

(2) Cash consideration utilized to fund the Retention Bonus Plan per Merger Agreement.

(3) Company common stock issued in exchange for outstanding shares of Reflect capital stock per Merger Agreement.

(4) Company common stock issued to fund initial issuances under the Retention Bonus Plan per Merger Agreement.

(5) The Secured Promissory Note accrued interest at 0.59% (the applicable federal rate at the time of issuance of the Secured Promissory Note) and required the Company and Reflect to collectively pay equal monthly principal installments of $104 on the fifteenth (15th) day of each month, commencing on March 15, 2022. On February 11, 2023, the Company and the Stockholders' Representative executed an amendment (the "Note Amendment") to the Secured Promissory Note. The Note Amendment eliminated the balloon payment, extending the maturity date for a one-year period, to February 17, 2024. During the extended period, the Company will continue to make monthly principal payments of $104, and the annual interest rate on the outstanding principal increased from 0.59% to 4.60%, which will accrue and is payable in full on the new maturity date.

(6) Represents an estimate of the fair value of the Guaranteed Consideration as of the Merger, which, if any, is payable on or after February 17, 2025 (subject to the Extension Option), in an amount by which the value of the CREX Shares on such anniversary is less than $19.20 per share, multiplied by the amount of CREX Shares held by the Reflect stockholders on the Guarantee Date (subject to the Extension Option), subject to the terms of the Merger Agreement.

(7) Prior to the Merger, Reflect had engaged the Company on a project and paid the Company a deposit of $818. These amounts reduced consideration paid by the Company in accordance with ASC 805.

(8) Represents the Reflect cash balance acquired at Closing.

The Company incurred $37 and $428 of direct transaction costs for the three and nine months ended September 30, 2022, respectively. These costs are included in deal and transaction expense in the accompanying Condensed Consolidated Statement of Operations.

The Company accounted for the Merger using the acquisition method of accounting. The final allocation of the purchase price is based on the fair value of assets acquired and liabilities assumed as of February 17, 2022, which included the following:

(in thousands)	**Total**
Accounts receivable	$ 1,359
Inventory	190
Prepaid expenses & other current assets	666
Property and equipment	96
Operating right of use assets	555
Other assets	36
Identified intangible assets:	
Definite-lived trade names	960
Definite-lived Developed technology	5,130
Definite-lived Customer relationships	11,040
Definite-lived Noncompete agreements	30
Goodwill	18,935
Accounts payable	(104)
Accrued expenses	(483)
Customer deposits	(1,661)
Deferred revenues	(1,259)
Current maturities of operating leases	(277)

Long-term obligations under operating leases	(278)
Other liabilities	(205)
Net consideration transferred	$ 34,730

The Company engaged a third-party valuation specialist to assist in the identification and calculation of the fair value of those separately identifiable intangible assets.

The Company completed its valuation procedures by asset utilizing the following approaches:

- Customer relationship asset was estimated using the income approach through a discounted cash flow analysis wherein the cash flows will be based on estimates used to price the Merger. Discount rates were benchmarked with reference to the implied rate of return from the Company's pricing model and the weighted average cost of capital.
- Trade name asset represents the Reflect brand name as marketed primarily as a full services digital software solution, marketed in numerous verticals with the exception of food service. The Company applied the income approach through an excess earnings analysis to determine the fair value of the trade name asset. 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 Reflect's proprietary content management applications, which drive currently marketed products and services. The Company applied the income approach through a relief-from-royalty analysis to determine the preliminary fair value of this asset.

The Company is amortizing the identifiable intangible assets on a straight-line basis over the weighted average lives ranging from 2 to 10 years as outlined in the table below.

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

(in thousands)	**Valuation**	**Amortization Period (in years)**
Identifiable definite-lived intangible assets:		
Trade names	$ 960	5
Developed technology	5,130	10
Noncompete	30	2
Customer relationships	11,040	10
Total	$ 17,160	

15

The Company estimated the preliminary fair value of the acquired property and equipment using a combination of the cost and market approaches, depending on the component. The fair value of such property and equipment is $96.

The excess of the purchase price over the fair value of the tangible net assets and identifiable intangible assets acquired was recorded as goodwill. 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 Merger. 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.

NOTE 6: SUPPLEMENTAL CASH FLOW STATEMENT INFORMATION

	Nine Months Ended September 30,	
	2023	**2022**
Supplemental non-cash investing activities		
Capitalized software in accounts payable	$ 211	$ 998
Property and equipment in accounts payable	$ 1	$ -
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 154	$ -
Supplemental non-cash financing activities		
Conversion of liability warrant to equity warrants	$ -	$ 5,709
Supplemental disclosure information for cash flow		
Cash paid during the period for:		
Interest	$ 1,303	$ 835
Operating leases	$ 566	$ 256
Income taxes, net	$ 48	$ 19

NOTE ~~7:~~ 6: INTANGIBLE ASSETS, INCLUDING GOODWILL

Intangible Assets

Intangible assets consisted of the following at September 30, 2023 March 31, 2024 and December 31, 2022 2023:

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology platform	$ 9,765	$ 4,929	$ 9,765	$ 4,354	$ 6,900	$ 2,447	$ 6,900	$ 2,255
Purchased and developed software	5,635	3,948	4,682	3,375	5,615	3,629	5,284	3,405
In-Process internally developed software platform	5,618	-	4,074	-	6,462	-	6,080	-
Customer relationships	15,000	3,820	15,000	2,849	13,910	3,378	13,910	3,054
Trademarks and trade names	1,600	952	1,600	808	1,260	708	1,260	660
Non-compete	30	24	30	13	30	30	30	28
	37,648	13,673	35,151	11,399	34,177	10,192	33,464	9,402
Accumulated amortization	13,673		11,399		10,192		9,402	
Net book value of amortizable intangible assets	$ 23,975		$ 23,752		$ 23,985		$ 24,062	

For the three months ended September 30, 2023 March 31, 2024 and 2022 2023, amortization of intangible assets charged to operations was $766 $790 and $848, respectively. For the nine months ended September 30, 2023 and 2022 amortization of intangible assets charged to operations was $2,274 and $1,959, $754, respectively.

Goodwill

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

The Company assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of its reporting unit. Fair value of the reporting unit was estimated using both (1) a market approach, leveraging recent industry merger and acquisition activity as well as comparable public company information, and (2) a discounted cash flow analyses consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur, specifically, occur. Specifically, the Company gave significant consideration to actual historic financial results, including revenue growth rates in the current and preceding three years, further informed by known backlog and customer acquisitions. Based on the Company's assessment, we determined that the fair value of our reporting unit exceeds exceeded its carrying value, and accordingly, the goodwill associated with the reporting unit is was not considered to be impaired at September 30, 2023.No indicators of impairment were identified at March 31, 2024.

The Company recognizes that any changes in our actual fourth quarter 2023 or projected 2024 results could potentially have a material impact on our assessment of goodwill impairment. The Company will continue to monitor the actual performance of its operations against expectations and assess indicators of possible impairment. The valuation of goodwill and intangible assets is subject to a high degree of judgment, uncertainty and complexity. Should any indicators of impairment occur in subsequent periods, the Company will be required to perform an analysis in order to determine whether goodwill is impaired.

While our overall business performance has been consistent with our expectations, both before and after the acquisition of Reflect, we believe a significant portion of the decline in our market price relates primarily to both macroeconomic and recent capital transaction factors including: (1) market wide recessionary fears, (2) a lack of comprehension by the markets of the contingent consideration issued in the Merger with Reflect, and (3) the Company's recent execution of a public offering of 3,000,000 shares of our common stock at a discount to then-market prices, resulting in significant short-term negative volume and price pressure on our common stock unrelated to the Company fundamentals. We do not believe these factors are consistent with or reflective of the underlying value of the business, and there were no other indicators of potential impairment as of September 30, 2023. However, should our market price remain at this level for an extended period of time, there could be potential future impairment. Based on the relatively recent decline in our share price and market capitalization, along with improving Company fundamentals and a share price and market capitalization that was substantially higher prior to the Company's public offering, we believe our implied fair value continues to exceed our total carrying value.

NOTE 8: 7: LOANS PAYABLE

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

		As of September 30, 2023			
	Issuance		**Maturity**		
Debt Type	**Date**	**Principal**	**Date**	**Warrants**	**Interest Rate Information**
A	2/17/2022	$ 10,000	2/15/2025	833,334	8.0% interest(1)
B	2/17/2022	521	2/17/2024	-	4.6% interest(2)
C	2/17/2022	6,256	2/15/2025	898,165	10.0% interest(3)
	Total debt, gross	16,777		1,731,499	
	Debt discount	(1,992)			
	Total debt, net	$ 14,785			
	Less current maturities	(4,211)			
	Long term debt	$ 10,574			

		As of March 31, 2024			
	Issuance		**Maturity**		
Debt Instrument	**Date**	**Principal**	**Date**	**Warrants**	**Interest Rate Information**
Acquisition Term Loan	2/17/2022	$ 10,000	2/15/2025	833,334	8% per annum through maturity
Consolidation Term Loan	2/17/2022	4,038	2/15/2025	898,165	10% per annum through maturity
	Total debt, gross	14,038		1,731,499	
	Debt discount	(1,268)			
	Total debt, net	$ 12,770			
	Less current maturities	(12,770)			
	Long term debt	$ -			

		As of December 31, 2022			
	Issuance		**Maturity**		
Debt Type	**Date**	**Principal**	**Date**	**Warrants**	**Interest Rate Information**
A	2/17/2022	$ 10,000	2/15/2025	833,334	8.0% interest(1)
B	2/17/2022	1,456	2/17/2024	-	0.59% interest(2)
C	2/17/2022	7,185	2/15/2025	898,165	10.0% interest(3)
D	10/31/2022	2,000	9/1/2023	-	12.5% interest(4)
	Total debt, gross	20,641		1,731,499	
	Debt discount	(3,069)			
	Total debt, net	$ 17,572			
	Less current maturities	(4,499)			
	Long term debt	$ 13,073			

		As of December 31, 2023			
	Issuance		**Maturity**		
Debt Instrument	**Date**	**Principal**	**Date**	**Warrants**	**Interest Rate Information**
Acquisition Term Loan	2/17/2022	$ 10,000	2/15/2025	833,334	8% per annum through maturity

Consolidation					
Term Loan	2/17/2022	5,147	2/15/2025	898,165	10% per annum through maturity
	Total debt, gross	15,147		1,731,499	
	Debt discount	(1,628)			
	Total debt, net	$ 13,519			
	Less current maturities	(3,690)			
	Long term debt	$ 9,829			

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

B – Secured Promissory Note

C – Consolidation Term Loan with related party

D – Term Loan (2022) with related party

(1) 8.0% cash interest per annum through maturity at February 15, 2025.

(2) Annual interest rate on the outstanding principal increased from 0.59% to 4.60% per annum effective February 17, 2023 through maturity at February 17, 2024. Annual interest rate was 0.59% cash interest per annum (the applicable federal rate) through February 17, 2023.

(3) 10.0% cash interest per annum through maturity date at February 15, 2025.

(4) 12.5% cash interest per annum through maturity at September 1, 2023.

Secured Promissory Note

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

The Secured Promissory Note accrued interest at 0.59% per annum (the applicable federal rate on the date of issuance of the Secured Promissory Note) and required the Company and Reflect to collectively pay equal monthly principal installments of $104 on the fifteenth (15th) day of each month, commencing on March 15, 2022. Any remaining or unpaid principal was due and payable on February 17, 2023. All payments under the Secured Promissory Note are paid to the escrow agent in the Merger Agreement to be placed into the escrow account to secure the Reflect stockholders' indemnification obligations until released on February 17, 2023 (the one-year anniversary of the Closing), at which time any remaining proceeds not subject to a pending indemnification claim would be paid to the exchange agent for payment to the Reflect stockholders pursuant to the Merger Agreement. The Secured Promissory Note is secured by a first-lien security interest in certain contracts of Reflect, including obligations arising out of those certain contracts. The Company has the right to offset amounts payable under the Secured Promissory Note upon a final, non-appealable decision of a court that entitles the Company or its affiliates to any damages for indemnification under the Merger Agreement, or the Stockholders' Representative's agreement in writing to such damages.

On February 11, 2023, the Company and the Stockholders' Representative executed an amendment (the "Note Amendment") to the Secured Promissory Note. The Note Amendment eliminates the balloon payment, extending the maturity date for a one-year period, to February 17, 2024. During the extended period, the Company will continue to make monthly principal payments of $104, and the annual interest rate on the outstanding principal increased from 0.59% to 4.60%, which will accrue and is payable in full on the new maturity date.

Second Amended and Restated Loan and Security Agreement

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

The Credit Agreement also provides that the Company's outstanding loans from Slipstream at December 31, 2021, consisting of its pre-existing $4,767 senior secured term loan and $2,418 secured convertible loan, with an aggregate of $7,185 in outstanding principal and accrued and unpaid interest under such loans, were consolidated into a term loan (the "Consolidation Term Loan"). The Consolidation Term Loan has an interest rate of 10.0%, with 75.0% warrant coverage (or 898,165 warrants). On the first day of each month, commencing March 1, 2022 through February 1, 2025, the Borrowers will make interest-only interest payments on the Consolidation Term Loan. Commencing on September 1, 2023, and on the first day of each month thereafter until the Maturity Date, the Borrowers will make a payment on the Consolidation Term Loan, in an equal monthly installment of principal sufficient to fully amortize the Consolidation Term Loan in eighteen equal installments. The Company assessed the combination of the pre-existing senior secured term loan and secured convertible loan in accordance with ASC 470*Debt* and determined the transaction should be accounted for as an extinguishment, in part as the Consolidation Term Loan eliminated a substantiveconversion feature. In aggregate the Company recorded a loss on extinguishment of $295 during the nine month period ending September 30, 2022, primarily associated with the write-off of pre-existing debt discounts.

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

In connection with the Acquisition Term Loan and Consolidation Term Loan warrant coverage, the Company issued to Slipstream a warrant to purchase an aggregate of 1,731,499 shares of Company common stock (the "Lender Warrant"). The Lender Warrant has a five-year term, an initial exercise price of $6.00 per share, subject to adjustments in the Lender Warrant, and was not exercisable until August 17, 2022. The warrants were assessed in accordance with ASC 470 and ASC 815*Derivatives* and were deemed to represent bifurcated derivative instruments that should be recorded as liabilities in the Condensed Consolidated Balance Sheets. The Company performed a Black-Scholes valuation of the warrants as of the issuance date, resulting in a fair value of $2.4387 per warrant. In recording the warrant liability, the Company recorded a debt discount associated with each of the Acquisition and Consolidation Term Loans in an amount of $2,032 and $2,190, respectively. These amounts are being amortized straight-line through interest expense over the life of the loans, resulting in incremental interest expense of $363 and $1,077 for the three and nine months ended September 30,2023, respectively. The Company has deemed straight-line amortization to be materially consistent with the effective interest method.

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

Effective June 30, 2022, the Company amended the terms of the Lender Warrant to remove the holder's option to exercise such warrant on a cashless basis utilizing the VWAP of the Company's common stock on the trading day immediately preceding the date of a notice of cashless exercise in certain circumstances, and remove the condition to exercising such warrant that the Company's shareholders approve the exercise thereof (which had already been obtained). The amendments to the Lender Warrant also extend the term of such warrants for an additional one year, such that the Lender Warrant will expire on February 17, 2028. The foregoing amendments to the Lender Warrant caused such warrants to be accounted for as equity instruments in the Company's Consolidated Financial Statements.

On October 31, 2022, the Borrowers and Slipstream amended the Credit Agreement to provide the Borrowers with a $2,000 term loan ("Term Loan (2022)"), the net proceeds of which were used by the Company to accelerate an active software development project with potential to expand SaaS revenues associated with an existing customer. The Term Loan (2022) has an annual interest rate of 12.5% and matures on September 1, 2023. Commencing on February 1, 2023, the Borrowers will make monthly installment payments of approximately $270 until the maturity date, consisting of principal and interest sufficient to fully amortize the Term Loan (2022) through the maturity date. At September 30, 2023, the Term Loan 2022 has been repaid in full to the Borrowers.

NOTE 9: 8: COMMITMENTS AND CONTINGENCIES

On August 2, 2019, the Company filed suit in Jefferson Circuit Court, Kentucky, against a supplier of the Company's wholly owned subsidiary, 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. On March 10, 2023, the Company, the supplier and the Allure customer reached a Settlement Agreement and Release of Claims ("Settlement Agreement"). Pursuant to the Settlement Agreement, the Company is obligated to pay $733; however, its insurer agreed to pay $700 of that amount. Thus, the Company paid $33 of the settlement amount in April 2023.

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

NOTE 10: 9: INCOME TAXES

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

For the three and ninemonths ended SeptemberMarch 31, 2024 30,and 2023, we reported tax (benefit) liability of (15) $9 and 73, $43, respectively. As of At September 30, 2023 March 31, 2024, the net deferred tax liabilities totaled 72 were $77 after valuation allowance, compared to net tax liabilities of $28 $73 at December 31, 2022 2023.

NOTE 11: 10: WARRANTS

A summary of The Company had outstanding warrants is included below:

	Warrants		
	Amount	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance December 31, 2022	5,824,027	$ 6.56	4.21
Warrants expired	(68,508)	10.40	-
Balance September 30, 2023	5,755,519	$ 6.51	3.51

On accounted for as equity instruments in the Company's Condensed Consolidated Financial Statements totaling 4,587,002 at February 3, March 31, 2024 and 2022, December 31, 2023 the Company entered into a Securities Purchase Agreement with a purchaser (the "Purchaser"), pursuant to which the Company agreed to issue and sell to the Purchaser, in a private placement priced at-the-market under Nasdaq rules, (i) 438,334 shares (the "Shares") weighted average exercise price of $4.90. The weighted average remaining contractual life of the Company's common stock, par value $0.01 per share (the "Common Stock") outstanding warrants was 3.86 and accompanying warrants to purchase an aggregate of 438,334 shares of Common Stock, 4.11 at March 31, 2024 and (ii) pre-funded warrants to purchase up to an aggregate of 1,950,502 shares of Common Stock (the "Pre-Funded Warrants") and accompanying warrants to purchase an aggregate of 1,950,502 shares of Common Stock. The accompanying warrants to purchase Common Stock are referred to herein collectively as the "Common Stock Warrants." Under the Securities Purchase Agreement, each Share and accompanying warrants to purchase Common Stock were sold together at a combined price of $4.605, and each Pre-Funded Warrant and accompanying warrants to purchase Common Stock were sold together at a combined price of $4.6047, for gross proceeds of approximately $11,000, before deducting placement agent fees and estimated offering expenses payable by the Company. During the six December 31, 2023 months ended June 30,2022, each of the Pre-Funded Warrants were exercised. The Common Stock Warrants expire five years from the date of issuance. The Company evaluated the Pre-Funded Warrants and concluded that they met the criteria to be classified within stockholders' equity, with proceeds recorded as common stock and additional paid-in-capital. The Company evaluated the Common Stock Warrants and concluded they do not meet the criteria to be classified within stockholders' equity. The Common Stock Warrants include provisions which could result in a different settlement value for the Common Stock Warrants depending on the registration status of the underlying shares. Because these conditions were not an input into the pricing of a fixed-for-fixed option on the Company's ordinary shares, the Common Stock Warrants are not considered to be indexed to the Company's own stock. The Company recorded the Common Stock Warrants as liabilities on the Condensed Consolidated Balance Sheets at fair value, with subsequent changes in their respective fair values recognized in the Condensed Consolidated Statements of Operations at each reporting date. At the date of issuance, the Company performed a Black-Scholes valuation of the Common Stock Warrants, resulting in a fair value of $3.2781 per Common Stock Warrant. At June 30,2022, the Company reassessed the fair value of the Common Stock Warrants via Black Scholes valuation methodology and determined that the fair value of the Common Stock Warrants was $1.2057 per Common Stock Warrant, resulting in the Company recording a gain on the fair value of the Common Stock Warrants of $4,950 in the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2022., respectively.

On February 17,2022, in connection with the Credit Agreement with Slipstream, the Company issued to Slipstream the Lender Warrants. The Lender Warrants are not exercisable until 180 days after the issuance date. The common shares underlying the Lender Warrants have not yet been registered for resale under the Securities Act of 1933, which provides Slipstream with an option for cashless exercise once the Lender Warrants becomes exercisable until such time as such registration occurs. The Lender Warrants expire five years from the date of issuance. The Company evaluated the Lender Warrants and concluded that they do not meet the criteria to be classified within stockholders' equity. The Lender Warrants include provisions which could result in a different settlement value, for the Lender Warrants depending on the registration status of the underlying shares. Because these conditions are not an input into the pricing of a fixed-for-fixed option on the Company's ordinary shares, the Lender Warrants are not considered to be indexed to the Company's own stock. The Company recorded the Lender Warrants as liabilities on the consolidated balance sheets at fair value, with subsequent changes in their respective fair values recognized in the Condensed Consolidated Statements of Operations at each reporting date. At the date of issuance, the Company performed a Black-Scholes valuation of the Lender Warrants, resulting in a fair value of $2.4387 per Lender Warrant. In recording the Lender Warrants liability, the Company recorded an increase in debt discount in the Condensed Consolidated Balance Sheet associated with the issuance of the Lender Warrants of $4,223, which is being amortized through interest expense in the Condensed Consolidated Statement of Operations over the life of the Acquisition Term Loan and Consolidation Term Loans. At June 30, 2022, the Company reassessed the fair value of the Lender Warrants via Black Scholes valuation methodology and determined that the fair value of the Lender Warrants was $1.1097 per Lender Warrant, resulting in the Company recording a gain on the fair value of the Lender Warrants of $2,302 in the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2022.

On February 17,2022, in connection with obtaining a waiver of certain restrictions in investment documents between an investor and the Company in order to consummate the financing contemplated by the Credit Agreement, the Company paid consideration to such investor in the form of a warrant (the "Purchaser Warrants") to purchase 466,667 shares of Company common stock in an at-the-market offering under Nasdaq rules. The number of shares of Company common stock subject to the Purchaser Warrants is equal to the waiver fee ($175) divided by $0.375 per share. The exercise price of the Purchaser Warrants is $4.23 per share, and the Purchaser Warrants are not exercisable until August 17,2022. The Purchaser Warrants expire five years from the date of issuance. The Company evaluated the Purchaser Warrants and concluded that they do not meet the criteria to be classified within stockholders' equity. The Purchaser Warrants include provisions which could result in a different settlement value, for the Purchaser Warrants depending on the registration status of the underlying shares. Because these conditions were not an input into the pricing of a fixed-for-fixed option on the Company's ordinary shares, the Purchaser Warrants are not considered to be indexed to the Company's own stock. The Company recorded the Purchaser Warrants as liabilities on the Condensed Consolidated Balance Sheets at fair value, with subsequent changes in their respective fair values recognized in the Condensed Consolidated Statements of Operations at each reporting date. At the date of issuance, the Company performed a Black-Scholes valuation of the Purchaser Warrants, resulting in a fair value of $2.5968 per Purchaser Warrant. In recording the Purchaser Warrants liability, the Company recorded an expense in the Condensed Consolidated Statement of Operations associated with the issuance of the Purchaser Warrants of $1,211. At June 30, 2022, the Company reassessed the fair value of the Purchaser Warrants via Black Scholes valuation methodology and determined that the fair value of the Purchaser Warrants was $1.2051 per Purchaser Warrant, resulting in the Company recording a gain on the fair value of the Purchaser Warrants of $650 in the Condensed Consolidated Statement of Operations for the nine months ended September 30,2022.

Effective June 30, 2022, the Company amended the terms of the Common Stock Warrants (2,388,836 warrants), Lender Warrants (1,731,499 warrants) and Purchaser Warrants (466,667 warrants). The amendments to such warrants removes the holder's option to determine the value of such warrants utilizing the VWAP of the Company's common stock on the trading day immediately preceding the date of a notice in a cashless exercise, and removes the condition to exercising such warrants that the Company's shareholders approve the exercise thereof (which had already been obtained). The amendments to the warrants also extend the term of such warrants for an additional one year, such that the Common Stock Warrants will expire on February 3, 2028, and the Lender Warrants and Purchaser Warrants will expire on February 17, 2028.

The foregoing amendments to the warrants resulted in such warrants to be accounted for as equity instruments on the Company's Condensed Consolidated Financial Statements as of June 30, 2022. As such, the Company reclassified the warrant liability from noncurrent liabilities to additional paid-in-capital as of June 30, 2022. These amounts are reflected as additional paid-in-capital in the Condensed Consolidated Balance Sheet as of December 31, 2022.

NOTE 12: 11: STOCK-BASED COMPENSATION

A summary of outstanding options is included below:

Time Vesting Options Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$4.01 - $8.00	566,673	6.89	$ 7.42	538,340	$ 7.46	566,673	6.38	$ 7.42	566,673	$ 7.42
$8.01+	96,125	2.28	25.22	96,125	$ 25.22	95,791	1.78	25.06	95,791	$ 25.06
	662,798	6.22	$ 10.00	634,465		662,464	5.72	$ 9.97	662,464	

Performance Vesting Options Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$4.01 - $8.00	240,000	6.67	$ 7.59	240,000	$ 7.59
	240,000	6.67	$ 7.59	240,000	

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

Market Vesting Options Range of Exercise	Number	Weighted Average Remaining Contractual	Weighted Average Exercise	Options	Weighted Average Exercise

Prices between	Outstanding	Life	Price	Exercisable	Price
$0.01 - $4.00	733,334	1.39	$ 3.00	-	$ -
	733,334	1.39	$ 3.00	-	

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

	Market Vesting Options		*Time Vesting Options*		*Performance Vesting Options*		*Market Vesting Options*		*Time Vesting Options*		*Performance Vesting Options*	
Date/Activity	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2022	633,334	3.00	662,910	$ 10.02	240,000	$ 7.59						
Balance, December 31, 2023							733,334	3.00	662,798	$ 10.00	240,000	$ 7.5
Granted	100,000	3.00	-	-	-	-	-	-	-	-	-	
Forfeited or expired	-	-	(112)	162.00	-	-	-	-	(334)	71.10	-	
Balance, September 30, 2023	733,334	3.00	662,798	10.00	240,000	$ 7.59						
Balance, March 31, 2024							733,334	3.00	662,464	9.97	240,000	$ 7.5

The weighted average remaining contractual life for options exercisable is 6.28 5.84 years as of September 30, 2023 March 31, 2024.

23

Valuation Information for Stock-Based Compensation

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

Amendment to Performance Options

On June 1, 2020, Rick Mills, CEO, and Will Logan, CFO, were issued ten-year options to purchase 160,000 and 80,000 shares of common stock (the “Performance Options”), respectively, which vest in equal installments over a three-year period (2020-2022), subject to satisfying the Company revenue targets and EBITDA (earnings before interest, taxes, depreciation, and amortization) targets for the applicable year. In each of calendar years 2020,2021 and 2022,one-third of the total shares may vest (if the revenue and EBITDA targets are met), and the shares that are subject to vesting each year are allocated equally to each of the revenue and EBITDA targets for such year. The Performance Options include a catch-up provision, where any options that did not vest during a prior year due to the Company’s failure to meet a prior revenue or EBITDA target may vest in a subsequent vesting year if the revenue or EBITDA target, as applicable, is met in the future year.

On June 15, 2022, the Board approved of an amendment to the Performance Options to provide that the revenue target for the calendar year 2022 set forth therein ($38,000) was eliminated, and the remaining shares that are available for vesting under the Performance Options (106,667 unvested shares for Mr. Mills and 53,334 for Mr. Logan) (including the unvested portions of shares based on the satisfaction of the revenue targets for 2020 and 2021 by virtue of the catch-up provisions in the Performance Options) will fully vest upon the achievement of an updated EBITDA target for calendar year 2022 of $3,600.

The Performance Options state that the calculation of EBITDA set forth in the Performance Options shall be calculated in a form consistent with the Company's 2022 approved budget, which

(i) excluded any impact on EBITDA of:

(a) the accounting treatment (including any "mark-to-market accounting") of the Company's warrants or the Guaranteed Consideration (as defined in the Merger Agreement),

(b) non-recurring transaction expenses associated with the Merger and the capital raising financing activities of the Company to effectuate the Merger, and

(c) any write-down or write-off of any Company inventory of Safe Space Solutions products.

(ii) included deductions related to any cash or stock bonuses paid or payable to any employees of the Company for services provided in calendar year 2022 (even if such bonuses are actually paid after calendar year 2022), including bonuses paid pursuant to the terms of the 2022 Cash Bonus Plan (as described below).

The unvested portion of the Performance Options as of December 31, 2022 vested in full effective March 30, 2023 upon confirmation by the Board of Directors of achievement of the performance metrics for the year ended December 31, 2022.

The exercise price of the foregoing options is $7.59 per share, the closing price of the Company's common stock on the date of issuance (as adjusted by the Company's 1-for-3 reverse stock split in March 2023). The options were issued from the 2014 Stock Incentive Plan.

Issuance of Options

On June 15, 2022, Messrs. Mills and Logan received ten-year options to purchase 333,334 and 200,000 shares of common stock, respectively (the "New Options"). The New Options are eligible to vest at any time on or prior to February 17, 2025 if the trailing 10-trading day VWAP of the Company's common stock, as reported on the Nasdaq Capital Market, exceeds the share price targets below, subject to such executive serving the Company as a director, officer, employee or consultant at such time:

	Share Price Target						
Executive	**$6.00**	**$9.00**	**$12.00**	**$15.00**	**$18.00**	**Guaranteed Price**	**Total Shares**
Mills Shares Vested	16,667	33,334	50,000	66,667	83,333	83,333	333,334
Logan Shares Vested	10,000	20,000	30,000	40,000	50,000	50,000	200,000
Percentage of Shares Vested	5 %	10 %	15 %	20 %	25 %	25 %	

The "Guaranteed Price" has the meaning ascribed to such term in the Merger Agreement, which currently means $19.20 per share.

The exercise price of the New Options is $3.00 per share, which exceeded the closing price of the Company's common stock on the date of issuance (as adjusted by the Company's 1-for-3 reverse stock split in March 2023). The New Options were issued from the Company's 2014 Stock Incentive Plan, as amended. An additional 100,000 options with identical market vesting restrictions were issued to non-executives.

The fair value of the options on the grant date varied between $0.63 and $1.11 per award as determined using the Monte Carlo model. These values were calculated using the following weighted average assumptions:

Risk-free interest rate	3.30 %
Expected term (in years)	2.68
Expected price volatility	123.53 %
Dividend yield	0 %

At September 30, 2023, the Company evaluated the probability of achieving the share price targets in each tranche based, in part, on work performed by the Company's third party valuation specialist in conjunction with evaluating the equity guarantee contingent liability. As a result of that evaluation of probability, during the three and nine month period ending September 30,2023 the Company recorded $3 and $10 of compensation expense, respectively. These awards have not yet vested and are subject to actual share price performance through February 2025.

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 573,334 shares for purchase by the Company's employees and under the Amended and Restated 2006 Non-Employee Director Stock Option Plan the Company reserved 233,334 shares for purchase by the Company's employees. There are 3,890 options outstanding under the 2006 Equity Incentive Plan.

In October 2014, the Company's shareholders approved the 2014 Stock Incentive Plan, under which 7,390,355 shares were reserved for purchase by the Company's employees. In August 2018, a special meeting of shareholders was held in which the shareholders voted to amend the Company's 2014 Stock Incentive Plan to increase the reserve of shares authorized for issuance thereunder, from 7,390,355 shares to 18,000,000 shares. Following a 1-for-30 reverse stock split, the shares authorized for issuance under the Company's 2014 Stock Incentive Plan was reduced to 600,000. On July 10, 2020, the Company's shareholders approved an amendment to the Company's 2014 Stock Incentive Plan to increase the reserve of authorized for issuance thereunder to 6,000,000. Following a 1-for-3 reverse stock split, the shares authorized for issuance under the Company's 2014 Stock Incentive Plan was reduced to 2,000,000. There are 1,632,242 options outstanding under the 2014 Stock Incentive Plan. The 2014 Stock Incentive Plan expired in April 2023 (other than with respect to outstanding options issued under the 2014 Stock Incentive Plan).

Employee Awards

Compensation Stock-based compensation expense recognized for the issuance of stock options to employees for the three and nine months ended September March 31, 2024 30,and 2023 of $3 and $379, $225, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Compensation expense recognized for the issuance of stock options to employees for the three and nine months ended September 30,2022 of $456 and $1,241, respectively, was included in general and administrative expense in the Condensed Consolidated Financial Statements.

At September 30, 2023 March 31, 2024, there was $19 $12 of total unrecognized compensation expense related to unvested share-based awards with performance market vesting criteria for employees. Compensation expense related to performance vesting options will be recognized if it becomes probable that the Company will achieve the identified performance metrics.

Non-Employee Awards

Compensation expense recognized for the issuance of stock options to our Board of Directors, for the three and nine month period ended September 30,2023 of $43 and $129, was included in general and administrative expense in the Condensed Consolidated Financial Statements. Compensation expense recognized for the issuance of stock options to our Board of Directors, for the three and nine month period ended September 30,2022 of $82 and $246, was included in general and administrative expenses in the Condensed Consolidated Financial Statements.

At September 30, 2023, there was approximately $22 of total unrecognized compensation expense related to unvested share-based awards with time vesting criteria for non-employee directors. Generally, expense related to the time market vesting options will be recognized over the next year 11 months and will be adjusted for any future forfeitures as they occur.

The Company engages certain consultants to perform services in exchange for Company common stock. Shares issued for services were calculated based on the ten (10) day VWAP *Non-Employee Awards*

Stock-based compensation expense recognized for the last ten (10) days during the month issuance of service provided.

During stock options to our non-employee Board of Directors, for the three and nine months ended September 30, March 31, 2024 and 2023, the Company issued shares issuable was $0 and $43 and included in exchange for services general and administrative expense in the amount of $0 and $55, respectively. During the Condensed Consolidated Financial Statements. At three March 31, 2024 and nine months ended September 30,2022, the Company issued shares issuable in exchange, there was no unrecognized compensation expense related to share-based awards for services in the amount of $30 and $100, respectively. non-employee directors.

NOTE 13: 12: SIGNIFICANT CUSTOMERS/VENDORS

Significant Customers

We had one customer four customers that accounted for 18.3% 19%, 12%, 12%, and 11% of accounts receivable at September 30, 2023 March 31, 2024and three customers that in the aggregate accounted for 49.2% 28%, 25%, and 11% of accounts receivable at December 31, 2022 2023.

We had one customer four customers that accounted for 19.7% 13%, 12%, 11%, and 10% of revenue for the three months ended September 30, 2023 March 31, 2024, compared to two customers that in the aggregate accounted for 36.1% 31% and 13% of revenue for the three months ended September 30,2022.

We had one customer that accounted for 12.8% of revenue for the nine months ended September 30, March 31, 2023, compared to three customers that in the aggregate accounted for 49.2% of revenue for the nine months ended September 30, 2022..

Significant Vendors

We had one vendor two vendors that accounted for 43.3% 26% and 13% of outstanding accounts payable at September 30, 2023 March 31, 2024, and one vendor that accounted for 30.1% 38% of outstanding accounts payable at December 31, 2022 2023.

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

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words “anticipates,” “believes,” “expects,” “intends,” “plans,” “estimates,” “projects,” should, “should,” “may,” “propose,” and similar expressions (or the negative versions of such words or expressions), as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated, and many of which are beyond our control. Factors that could cause actual results to differ materially from those anticipated are set forth under the caption “Risk Factors” in the Company’s Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission on March 30, 2023 March 21, 2024.

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

Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Sources of Revenue

The three primary sources of revenue for the Company are:

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

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

  - Hardware system design/engineering
  - Hardware installation
  - Content development
  - Content scheduling
  - Post-deployment network and field support
  - Media sales

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

  - **ReflectView**, the Company's core digital signage platform for most applications, scalable and cost effective from 10 to 100,000+ devices devices;
  - **Reflect Xperience**, a web-based interface that allows customers to give content scheduling access to local users via the web or mobile devices, while still maintaining centralized programming control control;
  - **Reflect AdLogic**, the Company's ad management platform for digital signage networks, which presently delivers approximately 50 million ads daily daily;
  - **Reflect Clarity**, the Company's menu board solution, which has become a market leader for a range of restaurant and convenience store applications applications;
  - **Reflect Zero Touch**, which allows customers to turn any screen into an interactive experience by allowing guests to engage using their mobile device device;
  - **iShowroomProX**, an omni-channel digital sales support platform targeted at original equipment manufacturers in the transportation sector, which integrates with dozens of key data services including dealer inventory at the VIN level level; and
  - **OSx+**, a digital VIN-level checklist used to assist in the tracking and delivery of new vehicles in the transportation sector, providing measurable lift in customer satisfaction scores and connected vehicle enrollments and subscription activations.

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

Our Operating Expenses

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

Recent Developments

Reverse stock split

On March 23, 2023, the Company filed Articles of Amendment with the Secretary of State of the State of Minnesota to effectuate, effective March 27, 2023, a 1-for-3 stock split of the shares of the Company's common stock, par value $0.01 per share.

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

Effective as of the same time as the reverse stock split, the number of shares of common stock available for issuance under the Company's equity compensation plans were reduced in proportion to the reverse stock split. The reverse stock split also resulted in the number of shares of shares of common stock issuable upon exercise of outstanding warrants, or the exercise or vesting of equity awards, in proportion to the reverse stock split and caused a proportionate increase in exercise price or share-based performance criteria, where applicable.

Rejection of unsolicited offer

On February 2, 2023, we received an unsolicited proposal from Pegasus Capital Advisors, L.P., on behalf of itself and certain of its affiliates, including Slipstream (collectively, “Pegasus”), to acquire all of the outstanding shares of common stock of the Company that are not owned by Pegasus for a purchase price of $0.83 per share (or, as a result of our recent reverse stock split, $2.49 per share) in cash. Pegasus is the beneficial owner of our common stock owned of record by Slipstream. The Special Committee of the Company’s Board of Directors (the “Special Committee”) has concluded that such proposal undervalues the Company based on the Special Committee’s views of the intrinsic value of the Company’s existing business and current and future prospects, and is not in the best interests of the Company’s existing shareholders. Consequently, the Special Committee has advised Pegasus that it has rejected the proposal.

On May 1, 2023, we received a subsequent unsolicited proposal from Pegasus to acquire all of the outstanding shares of common stock of the Company that are not owned by Pegasus for a purchase price of $2.85 per share in cash. The Special Committee has concluded that such proposal undervalues the Company based on the Special Committee’s views of the intrinsic value of the Company’s existing business and current and future prospects, and is not in the best interests of the Company’s existing shareholders. Consequently, the Special Committee has advised Pegasus that it has rejected the proposal.

Please see Note 5 *Business Combinations*, Note 8 *Loans Payable*, Note 11 *Warrants*, and Note 12 *Stock-based Compensation* to the Company’s Condensed Consolidated Financial Statements contained in this Report for a description of recent developments of the Company that occurred during, and subsequent to, the three and nine months ended September 30, 2023.

Critical Accounting Policies and Estimates

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

Results of Operations

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

Three Months Ended September 30, 2023 March 31, 2024 Compared to Three Months Ended September 30, 2022 March 31, 2023

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

	For the three months

	ended September 30,		Change	
	2023	2022	$	%
Sales	$ 11,568	$ 11,180	$ 388	3 %
Cost of sales	6,265	6,666	$ (401)	6 %
Gross profit	5,303	4,514	789	17 %
Sales and marketing expenses	1,301	718	583	81 %
Research and development expenses	393	238	155	65 %
General and administrative expenses	2,632	2,847	(215)	8 %
Depreciation and amortization expense	817	885	(68)	8 %
Deal and transaction expense	-	110	(110)	100 %
Total operating expenses	5,143	4,798	345	7 %
Operating income (loss)	160	(284)	444	156 %
Other income/(expenses):				
Interest expense	(734)	(757)	23	3 %
Change in fair value of equity guarantee	(1,369)	442	(1,811)	410 %
Gain on settlement of obligations	-	37	(37)	100%
Other expense	(3)	(2)	(1)	50 %
Total other income/(expenses)	(2,106)	(280)	(1,826)	652%
Net loss income before income taxes	(1,946)	(564)	(1,382)	245 %
Benefit from income taxes	15	10	5	50 %
Net loss	$ (1,931)	$ (554)	(1,377)	249 %

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

Sales

Sales were $11,568, representing an increase of $388, increased $2,341, or 3% 24%, for the three-month period ended March 31, 2024 as compared to the same period in 2022. 2023. Hardware revenues were $4,847, $4,144, a decrease of $168, $178, or 3% 4%, for the three-month period ended March 31, 2024 as compared to the prior year, of which approximately $3.0 million were earned from customers new to the Company same period in 2023. While hardware revenues were effectively flat year over year, the composition in each period was substantially different, with the current period comprised of lower customer concentration (including no customer greater than 20% of hardware revenues) and an increasing number of customers making consistent, repeated purchases of similar solutions on a regular cadence. The prior period included a single customer that represented 62% of hardware revenues. Services and other revenues were $6,721, $8,141, an increase of $556, $2,519 or 9% 45%, driven by year over year increases of (1) $543 in media sales attributable to the addition of sales resources both installation and restructuring of third party selling contracts to expand its access to such agents, and (2) $420 in managed services revenues. Installation services revenue increased $1,213, or 128%, as a result of increasing significant installation deployment activity during the period. Managed services revenue, which includes both SaaS and help desk technical subscription services were $4,774, an increase of $702, or 17%. The increase was driven by a combination of an increase in the quantity of licenses subject to software subscriptions on our platforms and an expansion in the average price per subscription license counts which drive per month. The annual recurring run rate of our subscription license revenue, on a per device per month basis. These increases in services revenue were partially offset by a $505 decrease in installation services revenue our highest margin service, grew 11% from $14,826 as deployment of hardware sold during the quarter associated with multiple advertising networks did not begin installation activities until the fourth quarter December 31, 2022 to $16,336 as of 2023. December 31, 2023 and has since expanded to $17,689 as of March 31, 2024.

Gross Profit

Gross profit increased $789, $675, or 17% 13%, for the three-month period ended March 31, 2024 as compared to the same period in 2023 driven by enhanced margins on hardware revenues and an a 17% increase in services our managed service revenue, which is our highest margin, typically subscription-based revenue.

Gross profit margin increased decreased to 46% 47% from 40% 51% driven by (1) favorable revenue mix during the current period as managed installation services, which includes higher is historically our lowest margin SaaS and other services revenues, service, increased to 37% 18% of total revenue as compared to 35% 10% of total revenues in the three months ended September 30, 2022, and (2) a 6% margin expansion associated with hardware revenues generated in the current year primarily generated from sales of custom manufactured kiosks purchased for deployment of an advertising network. prior period.

Sales and Marketing Expenses

Sales and marketing expenses generally include the salaries, taxes, and benefits of our sales and marketing personnel, as well as trade show activities, travel, and other related sales and marketing costs. Sales and marketing expenses increased by $583, $329, or 81% 29%, for the three-month period ended March 31, 2024 as compared to the same period in 2023, driven primarily by the Company's enhanced investments into sales and marketing activities. Following the Merger, the Company adopted certain tools, technology, activities, including incremental sales personnel and processes – particularly with respect to lead generation and brand marketing – that were historically undercapitalized by the Company and have since accelerated new customer acquisition. Through completion of the Merger, the Company also acquired a media sales business unit that serves to monetize customer networks via the direct sale of advertising to be displayed on digital advertising networks owned by those customers. This business utilizes internal and third-party sales agents - the salaries and commissions of which are included within Sales and Marketing Expense within the Condensed Consolidated Statement of Operations. increased participation in industry trade show events.

Research and Development Expenses

Research and development expenses generally include personnel and development tools costs associated with the continued development of the Company's content management systems and other related application development. The Company capitalizes certain of these expenses and amortizes those costs through the Condensed Consolidated Statement Statements of Operations on a straight-line basis over the economic useful life of the software feature or functionality. Research and development expenses increased by $155, $142, or 65% 39%, for the three month three-month period ended September 30, 2023 March 31, 2024 as compared to the same period in 2022 2023 driven primarily by incremental headcount added via completion of the Merger on February 17, 2022 and a higher rate of bug and maintenance work as compared to capitalized activities during the quarter ended September 30, 2023 March 31, 2024. Through the Merger, we acquired a fully staffed, experienced software development team and elected to keep that team in-tact, particularly given current competitive employment market conditions with respect to talented software engineers. We integrated the development teams which has enhanced speed to market on new feature and functionality development activities.

General and Administrative Expenses

General and administrative expenses decreased $215, were effectively flat, increasing $130, or 8% 4% during the three months ended September 30, 2023 March 31, 2024 as compared to the same period in 2022 2023. The change is driven by a decrease an increase of $492 $408 in stock compensation expense as outstanding performance awards were fully expensed as of December 31, 2022. This decrease was partially offset by increased personnel costs in the current period as a result of higher headcount following the Merger and due to scaled up operations in response to an increase in customer acquisition and associated planned deployments. This increase was partially offset by a $294 decrease in stock compensation expense in the current period as all outstanding time vested and performance awards for employees and directors were fully expensed as of December 31, 2023.

Depreciation and Amortization Expenses

Depreciation and amortization expenses were effectively flat, decreasing $68, increasing $60, or 8%, in the three months ended September 30, 2023 March 31, 2024 compared to the same period in 2022. 2023. The Company currently expects depreciation and amortization expense to be approximately $800 per quarter for the remainder of 2023. 2024.

Interest Expense

See Note 87 *Loans Payable* to the Condensed Consolidated Financial Statements for a discussion of the Company's debt and related interest expense obligations.

Changes in fair value of equity guarantee contingent consideration

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

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

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

	For the Nine Months Ended September 30,		Change	
	2023	2022	$	%
Sales	$ 30,708	$ 32,860	$ (2,152)	7 %
Cost of sales	16,018	19,792	(3,774)	19 %
Gross profit	14,690	13,068	1,622	12 %
Sales and marketing expenses	3,666	2,572	1,094	43 %
Research and development expenses	1,136	897	239	27 %
General and administrative expenses	8,125	8,269	(144)	2 %
Depreciation and amortization expense	2,393	2,060	333	16 %
Deal and transaction expenses	-	538	(538)	100 %
Total operating expenses	15,320	14,336	984	7 %
Operating loss	(630)	(1,268)	638	50 %
Other income/(expenses):				
Interest expense	(2,324)	(1,956)	(368)	19 %
Change in fair value of warrant liability	-	7,902	(7,902)	100 %
Change in fair value of equity guarantee	(1,461)	369	(1,830)	496 %
Loss on debt waiver consent	-	(1,212)	1,212	100 %
Loss on warrant amendment	-	(345)	345	100 %
Loss on settlement of debt	-	(237)	237	100 %
Other income	132	3	129	4300 %
Total other income/(expenses)	(3,653)	4,524	(8,177)	181 %
Net (loss) income before income taxes	(4,283)	3,256	(7,539)	232 %
Provision from income taxes	(73)	(46)	(27)	59 %
Net (loss) income	$ (4,356)	$ 3,210	(7,566)	236 %

Sales

Sales were $30,708, representing a decrease of $2,152, or 7%, as compared to the same period in 2022. Hardware revenues were $12,606 for the nine month period ended September 30, 2023 as compared to $17,141 for the nine month period ended September 30, 2022, a decrease of $4,535, or 26%, with prior year results driven by two customers executing cyclical refreshes of their digital infrastructure throughout their entire geographic footprint. Hardware revenues generated in the current year were driven by new standard existing customer expansion activities and supplemented by new customer deployments, with no existing customers executing a similar large scale refresh during the nine months ended September 30, 2023. Those refresh activities represented $8,919 in incremental hardware revenue during the nine months ended September 30, 2022.

Services and other revenues were $18,102 for the nine month period ended September 30, 2023, an increase of $2,383, or 15%, driven by growth in managed services revenue. Managed services revenue, which includes both SaaS and help desk technical subscription services, as well as non-contracted recurring content management services, were $12,227 in the nine months ended September 30, 2023 as compared to $10,435 in the same period in 2022, driven by expansion in the Company's SaaS license counts, which drive annual recurring revenue on a per device per month basis, and the inclusion of Reflect revenue for a full nine months in the current year as compared to approximately seven and one half months during the nine months ended September 30, 2022 as a result of the Merger closing on February 17, 2022. This represents a year-over-year growth rate of 17% in our higher margin, primarily subscription-based, managed services revenue.

Gross Profit

Gross profit increased by $1,622, or 12% during the nine months ended September 30, 2023 as compared to the same period in 2022 driven by improvements in hardware gross margins as a result of a significant deployment with gross margin of approximately 25%.

Gross profit margin increased to 48% during the nine months ended September 30, 2023, from 40% in the same period in 2022 driven by (1) increased gross margin on hardware sales, partially offset by a reduction in total hardware sales, and (2) an increase in services revenue driven by expansion in SaaS license counts and associated subscription license revenue.

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 $1,094, or 43%, driven primarily by (1) the acquisition of Reflect via the Merger on February 17, 2022, and (2) the Company's enhanced investments into sales and marketing activities. Following the Merger, the Company adopted certain tools, technology, and processes – particularly with respect to lead generation and brand marketing – that were historically undercapitalized by the Company and have since accelerated new customer acquisition. Through completion of the Merger, the Company also acquired a media sales business unit that serves to monetize customer networks via the direct sale of advertising to be displayed on digital advertising networks owned by those customers. This business utilizes internal and third party sales agents - the salaries and commissions of which are included within Sales and Marketing Expense within the Condensed Consolidated Statement of Operations. We expect the sales and marketing expenses of the Company for the nine months ended September 30, 2023 to adequately reflect the normal spend in these areas in future reporting periods.

Research and Development Expenses

Research and development expenses generally include personnel and development tools costs associated with the continued development of the Company's content management systems and other related application development. The Company capitalizes certain of these expenses and amortizes those costs through the Condensed Consolidated Statement of Operations on a straight-line basis over the economic useful life of the software feature or functionality. Research and development expenses increased by $239, or 27%, for the nine month period ended September 30, 2023 as compared to the same period in 2022 driven primarily by incremental headcount added via completion of the Merger on February 17, 2022. Through the Merger, we acquired a fully staffed, experienced software development team and elected to keep that team in-tact, particularly given current competitive employment market conditions with respect to talented software engineers. We integrated the development teams which has enhanced speed to market on new feature and functionality development activities.

General and Administrative Expenses

General and administrative expenses were effectively flat, decreasing $144, or 2%. As compared to the nine months ended September 30, 2022, the Company experienced decreases of (1) $949 in stock compensation expense as outstanding performance awards were fully expensed as of December 31, 2022, and (2) reductions in certain expenses following completion of integration activities/projects completed during 2022 following the Reflect Merger (including but not limited to consolidation of CMS tools, cloud hosting environments, IT tools) that materialized through the balance of 2022. These decreases were partially offset by increases of (1) $594 in increased personnel costs as the Company scaled up operations in response to an increase in customer acquisitions, (2) $196 in legal expenses associated with the Company's establishment of a Special Committee of the Board of Directors to consider and respond to an unsolicited proposal of a Company shareholder to acquire certain outstanding shares of common stock of the Company, as well as settlement of two open litigation matters during the period, and (3) other operating costs, each primarily associated with the consolidation of Reflect for nine months in 2023, as compared to reporting consolidation of Reflect for only 226 days during the nine months ended September 30, 2022 as a result of completion of the Reflect Merger on February 17, 2022.

Depreciation and amortization expenses

Depreciation and amortization expenses increased $333, or 16%, in the nine months ended September 30, 2023 compared to the same period in 2022, driven primarily by incremental amortization expense generated from the addition of $17,160 in amortizing intangible assets on February 17, 2022, as a result of the Merger.

Interest expense

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

Changes in fair value of warrant liability; Loss on warrant amendment

During the nine month period ended September 30, 2022, the Company recorded a gain of $7,902 as the result of assessing the fair value of warrant liabilities associated with the Company's issuance of warrants in its debt and equity offerings completed in February 2022 to finance the Merger. These warrants were initially assessed at fair value through Black Scholes calculation, with changes in fair value recognized at each period end.

Effective June 30, 2022, the Company amended the terms of certain warrants previously issued to its creditor and an investor, which removed the holder's option to exercise such warrants on a cashless basis utilizing the VWAP of the Company's common stock on the trading day immediately preceding the date of a notice of cashless exercise in certain circumstances, and removed the condition to exercising such warrants that the Company's shareholders approve the exercise thereof (which had already been obtained). The amendments to the warrants extended the term of such warrants for an additional one year (collectively, the "Warrant Amendment"). The foregoing amendments to the warrants resulted in such warrants to be accounted for as equity instruments in the Company's Condensed Consolidated Financial Statements.

Changes in fair value of equity guarantee

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

Loss on debt waiver consent

During the nine months ended September 30, 2022, in connection with obtaining a waiver of certain restrictions in investment documents between an investor and the Company in order to consummate the financing contemplated by the Company's credit agreement with Slipstream, the Company paid consideration to such investor in the form of the Purchaser Warrant to purchase 466,667 shares of Company common stock in an at-the-market offering under Nasdaq rules. The number of shares of Company common stock subject to the Purchaser Warrant was equal to the waiver fee ($175) divided by $0.375 per share. The exercise price of the Purchaser Warrant is $4.23 per share, and the Purchaser Warrant became exercisable on August 17, 2022. The Purchaser Warrant expires six years from the date of issuance following execution of the Warrant Amendment. At the date of issuance, the Company performed a Black-Scholes valuation of the Purchaser Warrant, resulting in a fair value of $2.5968 per warrant. In recording the warrant liability, the Company recorded an expense in the Condensed Consolidated Statement of Operations associated with the issuance of the Purchaser Warrant of $1,212 for the nine months ended September 30, 2022. No such transactions occurred in the current period.

Loss on extinguishment of debt

During the nine months ended September 30, 2022, the Company refinanced its debt facilities with Slipstream. The Company assessed the combination of the pre-existing senior secured term loan and secured convertible loan in accordance with ASC 470 *Debt* and determined the transaction should be accounted for as an extinguishment, in part as the Consolidation Term Loan eliminated a substantive conversion feature. In aggregate the Company recorded a loss on extinguishment of $295, primarily associated with the write-off of pre-existing debt discounts. No such transactions occurred in the current period.

Summary Unaudited Quarterly Financial Information

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

	Quarters Ended					Quarters Ended				
Quarters ended	September 30 2023	June 30 2023	March 31 2023	December 31 2022	September 30 2022	March 31 2024	December 31 2023	September 30 2023	June 30 2023	March 31 2023
GAAP net loss	$ (1,931)	$ (1,425)	$ (1,000)	$ (1,334)	$ (554)					
GAAP net (loss) income						$ (109)	$ 1,419	$ (1,931)	$ (1,425)	$ (1,000)
Interest expense:										
Amortization of debt discount	363	358	356	364	363	360	366	363	358	356
Other interest, net	371	429	447	423	394	303	302	371	429	447
Depreciation/amortization:										
Amortization of intangible assets	766	754	754	743	848	790	781	766	754	754
Amortization of employee share-based awards	3	151	225	448	456	3	4	3	151	225
Depreciation of property & equipment	50	43	25	30	37	49	48	50	43	25
Income tax (benefit) expense	(15)	45	43	33	(10)	9	10	(15)	45	43
EBITDA	$ (393)	$ 355	$ 850	$ 707	$ 1,534	$ 1,405	$ 2,930	$ (393)	$ 355	$ 850
Adjustments										
Gain on settlement of obligations	-	-	-	-	(37)					
Loss (Gain) on fair value of equity guarantee	1,369	16	76	(705)	(442)					
Disposal of Safe Space Solutions inventory	-	-	-	909	-					
Deal and transaction expenses	-	-	-	54	110					
Other expense (income)	3	(123)	(12)	7	2					
Loss (Gain) on fair value of contingent consideration						(604)	(42)	1,369	16	76
Stock-based compensation – Director grants	43	43	43	56	82	-	21	43	43	43

Other (income) expense									(35)		(79)	3		(123)	(12)
Adjusted EBITDA	$	1,022	$	291	957	1,028	1,249	$	766	$	2,830	1,022	$	291	957

Liquidity and Capital Resources

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

Operating Activities

The net cash provided by operating activities during the nine three months ended September 30, 2023 March 31, 2024, was $8,306 $1,938, compared to net cash used in operating activities of $1,050 $3,868 for the same period in 2022. Cash 2023. During the three-month period ending March 31, 2024, the Company generated a net loss of $100, which included depreciation and amortization expense (inclusive of amortization of debt discount) of $1,199 and a gain on the change in fair value of contingent consideration of $605. The Company generated a $1,441 increase in cash provided by changes in operating activities in the nine month period ending September 30, 2023, was driven by a reduction assets and liabilities. The decrease in accounts receivable and prepaid assets of $2,080 and $859, respectively. In addition, deferred revenue and customer deposits increased $2,284 and $1,054 respectively. $2,952 was effectively offset by a decrease in accounts payable of $2,976.

Investing Activities

Net cash used in investing activities during the nine three months ended September 30, 2023 March 31, 2024, was $3,138 $830, compared to $20,268 $1,034 during the same period in 2022. The use of cash in the prior year was driven by completion of the Merger. 2023. We currently do not have any material commitments for capital expenditures as of September 30, 2023 March 31, 2024; however, we anticipate a reduction in capital expenditures entering 2024 as we complete the modernization and internationalization of our automotive platform in 2023 in an effort to capture incremental SaaS-based revenue contracts.

Financing Activities

Net cash provided by used in financing activities during the nine three months ended September 30, 2023 March 31, 2024, was $1,575 $1,119, compared to net cash provided by financing activities of $19,254 $562 for the same period in 2022. The change is the result of the Company's completion of equity and debt financing in the first quarter of 2022 to facilitate the Merger, which providednet cash of $10,109 and $9,868, respectively. 2023. Net cash provided by used in financing activities during the nine month three-month period ended September 30, 2023 March 31, 2024, is primarily the result of a common stock offering completed in August 2023, generating cash of $5,454, net of offering expenses, partially offset by repayments made on the Consolidation Term Loan Secured Promissory Note and Term Loan (2022) of $930, $935 and $2,000, respectively. $1,109.

Off-Balance Sheet Arrangements

During the three and nine months ended September 30, 2023 March 31, 2024, we did not engage in any off-balance sheet arrangements set forth in Item 303(a)(4) of Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this report. 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 September 30, 2023 March 31, 2024, and were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023 March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item; however, the discussion of our business and operations should be read together with the Risk Factors set forth in our Annual Report on Form 10-K filed with the SEC on March 30, 2023March 21, 2024, as amended on April 26, 2024, and subsequent filings made with the SEC. Such risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flow, strategies or prospects in a material and adverse manner. In addition, below is an updated risk factor for which you should be aware:

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

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

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-110b5-1 Trading Plans

During the quarter ended September 30, 2023March 31, 2024, none of the Company’s directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c)10b5-1(c) or any “non-Rule 10b5-110b5-1 trading arrangement."

Resignation of Dennis McGill

On November 8, 2023, Dennis McGill resigned as Chairman and as a director of the Company effective immediately. Mr. McGill resigned for family reasons, and did not resign as a result of any matter relating to the Company's operations, policies or practices. As a result of Mr. McGill’s resignation, Richard Mills has been appointed to serve as Chairman of the Board of Directors. Following Mr. McGill’s resignation, the Board of Directors approved a reduction in the size of the Board to four directors.

In consideration of Mr. McGill’s service to the Company, the Board accelerated the vesting of 25 options previously issued to Mr. McGill, that would have vested on November 17, 2023.

2023 Stock Incentive Plan

In April 2023, the Company's 2014 Stock Incentive Plan, as amended, expired by its terms (other than with respect to outstanding options issued under the 2014 Stock Incentive Plan). On November 8, 2023, our Board of Directors approved a 2023 Stock Incentive Plan (the "Plan"), pursuant to which 1,500,000 shares of common stock are reserved for issuance under the Plan to key employees, executives, consultants, and other individuals who provide services to the Company. The following summary of the Plan does not purport to be a complete description and is qualified in its entirety by the specific language of the Plan, a copy of which is attached to this Quarterly Report on Form 10-Q as Exhibit 10.1.

Plan Summary

General. The purpose of the Plan is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives designed to attract, retain and motivate employees, certain key consultants, independent contractors and directors of the Company. The Plan will be administered by a stock option or Compensation Committee of the Board of Directors, or if no such committee exists, by the entire Board of Directors.

The Compensation Committee may grant incentives to employees (including officers) or our subsidiaries, members of the Board of Directors, and consultants or other independent contractors who provide services to us or our subsidiaries, in the following forms:

- incentive stock options and non-statutory stock options;
- stock appreciation rights;
- stock awards;
- restricted stock;
- restricted stock units; and
- performance shares.

In addition our Chief Executive Officer or Chief Financial Officer may, on a discretionary basis and without review or approval by the Compensation Committee, grant stock options to our new employees who are not officers of the Company. Such discretionary grants shall not exceed, in the aggregate, incentives that the Board of Directors or Compensation Committee has allocated for such purpose.

SharesSubject to Plan. We may issue up to 1,500,000 shares of common stock under the Plan. If an incentive granted under the Plan expires or is terminated or canceled unexercised as to any shares of common stock or forfeited or reacquired by us pursuant to rights reserved upon issuance thereof, we may again issue such shares under the Plan pursuant to another incentive.

Description of Incentives

Stock Options. Stock options may be granted to eligible individuals to purchase shares of common stock from the Company. The Plan confers on the Compensation Committee the discretion, with respect to any such stock option, to determine the term of each option, the time or times during its term when the option becomes exercisable and the number and purchase price of the shares subject to the option. Nevertheless, the term of each option shall not exceed ten years and one day from the grant date. The option price per share for stock options may not be less than the fair market value of the common stock on the grant date. We must grant all stock options within ten years from the date of the Plan's adoption by the Board of Directors.

Incentive Stock Options. The grant of incentive stock options is intended to comply with Section 422 of the U.S. Internal Revenue Code of 1986, as amended from time to time (the "Code"). The fair market value of incentive stock options granted to eligible individuals shall not, as of the grant date, exceed $100,000. Additionally, if incentive stock options are granted to an eligible individual who, at the time such option is granted, would own (as such term is described in Code Section 422) stock possessing more than 10% of the total combined voting power of the Company, the option price for such incentive stock option cannot be less than 110% of the fair market value of the common stock, and such incentive stock options will expire no later than five years after the grant date.

Stock Appreciation Rights. A stock appreciation right is a right to receive, without payment to the Company, a number of shares of common stock, the amount of which is determined by dividing (a) the number of shares of common stock as to which the stock appreciation right is exercised multiplied by the amount of the appreciation in such shares — i.e., the amount by which the fair market value of the shares of common stock subject to the stock appreciation right on the exercise date exceeds (1) in the case of a stock appreciation right related to a stock option, the purchase price of the shares of common stock under the stock option or (2) in the case of an stock appreciation right granted alone, without reference to a related stock option, an amount which shall be determined by the Compensation Committee at the time of grant; by (b) the fair market value of a share of common stock on the exercise date. Our Compensation Committee has the discretion to determine the number of shares as to which a stock appreciation right will relate as well as the duration and exercisability of a stock appreciation right. The exercise price may not be less than the fair market value of our common stock on the grant date.

Stock Awards. Stock awards consist of the transfer by the Company to an eligible participant of shares of common stock, without other payment, as additional compensation for services to the Company. The number of shares transferred pursuant to any stock award is determined by the Compensation Committee.

Restricted Stock. Restricted stock consists of the sale or transfer by the Company to an eligible participant of one or more shares of our common stock that are subject to restrictions on their sale or other transfer by the employee, which restrictions will lapse after a period of time as determined by the Compensation Committee. If restricted stock is sold to a participant, the sale price will be determined by the Compensation Committee, and the price may vary from time to time and among participants and may be less than the fair market value of the shares at the date of sale. Subject to these restrictions and the other requirements of the Plan, a participant receiving restricted stock shall have all of the rights of a shareholder as to those shares. The Compensation Committee may grant the right to receive cash, shares of stock, or other property equal in value to dividends paid with respect to the number of shares represented by restricted stock units.

Restricted Stock Units. Restricted stock units represent the right to receive shares of common stock at a future date, subject to vesting criteria.

Performance Awards. An eligible individual's right to exercise or receive a grant or settlement of any incentive, and the timing thereof, may be subject to certain performance conditions specified by the Compensation Committee. The Compensation Committee may use business criteria and other measures of performance as it may deem appropriate in establishing performance conditions, and may exercise its discretion to change the amounts payable under any incentive subject to performance conditions.

Other Plan Terms

Limitation on Non-Employee Director Grants. During any one fiscal year, we may not grant to any non-employee director incentives that exceed in the aggregate $100,000 in value (such value computed as of the date of grant in accordance with applicable financial accounting rules) in any calendar year.

Transferability of Incentives. Incentives granted under the Plan may not be transferred, pledged or assigned by the holder thereof, except in the event of the holder's death, by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. However, stock options other than those intended to qualify as incentive stock options may be transferred by the holder thereof to certain family members or related entities.

Duration, Termination and Amendment of the Incentive Plan and Incentives. The Plan will remain in effect until all incentives granted under the Plan have been satisfied or terminated and all restrictions on shares issued under the Plan have lapsed. We may not grant incentives under the Plan after the tenth anniversary of the approval of the Plan by the Board of Directors. The Board of Directors may amend or discontinue the Plan at any time. However, no such amendment or discontinuance may adversely change or impair a previously granted incentive without the consent of the recipient thereof.

Certain Plan amendments require shareholder approval, including amendments that would increase the maximum number of shares of common stock which may be issued to all participants under the Plan, change or expand the types of incentives that may be granted under the Plan, change the class of persons eligible to receive incentives under the Plan, or materially increase the benefits accruing to participants under the Plan. Generally, the terms of an existing incentive may be amended by agreement between the Compensation Committee and the participant. However, in the case of a stock option or stock appreciation right, no such amendment shall (a) extend the term of the incentive; nor (b) reduce the exercise price per share below the fair market value of the common stock on the date the incentive was granted, unless, in either case, the amendment complies with the requirements of Internal Revenue Code Section 409A.

Effect of Sale, Merger, Exchange or Liquidation. In the event of an acquisition of the Company through the sale of substantially all of its assets or a change in control through a merger, exchange, reorganization or liquidation of the Company or a similar event, all as determined by the Compensation Committee in its sole discretion, the Compensation Committee shall be authorized to take any and all action it deems equitable under the circumstances, including but not limited to accelerating the vesting of all incentives, terminating the Plan and issuing to the holders of outstanding vested options and stock appreciation rights the stock, securities or assets, including cash, they would have received if the incentives had been exercised immediately before the transaction, or other specified actions.

Board Policies. The Plan provides that any incentives are subject to any insider trading, clawback and recovery policies adopted from time to time by the Board of Directors and subject to forfeiture and disgorgement to the extent required by law or applicable stock exchange listing standards. The Board of Directors may also impose such other clawback, recovery or recoupment provisions as the Board of Directors determines necessary or appropriate, including a right to repurchase shares previously issued under the Plan and any incentive.

Plan Benefits

The amount and timing of all awards under the Plan are determined in the sole discretion of our Compensation Committee (or if no committee is designated, the entire Board of Directors, and subject, however, to limited discretionary authority on the part of our Chief Executive Officer as described above) and therefore cannot be determined in advance.

Shareholder Approval of Plan

Consistent with the Nasdaq Listing Rules, the Plan provides that until the Plan is approved by the Company's shareholders, (i) no shares of Common Stock may be issued under the Plan, and (ii) no options issued under the Plan may be exercised. If the Company's shareholders do not approve the Plan on or prior to November 8, 2024, or if this Plan is submitted to a vote of shareholders and not approved, then the Plan and all Incentives granted thereunder will be null and void.

Earnings Release

On November 9, 2023, May 10, 2024, the Company issued a press release announcing its financial condition and results of operations for the three and nine months ended September 30, 2023March 31, 2024. A copy of the press release is furnished as Exhibit 99.1 and is incorporated by reference into this Item 5 in lieu of separately furnishing such press release under Item 2.02 of Form 8-K.8-K. This disclosure, including Exhibit 99.1 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act, of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 6. Exhibits

Exhibit No.	Description
10.1	2023 Stock Incentive Plan
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 November 9, 2023 May 10, 2024
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith

SIGNATURES

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

Creative Realities, Inc.

Date: November 9, 2023 May 10, 2024

By /s/ Richard Mills
Richard Mills
Chief Executive Officer

By /s/ Will Logan
Will Logan
Chief Financial Officer

45

Exhibit 10.1

CREATIVE REALITIES, INC.
2023 STOCK INCENTIVE PLAN

TABLE OF CONTENTS

CREATIVE REALITIES, INC.

2023 STOCK INCENTIVE PLAN

1. Purpose. The purpose of the 2023 Stock Incentive Plan (the "Plan") of Creative Realities, Inc., a Minnesota corporation (the "Company"), is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives ("Incentives") designed to attract, retain and motivate employees, certain key consultants and directors of the Company. Incentives may consist of opportunities to purchase or receive shares of common stock, $0.01 par value per share, of the Company ("Common Stock") or other incentive awards on terms determined under this Plan.

2. Administration.

2.1 Administration by Committee. The Plan shall be administered by the Board of Directors of the Company (the "Board of Directors") or by a stock option or compensation committee of the Board of Directors (the "Committee," which term is used throughout this Plan to refer to either the Board of Directors or a Committee – whichever is administering the Plan from time to time hereunder). If administered by a committee, the Committee shall consist of not less than two directors of the Company and shall be appointed from time to time by the Board of Directors. During any time period during which the Company has a class of equity securities registered under Section 12 of the Securities Exchange Act of 1934 (including the regulations thereunder, the "1934 Act"), each member of the Committee shall be (a) a "non-employee director" within the meaning of Rule 16b-3 of the 1934 Act (a "Non-Employee Director"), and (b) shall be an independent director under listing rules of The Nasdaq Stock Market or, if the Company is no longer listed on The Nasdaq Stock Market, then any national securities exchange on which the Company's common stock may be listed. The Committee shall have complete authority to award Incentives under the Plan, to interpret the Plan, and to make any other determination which it believes necessary and advisable for the proper administration of the Plan. The Committee's decisions and matters relating to the Plan shall be final and conclusive on the Company and its participants. If at any time there is No stock option or compensation committee, the term "Committee," as used in the Plan, shall refer to the Board of Directors.

2.2 Delegation of Authority. Notwithstanding the foregoing or anything else to the contrary contained in the Plan, the Company's Chief Executive Officer or Chief Financial Officer may, on a discretionary basis and without the Committee's review or approval, grant Stock Options to purchase shares to employees of the Company who are not officers of the Company to the extent the Committee allocates shares for such purpose (as part of an annual budget or otherwise). Subject to the foregoing limitations, the Chief Executive Officer or Chief Financial Officer shall determine from time to time (i) the employees to whom grants will be made, (ii) the number of shares to be granted and (iii) the terms and provisions of each Stock Option (which need not be identical).

3. Eligible Participants. Officers of the Company, employees of the Company or its subsidiaries, members of the Board of Directors, and consultants or other independent contractors who provide services to the Company or its subsidiaries shall be eligible to receive Incentives under the Plan when designated by the Committee. Participants may be designated individually or by groups or categories (for example, by pay grade) as the Committee deems appropriate. Participation by officers of the Company or its subsidiaries and any performance objectives relating to such officers must be approved by the Committee. Participation by others and any performance objectives relating to others may be approved by groups or categories (for example, by pay grade) and authority to designate participants who are not officers and to set or modify such targets may be delegated.

4. Types of Incentives. Incentives under the Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options; (b) stock appreciation rights ("SARs"); (c) stock awards; (d) restricted stock; (e) restricted stock units; and (f) performance awards. Subject to the specific limitations provided in this Plan, payment of Incentives may be in the form of cash, Common Stock or combinations thereof as the Committee shall determine, and with such other restrictions as it may impose.

5. Shares Subject to the Plan.

5.1 Number of Shares. Subject to adjustment as provided in Section 10.6, the number of shares of Common Stock issuable under the Plan shall not exceed 1,500,000 shares of Common Stock. Shares of Common Stock issued under the Plan or subject to outstanding Incentives will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan. Any shares of Common Stock subject to SARs granted under this Plan shall be counted in full against the above-indicated share limit, regardless of the number of shares of Common Stock actually issued upon the exercise of such SARs.

5.2 Cancellation. If an Incentive granted under the Plan expires or is terminated or canceled unexercised as to any shares of Common Stock or forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such forfeited and reacquired shares may again be issued under the Plan pursuant to another Incentive. If any Shares subject to an Incentive granted under the Plan are withheld or applied as payment in connection with the exercise of an Incentive (including the withholding of Shares on the exercise of a stock option or the exercise of an SAR that is settled in Shares) or the withholding or payment of taxes related thereto, such Shares shall not again be available for grant under the Plan.

5.3 Type of Common Stock. Common Stock issued under the Plan in connection with Incentives will be authorized and unissued shares.

5.4 Limitation on Awards Granted to Non-Employee Directors. No member of the Board of Directors who is not also an employee of the Company may be granted any Incentive or Incentives that exceed in the aggregate $100,000 in value (such value computed as of the date of grant in accordance with applicable financial accounting rules) in any calendar year (provided that service solely as a director, or payment of a fee for such services, will not cause a director to be considered an "employee" for purposes of this Section 5.4). The foregoing limit shall not apply to any Incentive made pursuant to any election by the directors, if permitted by the Committee, to receive an Incentive in lieu of all or a portion of annual and committee cash retainers and meeting fees.

6. Stock Options. A stock option is a right to purchase shares of Common Stock from the Company. Each stock option granted by the Committee under this Plan shall be subject to the following terms and conditions:

6.1 Price. The option price per share shall be determined by the Committee, subject to adjustment under Section 10.6. Notwithstanding the foregoing sentence, the option price per share shall not be less than the Fair Market Value (as defined in Section 10.14) of the Common Stock on the Grant Date (as defined in Section 10.15).

6.2 Number. The number of shares of Common Stock subject to a stock option shall be determined by the Committee, subject to adjustment as provided in Section 10.6. The number of shares of Common Stock subject to a stock option shall be reduced in the same proportion that the holder thereof exercises an SAR if any SAR is granted in conjunction with or related to the stock option.

6.3 Duration and Time for Exercise. Subject to earlier termination as provided in Section 10.4, the term of each stock option shall be determined by the Committee but shall not exceed ten years and one day from the Grant Date, as that term is defined in Section 10.15. Each stock option shall become exercisable at such time or times during its term as shall be determined by the Committee at the time of grant. The Committee may accelerate the exercisability of any stock option. Subject to the first sentence of this paragraph, the Committee may extend the term of any stock option to the extent provided in Section 10.4.

6.4 Manner of Exercise. A stock option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of shares of Common Stock to be purchased and accompanied by the full purchase price for such shares. The option price shall be payable: (a) in United States dollars upon exercise of the option and may be paid by cash, uncertified or certified check or bank draft; (b) unless otherwise provided in the option agreement, by delivery of shares of Common Stock in payment of all or any part of the option price, which shares shall be valued for this purpose at the Fair Market Value on the date such option is exercised; or (c) unless otherwise provided in the option agreement, by instructing the Company to withhold from the shares of Common Stock issuable upon exercise of the stock option shares of Common Stock in payment of all or any part of the exercise price and/or any related withholding tax obligations consistent with Section 10.8, which shares shall be valued for this purpose at the Fair Market Value or in such other manner as may be authorized from time to time by the Committee. Before the issuance of shares of Common Stock upon the exercise of a stock option, a participant shall have no rights as a shareholder.

6.5 Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options (as such term is defined in Section 422 the U.S. Internal Revenue Code of 1986, as amended from time to time (the "Code")):

(a) The aggregate Fair Market Value (determined as of the time the option is granted) of the shares of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any participant during any calendar year (under all of the Company's plans) shall not exceed $100,000. The determination will be made by taking Incentive Stock Options into account in the order in which they were granted. If such excess only applies to a portion of an Incentive Stock Option, the Committee, in its discretion, will designate which shares will be treated as shares to be acquired upon exercise of an Incentive Stock Option.

(b) Any option agreement for an Incentive Stock Option under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the options as Incentive Stock Options.

(c) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by Board of Directors or the date this Plan was approved by the shareholders.

(d) Unless sooner exercised, all Incentive Stock Options shall expire no later than ten years after the Grant Date.

(e) The option price for Incentive Stock Options shall be not less than the Fair Market Value of the Common Stock subject to the option on the Grant Date.

(f) If Incentive Stock Options are granted to any participant who, at the time such option is granted, would own (within the meaning of Code Section 422) stock possessing more than 10% of the total combined voting power of all classes of stock of the employer corporation or of its parent or subsidiary corporation, (i) the option price for such Incentive Stock Options shall be not less than 110% of the Fair Market Value of the Common Stock subject to the option on the Grant Date and (ii) such Incentive Stock Options shall expire no later than five years after the Grant Date.

7. Stock Appreciation Rights. An SAR is a right to receive, without payment to the Company, a number of shares of Common Stock, the amount of which is determined pursuant to the formula set forth in Section 7.5. An SAR may be granted (a) with respect to any stock option granted under this Plan, either concurrently with the grant of such stock option or at such later time as determined by the Committee (as to all or any portion of the shares of Common Stock subject to the stock option), or (b) alone, without reference to any related stock option. Each SAR granted by the Committee under this Plan shall be subject to the following terms and conditions:

7.1 Price. The exercise price per share of any SAR granted without reference to a stock option shall be determined by the Committee, subject to adjustment under Section 10.6. Notwithstanding the foregoing sentence, the exercise price per share shall not be less than the Fair Market Value of the Common Stock on the Grant Date.

7.2 Number. Each SAR granted to any participant shall relate to such number of shares of Common Stock as shall be determined by the Committee, subject to adjustment as provided in Section 10.6. In the case of an SAR granted with respect to a stock option, the number of shares of Common Stock to which the SAR relates shall be reduced in the same proportion that the holder of the option exercises the related stock option.

7.3 Duration. Subject to earlier termination as provided in Section 10.4, the term of each SAR shall be determined by the Committee but shall not exceed ten years and one day from the Grant Date. Unless otherwise provided by the Committee, each SAR shall become exercisable at such time or times, to such extent and upon such conditions as the stock option, if any, to which it relates is exercisable. The Committee may in its discretion accelerate the exercisability of any SAR. Subject to the first sentence of this paragraph, the Committee may extend the term of any SAR to the extent provided in Section 10.4.

7.4 Exercise. An SAR may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of SARs which the holder wishes to exercise. Upon receipt of such written notice, the Company shall, within 90 days thereafter, deliver to the exercising holder certificates for the shares of Common Stock or cash or both, as determined by the Committee, to which the holder is entitled pursuant to Section 7.5.

7.5 Issuance of Shares Upon Exercise. The number of shares of Common Stock which shall be issuable upon the exercise of an SAR shall be determined by dividing: (a) the number of shares of Common Stock as to which the SAR is exercised multiplied by the amount of the appreciation in such shares (for this purpose, the "appreciation" shall be the amount by which the Fair Market Value of the shares of Common Stock subject to the SAR on the exercise date exceeds (1) in the case of an SAR related to a stock option, the purchase price of the shares of Common Stock under the stock option or (2) in the case of an SAR granted alone, without reference to a related stock option, an amount which shall be determined by the Committee at the time of grant, subject to adjustment under Section 10.6); by (b) the Fair Market Value of a share of Common Stock on the exercise date. No fractional shares of Common Stock shall be issued upon the exercise of an SAR; instead, the holder of the SAR shall be entitled to receive a cash adjustment equal to the same fraction of the Fair Market Value of a share of Common Stock on the exercise date or to purchase the portion necessary to make a whole share at its Fair Market Value on the date of exercise.

8. Stock Awards, Restricted Stock and Restricted Stock Units. A stock award consists of the transfer by the Company to a participant of shares of Common Stock, with or without other payment therefor, as additional compensation for services to the Company. A share of restricted stock consists of shares of Common Stock which are sold or transferred by the Company to a participant at a price, if any, determined by the Committee and subject to restrictions on their sale or other transfer by the participant. Restricted stock units represent the right to receive shares of Common Stock at a future date. Stock awards, restricted stock and restricted stock units shall be subject to the following terms and conditions:

8.1 Number of Shares. The number of shares to be transferred or sold by the Company to a participant pursuant to a stock award or as restricted stock, or the number of shares that may be issued pursuant to a restricted stock unit, shall be determined by the Committee.

8.2 Sale Price. The Committee shall determine the price, if any, at which shares of restricted stock shall be sold to a participant, which may vary from time to time and among participants and which may be below the Fair Market Value of such shares of Common Stock at the date of sale.

8.3 Restrictions. All shares of restricted stock transferred or sold by the Company hereunder, and all restricted stock units granted hereunder, shall be subject to such restrictions as the Committee may determine, including, without limitation any or all of the following: (a) a prohibition against the sale, transfer, pledge or other encumbrance of the shares of restricted stock, such prohibition to lapse at such time or times as the Committee shall determine (whether in annual or more frequent installments, at the time of the death, disability or retirement of the holder of such shares, or otherwise); (b) a requirement that the holder of shares of restricted stock or restricted stock units forfeit, or (in the case of shares sold to a participant) re-sell back to the Company at his or her cost, all or a part of such shares in the event of termination of his or her employment, service on the Board of Directors or consulting engagement during any period in which such shares are subject to restrictions; and/or (c) such other conditions or restrictions as the Committee may deem advisable.

8.4 Enforcement of Restrictions. In order to enforce the restrictions imposed by the Committee pursuant to Section 8.3, the participant receiving restricted stock or restricted stock units shall enter into an agreement with the Company setting forth the conditions of the grant. Shares of restricted stock shall be registered in the name of the participant and deposited, together with a stock power endorsed in blank, with the Company. Each such certificate shall bear a legend that refers to the Plan and the restrictions imposed under the applicable agreement. At the Committee's election, shares of restricted stock may be held in book entry form subject to the Company's instructions until any restrictions relating to the restricted stock grant lapse.

8.5 End of Restrictions. Subject to Section 10.5, at the end of any time period during which the shares of restricted stock are subject to forfeiture and restrictions on transfer, such shares will be delivered free of all restrictions to the participant or to the participant's legal representative, beneficiary or heir. Subject to Section 10.5, upon the lapse or waiver of restrictions applicable to restricted stock units, or at a later time specified in the agreement governing the grant of restricted stock units, any shares derived from the restricted stock units shall be issued and delivered to the holder of the restricted stock units.

8.6 Rights of Holders of Restricted Stock and Restricted Stock Units. Subject to the terms and conditions of the Plan, each participant receiving restricted stock shall have all the rights of a shareholder with respect to shares of stock during any period in which such shares are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such shares. Any holder of restricted stock units shall not be, and shall not have rights and privileges of, a shareholder with respect to any shares that may be derived from the restricted stock units unless and until such shares have been issued.

8.7 Settlement of Restricted Stock Units. Restricted stock units may be satisfied by delivery of shares of stock, cash equal to the Fair Market Value of the specified number of shares covered by the restricted stock units, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

8.8 Dividend Equivalents. In connection with any award of restricted stock units, the Committee may grant the right to receive cash, shares of stock or other property equal in value to dividends paid with respect to the number of shares represented by the restricted stock units ("Dividend Equivalents"). Unless otherwise determined by the Committee at the date of grant, any Dividend Equivalents that are granted with respect to any award of restricted stock units shall be paid with respect to such restricted stock units at the dividend payment date in cash or in shares of unrestricted stock having a Fair Market Value equal to the amount of such dividend.

9. Performance Awards. The right of a participant to exercise or receive a grant or settlement of any Incentive, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee (such an Incentive is referred to as a "Performance Award"). The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to change the amounts payable under any Incentive subject to performance conditions.

10. General.

10.1 Effective Date. The Plan is effective as of November 8, 2023 (the "Effective Date").

10.2 Duration. The Plan shall remain in effect until all Incentives granted under the Plan have either been satisfied by the issuance of shares of Common Stock or the payment of cash or been terminated under the terms of the Plan and all restrictions imposed on shares of Common Stock in connection with their issuance under the Plan have lapsed. No Incentives may be granted under the Plan after the tenth anniversary of the Effective Date of the Plan.

10.3 Non-Transferability of Incentives. No stock option, SAR, restricted stock or stock award may be transferred, pledged or assigned by the holder thereof (except, in the event of the holder's death, by will or the laws of descent and distribution to the limited extent provided in the Plan or the Incentive, or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder), and the Company shall not be required to recognize any attempted assignment of such rights by any participant. Notwithstanding the preceding sentence, stock options (other than stock options intended to qualify as Incentive Stock Options pursuant to Section 6.5) may be transferred by the holder thereof to the holder's spouse, children, grandchildren or parents (collectively, the "Family Members"), to trusts for the benefit of Family Members, to partnerships or limited liability companies in which Family Members are the only partners or shareholders, or to entities exempt from federal income taxation pursuant to Code Section 501(c)(3). During a participant's lifetime, a stock option may be exercised only by him or her, by his or her guardian or legal representative or by the transferees permitted by this Section 10.3.

10.4 Effect of Termination or Death. If a participant ceases to be an employee of or consultant to the Company for any reason, including death or disability, any Incentives may be exercised or shall expire at such times as may be set forth in the agreement, if any, applicable to the Incentive, or otherwise as determined by the Committee; provided, however, the term of an Incentive may not be extended beyond the term originally prescribed when the Incentive was granted, unless the Incentive satisfies (or is amended to satisfy) the requirements of Code Section 409A, including the rules and regulations promulgated thereunder (together, "Code Section 409A"); and provided further that the term of an Incentive may not be extended beyond the maximum term permitted under this Plan.

10.5 Restrictions under Securities Laws. Notwithstanding anything in this Plan to the contrary: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of award of any Incentive or the issuance of any shares of Common Stock pursuant to any Incentive, require the recipient of the Incentive, as a condition to the receipt thereof or to the receipt of shares of Common Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Incentive or the shares of Common Stock issued pursuant thereto for his or her own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Incentive or the shares of Common Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the award of any Incentive, the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Incentive shall not be awarded or such shares of Common Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10.6 Adjustment. In the event of any recapitalization, stock dividend, stock split, combination of shares or other change in the Common Stock, the number of shares of Common Stock then subject to the Plan, including shares subject to outstanding Incentives, and the other numbers of shares of Common Stock provided in the Plan, shall be adjusted in proportion to the change in outstanding shares of Common Stock. In the event of any such adjustments, the purchase price of any option, the performance objectives of any Incentive, and the shares of Common Stock issuable pursuant to any Incentive shall be adjusted as and to the extent appropriate, in the discretion of the Committee, to provide participants with the same relative rights before and after such adjustment.

10.7 Incentive Plans and Agreements. Except in the case of stock awards, the terms of each Incentive shall be stated in a plan or agreement approved by the Committee. The Committee may also determine to enter into agreements with holders of options to reclassify or convert certain outstanding options, within the terms of the Plan, as Incentive Stock Options or as non-statutory stock options and in order to eliminate SARs with respect to all or part of such options and any other previously issued options. The Committee shall communicate the key terms of each award to the participant promptly after the Committee approves the grant of such award.

10.8 Withholding.

(a) The Company shall have the right to withhold from any payments made under the Plan or to collect as a condition of payment, any taxes required by law to be withheld. If so permitted by the Committee at the time of the award of any Incentive or at a later time, at any time when a participant is required to pay to the Company an amount required to be withheld under applicable income tax laws in connection with a distribution of Common Stock or upon exercise of an option or SAR or upon vesting of restricted stock, the participant may satisfy this obligation in whole or in part by electing (the "Election") to have the Company withhold, from the distribution or from such shares of restricted stock, shares of Common Stock having a value up to the minimum amount of withholding taxes required to be collected on the transaction. The value of the shares to be withheld shall be based on the Fair Market Value of the Common Stock on the date that the amount of tax to be withheld shall be determined ("Tax Date").

(b) Each Election must be made before the Tax Date. The Committee may disapprove of any Election, may suspend or terminate the right to make Elections, or may provide with respect to any Incentive that the right to make Elections shall not apply to such Incentive. An Election is irrevocable.

10.9 No Continued Employment, Engagement or Right to Corporate Assets. No participant under the Plan shall have any right, because of his or her participation, to continue in the employ of the Company or any of its subsidiaries for any period of time or to any right to continue his or her present or any other rate of compensation. Nothing contained in the Plan shall be construed as giving an employee, a consultant, such persons' beneficiaries or any other person any equity or interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.

10.10 Payments Under Incentives. Payment of cash or distribution of any shares of Common Stock to which a participant is entitled under any Incentive shall be made as provided in the Incentive. Except as permitted under Section 10.16, payments and distributions may not be deferred under any Incentive unless the deferral complies with the requirements of Code Section 409A.

10.11 Amendment of the Plan. The Board of Directors may amend or discontinue the Plan at any time. However, no such amendment or discontinuance shall adversely change or impair, without the consent of the recipient, an Incentive previously granted. Further, no such amendment shall, without approval of the shareholders of the Company, (a) increase the maximum number of shares of Common Stock which may be issued to all participants under the Plan, (b) change or expand the types of Incentives that may be granted under the Plan, (c) change the class of persons eligible to receive Incentives under the Plan, or (d) materially increase the benefits accruing to participants under the Plan.

10.12 Amendment of Agreements for Incentives; No Repricing. Except as otherwise provided in this Section 10.12 or Section 10.16, the terms of an existing Incentive may be amended by agreement between the Committee and the participant. Notwithstanding the foregoing sentence, in the case of a stock option or SAR, no such amendment shall: (a) without shareholder approval, lower the exercise price of a previously granted stock option or SAR, cancel a stock option or SAR when the exercise price per share exceeds the Fair Market Value of the underlying shares in exchange for another Incentive or cash, or take any other action with respect to a stock option that may be treated as a repricing under the federal securities laws or generally accepted accounting principles; or (b) extend the term of the Incentive, except as provided in Section 10.4 and 10.16.

10.13 Sale, Change in Control, Merger, Exchange or Liquidation. Unless otherwise provided in the agreement for an Incentive, in the event of (i) an acquisition of the Company through the sale of all or substantially all of the Company's assets or (ii) a change in control of at least a majority of the issued and outstanding voting securities of the Company through a merger, exchange, reorganization or liquidation of the Company or a similar event, all as determined by the Committee in its sole discretion (collectively, any of the transactions described in clauses (i) and (ii) are referred to as a "Sale Transaction"), the Committee shall be authorized, in its sole discretion, to take any and all action it deems equitable under the circumstances, including but not limited to any one or more of the following:

(a) providing that the Plan and all Incentives shall terminate and the holders of (i) all outstanding vested options shall receive, in lieu of any shares of Common Stock they would be entitled to receive under such options, such stock, securities or assets, including cash, as would have been paid to such participants if their options had been exercised and such participant had received Common Stock immediately before such Sale Transaction (with appropriate adjustment for the exercise price, if any), (ii) SARs that entitle the participant to receive Common Stock shall receive, in lieu of any shares of Common Stock each participant was entitled to receive as of the date of the Sale Transaction pursuant to the terms of such Incentive, if any, such stock, securities or assets, including cash, as would have been paid to such participant if such Common Stock had been issued to and held by the participant immediately before such Sale Transaction, and (iii) any Incentive under this Plan which does not entitle the participant to receive Common Stock shall be equitably treated as determined by the Committee;

(b) providing that participants holding outstanding vested Common Stock-based Incentives shall receive, with respect to each share of Common Stock issuable pursuant to such Incentives as of the effective date of any such Sale Transaction, at the determination of the Committee, cash, securities or other property, or any combination thereof, in an amount equal to the excess, if any, of the Fair Market Value of such Common Stock (determined as of any date within ten days before the effective date of such Sale Transaction) over the option price or other amount owed by a participant, if any, and that such Incentives shall be cancelled, including the cancellation without consideration of all options that have an exercise price below the per share value of the consideration received by the Company in the Sale Transaction;

(c) subject to any provisions contained in a particular written agreement evidencing an Incentive, providing that the Plan (or replacement plan) shall continue with respect to Incentives not cancelled or terminated as of the effective date of such Sale Transaction and provide to participants holding such Incentives the right to earn their respective Incentives on the same or a substantially equivalent basis (taking into account the Sale Transaction and the number of shares or other equity issued by such successor entity) with respect to the equity of the entity succeeding the Company by reason of such Sale Transaction; or

(d) subject to any provisions contained in a particular written agreement evidencing an Incentive, providing that such Incentive shall become vested and all restrictions shall lapse.

The Board of Directors may restrict the rights of participants or the applicability of this Section 10.13 to the extent necessary to comply with Section 16(b) of the 1934 Act, the Code or any other applicable law or regulation. The grant of an Incentive award pursuant to the Plan shall not limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

10.14 Definition of Fair Market Value. For purposes of this Plan, the "Fair Market Value" of a share of Common Stock at a specified date shall, unless otherwise expressly provided in this Plan, be the amount which the Committee determines in good faith to be 100% of the fair market value of such a share as of the date in question. Notwithstanding the foregoing:

(a) If such shares are listed on a U.S. securities exchange, then Fair Market Value shall be determined by reference to the last sale price of a share of Common Stock on such U.S. securities exchange on the applicable date. If such U.S. securities exchange is closed for trading on such date, or if the Common Stock does not trade on such date, then the last sale price used shall be the one on the date the Common Stock last traded on such U.S. securities exchange.

(b) If such shares are publicly traded but are not listed on a U.S. securities exchange, then Fair Market Value shall be determined by reference to the trading price of a share of Common Stock on such date (or, if the applicable market is closed on such date, the last date on which the Common Stock was publicly traded), by a method consistently applied by the Committee.

(c) If such shares are not publicly traded, then the Committee's determination will be based upon a good faith valuation of the Company's Common Stock as of such date, which shall be based upon such factors as the Committee deems appropriate. The valuation shall be accomplished in a manner that complies with Code Section 409A and shall be consistently applied to Incentives under the Plan.

10.15 Definition of Grant Date. For purposes of this Plan, the "Grant Date" of an Incentive shall be the date on which the Committee approved the award (or, if applicable, the date on which the Company's Chief Executive Officer exercised discretionary authority granted by the Committee and approved the award) or, if later, the date on which (a) the participant is no longer able to negotiate the terms of the award and (b) it is expected that the key terms of the award will be communicated within a relatively short period of time.

10.16 Compliance with Code Section 409A.

(a) Except to the extent such acceleration or deferral is permitted by the requirements of Code Section 409A, neither the Committee nor a participant may accelerate or defer the time or schedule of any payment of, or the amount scheduled to be paid under, an Incentive that constitutes Deferred Compensation (as defined in paragraph(d) below); provided, however, that payment shall be permitted if it is in accordance with a "specified time" or "fixed schedule" or on account of "separation from service," "disability," death, "change in control" or " unforeseeable emergency" (as those terms are defined under Code Section 409A) that is specified in the agreement evidencing the Incentive.

(b) Notwithstanding anything in this Plan, unless the agreement evidencing the Incentive specifically provides otherwise, if a participant is treated as a Specified Employee (as defined in paragraph (d) and as determined under Code Section 409A by the Committee in good faith) as of the date of his or her "separation from service" as defined for purposes of Code Section 409A, the Company may not make payment to the participant of any Incentive that constitutes Deferred Compensation, earlier than 6 months following the participant's separation from service (or if earlier, upon the Specified Employee's death), except as permitted under Code Section 409A. Any payments that otherwise would be payable to the Specified Employee during the foregoing 6-month period will be accumulated and payment delayed until the first date after the 6-month period. The Committee may specify in the Incentive agreement, that the amount of the Deferred Compensation delayed under this paragraph shall accumulate interest, earnings or Dividend Equivalents (as applicable) during the period of such delay.

(c) The Committee may, however, reform any provision in an Incentive that is intended to comply with (or be exempt from) Code Section 409A, to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Code Section 409A.

(d) For purposes of this Section 10.16, "Deferred Compensation" means any Incentive under this Plan that provides for the "deferral of compensation" under a "nonqualified deferred compensation plan" (as those terms are defined under Code Section 409A) and that would be subject to the taxes specified in Code Section 409A(a)(1) if and to the extent that the Plan and the agreement evidencing the Incentive do not meet or are not operated in compliance with the requirements of paragraphs (a)(2), (a)(3) and (a)(4) of Code Section 409A. Deferred Compensation shall not include any amount that is otherwise exempt from the requirements of Code Section 409A. A "Specified Employee" means a Participant who is a "key employee" as described in Code Section 416 (i) (disregarding paragraph (5) thereof) at any time during the Company's fiscal year ending on January 31, or such other "identification date" that applies consistently for all plans of the Company that provide "deferred compensation" that is subject to the requirements of Code Section 409A. Each participant will be identified as a Specified Employee in accordance with Code Section 409A, including with respect to the merger of the Company with any other company or any spin-off or similar transaction, and such identification shall apply for the 12-month period commencing on the first day of the fourth month following the identification date. Notwithstanding the foregoing, no participant shall be a Specified Employee unless the stock of the Company (or other member of a "controlled group of corporations" as determined under Code Section 1563) is publicly traded on an established securities market (or otherwise) as of the date of the participant's "separation from service" as defined in Code Section 409A.

10.17 Shareholder Approval. Notwithstanding anything to the contrary set forth in the Plan, until the Plan is approved by the Company's shareholders, (i) no shares of Common Stock may be issued under the Plan, and (ii) no options issued under the Plan may be exercised. If the Company's shareholders do not approve the Plan on or prior to the 12-month anniversary of the Effective Date, or if the Plan is submitted to a vote of shareholders and not approved, then the Plan and all Incentives granted hereunder shall thereupon be null and void without any further action required by the Committee or the Company.

10.18 Clawback/Recovery.

(a) Each Incentive will be subject to any policy of the Company or any of its Subsidiaries that relates to trading on non-public information and permitted transactions with respect to shares of Common Stock, including, but not limited to, limitations on hedging and pledging. In addition, each Award will be subject to any policy of the Company or any of its Subsidiaries that provides for forfeiture, disgorgement, or clawback with respect to incentive compensation that includes Incentives under the Plan, and will be further subject to forfeiture and disgorgement to the extent required by law or applicable stock exchange listing standards, including, without limitation, Section 10D of the 1934 Act. The Board of Directors may also impose such other clawback, recovery or recoupment provisions in an Incentive agreement or employment agreement as the Board of Directors determines necessary or appropriate, including but not limited to a reacquisition right in respect of a participant's previously acquired shares of Common Stock or other cash or property upon the occurrence of an event constituting "cause," as such term may be defined in the relevant agreement.

(b) Each participant of the Plan, by accepting or being deemed to have accepted an Incentive under the Plan, agrees (or will be deemed to have agreed) to the terms of this Section 10.18(b) and any clawback, recoupment or similar policy of the Company or any of its subsidiaries and further agrees (or will be deemed to have further agreed) to cooperate fully with the Board of Directors, and to cause any and all permitted transferees of the participant to cooperate fully with the Board of Directors, to effectuate any forfeiture or disgorgement described in this Section 10.18(b). Neither the Board of Directors nor the Company (or its subsidiaries) nor any other person, other than the participant and his or her permitted transferees, if any, will be responsible for any adverse tax or other consequences to a participant or his or her permitted transferees, if any, that may arise in connection with this Section 10.18(b). No recovery of compensation under such a clawback policy will be an event giving rise to a right to voluntary terminate employment upon "resignation" for "good reason" or for a "constructive termination" or any similar term under any plan of or agreement with the Company.

EXHIBIT 31.1

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

I, Richard Mills, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three and nine months ended September 30, 2023 March 31, 2024, of Creative Realities, Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: November 9, 2023 May 10, 2024

By: /s/ Richard Mills

Richard Mills
Chief Executive Officer

EXHIBIT 31.2

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

I, Will Logan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three and nine months ended September 30, 2023 March 31, 2024, of Creative Realities, Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: November 9, 2023 May 10, 2024

By: /s/ Will Logan

Will Logan
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and nine months ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: November 9, 2023 May 10, 2024

By: /s/ Richard Mills

Richard Mills
Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the three and nine months ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Will Logan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: November 9, 2023 May 10, 2024

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

div>

Exhibit 99.1

FOR IMMEDIATE RELEASE

Creative Realities Reports 3rd Fiscal 2024 First Quarter 2023 Results

- ***Announces Record 3Q 2023 Revenue of $11.6 million Strong Revenue Growth, Refinancing Underway, 2024 Outlook Reaffirmed***
- ***Announces Record 3Q Gross Profit of $5.3 million (45.8%)***
- ***Announces Record Annual Recurring Revenue run-rate of ~$15.6 million***
- ***Announces Projected 4Q Revenue of $15.8- $17.8 million***
- ***Reiterates Projected FY2023 Revenue of $46.8 - $48.4 million***
- ***Issues Projected FY2024 Revenue of $60 million to $80 million***
- ***Issues Projected FY2024 Adjusted EBITDA of $7.2 million to $12.0 million***
- ***Issues Projected FY 2024 exit ARR run rate of $18.0 million***

LOUISVILLE, KY – **November 9, 2023 May 10, 2024** – Creative Realities, Inc. ("Creative Realities," "CRI," or the "Company") (NASDAQ: CREX, CREXW) CREX), a leading provider of digital signage and media solutions, announced its financial results for the three and nine-month periods fiscal first quarter ended September 30, 2023 March 31, 2024.

Highlights:

- Record first quarter revenue of $12.3 million, up 24% from $9.9 million in the prior-year period
- Gross profit of $5.8 million for the three months ended March 31, 2024 versus $5.1 million in the first quarter of fiscal 2023
- Adjusted EBITDA* of $0.8 million for the first quarter of 2024 versus $1.0 million in the prior-year period
- Annual recurring revenue ("ARR") of approximately $17.7 million at the end of the first quarter versus $16.3 million at the beginning of the fiscal year; the Company reaffirms its 2024 exit run rate guidance of $20.0 million

- Refinancing strategy is being implemented to increase financial flexibility and lower long-term interest expense through a new $20 million senior revolving credit facility and $5 million accordion, with no prepayment penalties or fixed amortization schedule

“We’re off to a great start in fiscal 2024 with strong revenue growth and solid margins, on track to deliver record results this year,” said Rick Mills, Chief Executive Officer, commented “I am pleased to report overall record quarterly revenue and gross profit of $11.6 million and $5.3 million, respectively. These numbers exceed current consensus analyst estimates. The third quarter gross profit margin of 45.8% is a 500 basis-point improvement over the third quarter of last year and a continuation of the improved Officer. “Revenue rose more than 20% year-over-year trend in margins demonstrated in the first two quarters quarter, to $12.3 million, even as the first quarter is typically light due to seasonality and budget cycles. While our consolidated gross margin was lower than the 2023 first quarter, on a percentage basis, this was primarily due to the significant 45% growth in service revenue that included a higher percentage of installations – increasing to 18% of revenue as compared to 10% in the year. This brings prior-year period. While dampening margins in the Company’s year-to-date gross profit quarter, such installs will lead to greater subscription revenues going forward, and we ended the quarter with a record $14.7 million at a record gross profit margin in any year ARR of 47.8%. This is approximately a 790 basis-point improvement over 2022.”

Mr. Mills continued, “The march to value creation continues as we execute our strategy acquire new enterprise customers utilizing our fully integrated offering- from hardware to SaaS to an extensive array of services. Our SaaS-related ARR is now at a record $15.6 million run-rate and on target to meet or exceed $16 million by year-end.” Mr. Mills added, “Ongoing growth in ARR, already seeded as we work through our backlog, is additionally bolstered by the momentum of a near 70% RFP win rate this year.” $17.7 million.

“The company is poised In addition, as recently announced, on May 8, 2024, we signed a non-binding commitment letter for another a transformational year in 2024. Through refinancing agreement, expected to close next week, that provides a $20 million revolver as well as access to a $5 million accordion feature. Not only will this allow for greater financial flexibility, it will enable the first nine months of 2023, we have paid down debt principal by approximately $3.9. million. This, in addition Company to our equity offering in August of this year, reduced our net debt to $8.4 million. We had $8.4 million in cash on hand as of lower its interest rate exposure and move towards a more optimal capital structure. By the end of the third quarter. Our leverage ratio first quarter we had, once again, reduced from 4.9 times as our outstanding debt, and we remain focused on de-levering the balance sheet going forward. Overall, given a strong pipeline of December 31, 2022 opportunities, increasing installations, and sound operating execution, we are well positioned to 2.6 times as of September 30, 2023 leveraging the trailing twelve months Adjusted EBITDA. We project record fourth quarter revenue of $15.8 million to $17.8 million to yield between a record $46.4 million to $48.4 million for fiscal year 2023. The anticipated continuation of record revenue, improvements in margins and debt reduction into 2024 is expected to translate to free cash flow generation for the first time see substantial growth in the Company’s history quarters to come and remain on track for our best year ever, including a $20 million ARR by the end of 2024.”

*Adjusted EBITDA is a non-GAAP financial measure. A reconciliation is provided in 2024. We believe we have the business prospects and, now, balance sheet, to drive value.” tables of this press release.

2024 Guidance First Quarter Financial Results

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

The Company is issuing Consolidated gross profit was $5.8 million for the fiscal 2024 Revenue first quarter versus $5.1 million in the prior-year period, and Adjusted EBITDA projections consolidated gross margin was 46.9% versus 51.2% in ranges of $60.0 million the fiscal 2023 first quarter. Gross margin on hardware revenue was 22.9% in fiscal 2024 as compared to $80 million 25.8% in the prior-year period, largely reflecting product mix and contract timing. Gross margin on service amounted to 59.1%, and $7.2 million to $12 million, respectively, with a 2024 targeted exit ARR run-rate of $18.0 million. The Company projects a 2024 year-end exit leverage ratio of between 1.2 and 1.5 times, barring any additional financings or strategic opportunities.

Mr. Mills encouraged investors to attend versus 70.7% in the fiscal 2023 first quarter, reflecting the fact that installations – historically the Company’s earnings release call, “In addition lowest margin service – increased to providing additional context 18% of total revenue as compared to our third quarter earnings, we will convey several important announcements and updates relating 10% in the prior-year period. Software subscription run-rates continued to new customer acquisitions rise, however, and the scaling Company ended the quarter with record ARR of our CMS platforms.”

Our backlog remains steady at greater than $110 million as of September 30, 2023. Revenue backlog is primarily related to projected network deployments and project work, which upon execution will result in additional ARR. The Company’s backlog calculation is comprised of the full rollout of projects that have been communicated to us by our current customers under contract, and includes all revenues to be received by the Company by deploying all of our products and services necessary to service such stated projects, including projected revenues that are not currently subject to binding purchase orders or firm commitments. approximately $17.7 million on an annualized run rate.

3Q Sales and marketing expenses in the first quarter rose to $1.5 million, versus $1.1 million in the prior-year period, reflecting enhanced investment in business development activities. Research and development expenses were $0.5 million versus $0.4 million in the fiscal 2023 Financial Overview first quarter. First quarter general and administrative expenses were $3.0 million, up slightly year-over-year, primarily reflecting increases in deployment personnel and the implementation of a new ERP system.

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

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

Balance Sheet

As of March 31, 2024, the Company had cash on hand of approximately $2.9 million, virtually equivalent to December 31, 2023. The Company had outstanding principal debt of approximately $14.0 million as of March 31, 2024 versus $15.1 million at the start of the fiscal year. The Company's net debt as of the date of this release is approximately $11.7 million. CRI continues to repay approximately $0.4 million in debt principal monthly, with a focus to reduce its leverage ratio going forward. As of the end of the first quarter, the trailing twelve month leverage ratio was 2.86 and *"prior year" represent references 2.27 on a gross and net basis, respectively, versus 2.97 and 2.40 at the beginning of 2024. Net debt is equal* to the *three months ended September 30, 2023 and 2022, respectively.*Company's cash on hand less outstanding debt.

Key Highlights:

- Revenue in excess of analyst consensus at $11.6 million.
- Expansion of gross margin percentage to 45.8% in the current year from 40.4% in the prior year.
- Expansion of Annualized Recurring Revenue to forward run-rate of ~$15.6 million.

Revenue, gross profit, and gross margin:

- Sales were $11,568, representing an increase of $388, or 3%, as compared to the same period in 2022. Hardware revenues were $4,847 for the current year, a decrease of $168, or 3%, as compared to the prior year, of which approximately $3.0 million were earned from customers new to the Company in 2023.
- Services and other revenues were $6,721 for the three month period ended September 30, 2023, an increase of $556, or 9%, compared to prior year driven by increases of (1) $543 in media sales attributable to the addition of sales resources and restructuring of third party selling contracts to expand its access to such agents, and (2) $420 in managed services revenue as a result of increased SaaS licenses that drive annual recurring revenue. These increases in services revenue in the current year were partially offset by a $505 decrease in installation services revenue as deployment of hardware sold during the current year associated with multiple advertising networks did not begin installation activities until the fourth quarter of 2023.
- Gross profit increased $789, or 17% during the current year as compared to the prior year driven by enhanced margins on hardware revenues and an increase in services revenue.
- Gross profit margin increased to 46% during the current year, from 40% in the prior year driven by (1) favorable revenue mix during the current year as managed services, which includes higher margin SaaS and other services revenues, increased to 37% of total revenue as compared to 35% of total revenues in the prior year, and (2) a 6% margin expansion associated with hardware revenues generated in the current year primarily generated from sales of custom manufactured kiosks purchased for deployment of an advertising network.

Operating 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 in the current year increased by $583, or 81%, compared to the prior year driven primarily by seasonality in the Company's media sales business unit and the Company's enhanced investments into sales and marketing activities. Following the Company's acquisition of Reflect Systems, Inc. via merger in 2022 (the "Merger"), the Company adopted certain tools, technology, and processes – particularly with respect to lead generation and brand marketing – that were historically undercapitalized by the Company and have since accelerated new customer acquisition. Through completion of the Merger, the Company also acquired a media sales business unit that serves to monetize customer networks via the direct sale of advertising to be displayed on digital advertising networks owned by those customers. This business utilizes internal and third-party sales agents - the salaries and commissions of which are included within Sales and Marketing Expense within the Condensed Consolidated Statement of Operations.

- Research and development expenses generally include personnel and development tools costs associated with the continued development of the Company's content management systems and other related application development. The Company capitalizes certain of these expenses and amortizes those costs through the Condensed Consolidated Statement of Operations on a straight-line basis over the economic useful life of the software feature or functionality. Research and development expenses increased by $155, or 65%, for the current year as compared to the prior year driven primarily by incremental headcount added via completion of the Merger on February 17, 2022 and a higher rate of bug and maintenance work as compared to capitalized activities during the current year.
- General and administrative expenses decreased $215, or 8% during the current year as compared to the prior year driven by a decrease of $492 in stock compensation expense as outstanding performance awards were fully expensed as of December 31, 2022. This decrease was partially offset by increased personnel costs in the current year as a result of higher headcount following the Merger and scaled up operations in response to an increase in customer acquisition and associated planned deployments.

Operating loss, net loss, and EBITDA:

- Operating income was $160 thousand in the current year as compared to an operating loss of $284 thousand in the prior year, inclusive of approximately $0.8 million in non-cash amortization of fixed and intangible assets in both the current and prior year.
- Net loss was $1.9 million for the current year as compared to net loss of $0.6 million for the prior year. Excluding the non-cash change in the fair value of contingent consideration issuable in the Merger, the net loss was $0.6 and $1.0 million in the current and prior year periods, respectively.
- Adjusted EBITDA and associated Adjusted EBITDA margin were approximately $1.0 million and 8.8% in the current year as compared to $1.2 million and 11.2% in the prior year. See the table at the end of this press release for a description of these non-GAAP financial measures and reconciliation to our net income/(loss) for the current and prior years.

Other notes:

- **Cash**: The Company's cash on hand as of September 30, 2023 increased to $8.4 million from $1.6 million as of December 31, 2022 as a result of the Company's receipt of $5.4 million in net proceeds from the Company's public offering completed in August 2023, as well as incremental collections on accounts receivable, annual billings associated with our SaaS-based contracts, and increases in customer deposits on future deployments, partially offset by investments in software development projects and repayment of debt.
- **Debt**: Through September 30, 2023, the Company repaid in the current calendar year in excess of $3.9 million in principal on debt in the current calendar year, reducing the Company's leverage ratio from approximately 4.9 times to approximately 2.6 times.

Conference Call Details

The Company will host a conference call to review the results of the Company's third first quarter 2023, 2024, and provide additional commentary about the Company's recent performance, on Friday, November 10, 2023 today, May 10, at 9:00 am Eastern Time. Time, which will include prepared remarks and materials from management, followed by a live Q&A. The call will be hosted by Rick Mills, Chief Executive Officer, and Will Logan, Chief Financial Officer.

Prior to the call, participants should register at https://bit.ly/CRIearnings2023Q3. CRIearnings2024Q1. Once registered, participants can use the dial-in information weblink provided in the registration email to listen to the Company's prepared remarks and participate in the live question and answer session. webcast. An archived edition of the earnings conference call will also be posted on our the Company's website at www.cri.com later that same day today and will remain available to interested parties via the same link for one year.

About Creative Realities, Inc.

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

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

Use of Non-GAAP Measures

Creative Realities, Inc. prepares its consolidated financial statements in accordance with United States generally accepted accounting principles ("GAAP"). In addition to disclosing financial results prepared in accordance with GAAP, the Company discloses information regarding "EBITDA" and "Adjusted EBITDA." CRI defines "EBITDA" as earnings before interest, income taxes, depreciation and amortization of intangibles. CRI defines "Adjusted EBITDA" as EBITDA excluding stock-based compensation, fair value adjustments and both cash and non-cash non-recurring gains and charges. EBITDA and Adjusted EBITDA are not measures of performance defined in accordance with GAAP. However, EBITDA and Adjusted EBITDA are used internally in planning and evaluating the Company's operating performance. Accordingly, management believes that disclosure of these metrics offers investors, bankers and other stakeholders an additional view of the Company's operations that, when coupled with the GAAP results, provides a more complete understanding of the Company's financial results.

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

For further information, please refer to Creative Realities, Inc.'s filings available online at www.sec.gov, including its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2023 March 21, 2024.

Cautionary Note on Forward-Looking Statements

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, and includes, among other things, discussions of our business strategies, product releases, future operations and capital resources. Words such as "estimates," "projected," "expects," "anticipates," "forecasts," "plans," "intends," "believes," "seeks," "may," "will," "should," "future," "propose" and variations of these words or similar expressions (or the negative versions of such words or expressions) are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance, conditions or results. They are based on the opinions, estimates and beliefs of management as of the date such statements are made, and they are subject to known and unknown risks, uncertainties, assumptions and other factors, many of which are outside of our control, that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Some of these risks are discussed in the “Risk Factors” section contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 and in our Quarterly Report on Form 10-Q for the period ended June 30, 2023 December 31, 2023, as amended, and the Company’s subsequent filings with the U.S. Securities and Exchange Commission. Important factors, among others, that may affect actual results or outcomes include: our ability to consummate the refinancing arrangement; our strategy for customer retention, growth, product development, market position, financial results and reserves, our ability to execute on our business plan, our ability to retain key personnel, our ability to remain listed on the Nasdaq Capital Market, our ability to realize the revenues included in our future guidance and backlog reports, our ability to satisfy our upcoming debt obligations, contingent liabilities and other liabilities, the ability of the Company to continue as a going concern, potential litigation, supply chain shortages, and general economic and market conditions impacting demand for our products and services. Readers should not place undue reliance upon any forward-looking statements. We assume no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Contact
Christina Davies
cdavies@ideagrove.com

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

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

	September 30, 2023	December 31, 2022
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,376	$ 1,633
Accounts receivable, net	5,865	8,263
Work-in-process and inventories, net	2,306	2,267
Prepaid expenses and other current assets	960	1,819
Total current assets	$ 17,507	$ 13,982
Property and equipment, net	513	201
Operating lease right-of-use assets	1,198	1,584
Intangibles, net	23,975	23,752
Goodwill	26,453	26,453
Other assets	43	43
TOTAL ASSETS	$ 69,689	$ 66,015
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,340	$ 3,757
Accrued expenses	4,499	3,828
Deferred revenues	3,507	1,223
Customer deposits	3,532	2,478

Current maturities of operating leases	575	711
Short-term portion of Secured Promissory Note	521	1,248
Short-term portion of related party Consolidation Term Loan, net of $747 and $745 discount, respectively	3,690	1,251
Short-term related party Term Loan (2022)	-	2,000
Total current liabilities	19,664	16,496
Long-term Secured Promissory Note	-	208
Long-term related party Acquisition Term Loan, net of $963 and $1,484 discount, respectively	9,037	8,516
Long-term related party Consolidation Term Loan, net of $282 and $840 discount, respectively	1,537	4,349
Long-term obligations under operating leases	623	873
Contingent acquisition consideration, at fair value	11,250	9,789
Other liabilities	175	205
TOTAL LIABILITIES	42,286	40,436
SHAREHOLDERS' EQUITY		
Common stock, $0.01 par value, 66,666 shares authorized; 10,409 and 7,266 shares issued and outstanding, respectively	104	72
Additional paid-in capital	82,064	75,916
Accumulated deficit	(54,765)	(50,409)
TOTAL SHAREHOLDERS' EQUITY	27,403	25,579
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 69,689	$ 66,015

	March 31, 2024 (unaudited)	December 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,899	$ 2,910
Accounts receivable, net	9,516	12,468
Inventories, net	3,065	2,567
Prepaid expenses and other current assets	837	665
Total Current Assets	$ 16,317	$ 18,610
Property and equipment, net	464	499
Goodwill	26,453	26,453
Other intangible assets, net	23,985	24,062
Operating lease right-of-use assets	875	1,041
Other non-current assets	112	112
Total Assets	$ 68,206	$ 70,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,788	$ 7,876
Accrued expenses and other current liabilities	3,955	3,761
Deferred revenues	1,777	1,132
Customer deposits	4,411	3,233
Current maturities of operating leases	431	505
Short-term portion of related party Acquisition Term Loan, net of $613 and $0 discount, respectively	9,387	-
Short-term portion of related party Consolidation Term Loan, net of $655 and $747 discount, respectively	3,383	3,690
Short-term portion of contingent consideration, at fair value	10,603	-

Total Current Liabilities	38,735	20,197
Long-term related party Acquisition Term Loan, net of $0 and $787 discount, respectively	-	9,213
Long-term related party Consolidation Term Loan, net of $0 and $94 discount, respectively	-	616
Long-term obligations under operating leases	444	536
Long-term contingent consideration, at fair value	-	11,208
Other non-current liabilities	178	176
Total Liabilities	39,357	41,946
Shareholders' Equity		
Common stock, $0.01 par value, 66,666 shares authorized; 10,447 and 10,409 shares issued and outstanding, respectively	104	104
Additional paid-in capital	82,200	82,073
Accumulated deficit	(53,455)	(53,346)
Total Shareholders' Equity	28,849	28,831
Total Liabilities and Shareholders' Equity	$ 68,206	$ 70,777

CREATIVE REALITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	**2022**	**2023**	**2022**	2024	2023
Sales						
Hardware	$ 4,847	$ 5,015	$ 12,606	$ 17,141	$ 4,144	$ 4,322
Services and other	6,721	6,165	18,102	15,719	8,141	5,622
Total sales	11,568	11,180	30,708	32,860	12,285	9,944
Cost of sales						
Hardware	3,384	3,811	9,314	13,803	3,193	3,206
Services and other	2,881	2,855	6,704	5,989	3,328	1,649
Total cost of sales	6,265	6,666	16,018	19,792	6,521	4,855
Gross profit	5,303	4,514	14,690	13,068	5,764	5,089
Operating expenses:						
Sales and marketing expenses	1,301	718	3,666	2,572	1,465	1,136
Research and development expenses	393	238	1,136	897	508	366
General and administrative expenses	2,632	2,847	8,125	8,269	3,028	2,898
Depreciation and amortization expense	817	885	2,393	2,060	839	779
Deal and transaction expenses	-	110	-	538		
Total operating expenses	5,143	4,798	15,320	14,336	5,840	5,179
Operating income (loss)	160	(284)	(630)	(1,268)		
Operating loss					(76)	(90)
Other income (expenses):						
Other expenses (income):						

Interest expense, including amortization of debt discount	(734)	(757)	(2,324)	(1,956)	663	803
Change in fair value of warrant liability	-	-	-	7,902		
Change in fair value of equity guarantee	(1,369)	442	(1,461)	369		
Loss on debt waiver consent	-	-	-	(1,212)		
Loss on warrant amendment	-	-	-	(345)		
Gain/(loss) on settlement of obligations	-	37	-	(237)		
Other income (expense)	(3)	(2)	132	3		
Total other income (expense)	(2,106)	(280)	(3,653)	4,524		
Net (loss) income before income taxes	(1,946)	(564)	(4,283)	3,256		
Change in fair value of contingent consideration					(604)	76
Other expense (income)					(35)	(12)
Total other expenses (income)					24	867
Net loss before income taxes					(100)	(957)
Benefit (provision) for income taxes	15	10	(73)	(46)	(9)	(43)
Net (loss) income	$ (1,931)	$ (554)	$ (4,356)	$ 3,210		
Basic (loss) earnings per common share	$ (0.22)	$ (0.08)	$ (0.56)	$ 0.50		
Diluted (loss) earnings per common share	$ (0.22)	$ (0.08)	$ (0.56)	$ 0.50		
Net loss					$ (109)	$ (1,000)
Basic loss per common share					$ (0.01)	$ (0.14)
Diluted loss per common share					$ (0.01)	$ (0.14)
Weighted average shares outstanding - basic	8,713	7,250	7,775	6,461	10,421	7,351
Weighted average shares outstanding - diluted	8,713	7,250	7,775	6,461	10,421	7,351

CREATIVE REALITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited) in thousands, except share per share amounts)

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	**2022**	2024	2023
Operating Activities:				
Net (loss) income	$ (4,356)	$ 3,210		
Adjustments to reconcile net (loss) income to net cash provided by operating activities				
Net loss			$ (109)	$ (1,000)
Adjustments to reconcile net loss to net cash provided by operating activities				
Depreciation and amortization	2,393	2,060	839	779
Amortization of debt discount	1,078	904	360	356
Amortization of stock-based compensation	539	1,587	3	298
Loss on debt waiver consent	-	1,212		
Loss on warrant amendment	-	345		
Loss on settlement of obligations	-	237		
Bad debt expense	318	105	-	237
Gain on change in fair value of warrants	-	(7,902)		
Loss (Gain) on change in fair value of contingent consideration	1,461	(369)		
(Gain) loss on change in fair value of contingent consideration			(604)	76
Deferred income taxes	44	-	4	24

Changes to operating assets and liabilities:				
Accounts receivable	2,080	(2,835)	2,952	1,177
Work-in-process and inventories	(39)	(1,032)		
Inventories, net			(498)	788
Prepaid expenses and other current assets	859	682	(172)	1,015
Accounts payable	(53)	(227)	(2,976)	(486)
Accrued expenses	683	533		
Deferred revenues	2,284	1,019		
Accrued expenses and other current liabilities			317	(45)
Deferred revenue			645	2,382
Customer deposits	1,054	(585)	1,178	(1,693)
Other	(39)	6		
Net cash provided by (used in) operating activities	8,306	(1,050)		
Other, net			(1)	(40)
Net cash provided by operating activities			1,938	3,868
Investing activities				
Acquisition of business, net of cash acquired	-	(17,186)		
Purchases of property and equipment	(287)	(123)	(6)	(31)
Capitalization of labor for software development	(2,851)	(2,959)	(824)	(1,003)
Net cash used in investing activities	(3,138)	(20,268)	(830)	(1,034)
Financing activities				
Principal payments on finance leases	(14)	-		
Proceeds from sale of common stock, net of offering expenses	5,454	-		
Proceeds from sale of common stock in PIPE, net of offering expenses	-	1,814		
Proceeds from sale & exercise of pre-funded warrants in PIPE, net of offering expenses	-	8,295		
Proceeds from Acquisition Loan, net of offering expenses	-	9,868		
Repayment of Term Loan (2022)	(2,000)	-		
Repayment of Consolidation Term Loan	(930)	-	(1,109)	-
Repayment of Secured Promissory Note	(935)	(723)	-	(310)
Net cash provided by financing activities	1,575	19,254		
Repayment of Term Loan (2022)			-	(250)
Principal payments on finance leases			(10)	(2)
Net cash used in financing activities			(1,119)	(562)
Increase (decrease) in Cash and Cash Equivalents	6,743	(2,064)	(11)	2,272
Cash and Cash Equivalents, beginning of period	1,633	2,883	2,910	1,633
Cash and Cash Equivalents, end of period	$ 8,376	$ 819	$ 2,899	$ 3,905

RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA

(in thousands, unaudited)

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

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

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

	Quarters Ended					Quarters Ended				
Quarters ended	**September 30 2023**	**June 30 2023**	**March 31 2023**	**December 31 2022**	**September 30 2022**	March 31 2024	December 31 2023	September 30 2023	June 30 2023	March 31 2023
GAAP net loss	$ (1,931)	$ (1,425)	$ (1,000)	$ (1,334)	$ (554)					
GAAP net (loss) income						$ (109)	$ 1,419	$ (1,931)	$ (1,425)	$ (1,000)
Interest expense:										
Amortization of debt discount	363	358	356	364	363	360	366	363	358	356
Other interest, net	371	429	447	423	394	303	302	371	429	447
Depreciation/amortization:										
Amortization of intangible assets	766	754	754	743	848	790	781	766	754	754
Amortization of employee share-based awards	3	151	225	448	456	3	4	3	151	225
Depreciation of property & equipment	50	43	25	30	37	49	48	50	43	25
Income tax expense/(benefit)	(15)	45	43	33	(10)					
Income tax (benefit) expense						9	10	(15)	45	43
EBITDA	$ (393)	$ 355	$ 850	$ 707	$ 1,534	$ 1,405	$ 2,930	$ (393)	$ 355	$ 850
Adjustments										
Gain on settlement of obligations	-	-	-	-	(37)					
Loss (Gain) on fair value of equity guarantee	1,369	16	76	(705)	(442)					
Disposal of Safe Space Solutions inventory	-	-	-	909	-					
Deal and transaction expenses	-	-	-	54	110					
Other expense (income)	3	(123)	(12)	7	2					
Loss (Gain) on fair value of contingent consideration						(604)	(42)	1,369	16	76
Stock-based compensation – Director grants	43	43	43	56	82	-	21	43	43	43
Other (income) expense						(35)	(79)	3	(123)	(12)
Adjusted EBITDA	$ 1,022	$ 291	957	1,028	1,249	$ 766	$ 2,830	1,022	$ 291	957