

# CREATIVE REALITIES, INC.

## FORM 424B3

(Prospectus filed pursuant to Rule 424(b)(3))

Filed 08/17/15

Address	55 BROADWAY 9TH FLOOR NEW YORK, NY 10006
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SIC Code	7373 - Computer Integrated Systems Design
Industry	Software & Programming
Sector	Technology
Fiscal Year	12/31

**CREATIVE REALITIES, INC.**

**Prospectus Supplement No. 1  
to prospectus dated August 12, 2015**

This prospectus supplement no. 1 supplements and amends our prospectus dated August 12, 2015, which we refer to simply as the “prospectus.” The prospectus relates to the sale from time to time of up to 34,134,781 shares of common stock of Creative Realities, Inc., by certain selling shareholders, which figure includes 22,466,591 common shares issued on account of converted promissory notes and accrued interest thereon, 150,000 outstanding shares issued in exchange for a warrant, and an aggregate of 10,016,736 common shares issuable upon the exercise of certain outstanding warrants. We will not receive any of the proceeds from the sale of shares by the selling shareholders. We will, however, receive proceeds from any cash exercise of warrants by the selling shareholders.

On August 14, 2015, we filed a Quarterly Report on Form 10-Q with the Securities and Exchange Commission for the quarter ended June 30, 2015, a copy of which is attached hereto, although the exhibits to such report have been omitted. The information contained in the attached Form 10-Q report supplements and amends the information contained in the prospectus.

This prospectus supplement no. 1 should be read in conjunction with, and delivered with, the prospectus and is qualified by reference to the prospectus except to the extent that the information in this prospectus supplement no. 1 supersedes the information contained in the prospectus.

Our common stock is quoted on the OTC Markets (OTC Pink) under the symbol “CREX.” On August 12, 2015, the last sale price for our common stock as reported on the OTC Pink was \$0.25.

**Investing in our common stock involves significant risk. See the “Risk Factors” section of the prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the prospectus or this prospectus supplement no. 1 is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus supplement no. 1 is August 14, 2015.

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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 JUNE 30, 2015

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File Number 001-33169



**Creative Realities, Inc.**  
**(formerly Wireless Ronin Technologies, Inc.)**  
(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**41-1967918**

(I.R.S. Employer  
Identification No.)

**22 Audrey Place, Fairfield NJ 07004**  
(Address of principal executive offices, including zip code)

**(973) 244-9911**  
(Registrant's telephone number, including area code)

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 month (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of August 14, 2015, the registrant had 46,217,968 shares of common stock outstanding.

**CREATIVE REALITIES, INC.**

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**PART 1. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<u>(unaudited)</u>	<u></u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 494	\$ 573
Accounts receivable, net of allowance of \$498 and \$490, respectively	2,063	3,463
Unbilled receivables	382	359
Work-in-process and inventories	596	739
Prepaid expenses	268	355
Total current assets	<u>3,803</u>	<u>5,489</u>
Property and equipment, net	879	746
Intangibles, net	4,102	4,834
Goodwill	10,572	10,572
Other assets	252	235
<b>TOTAL ASSETS</b>	<u><u>\$ 19,608</u></u>	<u><u>\$ 21,876</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	3,272	3,555
Accrued liabilities	1,486	1,102
Current maturities of capital lease obligations	8	-
Deferred revenues	2,211	1,977
Dividend payable	274	112
Total current liabilities	<u>7,251</u>	<u>6,746</u>
Warrant liability	1,340	1,910
Long term debt, net of discount and debt issuance costs	986	-
Other liabilities	422	434
Capital lease obligations, less current maturities	14	-
<b>TOTAL LIABILITIES</b>	<u>10,013</u>	<u>9,090</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
Convertible preferred stock, net of discount (liquidation preference of \$5,727)	1,724	1,532
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, 200,000 shares authorized; 46,218 and 46,218 shares issued and outstanding	462	462
Additional paid-in capital	18,277	17,439
Accumulated deficit	(10,868)	(6,647)
Total shareholders' equity	<u>7,871</u>	<u>11,254</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>\$ 19,608</u></u>	<u><u>\$ 21,876</u></u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Sales				
Hardware	\$ 1,166	\$ 1,935	\$ 1,595	\$ 2,947
Services and other	1,536	1,071	3,233	2,331
Total sales	<u>2,702</u>	<u>3,006</u>	<u>4,828</u>	<u>5,278</u>
Cost of sales				
Hardware	1,070	1,459	1,452	2,103
Services and other	965	1,193	2,239	2,557
Total cost of sales (exclusive of depreciation and amortization shown separately below)	<u>2,035</u>	<u>2,652</u>	<u>3,691</u>	<u>4,660</u>
Gross profit	667	354	1,137	618
Operating expenses:				
Sales and marketing expenses	348	237	674	513
Research and development expenses	254	-	485	-
General and administrative expenses	1,825	741	3,918	1,477
Depreciation and amortization expense	432	101	857	167
Total operating expenses	<u>2,859</u>	<u>1,079</u>	<u>5,934</u>	<u>2,157</u>
Operating loss	(2,192)	(725)	(4,797)	(1,539)
Other income (expenses):				
Interest expense	(164)	(3)	(227)	(7)
Change in fair value of warrant liability	67	-	812	-
Other income/expense	1	-	(9)	-
Total other expense	<u>(96)</u>	<u>(3)</u>	<u>576</u>	<u>(7)</u>
Net loss	\$ (2,288)	\$ (728)	\$ (4,221)	\$ (1,546)
Deemed dividend on preferred stock	(82)	-	(160)	-
Net loss attributable to common shareholders	<u>(2,370)</u>	<u>(728)</u>	<u>(4,381)</u>	<u>(1,546)</u>
Basic and diluted loss per common share	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>
Basic and diluted weighted average shares outstanding	<u>46,217,968</u>	<u>28,547,267</u>	<u>46,217,968</u>	<u>28,547,267</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating activities:</b>		
Net loss	\$ (4,221)	\$ (1,546)
Depreciation and amortization	857	167
Stock-based compensation expense	135	-
Change in fair value of warrant liability	(812)	-
Amortization of debt discount	185	-
Provision for doubtful accounts	14	-
Accounts receivable and unbilled revenues	1,362	(698)
Inventories/Costs in excess of billings	143	-
Prepaid expenses and other current assets	87	281
Other assets	(16)	(64)
Accounts payable	(279)	(805)
Deferred revenue	234	1,183
Accrued liabilities	373	137
Other liabilities	-	287
Net cash used in operating activities	<u>(1,938)</u>	<u>(1,058)</u>
<b>Investing activities</b>		
Purchases of property and equipment	(13)	(424)
Investments in software development	(222)	-
Net cash used in investing activities	<u>(235)</u>	<u>(424)</u>
<b>Financing activities</b>		
Repayment of note payable	-	(190)
Proceeds from issuance of convertible debt and warrants, net of costs	1,656	-
Proceeds from issuance of convertible preferred stock and warrants, net of costs	440	-
Payments on capital lease obligations	(2)	-
Borrowings from affiliate	-	1,899
Net cash provided by financing activities	<u>2,094</u>	<u>1,709</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(79)</u>	<u>227</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>573</u>	<u>108</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 494</u>	<u>\$ 335</u>

See accompanying notes to condensed consolidated financial statements.

All currency is rounded to the nearest thousand except for per share amounts.

## **NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Financing and Merger**

On August 18, 2014, we entered into a Securities Purchase Agreement with institutional and accredited investors pursuant to which we offered and sold an aggregate of 5,190,000 shares of our Series A Convertible Preferred Stock at \$1.00 per share, and issued five-year warrants to purchase an aggregate of 6,487,000 shares of common stock at a per-share price of \$0.50 (subject to adjustment), in a private placement exempt from registration under the Securities Act of 1933.

On August 20, 2014, we completed the merger contemplated by the Creative Realities Merger Agreement, thereby acquiring the business of Creative Realities LLC. At the effective time of the merger and pursuant to the Creative Realities Merger Agreement, Slipstream Funding, LLC, a Delaware limited liability company and then the sole member of Creative Realities, LLC received shares of our common stock equivalent to approximately 59.2% of common stock issued and outstanding after the merger, calculated on a modified fully diluted basis, together with a warrant to purchase an additional number of common shares equal to 1.5% of our common stock outstanding immediately after the merger, again calculated on a modified fully diluted basis. In each case, “modified fully diluted basis” means inclusion of all shares of outstanding common stock together with common stock issuable upon exercise or conversion of outstanding securities, other than the Series A Convertible Preferred Stock (see above) and certain shares of common stock issuable upon exercise of warrants and options having an exercise price agreed by the parties to have been significantly out of the money.

Creative Realities, LLC was the “accounting acquirer” in the merger transaction, while Wireless Ronin Technologies (the registrant) was the “legal acquirer,” and therefore the merger was accounted for as a reverse acquisition. Creative Realities, LLC was determined to be the accounting acquirer since its former shareholder had majority control of the common stock, was the largest shareholder, and had the majority members of the board of directors and of the executive officers. In accordance with reverse acquisition accounting, the historical financial statements of the registrant became those of Creative Realities, with the financial results of Wireless Ronin Technologies included only beginning with the merger date. Effective September 15, 2014, Wireless Ronin Technologies, Inc. changed its name to Creative Realities, Inc.

As used throughout this report, the “Company” generally refers to the registrant (Creative Realities, Inc., formerly known as Wireless Ronin Technologies, Inc.), unless the context otherwise indicates or requires. Use of the first person “we” refers to the Company or, if the context so requires, to the historical business of Creative Realities, LLC or the registrant itself, in each case prior to the consummation of the August 20, 2014 merger transaction.

### **Basis of Presentation**

We have prepared the condensed consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). The condensed consolidated financial statements include the Company’s wholly owned subsidiaries. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed from the accompanying condensed consolidated financial statements. The accompanying year end condensed consolidated balance sheet was derived from the audited financial statements included in the annual financial statements. The accompanying interim financial statements are unaudited, and reflect all adjustments which are in the opinion of management, necessary for a fair statement of the Company’s condensed consolidated financial position, results of operations, and cash flows for the periods presented. Unless otherwise noted, all such adjustments are of a normal, recurring nature. All intercompany transactions and balances have been eliminated in consolidation. The Company’s results of operations and cash flows for the interim periods are not necessarily indicative of the results of operations and cash flows that it may achieve in future periods. Nevertheless, we believe that the disclosures are adequate to ensure the information presented is not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with our audited financial statements and the notes thereto for the year ended December 31, 2014 included in the Company’s 10-K filed with the SEC on May 7, 2015.

### **Nature of the Company’s Business**

Creative Realities, Inc. is a Minnesota corporation that provides innovative shopper marketing and digital marketing technology and solutions to retail companies, individual retail brands, enterprises and organizations throughout the United States and in certain international markets. We have expertise in a broad range of existing and emerging shopper and 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 and omni-channel customer engagement systems; interactive digital shopping assistants, advisors and kiosks; other interactive marketing technologies such as mobile, social media, transactions, beaconing, and web-based media that enable our customers to transform how they engage with consumers; and dynamic digital signage. We believe we are the world’s leading interactive marketing technology company that focuses on the retail shopper experience – a “shopper marketing technology company.” In sum, we help retailers and brands use the latest technologies to create better shopping experiences.



## **Summary of Significant Accounting Policies**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

### *1. Principles of Consolidation*

The consolidated financial statements include the accounts of Creative Realities, Inc. (f/k/a Wireless Ronin Technologies, Inc.), our wholly owned subsidiaries Creative Realities, LLC, Broadcast International, Inc., and Wireless Ronin Technologies Canada, Inc. All inter-Company balances and transactions have been eliminated in consolidation, as applicable.

### *2. Foreign Currency*

Our functional currency for its operations, including those in Canada, is the U.S. Dollar. Foreign exchange transaction gains and losses attributable to exchange rate movements related to transactions made in the local currency and on intercompany receivables and payables not deemed to be of a long-term investment nature are recorded in other income (expense).

### *3. Revenue Recognition*

We recognize revenue primarily from these sources:

- System hardware sales
- Professional services
- Software design and development services
- Software and software license sales
- Implementation services
- Maintenance and support services

We recognize revenue in accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 605-910, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, ASC 605-10-599, *Revenue Recognition*, ASC 605-25, *Accounting for Revenue Arrangements with Multiple Deliverables*, and ASC subtopic 605-985, *Revenue Recognition: Software* (or ASC 605-35), with respect to all transactions involving the sale of software licenses. In the event of a multiple-element arrangement, we evaluate if each element represents a separate unit of accounting, taking into account all factors following the guidelines set forth in ASC 605-985-25-5. We recognize revenue when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred, which is when product title transfers to the customer, or services have been rendered; (iii) customer payments are fixed or determinable and free of contingencies and significant uncertainties; and (iv) collection is reasonably assured. If it is determined that collection of a fee is not reasonably assured, we defer the revenue and recognize it at the time collection becomes reasonably assured, which is generally upon receipt of cash payment. Revenues are reported on a gross basis.

Revenues for services are recognized when the underlying service is delivered or performed pursuant to the terms of each arrangement. When the fair value of an undelivered element cannot be determined, we defer revenue for the delivered elements until the undelivered elements are delivered. If an acceptance period is required, revenue is recognized upon the earlier of customer acceptance or the expiration of the acceptance period. Sales and use taxes are reported on a net basis, excluding them from sales and cost of sales.

Multiple-Element Arrangements — We enter into arrangements with customers that include a combination of software products, system hardware, maintenance and support, or installation and training services. We allocate the total arrangement fee among the various elements of the arrangement based on the relative fair value of each of the undelivered elements determined by vendor-specific objective evidence (VSOE). In software arrangements for which we do not have VSOE of fair value for all elements, revenue is deferred until the earlier of when VSOE is determined for the undelivered elements (residual method) or when all elements for which we do not have VSOE of fair value have been delivered. We have determined VSOE of fair value for each of our products and services.

The VSOE for maintenance and support services is based upon the renewal rate for continued service arrangements. The VSOE for installation and training services is established based upon pricing for the services. The VSOE for software and licenses is based on the normal pricing and discounting for the product when sold separately.

Each element of our multiple-element arrangements qualifies for separate accounting. Nevertheless, when a sale includes both software and maintenance, we defer revenue under the residual method of accounting. Under this method, the undelivered maintenance and support fees included in the price of software is amortized ratably over the period the services are provided. We defer maintenance and support fees based upon the customer's renewal rate for these services.

#### *System Hardware Sales*

We recognize revenue on system hardware sales generally upon shipment of the product or customer acceptance depending upon contractual arrangements with the customer. Shipping charges billed to customers are included in sales and the related shipping costs are included in cost of sales.

#### *Professional Services*

Included in services and other revenues is revenue derived primarily from consulting related to discovery and requirements definition processes, the design and development of various marketing experiences, and content development and management. The majority of professional services and accompanying agreements qualify for separate accounting. Professional services are bid either on a fixed-fee basis, time-and-materials basis or both. For time-and-materials contracts, we recognize revenue as services are performed. For fixed-fee contracts, we recognize revenue upon completion of specific contractual milestones, by using the percentage-of-completion method, or the completed contract method.

#### *Software Design and Development Services*

Revenue from contracts for technology integration consulting services where we design/redesign, build and implement new or enhanced systems applications and related processes for clients are recognized on the percentage-of-completion method in accordance with ASC 605-985-25-88 through 107. Percentage-of-completion accounting involves calculating the percentage of services provided during the reporting period compared to the total estimated services to be provided over the duration of the contract. Estimated revenues from applying the percentage-of-completion method include estimated incentives for which achievement of defined goals is deemed probable. Contract costs include all direct material, labor, subcontractors, certain indirect costs, such as indirect labor, equipment costs, supplies, tools and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. This method is followed where reasonably dependable estimates of revenues and costs can be made. We measure progress for completion based on either the hours worked as a percentage of the total number of hours of the project or by delivery and customer acceptance of specific milestones as outlined per the terms of the agreement with the customer. Estimates of total contract revenue and costs are continuously monitored during the term of the contract, and recorded revenue and costs are subject to revision as the contract progresses. Such revisions may result in increases or decreases to revenue and income and are reflected in the financial statements in the periods in which they are first identified. If estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which the estimated direct and indirect costs of the contract exceed the estimated total revenue that will be generated by the contract and are included in cost of sales and classified in accrued expenses in the balance sheet. Our presentation of revenue recognized on a contract completion basis has been consistently applied for all periods presented.

### *Software and Software License Sales*

We recognize revenue when a fixed fee order has been received and delivery has occurred to the customer. We assess whether the fee is fixed or determinable and free of contingencies based upon signed agreements received from the customer confirming terms of the transaction. Software is delivered to customers electronically or on a CD-ROM, and license files are delivered electronically.

### *Implementation Services*

We recognize implementation services revenue when an installation or deployment is completed.

### *Maintenance and Support Services*

Maintenance and support consists of software updates and various forms of support services. Software updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period. Support includes access to technical support personnel for software and hardware issues. We also offer a hosting service through our network operations center, or NOC, allowing the ability to monitor and support customers' networks 7 days a week, 24 hours a day.

Maintenance and support revenue is recognized ratably over the term of the contract, which is typically one to three years. Maintenance and support is 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. Support agreement fees are based on the level of service provided to 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.

Costs and estimated earnings recognized in excess of billings on uncompleted contracts are recorded as unbilled services and are included in work-in-process on the balance sheet. Billings in excess of costs and estimated earnings on uncompleted contracts are recorded as deferred revenue until revenue recognition criteria are met. Unbilled receivables are a normal part of our business as some receivables are invoiced in the month following shipment or completion of services. Our policy is to present any taxes imposed on revenue-producing transactions on a net basis.

### *4. Cash and Cash Equivalents*

Cash equivalents consist of commercial paper and all other liquid investments with original maturities of three months or less when purchased. As of June 30, 2015 and December 31, 2014, we had substantially all cash invested in a commercial bank account in New Jersey. The balances are insured by the Federal Deposit and Insurance Corporation up to \$250.

### *5. Accounts Receivable and Allowance for Doubtful Accounts*

Our unsecured accounts receivable are customer obligations due under normal trade terms, carried at their face value less an allowance for doubtful accounts. We determine our allowance for doubtful accounts based on the evaluation of the aging of the accounts receivable and on a customer-by-customer analysis of the high-risk customers. Our reserves contemplate our historical loss rate on receivables, specific customer situations and the economic environments in which we operate. We determine past-due accounts receivable on a customer-by-customer basis. Accounts receivable are written off after all reasonable collection efforts have failed. Our allowance for doubtful accounts was \$498 and \$490 as of June 30, 2015 and December 31, 2014, respectively.

### *6. Work-In-Process and Inventories*

Our work-in-process and inventories are recorded using the lower of cost or market on a first-in, first-out (FIFO) method. Inventory is net of an allowance for obsolescence of \$39 and \$22 as of June 30, 2015 and December 31, 2014, respectively.

## 7. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

ASC 820-10, *Fair Value Measurements and Disclosures*, requires disclosure of the estimated fair value of an entity's financial instruments. Such disclosures, which pertain to our financial instruments, do not purport to represent our aggregate net fair value. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of those instruments. The fair value of the loan payable approximates carrying value based on the interest rates in the agreement compared to current market interest rates. The fair value of the warrant liabilities is calculated using a Black-Scholes model which approximates a binomial model. See Note 3 for further information about the warrant liability valuation. See Notes 3 and 10 for further discussion on the valuation of warrant liabilities.

## 8. 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 360-10-05-4, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under ASC 360-10-05-4, 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 by the amount 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. There were no impairment losses for long-lived assets recorded for the three and six months ended June 30, 2015 and 2014.

## 9. Property and Equipment

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

## *10. Research and Development and Software Development Costs*

Research and development costs consist primarily of development personnel and non-employee contractor costs related to the development of new products and services, enhancement of existing products and services, quality assurance and testing. ASC 985-20-25, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, requires certain software development costs to be capitalized upon the establishment of technological feasibility. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors such as anticipated future revenue, estimated economic life, and changes in software and hardware technologies. Effective April 2015, the Company began capitalizing its costs for enhancing the functionality of its internal-use software and the software it currently sells and/or leases to its customers. During the three and six months ended June 30, 2015, we capitalized approximately \$157 and \$222, respectively. For development of software, developed for both enhancement and upgrade of our client based systems and to enhance and upgrade the functionality of our internal information systems to aid in our productivity, profitability and customer relationship management. We will be amortizing these costs over 5 years once the new projects are finished and placed in service. These costs are included in property and equipment, net on the consolidated balance sheet. We had not previously capitalized any software development costs.

## *11. Basic and Diluted Loss per Common Share*

Basic and diluted loss per common share for the prior period presented is computed using the weighted average number of common shares outstanding by adding Creative Realities, LLC (“LLC”) weighted average number of basic shares outstanding for the period, determined by applying the conversion ratio from the merger to the outstanding shares of LLC, plus the number of LLC shares deemed issued to Creative Realities, Inc. (“CRI”) shareholders as a result of the merger. Basic weighted average shares outstanding include only outstanding common shares. Diluted net loss per common share is computed by dividing net loss by the weighted average common and potential dilutive common shares outstanding computed in accordance with the treasury stock method. Shares reserved for outstanding stock options and warrants totaling approximately 20.0 million as of June 30, 2015 were excluded from the computation of loss per share as well as the potential common shares issuable upon conversion of convertible preferred stock as their effect was antidilutive due to our net loss. Net loss attributable to common shareholders for the three and six months ended June 30, 2015 is after dividends on convertible preferred stock of \$82 and \$160.

## *12. Income Taxes*

The calculation of our income tax provision involves dealing with uncertainties in the application of complex tax regulations. We recognize tax liabilities for uncertain income tax positions based on management’s estimate of whether it is more likely than not that additional taxes will be required. We had no uncertain tax positions as of June 30, 2015 and December 31, 2014. Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from net operating losses, differences in basis of intangibles (other than goodwill), 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.

Our federal and state tax returns are potentially open to examinations for all years since 2011. As of June 30, 2015, we are not under any income tax audits by tax authorities. With few exceptions, we are no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2011 and are not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense on our consolidated statements of operations.

Until the merger date, Creative Realities, LLC was taxed as a limited liability company and, as such, any profit or loss from our operations flowed directly to the member who was then responsible to pay any federal or state income tax. We were only responsible for paying any minimum business and filing income tax costs. The Company has not included any pro forma income tax information as if the Company were a tax paying entity for the three and six months ended June 30, 2015 and 2014, as any pro forma tax benefit on the losses before income taxes would be offset by a valuation allowance for the related deferred tax asset as it would be more likely than not that the future tax benefits will not be realized.

## *13. Accounting for Stock-Based Compensation*

The Company accounts for stock-based compensation in accordance with ASC 718-10 that requires the 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 value. For purposes of determining estimated fair value under ASC 718-10-30, the Company computes the estimated fair values of stock options using the Black-Scholes option pricing model. Stock-based compensation expense of \$32 and \$0 for the three months ended June 30, 2015 and 2014 and \$135 and \$0 for the six months ended June 30, 2015 and 2014, respectively.

#### *14. Goodwill and Indefinite-Lived Intangible Assets*

We follow the provisions of ASC 350, *Goodwill and Other Intangible Assets*. Pursuant to ASC 350, goodwill acquired in a purchase business combination and is not amortized, but instead tested for impairment at least annually using a measurement date of September 30. No impairment expense was recorded during the three and six months ended June 30, 2015 and 2014.

#### *15. Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 are the allowance for doubtful accounts, recognition of revenue under fixed price contracts, deferred tax assets, deferred revenue, depreciable lives and methods of property and equipment, valuation of warrants and other stock-based compensation. Actual results could differ from those estimates.

#### *16. Change in Authorized Shares*

On October 15, 2014, the Company filed amendment to the articles of incorporation to change the authorized common shares from 50,000,000 to 200,000,000 and preferred shares from 16,666,666 to 50,000,000 which was approved by the shareholders. Form 8-K filed with the Securities and Exchange Commission on October 16, 2014 reflects this change.

#### *17. Recently Issued Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of Equity", which amends the definition of a discontinued operation in Accounting Standards Codification, or ASC, 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The new guidance changes the definition of discontinued operations and requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014; earlier adoption is permitted. The adoption of this guidance affects prospective presentation of disposals and therefore, is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In May 2014, the FASB issued guidance creating Accounting Standards Codification ("ASC") Section 606, "Revenue from Contracts with Customers". The new section will replace Section 605, "Revenue Recognition" and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with concurrently issued International Financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as, to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for annual reporting periods beginning on or after December 15, 2017, and interim periods within those annual periods. The Company will adopt the new provisions of this accounting standard at the beginning of fiscal year 2018, given that early adoption is not an option. The Company will further study the implications of this statement in order to evaluate the expected impact on its consolidated financial statements.

In November 2014, the FASB issued ASU 2014-15, Derivatives and Hedging, which amends certain paragraphs in the ASC 815-15-25. The new guidance clarifies how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The ASU is effective for fiscal years and interim periods within those years, beginning after December 15, 2015, with earlier adoption permitted. The Company is currently evaluating the implications of this ASU on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within that fiscal year. Since the Company did not previously have any debt issuance costs, there was not a need for retrospective application. The guidance was adopted last quarter.

In July 2015, FASB issued ASU 2015-11, *Inventory (Topic 330) Related to Simplifying the Measurement of Inventory* applies to all inventory except that which is measured using last-in, first-out (LIFO) or the retail inventory method. Inventory measured using first-in, first-out (FIFO) or average cost is included in the new amendments. Inventory within the scope of the new guidance should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendments will take effect for public business entities for fiscal years beginning after Dec. 15, 2016, including interim periods within those fiscal years. The new guidance should be applied prospectively, and earlier application is permitted as of the beginning of an interim or annual reporting period. We are evaluating the impact of the standard on the consolidated financial statements.

#### 18. Reclassifications

Certain reclassifications were made to the 2014 consolidated financial statements to conform to the 2015 presentation with no effect on net loss or stockholders' equity.

#### NOTE 2: CREATIVE REALITIES, LLC MERGER

On August 20, 2014, we completed the merger contemplated by the Creative Realities Merger Agreement, thereby acquiring the business of Creative Realities, LLC. At the effective time of the merger and pursuant to the Creative Realities Merger Agreement, Slipstream Funding, LLC, then the sole member of Creative Realities, LLC received shares of our common stock equivalent to approximately 59.2% of the common stock issued and outstanding immediately after the merger, together with a warrant to purchase an additional number of common shares equal to 1.5% of our common stock outstanding immediately after the merger. As a result of this merger transaction and a contemporaneous investment in our Series A Convertible Preferred Stock by an affiliate of Slipstream Funding, Slipstream Funding and its affiliates beneficially own 32,249,919 shares of common stock and warrants to purchase common stock, representing beneficial ownership (as calculated under applicable SEC rules) of approximately 45.8% of our common stock issued and outstanding immediately after the merger.

Creative Realities, LLC was the "accounting acquirer" in the merger transaction while the registrant was the "legal acquirer," and therefore the merger was accounted for as a reverse acquisition. In accordance with reverse acquisition accounting, the historical financial statements of the registrant will be those of Creative Realities LLC with the financial results of Wireless Ronin Technologies included only beginning with the merger date. We allocated the purchase price consideration to the identifiable tangible and intangible assets acquired and liabilities assumed from Wireless Ronin Technologies, with the excess purchase price recorded as goodwill. Effective September 15, 2014, Wireless Ronin Technologies, Inc. (the registrant) changed its name to Creative Realities, Inc.

Under reverse acquisition accounting, as the accounting acquirer, LLC is deemed (for accounting purposes only) to have issued to the registrant's shareholders approximately 17.1 million shares with an aggregate value at the merger date of \$10.8 million based on the August 20, 2014 market price of its common shares of \$0.63. Creative Realities is also deemed to have issued replacement options to the registrant's option holders and replacement warrants to the registrant's warrant holders. The estimated fair value of the registrant's warrants and the value of the vested stock options of the registrant, all of which were deemed to have vested in connection with a change of control as of the effective date of the transaction on August 20, 2014, aggregating \$1.4 million, were included as purchase price consideration, plus the assumption of liabilities in excess of assets acquired making the total purchase consideration \$13.7 million.

The following is a summary of the merger consideration transferred to effect the merger:

(in thousands)

Deemed (for accounting purposes only) issuance of shares to CRI shareholders	\$ 10,775
Deemed (for accounting purposes only) issuance of warrants to CRI shareholders	754
Deemed (for accounting purposes only) issuance of stock options to CRI shareholders	602
Assumption of liabilities in excess of assets acquired	1,588
Total consideration	<u>\$ 13,719</u>

The deemed issuance of warrants and stock options represent the fair value of those warrants and stock options based on the Black-Scholes valuation model, using the CRI share price on the merger date as an input.

The following assumptions were applied in determining the fair value of deemed (for accounting purposes only) conversion of CRI warrants and stock options awards:

Risk-free interest rate	0.49%-2.09%
Expected term	1.3-7.0 years
Expected price volatility	98%-143%
Dividend yield	-

Our computation of expected volatility is based on historical volatility. The expected option term was calculated using the simplified method, an average of the contractual term and vesting period. The risk free interest rate of the award is based on the U.S. Treasury yield curve in effect at the time of the merger and having a term consistent with the expected term of the award.

Under the acquisition method of accounting, the total purchase price is allocated to the identifiable tangible and intangible assets of Wireless Ronin Technologies, Inc. deemed to have been acquired in the merger, based on their fair values at the merger date. The estimated fair values are based on the information that was available as of the merger date. We believe that the information provides a reasonable basis for estimating the fair values. The allocation of the purchase price to assets acquired and liabilities assumed is as follows (in thousands):

(in thousands)

Current assets	\$ 1,901
Property and equipment	167
Goodwill	9,094
Other intangible assets	5,280
Other assets	77
Total assets	<u>16,519</u>
Current liabilities	<u>2,800</u>
Total liabilities	<u>2,800</u>
Estimated purchase price	<u><u>\$ 13,719</u></u>

The estimated fair value of amortizable intangible assets of \$5.2 million is amortized on a straight-line basis over the weighted average estimated useful life of 3.9 years. The purchase price allocation to identifiable intangible assets and related useful lives are as follows:

<i>(in thousands)</i>	<b>Amounts</b>	<b>Useful lives (years)</b>
Technology platform – Broadcast	\$ 260	5
Technology platform – Wireless Ronin	3,930	4
Customer relationships	<u>1,090</u>	3
Total	<u><u>\$ 5,280</u></u>	

The fair values of the technology platforms and the customer relationships were estimated using a discounted present value income approach. Under this approach, an intangible asset's fair value is equal to the present value of future economic benefits to be derived from ownership of the asset. Indications of value are developed by discounting future net cash flows to their present value at market-based rates of return. The useful life of the intangible assets for amortization purposes was determined considering the period of expected cash flows used to measure the fair value of the intangible assets adjusted as appropriate for the entity-specific factors including legal, regulatory, contractual, competitive, economic or other factors that may limit the useful life of intangible assets.



In addition, deferred revenue was reduced by approximately \$0.3 million to the fair value of the cost of fulfillment plus a normal profit on that effort. For the three and six months ended June 30, 2015, we amortized \$85 and \$170 which is included as a reduction to revenues. We also established an accrual for rent of \$0.2 million, related to the above market lease rate on the Minnetonka facility. This accrual is being amortized over the remaining lease term through December 31, 2018.

The goodwill recognized as a result of the merger is attributable primarily to the strategic and synergistic opportunities across the marketing technology spectrum, expected corporate synergies and the assembled workforce. The goodwill recognized is expected to be deductible for income tax purposes.

We incurred approximately \$0.2 million of CRI's acquisition-related costs which were expensed during the year ended December 31, 2014. These costs are included in selling, general and administrative costs in our consolidated statements of operations.

The actual parent net sales and net loss (i.e., net sales relating to the business conducted by the registrant, as Wireless Ronin Technologies, Inc. prior to the August 20, 2014 merger with Creative Realities) included in the below unaudited pro forma consolidated statements of operations are not indicative of the results to be expected for a full year) and the supplemental unaudited pro forma net sales and net loss of the combined entity had the acquisition been completed on January 1, 2014 is as follows (excludes any impact of the Broadcast International, Inc. acquisition by Wireless Ronin Technologies, Inc. on August 1, 2014) (in thousands):

(unaudited)	Six months ended June 30, 2014	Three months ended June 30, 2014
<b>Supplemental pro forma combined results of operations:</b>		
Net sales	\$ 7,707	4,172
Net loss	(4,316)	(2,066)

These unaudited pro forma combined financial results have been prepared for illustrative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the first day of the earliest period presented, or of future results of the combined entities. The unaudited pro forma combined financial information does not reflect any operating efficiencies and cost savings that may be realized from the integration of the acquisition.

Broadcast International, Inc. (Broadcast) is a provider of managed video solutions, including digital signage, OTT (Over the Top) networks, IPTV, and live/on-demand content distribution for the enterprise. On August 1, 2014 (the Broadcast Merger Date), Wireless Ronin Technologies ("WRT") acquired 100% of the outstanding shares of Broadcast by issuing 7.1 million shares of WRT common stock with an aggregate value at the Broadcast merger date of \$3.6 million based on the price of WRT shares on the merger date. The former Broadcast shareholders owned approximately 36.5% of the WRT common stock outstanding immediately after the Broadcast merger, calculated on a modified fully diluted basis. As the acquirer, WRT allocated the purchase price consideration to the tangible and intangible assets acquired and liabilities assumed from Broadcast, with excess purchase price recorded as goodwill. Those allocations to Broadcast assets and liabilities were superseded by the purchase price allocation from the August 20, 2014 merger transaction with Creative Realities LLC that occurred after the Broadcast merger.

### 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 following table presents information about the Company's warrant liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques the Company used to determine such fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability:

Description	Fair Value	Quoted Prices In Active Markets (Level 1)	Significant Other Unobservable inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Warrant Liabilities	<u>1,340</u>			<u>\$ 1,340</u>

The change in level 3 fair value is as follows:

Recorded warrant liability as of December 31, 2014	\$ 1,910
Warrants issued with convertible preferred stock (Note 10)	75
Warrants issued with convertible promissory note (Note 5)	167
Decrease in fair value of warrant liability	(812)
Ending warrant liability as of June 30, 2015	<u>\$ 1,340</u>

The range of inputs used for the Black-Scholes valuation of the warrant liabilities as of June 30, 2015 and December 31, 2014 were as follows: Expected term of 3.39 years to 4.64 years; Risk Free Rate of 1.17% to 1.55%; Stock Price of \$0.40 and \$0.25; and Volatility of 107.30% to 98.00%. See also Note 5: Loan Payable for the Black-Scholes inputs used to value the warrant liabilities associated with the debt issued in June 2015.

#### NOTE 4: OTHER FINANCIAL STATEMENT INFORMATION

The following table provides details of selected financial statement items:

##### *Inventories*

	June 30, 2015	December 31, 2014
Finished goods	\$ 30	\$ 531
Work-in-process	566	208
Total inventories, net	<u>\$ 596</u>	<u>\$ 739</u>

## **NOTE 5: LOANS PAYABLE**

### ***Mill City Note Payable***

On February 18, 2015, the Company entered into a Securities Purchase Agreement with Mill City Ventures III, Ltd. (“Mill City”), pursuant to which it offered and sold a secured convertible promissory note in the principal amount of \$1.0 million and a five-year warrant, immediately exercisable to purchase up to 1,515,152 shares of the Company’s common stock at a per-share price of \$0.38, in a private placement exempt from registration under the Securities Act of 1933.

Creative Realities, LLC, Wireless Ronin Technologies Canada, Inc., and Broadcast International, Inc., the Company’s principal subsidiaries, are co-makers with the Company of the secured convertible promissory note. Obligations under the secured convertible promissory note are secured by a grant of collateral security in the accounts receivable and related proceeds of all co-makers pursuant to the terms of a security agreement.

The secured convertible promissory note bears interest at the annual rate of 12%, and matures on August 18, 2016. At any time prior to the maturity date, Mill City may convert the outstanding principal and accrued and unpaid interest at a conversion rate of \$0.33 per share, as adjusted for stock splits and similar adjustments. Upon the consummation of a change in control transaction of the Company or of an offering of securities of the Company in which the gross proceeds to be received by the Company equal, when aggregated with all prior financings involving the sale of securities of the Company from and after February 18, 2015 (but exclusive of the amounts borrowed under the Mill City secured convertible promissory note), at least \$3.5 million, Mill City may elect to convert the secured convertible promissory note into shares of common stock of the Company or elect repayment. The Company may prepay the secured convertible promissory note at any time, provided any principal amount prepaid must be accompanied by the payment of minimum amount of interest that, when aggregated with earlier payments of interest, equals at least 365 days of interest thereon. The secured convertible promissory note contains other customary terms. The Company is also required to maintain the covenant of cash and accounts receivable must be at least two times the principal balance of the loan outstanding. The Company has maintained their compliance with this covenant.

The fair value of the warrants granted was calculated at \$0.25 using the Black-Scholes model. The following inputs were used in the Black-Scholes Valuation: Expected term: 4 years, Exercise Price: \$0.36, Stock Price: \$0.38, Risk-Free Rate: 1.26%, Volatility: 100%. The Company reduced the carrying value of the notes and is amortizing the relative fair value of the warrants granted in connection with the notes payable over the original term of the notes as additional interest expense. The unamortized balance of the fair value allocated to the warrants totaled \$272 at issuance. In addition, the Company determined that there was a beneficial conversion feature of \$363 at the date of issuance which was recorded as debt discount and is also amortized into interest expense over the original term of the notes. In addition the Company recorded \$34 of debt issuance costs as a reduction to the carrying amount of the note which is being amortized over the term of the note. The unamortized balance of the beneficial conversion feature and warrants was \$508, including debt issue costs as of June 30, 2015. For the three and six months ended June 30, 2015, the Company recorded interest expense of \$111 and \$162 related to the amortization of the warrants, beneficial conversion feature and debt issue costs. The effective interest rate of the convertible notes payable was computed at 54.63% subsequent to the allocation of proceeds to the warrants and beneficial conversion feature.

### ***May 20, 2015 Promissory Note***

On May 20, 2015, we entered into a subordinated secured promissory note in the principal amount of \$465 and a five-year immediately exercisable warrant to purchase 762,295 shares of common shares at a price of \$0.31 per share, in a private placement exempt from registration under the Securities Act of 1933. The subordinated secured promissory note had an annual interest rate of 12%, 6% in cash and 6% added to the principal, and matured on May 20, 2016, see Note 11: Convertible Preferred Stock and Warrants, above for a discussion of the Series 6% Convertible Preferred Stock. The Company recognized the fair value of the warrant liability of \$167, a beneficial conversion feature of \$39, and the debt discount on the debt of \$205. The debt discount will be amortized over the life of the debt as interest expense. The warrant liability will be marked to market quarterly with the change recognized in income. On June 23, 2015, the subordinated secured promissory note together with accrued but unpaid interest and a 25% conversion premium was converted into a \$585 - 14% convertible promissory note, with new five-year warrants to purchase up to 935,210 shares of common stock at a price of \$0.30 per share, in a private placement exempt from registration under the Securities Act of 1933. The conversion of the \$465 Convertible Promissory Note to the \$585 Convertible Promissory Note was accounted for as a debt modification as prescribed by ASC 470-50-40, Debt Modifications and Extinguishments. The difference in net cash flows of the original and new debt instruments were less than 10% thus it was determined that they are not substantially different. The new effective interest rate for the convertible notes was computed to be 59.36% subsequent to the allocation of the proceeds to the warrants and the beneficial conversion feature.

The fair value of the 935,210 warrants granted was calculated at \$0.15 using the Black-Scholes model. The following inputs were used in the Black-Scholes Valuation: Expected term: 4 years, Exercise Price: \$0.30, Stock Price: \$0.22, Risk-Free Rate: 1.39%, Volatility: 108.87%. The Company reduced the carrying value of the notes and is amortizing the relative fair value of the warrants granted in connection with the notes payable over the original term of the notes as additional interest expense. The unamortized balance of the fair value allocated to the 935,210 warrants totaled \$114 at issuance. For the three and six months ended June 30, 2015, the Company recorded interest expense of \$22 related to the amortization of the warrants, the beneficial conversion feature, and the conversion premium.

### ***June 23, 2015 Promissory Note***

On June 23, 2015, we entered into a 14% secured convertible promissory note in the principal amount of \$400 and a five-year immediately exercisable warrant to purchase 640,000 shares of common shares at a price of \$0.30 per share, in a private placement exempt from registration under the Securities Act of 1933. This note is secured by Slipstream's investment in one of its subsidiaries. The promissory note bears interest at the annual rate of 14% and is payable monthly in arrears with 12% in cash and 2% as additional principal and matures on September 23, 2016. This note is convertible into common stock at a conversion price of \$0.28 per share, provided conversion of the note does not provide the holder with in excess of 9.99% of the then-issued and outstanding common stock. The unpaid principal and any accrued interest may at any time be converted at the option of the outside party into shares of the Company's common stock.

The fair value of the warrants granted was calculated at \$0.15 using the Black-Scholes model. The following inputs were used in the Black-Scholes Valuation: Expected term: 4 years, Exercise Price: \$0.30, Stock Price: \$0.22, Risk-Free Rate: 1.39%, Volatility: 108.87%. The fair value of the warrant on issuance date was \$77. The Company reduced the carrying value of the notes by the relative fair value of the warrant and is amortizing it in connection with the notes payable over the original term of the notes as additional interest expense. The effective interest rate of the convertible notes payable was computed at 30.85% subsequent to the allocation of proceeds to the warrants. The unamortized balance of the warrants was \$77 as of June 30, 2015. For the three and six months ended June 30, 2015, the Company recorded interest expense of \$1 related to the amortization of the warrants.

## **NOTE 6: COMMITMENTS AND CONTINGENCIES**

### *Litigation*

In August 2014, we initiated a breach-of-contract lawsuit against a customer and certain parties related to that customer for failure to pay. The defendants have answered and asserted counterclaims. In the event we are unable to reach a negotiated settlement with the defendants, we intend to vigorously litigate our claims and contest the defendants' counterclaims. At this time, we do not believe the litigation matter is likely to have a material and adverse impact on the Company.

## **NOTE 7: RESTRUCTURING**

During the three months ended September 30, 2014, we took restructuring actions to lower our cost structure by reducing our headcount. We incurred restructuring expenses for termination costs, \$582 of which were including in selling, general and administrative expenses on the statement of operations. As of June 30, 2015, \$218 of the accrued expense has been paid.

On April 13, 2015, we entered into a separation agreement and release with our former Chief Executive Officer, Paul Price. The agreement includes severance payments of \$464 (including cost of maintaining benefits) which has been accrued as of June 30, 2015. In addition, the agreement provided for accelerated option vesting on 938,537 of the outstanding options. See Note 11 for details.

## **NOTE 8: RELATED PARTY TRANSACTIONS**

In February 2015, we entered into three Convertible Preferred Stock Purchase Agreements to sell 265,000 shares of convertible preferred stock for \$1.00 per share convertible into the Company's common stock along with 331,250 detachable warrants to purchase the Company's common stock at an initial exercise price of \$0.50 with down-round provisions to a majority shareholder, former Chief Executive Officer and Director and a former director of the Company. See Note 10 for details of the transaction. In May 2015, we entered into a subordinated secured promissory note in the amount of \$465 and a five-year immediately exercisable warrant to purchase 762,295 shares of common stock at a price of \$0.31 per share which was subsequently reduced to \$0.30. In June 2015, the subordinated secured promissory note together with accrued but unpaid interest and a 25% conversion premium was converted into a \$585, 14% convertible promissory note with new 5 year warrants to purchase up to 935,210 shares of common stock at a price of \$0.30 per share. See Note 5 for details of the transaction.

In March 2015, we entered into an agreement to design develop, deploy, deliver, install and service an entity controlled by our majority shareholders. As of June 30, 2015 and December 31, 2014, there was \$77 and \$0, respectively, included in deferred revenues. As of June 30, 2015 and December 31, 2014, there was \$23 and \$0, respectively, included in unbilled revenues. For the three and six months ending June 30, 2015, the Company recorded revenues of \$139 under the contract.

## **NOTE 9: INCOME TAXES**

Our deferred tax assets are primarily related to net operating loss carryforwards (NOLs). We have substantial NOLs that are limited by IRS Section 382 due to change in control. IRS 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. We have performed a preliminary analysis of the annual NOL carryforwards that are available to be used against taxable income.

## **NOTE 10: CONVERTIBLE PREFERRED STOCK AND WARRANTS**

In February 2015, we issued 265,000 shares Series A Convertible Preferred Stock at \$1.00 per share with detachable five-year warrants to purchase 331,250 common shares at a price of \$0.50, subject to adjustment, for \$0.3 million. As stated in Note 8, these shares were issued to three purchasers, one of whom was a director of the Company, one of whom was then our Chief Executive Officer and a director of the Company, and one of which was Slipstream Communications, LLC. Gross and net proceeds were \$265; the transactions costs were negligible and the Company expensed them immediately.

The preferred stock entitles its holders to a 6% cumulative dividend, payable semi-annually in cash or in kind, and may be converted to our common stock at the option of a holder at an initial conversion price of \$0.33 per share, subject to adjustment. Subject to certain conditions, we may call and redeem the preferred stock after three years. During such time as a majority of the preferred stock sold remains outstanding, holders will have the right to elect a member to our Board of Directors. The holders of the preferred stock will be entitled to vote their shares on an as-converted basis and they will be entitled to a liquidation preference equal to the stated value (i.e., purchase price) of their shares plus any accrued but unpaid dividends thereon.

Subject to certain customary exceptions, the preferred stock has full-ratchet conversion price protection in the event that we issue common stock or common stock equivalents below the conversion price, as adjusted. The warrants issued to purchasers of the preferred stock contain similar full-ratchet exercise price protection in the event that we issue common stock or common stock equivalents below the exercise price, as adjusted, again subject to certain customary exceptions. Additionally, the warrants contain a provision that the exercise price will be reduced by \$0.025 per share for each calendar month after May 2015 in which the Company does not have an effective resale registration statement. As of the date of this report, there is not an effective registration statement. In the Securities Purchase Agreement, we granted purchaser of the preferred stock certain registration rights pertaining to the shares of our common stock they may receive upon conversion of their preferred stock and upon exercise of their warrants.

We have determined that the convertible preferred stock issued in February 2015 contained a beneficial conversion feature based on the conversion price per share of \$0.29 per share compared to the price on the date of issuance of \$0.34. The \$0.03 million value of the beneficial conversion feature was recognized as a discount against the carrying value of the preferred stock and a credit to additional paid in capital. Since the preferred stock was convertible at issuance the discount was immediately amortized and preferred stock is credited to recognize the total amount as proceeds from their issuance.

The preferred stock is classified as temporary equity of \$1.7 million and \$1.5 million as of June 30, 2015 and December 31, 2014, net of the value of the warrants. The convertible preferred stock is redeemable at the option of the holder upon a change in control, as defined. Accordingly, there is no adjustment to the potential redemption price of the discount until it would be probable that a change in control would occur.

We determined that the 331,250 warrants issued in connection with the financing are classified as liabilities based on down-round protection and cash settlement features. The warrants were valued using a Black Scholes Option pricing model (which approximates the binomial model due to probability factors used to determine the fair value), adjusted for estimated value of the exercise price protection. The value of the warrants on issuance was \$75. See note 3 for additional fair value disclosures.

#### **NOTE 11: STOCKHOLDERS' EQUITY**

Under reverse acquisition accounting, the amount of common stock reflects the equity structure of the legal acquirer (the par value and the number of shares outstanding of WRT). Under purchase accounting, stockholders' equity reflects the recognition of approximately 46.2 million shares of our common stock issued and outstanding upon completion of the merger. Amounts in additional paid-in capital represent that of Creative Realities, adjusted to reflect the additional fair value of our shares issued, less the par value of our shares outstanding after the combination, and includes \$1.4 million to reflect the portion of the purchase price related to the total estimated fair value of WRT warrants and the vested stock options outstanding on the merger date. Accumulated deficit represents that of Creative Realities prior to the merger date.

Under reverse acquisition accounting, as the accounting acquirer, Creative Realities is deemed (for accounting purposes only) to have issued replacement options to the registrant's option holders, replacement warrants to the registrant's warrant holders, in addition to the other issuances of warrants described in this report and summarized in the table below. All of registrant's stock options were deemed to have vested in connection with a change of control (contemplated as part of the original award) as of the effective date of the transaction on August 20, 2014, and were included as purchase price consideration.

A summary of outstanding options is included below:

<b>Range of Exercise Prices between</b>	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Options Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$0.32 - \$0.65	3,443,680	9.37	\$ 0.41	1,288,537	\$ 0.49
\$0.66 - \$0.79	390,000	8.54	0.79	390,000	\$ 0.79
\$0.80 - \$12.25	370,897	6.19	5.51	370,897	\$ 5.51
	<u>4,204,577</u>	<u>9.01</u>	<u>\$ 0.90</u>		
Balance, December 31, 2014					5,613,977
Granted					1,449,432
Forfeited or expired					(2,858,832)
Balance, June 30, 2015					<u>4,204,577</u>

The weighted average remaining contractual life for options exercisable is 8.53 years as of June 30, 2015.

In January 2015, the Company granted 10 year options to purchase 1,449,432 shares of its common stock to the Chief Financial Officer. The options vest over 4 years and have an exercise price of \$0.32. The fair value of the options on the grant date was \$0.25 and was determined using the Black-Sholes model. The following inputs were used:

Risk-free interest rate	1.69%
Expected term	6.25 years
Expected price volatility	95.13%
Dividend yield	-

In May 2015, we entered into a Separation Agreement with Paul Price, our former Chief Executive Officer and Director. Part of the agreement called for accelerated vesting of one fourth of his original option grant of 3,753,427 shares. As a result, he became fully vested in 938,357 shares of the original option grant. The Company accounted for the modification as a type III option modification in which the new fair value of the grant was determined to be \$0.13 resulting in a new fair value of \$122. We used the following Black-Scholes inputs to determine the new fair value: exercise price: \$0.45; stock price: \$0.21; expected term: 4.75 years; risk-free rate: 1.38%; volatility: 99.0%; and dividend yield: 0%. For the three and six months ended June 30, 2015, the previously recorded compensation expense of \$126 was reversed for the unvested options and the \$122 was recorded as stock based compensation for the modification.

#### **NOTE 12: PROFIT-SHARING PLAN**

We have a defined contribution 401(k) retirement plans for eligible associates. Associates may contribute up to 15% of their pretax compensation to the plan. There is currently no plan for an employer contribution match or company discretionary contributions.



## **NOTE 13: SEGMENT INFORMATION AND SIGNIFICANT CUSTOMERS**

### *Segment Information*

We currently operate in one business segment, marketing technology solutions. Substantially all property and equipment is located at our offices in the United States, and a data center located in the United States. All sales for the three and six months ended June 30, 2015 and 2014, were in the United States and Canada.

### *Major Customers*

We had two customers that accounted for 37% and 41% of accounts receivable as of June 30, 2015 and December 31, 2014, respectively.

The Company had two customers that accounted for 55% for the three months ended June 30, 2015, and had three and two customers that accounted for 59% and 57% of revenue for the six months ended June 30, 2015 and 2014, respectively. As a result of the merger and system integration, sales concentration for the three months ended June 30, 2014 was unavailable.

## **NOTE 14: LIQUIDITY**

For the six months ended June 30, 2015 and the year ended December 31, 2014, we had a net loss of \$(4,221) and \$(3,799), and a negative cash flow from operations of \$(1,938) and \$(3,719), respectively. Historically, we have had continuing operating losses, negative cash flows from operations and working capital deficiencies.

As discussed in Note 2, we merged with Creative Realities, Inc. (then known as Wireless Ronin Technologies, Inc., or "WRT") on August 20, 2014. Prior to the merger, WRT experienced continuing operating losses and WRT's independent registered public accounting firm expressed substantial doubt about WRT's ability to continue as a going concern.

As addressed in Note 5: Loans Payable, the Company entered into a Convertible Secured Promissory Note for \$1.0 million in February 2015, a \$465 Convertible Secured Promissory Note in May 2015, which was subsequently converted into a \$585 Convertible Secured Promissory Note, and a \$400 Convertible Secured Promissory Note in June 2015. Additionally as addressed in Note 10: Convertible Preferred Stock and Warrants, the Company issued additional convertible preferred stock and warrants for \$265. Aggregate proceeds from all of these offerings totaled \$2,130. The transaction costs were negligible and the Company expensed them immediately. As of the date of this report, management believes that its existing working capital resources, together with projected cash flow, are sufficient to fund its operations through at least December 2015. The Company will still need to generate sufficient revenue, obtain financing, or adjust operating expenses so as to maintain positive working capital. Additional funding may not be available to the Company on acceptable terms, or at all. Any additional equity financing, if available to the Company, may not be available on favorable terms and debt financing, if available, may involve restrictive covenants.

## **NOTE 15: SUBSEQUENT EVENTS**

On August 11, 2015, we entered into an Agreement and Plan of Merger with ConeXus World Global, LLC ("ConeXus"), a global provider of digital marketing solutions, for ConeXus to become a wholly-owned subsidiary of the Company for stock consideration equal to approximately 23.6% of the Company on a fully-diluted, as-converted basis, through the issuance of a combination of an aggregate of 20,000,000 shares of the Company's common stock and 2,250,000 shares of preferred stock. As a separate but related condition of the Agreement, a third party investor has agreed to purchase \$750 of the Company's existing senior convertible notes upon execution of the agreement, and an additional \$750 upon the closing of the transaction. The Agreement and Plan of Merger contains customary representations, warranties, and indemnities. Consummation of the proposed merger is subject to a number of closing conditions, including the delivery of audited financial statements from ConeXus satisfactory to the Company. Subject to the satisfaction or waiver of such closing conditions, the merger is expected to be consummated in the latter part of September 2015. There can be no assurance that the conditions to the merger will be satisfied or waived, or that the merger will be completed.

In addition to the Agreement and Plan of Merger, the Company also entered into an employment agreement with Richard Mills, President and Chief Executive Officer of ConeXus, to assume the role of CEO of the combined company. The agreement is effective for a two-year term, provides for an initial annual base salary of \$270,000, and includes provisions for the right to receive up to 4,951,557 performance shares in connection with a series of requirements related to a potential large scale client contract deployment. Mr. Mill's employment agreement also contains other provisions, terms, conditions and covenants customary of an executive employment agreement. Upon the consummation of the merger, the board of directors of the combined company will include the existing Company board and add two new members, Richard Mills and a designee of the new investor.

On August 13, 2015, the Board of Directors granted 2,849,863 options to purchase common stock of the Company to four members of senior management. The options granted vest in 25% increments on each of the first four anniversaries of the date of the grant, and expire ten years after the date of the grant. The Company expects to value the option grants using the Black-Scholes option valuation model using inputs similar to those from the January 2015 option grant (Note 11).



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

The following discussion contains various forward-looking statements within the meaning of Section 21E of the Exchange Act. Although we believe that, in making any such statement, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected. When used in the following discussion, the words "anticipates," "believes," "expects," "intends," "plans," "estimates" and similar expressions, as they relate to us or our management, are intended to identify such forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those anticipated. Factors that could cause actual results to differ materially from those anticipated, certain of which are beyond our control, are set forth under the caption "Risk Factors," in the Company's Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on May 7, 2015.

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

### Overview

Creative Realities, Inc. is a Minnesota corporation that provides innovative digital marketing technology solutions to retailers, brand marketers, venue-operators, enterprises, non-profits and other organizations throughout the United States and a growing number of international markets. Our technology and solutions include: digital merchandising systems, interactive digital shopping assistants and kiosks, mobile digital marketing platforms, digital way-finding platforms, digital menu board systems, dynamic signage, and other digital marketing technologies. We enable our clients' engagement with consumers by using combinations of our technology and solutions that interact with mobile, social media, point-of-sale, wireless networks and web-based platforms. We have expertise in a broad range of existing and emerging digital marketing technologies, as well as the following related aspects of our business: content, network management, and connected device software and firmware platforms; customized software service layers; hardware platforms; digital media workflows; and proprietary processes and automation tools. We believe we are one of the world's leading digital marketing technology companies focused on helping retailers and brands use the latest technologies to create better shopping experiences.

Our main operations are conducted directly through Creative Realities, Inc. (f/k/a Wireless Ronin Technologies, Inc.), and under our wholly owned subsidiaries Creative Realities, LLC, a Delaware limited liability company, Broadcast International, Inc., a Utah corporation, and Wireless Ronin Technologies Canada, Inc., a Canadian corporation.

We generate revenue in this business by:

- consulting with our customers to determine the technologies and solutions required to achieve their specific goals, strategies and objectives;
- designing our customers' digital marketing experiences, content and interfaces;
- engineering the systems architecture delivering the digital marketing experiences we design – both software and hardware – and integrating those systems into a customized, reliable and effective digital marketing experience;

- managing the efficient, timely and cost-effective deployment of our digital marketing technology solutions for our customers;
- delivering and updating the content of our digital marketing technology solutions using a suite of advanced media, content and network management software products; and
- maintaining our customers' digital marketing technology solutions by: providing content production and related services; creating additional software-based features and functionality; hosting the solutions; monitoring solution service levels; and responding to and/or managing remote or onsite field service maintenance, troubleshooting and support calls.

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

### **Our Sources of Revenue**

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

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

### **Our Expenses**

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

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

The Company's significant accounting policies are described in Form 10-K for the year ended December 31, 2014. Changes in the critical accounting policies and estimates are addressed in the Summary of Significant Accounting Policies 10, Research and Development and Software Development Costs. The Company's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. Certain accounting policies involve significant judgments, assumptions, and estimates by management that could have a material impact on the carrying value of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Results of Operations**

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

### Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014

The following discussions are based on the unaudited condensed consolidated statements of operations for the three months ended June 30, 2015 and 2014 and notes thereto. The tables presented below compare our results of operations from one period to another, and present the results for each period and the change in those results from one period to another in both dollars and percentage change.

Our consolidated comparisons include certain historical data, transaction entries, journal entries, and chart of account classifications that are not uniformly consistent across Creative Realities, LLC, Wireless Ronin Technologies, Inc. and Broadcast International, Inc. As a result, certain assessments and qualitative descriptions related to our consolidated results cannot be compared directly, and may not fully or accurately reflect actual changes in the specific statement of operations line-item category or subcategory at this time.

The columns present the following:

- The first two data columns in each table show the dollar results for each period presented
- The columns entitled “\$ Increase (Decrease)” and “% Increase (Decrease)” show the change in results, both in dollars and percentages. For example when net sales increase from one period to the next that change is shown as a positive. When net sales decrease from one period to the next, that change is shown as a negative in both columns.

(In thousands)	Three Months Ended					
	June 30, 2015	% of total sales	June 30, 2014	% of total sales	\$ Increase (Decrease)	% Increase (Decrease)
Sales	2,702	100.0%	3,006	100.0%	(304)	(10%)
Cost of sales	2,035	75.3%	2,652	88.2%	(617)	(23%)
Gross profit (exclusive of depreciation and amortization shown separately below)	667	24.7%	354	11.8%	313	88%
Sales and marketing expenses	348	12.9%	237	7.9%	111	47%
Research and development expenses	254	9.4%	-	-	254	-
General and administrative expenses	1,825	67.5%	741	24.7%	1,084	146%
Depreciation and amortization expense	432	16.0%	101	3.4%	331	328%
Total operating expenses	(2,859)	105.8%	(1,079)	35.9%	(1,780)	165%
Operating loss	(2,192)	(81.1%)	(725)	(24.1%)	(1,467)	202%
Other income (expenses):						
Interest expense	(164)	(5.9%)	(3)	(0.1%)	161	5367%
Change in fair value of warrant liability	67	2.4%	-	-	(67)	-
Other income	1	0.0%	-	-	1	-
Total other expense	(96)	(3.6%)	(3)	(0.1%)	93	3100%
Net loss	(2,288)	(84.7%)	(728)	(24.2%)	(1,560)	214%

#### Sales

Sales decreased by \$304 or 10% in the second quarter of 2015 compared to the second quarter of 2014, primarily due to a decrease of \$770 in hardware sales offset by an increase in \$466 in software/services sales. This change is a product of the shifting sales mix following the August 2014 merger. We plan to continue to prioritize sales in software servicing.

#### Gross Profit

Gross profit margin on a percentage basis increased from 12% to 25% in the second quarter of 2015 compared to the second quarter of 2014, and it increased by an estimated \$313 in absolute dollars during the same period. The increase is due to both the shift in revenues toward software/services which has higher margins and more efficient operations.

#### Sales and Marketing Expenses

Sales and marketing expenses increased by \$111 in the second quarter of 2015 compared to the second quarter of 2014. The increase is mainly due to an increase of \$97 in payroll related expenses.

#### Research and Development Expenses

Research and development expenses increased by \$254 in the second quarter of 2015 compared to the second quarter of 2014. The increase is due to the fact that prior to the merger with Wireless Ronin, the former Creative Realities LLC did not engage in any research and

development activities.

### *General and Administrative Expenses*

General and administrative expenses have increased by \$1,084 in the second quarter of 2015 compared to the second quarter of 2014. The increase is mainly the result of an \$874 increase in payroll related expenses including severance accruals. Included was an increase of more than \$171 due to consolidated rent, utilities, telephone and commercial insurance expenses.

Included in severance costs is an accrual of \$331, for a separation agreement with our former Chief Executive Officer (See Note 7 in the notes to the financial statements).

### *Depreciation and Amortization Expenses*

Depreciation and amortization expenses increased by \$324 in the second quarter of 2015 compared to the second quarter of 2014 primarily as a result of the amortization of intellectual property intangible assets acquired in the WRT merger.

### **Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014**

(In thousands)	Six Months Ended					
	June 30, 2015	% of total sales	June 30, 2014	% of total sales	\$ Increase (Decrease)	% Increase (Decrease)
Sales	4,828	100.0%	5,278	100.0%	(450)	(9%)
Cost of sales	3,691	75.1%	4,660	88.3%	(969)	(21%)
Gross profit (exclusive of depreciation and amortization shown separately below)	1,137	23.6%	618	11.7%	519	84%
Sales and marketing expenses	674	13.7%	513	9.7%	161	31%
Research and development expenses	485	9.9%	-	-	485	-
General and administrative expenses	3,918	79.7%	1,477	28.0%	2,441	165%
Depreciation and amortization expense	857	17.4%	167	3.2%	690	413%
Total operating expenses	5,934	120.8%	2,157	40.9%	3,777	175%
Operating loss	(4,797)	(99.4%)	(1,539)	(29.2%)	(3,258)	212%
Other income (expenses):						
Change in fair value of warrant liability	812	16.5%	-	-	(812)	-
Interest expense	(227)	(4.6%)	(7)	(0.1%)	220	3143%
Other income	(9)	(0.2%)	-	-	(9)	-
Total other expense	576	11.7%	(7)	(0.1%)	(583)	(8,329%)
Net loss	(4,221)	(87.4%)	\$ (1,546)	(29.3%)	\$ (2,675)	173%

### *Sales*

Sales decreased by \$450 or 9% in the first half of 2015 compared to the first half of 2014, primarily due to a decrease of \$1,352 in hardware sales offset by an increase in \$902 in software/services sales. This change is a product of the shifting sales mix following the August 2014 merger. We plan to continue to prioritize sales in software/services.

### *Gross Profit*

Gross profit margin on a percentage basis increased from 12% to 24% in the first half of 2015 compared to the first half of 2014, and it increased by an estimated \$519 in absolute dollars during the same period. The increase is due to both the shift in revenues toward software/services which has higher margins and more efficient operations.

### *Sales and Marketing Expenses*

Sales and marketing expenses increased by \$161 in the first half of 2015 compared to the first half of 2014. The increase is mainly due to an increase of \$97 in payroll related expenses

### *Research and Development Expenses*

Research and development expenses increased by \$485 in the first half of 2015 compared to the first half of 2014. The increase is due to the fact that prior to the merger with Wireless Ronin, the former Creative Realities LLC did not engage in any research and development activities.

### *General and Administrative Expenses*

General and administrative expenses have increased by \$2,441 in the first half of 2015 compared to the first half of 2014. The increase is mainly the result of a \$1,493 increase in payroll related expenses including severance costs. An increase of \$401 in various other general and administrative expenses were associated with the consolidated company.

Included in severance costs is an accrual of \$464 for a separation agreement with our former Chief Executive Officer (See Note 7).



### ***Depreciation and Amortization Expenses***

Depreciation and amortization expenses increased by \$690 in the first half of 2015 compared to the first half of 2014 primarily as a result of the amortization of intellectual property intangible assets acquired in the WRT merger.

### **Business Realignment, Integration, and Restructuring**

#### ***Background***

We began the planning process for the anticipated closing of the merger transactions described herein in June 2014. This included reviews of: existing client relationships; sales and account management practices; portfolio of product and solution offerings; technology platforms; processes and work streams; information systems; management reporting; leadership team; personnel by function; contractors and vendors; facilities and related matters; and initiating the series of actions listed below.

Our primary objective was to realign, integrate and restructure our operations on an ongoing basis to achieve non-GAAP operating profitability and ultimately positive cash flows from operations as soon as practicable.

We believe Creative Realities, Inc. is uniquely positioned to: (i) become the global leader helping retailers and brands use the latest technology to improve their shopping experiences; (ii) achieve, maintain and subsequently increase operating profitability in light of the ongoing *Business Realignment, Integration and Restructuring* initiative summarized herein; and (iii) serve as a platform for industry consolidation.

#### ***Actions***

During the period from June 2014 through June 30, 2015, and the date of this Report, we have initiated all of the actions set forth below, among others. Each action is designed to: improve our operations via client service, quality of service, operational efficiency, role definition, process changes, information systems, management reporting and analytical tools, and project and service profitability; increase our revenues; and/or reduce our cost structure. Each action is ongoing, in its own stage of completion, and subject to continuous review and improvement.

- Realigning and reorganizing our sales, account management, and client service organization;
- Restructuring and retargeting our marketing and conversion practices and initiatives;
- Key client account and resource reviews related to our realigned and reorganized sales, account management, and client service organization;
- Terminating and replacing, or insourcing, certain vendors, contractors and consultants, and other service providers;
- Relocating and consolidating our network operations center;
- Implementing an ongoing initiative at the management level designed to identify and execute upon a series of tasks and activities targeting operational improvements, cost reductions, and/or revenue enhancements;
- Consolidating and optimizing our facilities footprint, and related personnel and operations, including subletting portions of certain facilities, and subletting or terminating leases for entire locations;
- Reducing our monthly payroll expense.
- Upgrading, modifying and adapting our enterprise resource planning / customer relationship management (ERP/CRM) information system to include our new organization, processes, service model, project and service costing, and management reporting needs;

- Upgrading and enhancing the features, capabilities, functionality, service and presentation layers, tools, and performance, of our existing content and network management platforms to support the evolving needs and requirements of our clients; and
- Completing the integration of our accounting system, with our ERP/CRM system, and related processes;

### ***Operating Profitability***

During the period from June 2014 through the date of this Report, as a result of the foregoing, we have reduced our average recurring (i.e., excluding one-time severance and other restructuring expenses, settlement payments, transaction costs, non-cash expenses, and other one-time adjustments) monthly fixed cost structure by approximately 52% or approximately \$5.9 million annually (non-GAAP disclosure).

We believe that the aggregate cumulative effect of a combination of the foregoing actions, excluding significant transaction and other one-time costs related to our ongoing restructuring efforts and organizational realignment, will soon result in our achieving operating profitability.

### **Liquidity and Capital Resources**

We incurred net losses and negative cash flows from operating activities for the three and six months ended June 30, 2015 and 2014. At June 30, 2015, we had cash and cash equivalents of \$494 and working capital of \$(3,448). Cash used in operating activities for the six months ended June 30, 2015 was \$(1,938).

Our cash and cash equivalents balances as of the date of this Report and potential financing needs in 2015 reflect a number of factors, including: the completed and ongoing realignment, integration and restructuring actions above, among others; a series of one-time transaction costs associated with the merger transactions described herein; our ongoing ability to continue to effectively manage and optimize our expenses, fixed cost base and working capital needs associated with funding and supporting several projects in a rapidly evolving industry; effectively managing and converting our sales pipeline to increase profitable nonrecurring and recurring revenue; and mitigate the risk and tendency for the timing of certain converted business opportunities to shift throughout the year and subsequently affect our forecasting and working capital needs.

Management believes that, despite its losses to date and while we can provide no assurance that our ongoing business realignment, integration and restructuring efforts will be successful, the operations of the combined Company resulting from the completed acquisitions and related restructuring actions will provide greater sales, margins, scale and operating efficiencies, all of which we believe will ultimately lead to operating profitability and positive cash flows from operations. We have certain payment plans and settlements setup with certain vendors. We expect that our future available capital resources will consist primarily of cash on hand, any cash generated from our business operations and future equity and/or debt financings or support, if any, to support our growth objectives, ongoing working capital needs, and 2015 business plan. As of the date of this report, management believes that its existing working capital resource, together with projected cash flows, are sufficient to fund its operations through at least December 2015. Our capital requirements depend on many factors, including our ability to successfully address our short-term liquidity and capital resource needs, market and sell our products and services, develop new products and services and establish and leverage our strategic partnerships. Any additional equity financings may be dilutive to shareholders and may be completed at a discount to market price. Public or private debt financing, if available, would likely involve restrictive covenants similar to or more restrictive than those contained in the Series A Convertible Preferred Stock Offering from February 2015. There can be no assurance we will successfully complete any future equity or debt financing.

Disruptions in the economy and constraints in the credit markets have caused companies to reduce or delay capital investment. Some of our prospective customers may cancel or delay spending on the development or rollout of capital and technology projects with us due to continuing economic uncertainty. Difficult economic conditions have adversely affected certain industries in particular, including the retail, automotive, and restaurant industries, in which we have major customers. We could also experience lower than anticipated order levels from current customers, cancellations of existing but unfulfilled orders, and extended payment or delivery terms. Economic conditions could also materially impact us through insolvency of our suppliers or current customers.

Our capital requirements depend on many factors, including our ability to successfully address our short-term liquidity and capital resource needs, market and sell our products and services, develop new products and services and establish and leverage our strategic partnerships. In order to meet our needs, we will likely be required to raise additional funding through public or private financings, including equity financings. Any additional equity financings may be dilutive to shareholders and may be completed at a discount to market price. Debt financing, if available, would likely involve restrictive covenants similar to or more restrictive than those contained in the Series A Convertible Preferred Stock Offering. There can be no assurance we will successfully complete any future equity or debt financing.

Management continues to seek financing on favorable terms. Nevertheless, there can be no assurance that any such financing can be obtained on favorable terms, if at all.

Our future depends upon our ability to create profitable business operations and obtain additional financing as required. If we are unable to generate sufficient revenue, adjust our operating expenses so as to maintain positive working capital, or find financing, then we will be forced to cease operations and investors will lose their entire investment.

### ***Operating Activities***

We do not currently generate positive cash flow. Our operational costs have been greater than sales generated to date. As of June 30, 2015, we had an accumulated deficit of \$(10,868). The cash flow (used in) operating activities was \$(1,938) and \$(1,058) for the six months ended June 30, 2015 and 2014, respectively. The majority of the cash consumed by operations for both periods was attributed to our net losses of \$(4,221) and \$(1,546) for the six months ended June 30, 2015 and 2014, respectively.

### ***Investing Activities***

Net cash used in investing activities during the six months ended June 30, 2015 was \$(235) compared to \$(424) during 2014 due to capitalization of software costs and less purchases of property and equipment.

### ***Financing Activities***

Net cash provided by financing activities during the six months ended June 30, 2015 was \$2,094 compared to \$1,709 in 2014 due to the additional convertible debt and convertible stock financing.

### **Contractual Obligations**

We have no material commitments for capital expenditures, and we do not anticipate any significant capital expenditures for the remainder of 2015.

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

During the six months ended June 30, 2015, 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**

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosures. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including our principal executive and principal financial officers, or persons performing similar functions, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and VP, Corporate Controller, we conducted an initial evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) in conjunction with the recently completed acquisition and reverse acquisition described herein. Based on this initial evaluation, we concluded as of June 30, 2015 that our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses described below.

In light of the material weaknesses described below, additional analyses and other procedures were performed to ensure that our consolidated financial statements included in our Annual Report on Form 10-K were prepared in accordance with GAAP. These measures included expanded year-end closing procedures, the dedication of significant internal resources and reconciliations and management's own internal reviews, and efforts to remediate the material weaknesses in internal control over financial reporting described below. As a result of these measures, management concluded that our consolidated financial statements included in our Annual Report on Form 10-K presented fairly, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods, presented in conformity with GAAP.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, 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 and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Due to the Company's acquisition of Broadcast International, Inc. on August 1, 2014, and reverse acquisition of Creative Realities, LLC on August 20, 2014, management of the Company has conducted an initial assessment of the effectiveness of the internal controls over financial reporting of both entities in limited scope upon completion of such acquisitions. Such initial assessment by the Company identified that internal control over financial reporting was not effective and that material weaknesses exist based upon deficient processes to close the monthly financial statements, recognize revenue from sales orders, and track and value inventory. In addition, the Company currently does not have an independent financial expert on its Board of Directors.

A material weakness is a control deficiency (within the meaning of Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 5) or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management has already implemented certain practices and procedures to address the foregoing deficiencies, intends to carryover and implement many of the internal controls of the registrant Wireless Ronin Technologies, Inc. to its acquisitions and has expanded the scope of its assessment of the effectiveness of its internal controls over financial reporting at the consolidated, and has determined a plan to complete the remediation of the foregoing deficiencies.

In completing its assessment of internal control over financial reporting, management has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—1992 Integrated Framework.

This quarterly report does not include an attestation report of the company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the company, as a smaller reporting company, to provide only management's report in its annual report.

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

There were no changes in our internal control over financial reporting that occurred during the six months ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

On August 11, 2015, we entered into an Agreement and Plan of Merger with Conexus World Global, LLC ("ConeXus"), a global provider of digital marketing solutions, for ConeXus to become a wholly-owned subsidiary of the Company for stock consideration equal to approximately 23.6% of the Company on a fully-diluted, as-converted basis, through the issuance of a combination of an aggregate of 20,000,000 shares of the Company's common stock and 2,250,000 shares of preferred stock. As a separate but related condition of the Agreement, a third party investor has agreed to purchase \$750 of the Company's existing senior convertible notes upon execution of the agreement, and an additional \$750 upon the closing of the transaction. The Agreement and Plan of Merger contains customary representations, warranties, and indemnities. Consummation of the proposed merger is subject to a number of closing conditions, including the delivery of audited financial statements from ConeXus satisfactory to the Company. Subject to the satisfaction or waiver of such closing conditions, the merger is expected to be consummated in the latter part of September 2015. There can be no assurance that the conditions to the merger will be satisfied or waived, or that the merger will be completed.

In addition to the Agreement and Plan of Merger, the Company also entered into an employment agreement with Richard Mills, President and Chief Executive Officer of ConeXus, to assume the role of CEO of the combined company. The agreement is effective for a two-year term, provides for an initial annual base salary of \$270,000, and includes provisions for the right to receive up to 4,951,557 performance shares in connection with a series of requirements related to a potential large scale client contract deployment. Mr. Mill's employment agreement also contains other provisions, terms, conditions and covenants customary of an executive employment agreement.

Upon the consummation of the merger, the board of directors of the combined company will include the existing Company board and add two new members, Richard Mills and a designee of the new investor.

The Agreement and Plan of Merger is attached to this report as Exhibit 2.2. The foregoing description of the Agreement and Plan of Merger and the transactions contemplated and effected thereby is not complete and is qualified in its entirety by the contents of the actual Agreement and Plan of Merger.

## Item 6. Exhibits

<b>Exhibit</b>	
2.1	Amendment No. 1 to Merger Agreement dated August 20, 2014 (incorporated by reference to Exhibit 2.1 to the registrant's Current Report on Form 8-K filed with the SEC on August 22, 2014).
2.2	Agreement and Plan of Merger dated August 11, 2015 among Creative Realities, Inc., CXW Acquisition, Inc., Conexus World Global, [Inc .] and the Shareholder Representative ( <i>filed herewith</i> )
3.1	Series A Convertible Preferred Stock Certificate of Designation of Preferences, Rights and Limitations filed August 19, 2014 (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K filed with the SEC on August 22, 2014).
10.5	Subordinated Secured Promissory Note dated May 20, 2015, issued in favor of Slipstream Communications, LLC (incorporated by reference to Current Report on Form 8-K filed on May 28, 2015)
10.6	Warrant dated May 20, 2015, issued in favor of Slipstream Communications, LLC (incorporated by reference to Current Report on Form 8-K filed on May 28, 2015)
10.7	Securities Purchase Agreement dated June 23, 2015, by and among Creative Realities, Inc. certain subsidiaries of Creative Realities, Inc., and Equity Trust Company, custodian FBO Leonid Frenkel IRA ( <i>filed herewith</i> )
10.8	Secured Convertible Promissory Note dated June 23, 2015, issued in favor of Equity Trust Company, custodian FBO Leonid Frenkel IRA ( <i>filed herewith</i> )
10.9	Warrant dated June 23, 2015, issued in favor of Equity Trust Company, custodian FBO Leonid Frenkel IRA ( <i>filed herewith</i> )
10.10	Security Agreement dated June 23, 2015 by and among Creative Realities, Inc., certain subsidiaries of Creative Realities, Inc., and Slipstream Communications, LLC ( <i>filed herewith</i> )
31.1	Section 302 Certification of the Chief Executive Officer ( <i>filed herewith</i> ).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ( <i>filed herewith</i> ).
101.INS	XBRL Instance Document ( <i>filed herewith</i> ).
101.SCH	XBRL Schema Document ( <i>filed herewith</i> ).
101.CAL	XBRL Calculation Linkbase Document ( <i>filed herewith</i> ).
101.DEF	XBRL Definition Linkbase Document ( <i>filed herewith</i> ).
101.LAB	XBRL Label Linkbase Document ( <i>filed herewith</i> ).
101.PRE	XBRL Presentation Linkbase Document ( <i>filed herewith</i> ).

## 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.

Date: August 14, 2015

CREATIVE REALITIES, INC.

By: /s/ John J. Walpuck

John J. Walpuck  
Interim Chief Executive Officer,  
Chief Financial Officer and  
Chief Operating Officer.  
Principal Financial Officer and  
Chief Accounting Officer

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
31.1	Chief Executive Officer/Chief Financial Officer Certification pursuant to Exchange Act Rule 13a-14(a).
32.1	Chief Executive Officer/Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350.
101	Financials in XBRL format.