

CREATIVE REALITIES, INC.

FORM 10-Q (Quarterly Report)

Filed 07/02/15 for the Period Ending 03/31/15

Address	55 BROADWAY 9TH FLOOR NEW YORK, NY 10006
Telephone	212-324-6660
CIK	0001356093
Symbol	CREX
SIC Code	7373 - Computer Integrated Systems Design
Industry	Software & Programming
Sector	Technology
Fiscal Year	12/31

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 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 July 1, 2015, the registrant had 46,217,968 shares of common stock outstanding.

CREATIVE REALITIES, INC.

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	3
ITEM 1	FINANCIAL STATEMENTS	3
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	22
ITEM 4	CONTROLS AND PROCEDURES	28
PART II	OTHER INFORMATION	30
ITEM 1	LEGAL PROCEEDINGS	31
ITEM 5		31
ITEM 6	EXHIBITS	30
	SIGNATURES	31
	EXHIBIT INDEX	E-1

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 473	\$ 573
Accounts receivable, net of allowance of \$593 and \$490, respectively	2,865	3,463
Unbilled receivables	174	359
Work-in-process and inventories	574	739
Prepaid expenses	406	355
Total current assets	4,492	5,489
Property and equipment, net	714	746
Intangibles, net	4,470	4,834
Goodwill	10,572	10,572
Other assets	235	235
TOTAL ASSETS	<u>\$ 20,483</u>	<u>\$ 21,876</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 3,207	\$ 3,555
Accrued liabilities	1,022	1,102
Deferred revenues	2,304	1,977
Dividend payable	190	112
Other current liabilities	5	
Total current liabilities	6,728	6,746
Long term debt:		
Principal amount of note payable (Note 5)	1,000	-
less: unamortized discount and debt issuance costs	619	-
Long term debt net of discount and debt issuance costs	381	-
Warrant liability	1,240	1,910
Other liabilities	429	434
TOTAL LIABILITIES	8,779	9,090
COMMITMENTS AND CONTINGENCIES		
Convertible preferred stock, net of discount (liquidation preference of \$5,646)	1,725	1,532
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value, 200,000 shares authorized; 46,218 and 46,218 shares issued and outstanding	462	462
Additional paid-in capital	18,098	17,439
Accumulated deficit	(8,580)	(6,647)
Total shareholders' equity	9,979	11,254
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 20,483</u>	<u>\$ 21,876</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2015	2014
Sales		
Hardware	\$ 429	\$ 1,012
Services and other	1,697	1,260
Total sales	<u>2,126</u>	<u>2,272</u>
Cost of sales		
Hardware	382	644
Services and other	1,274	1,364
Total cost of sales (exclusive of depreciation and amortization shown separately below)	<u>1,656</u>	<u>2,008</u>
Gross profit	470	264
Operating expenses:		
Sales and marketing expenses	326	276
Research and development expenses	231	-
General and administrative expenses	2,093	736
Depreciation and amortization expense	425	66
Total operating expenses	<u>3,075</u>	<u>1,078</u>
Operating loss	(2,605)	(814)
Other income (expenses):		
Interest expense	(63)	(4)
Change in fair value of warrant liability	745	-
Other income/expense	(10)	-
Total other income (expense), net	<u>672</u>	<u>(4)</u>
Net loss	\$ (1,933)	\$ (818)
Deemed dividend on preferred stock	(113)	-
Net loss attributable to common shareholders	<u>\$ (2,046)</u>	<u>\$ (818)</u>
Basic and diluted loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>
Basic and diluted weighted average shares outstanding	<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)

	Three Months Ended	
	March 31,	
	2015	2014
Operating Activities:		
Net loss	\$ (1,933)	\$ (818)
Depreciation and amortization	425	66
Stock-based compensation expense	103	-
Change in fair value of warrant liability	(745)	-
Amortization of debt discount	43	-
Provision for doubtful accounts	103	-
Accounts receivable and unbilled revenues	680	1,567
Inventories/costs in excess	165	175
Prepaid expenses and other current assets	(51)	(55)
Other assets	-	(148)
Accounts payable	(342)	(692)
Deferred revenue	327	(362)
Accrued liabilities	(84)	(159)
Net cash used in operating activities	<u>(1,309)</u>	<u>(426)</u>
Investing activities		
Purchases of property and equipment	(29)	(14)
Net cash used in investing activities	<u>(29)</u>	<u>(14)</u>
Financing activities		
Repayment of line of credit - bank	-	(95)
Proceeds from issuance of convertible debt and warrants, net of costs	1,148	-
Proceeds from issuance of convertible preferred stock and warrants, net of costs	90	-
Borrowings from affiliate	-	736
Net cash provided by financing activities	<u>1,238</u>	<u>641</u>
Increase (decrease) in cash and cash Equivalents	<u>(100)</u>	<u>201</u>
Cash and cash Equivalents, beginning of period	<u>573</u>	<u>108</u>
Cash and cash Equivalents, end of period	<u><u>\$ 473</u></u>	<u><u>\$ 309</u></u>

See accompanying notes to condensed consolidated financial statements.

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 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 Companies’ 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 Companies’ 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 March 31, 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 \$593 and \$490 at March 31, 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 \$22 as of both March 31, 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 months ended March 31, 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.

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

Equipment	3 - 5 years
Demonstration equipment	3 - 5 years
Furniture and fixtures	7 years
Purchased software	3 years
Leased equipment	3 years
Leasehold improvements	Shorter of 5 years or term of lease

Depreciation and expense was \$61 and \$51 for the three months ended March 31, 2015 and 2014.

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. Software development costs incurred beyond the establishment of technological feasibility have not been significant. No software development costs were capitalized during the three months ended March 31, 2015 and 2014. Software development costs have been recorded as research and development expense for the three months ended March 31, 2015 and 2014. We incurred research and development costs of \$231 and \$0 during the three months ended March 31, 2015 and 2014, respectively.

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 weighted average number of basic shares outstanding for the period, determined by applying the conversion ratio from the merger to the outstanding shares of Creative, plus the number of Creative shares deemed issued to 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 20.5 million at March 31, 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 months ended March 31, 2015 is after dividends on convertible preferred stock of \$79 and amortization of the beneficial conversion feature of \$34.

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 March 31, 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 March 31, 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 months ended March 31, 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 \$103 and \$0 was charged to expense during the three months ended March 31, 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 months ended March 31, 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, 2016, and interim periods within those annual periods. The Company will adopt the new provisions of this accounting standard at the beginning of fiscal year 2017, 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 has been adopted in this interim period.

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 shareholders' 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, the Wireless Ronin Technologies, Inc. (the registrant) changed its name to Creative Realities, Inc.

Under reverse acquisition accounting, as the accounting acquirer, Creative Realities 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 preliminary estimate of the merger consideration to be transferred to effect the merger:

(in thousands)

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

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, Inc. 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, Inc. 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	9,210
Other intangible assets	5,164
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>\$ 13,719</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:

(in thousands)	Amounts	Useful lives (years)
Technology platform - Broadcast	\$ 260	5
Technology platform - Wireless Ronin	3,930	4
Customer relationships	1,090	3
Total	<u>\$ 5,280</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 months ended March 31, 2015, we amortized \$85 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, Inc.'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)	Three months ended March 31, 2014
Supplemental pro forma combined results of operations:	
Net sales	\$ 3,535
Net loss	(2,250)

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	Quote Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable inputs (Level 3)
Warrant Liabilities	1,240	-	-	1,240

The change in level 3 fair value is as follows:

Recorded warrant liability as of December 2014	\$ 1,910
Warrants associated with convertible preferred stock (Note 10)	75
Decrease in fair value of warrant liability	(745)
Ending warrant liability as of March 31, 2015	<u>\$ 1,240</u>

NOTE 4: OTHER FINANCIAL STATEMENT INFORMATION

The following table provides details of selected financial statement items:

Inventories

	March 31, 2015	December 31, 2014
Finished goods	\$ 412	\$ 531
Work-in-process	162	208
Total inventories	<u>\$ 574</u>	<u>\$ 739</u>

NOTE 5: LOANS 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 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 \$32 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 \$619 as of March 31, 2015. For the three months ended March 31, 2015, the Company recorded interest expense of \$48 related to the amortization of the warrants and beneficial conversion feature. 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.

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 March 31, 2015, \$218 of the accrued expense has been paid.

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 11 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 shareholder for a fee of \$154. As of March 31, 2015, \$77 is included in deferred revenues.

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. The estimated NOL carryforward for federal purposes is \$10.2 million and foreign NOL carryforward is \$5.1 million.

NOTE 10: CONVERTIBLE PREFERRED STOCK AND WARRANTS

In February 2015, we issued 265,000 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. 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 March 31, 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 \$74. See note 3 for additional fair value disclosures.

The range of inputs used for the Black Scholes valuations of the warrant as of March 31, 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%.

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 :

Range of Exercise Prices between	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$0.32 - \$0.65	6,258,750	9.58	\$ 0.43	350,000	\$ 0.60
\$0.66 - \$0.79	390,000	8.79	0.79	390,000	\$ 0.79
\$0.80 - \$12.25	370,897	6.44	5.51	370,897	\$ 5.51
	<u>7,019,647</u>	<u>9.37</u>	<u>\$ 0.72</u>		
Balance, December 31, 2014					5,613,977
Granted					1,449,432
Forfeited or expired					(43,762)
Balance, March 31, 2015					<u>7,019,647</u>

The weighted average remaining contractual life for options exercisable is 2.79 years as of March 31, 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	-

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 months ended March 31, 2015 and 2014, were in the United States and Canada.

Major Customers

We had two customers that accounted for 27% and 41% of accounts receivable as of March 31, 2015 and December 31, 2014, respectively.

The Company had three customers that accounted for 58% and 64% of revenue for the three months ended March 31, 2015 and 2014, respectively.

NOTE 14: LIQUIDITY

For the three months ended March 31, 2015 and the year ended December 31, 2014, we had a net loss of \$(1,933) and \$(3,799), and a negative cash flow from operations of \$(1,309) 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 6: Loans Payable, the Company obtained a Convertible Secured Promissory Note for \$1.0 million in February 2015 and as addressed in Note 11: Convertible Preferred Stock and Warrants, the Company issued additional convertible preferred stock and warrants for \$0.3 million. 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 May 20, 2015, we offered and sold to our majority shareholder 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, which was subsequently reduced to \$0.30 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 matures 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 \$169, a beneficial conversion feature of \$39, and the debt discount on the debt of \$211. 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 24, 2015, the holder converted the note into the Company's Series A 6% Convertible Preferred Stock. Upon conversion the entire debt discount was amortized to interest expense.

On June 23, 2015, we offered and sold to an outside party 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. See Note 11 for the inputs used in valuing the warrants using the Black-Scholes model. 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% subsequent to the allocation of proceeds to the warrants.

On May 5, 2015, we entered into a Separation Agreement with Paul Price, our former Chief Executive Officer and director. The separation agreement provides a customary release of claims by Mr. Price in favor of the Company, and requires the Company to pay to Mr. Price 12 months of his base salary as severance at the intervals set forth in the agreement over a period of up to 16 months. The agreement also provides that an option to purchase 938,357 shares of common stock at \$0.45 per share vested effective as of April 13, 2015, and that his remaining options were cancelled.

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. There have been no changes in the critical accounting policies and estimates. 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 March 31, 2015 Compared to Three Months Ended March 31, 2014

The following discussions are based on the unaudited condensed consolidated statements of operations for the three months ended March 31, 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			
	March 31, 2015	March 31, 2014	\$ Increase (Decrease)	%Increase (Decrease)
Sales	\$ 2,126	\$ 2,272	\$ (146)	(6%)
Cost of sales	1,656	2,008	(352)	(18%)
Gross profit (exclusive of depreciation and amortization shown separately below)	470	264	206	78%
Sales and marketing expenses	326	276	50	18%
Research and development expenses	231	-	231	-
General and administrative expenses	2,093	736	1,357	184%
Depreciation and amortization expense	425	66	359	544%
Total operating expenses	3,075	1,078	1,997	185%
Operating loss	(2,605)	(814)	(1,791)	220%
Other income (expenses):				
Interest expense	(63)	(4)	(59)	1,475%
Other income and change in fair value of warrant liability	735	-	735	-
Total other income (expense)	672	(4)	676	-
Net loss	\$ (1,933)	\$ (818)	\$ (1,115)	136%

Sales

Sales decreased by \$146 or 6% in the first quarter of 2015 compared to the first quarter of 2014, primarily due to a decrease of \$583 in hardware sales offset by an increase in \$437 in Software/Services sales. This is a product of the changing sales mix post the merger in August 2014.

Gross Profit

Gross profit margin on a percentage basis increased from 12% to 22% in the first quarter of 2015 compared to the first quarter of 2014, and it increased by an estimated \$206 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 \$50 in the first quarter of 2015 compared to the first quarter of 2014. The increase is mainly due to a net effect of an increase of \$121 in payroll related expenses and a decrease of \$73 in general marketing activity.

Research and Development Expenses

Research and development expenses increased by \$231 in the first quarter of 2015 compared to the first 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 \$1,357 in the first quarter of 2015 compared to the first quarter of 2014. The increase is mainly the result of a \$668 increase in payroll related expenses. We performed a comprehensive review of our aged outstanding accounts receivables across the consolidated company, and increased our allowance for doubtful accounts by \$103, resulting in an increase in bad debt expense. Also included was an increase of more than \$293 due to consolidated rent, utilities, telephone and commercial insurance expenses. An increase of \$177 in various other general and administrative expenses were associated with the consolidated company.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased by \$359 in the first quarter of 2015 compared to the first quarter 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

Beginning in June 2014, we began the planning process for the anticipated closing of the merger transactions described herein. This included a comprehensive review of our existing customers, sales pipeline, sales and account management, service and solution offerings, technology platforms, processes and work streams, systems and operations, leadership team, personnel by function, contractors and vendors, facilities, and related matters. Our primary objective was to realign, integrate and restructure our operations to the maximum extent practicable by or before March 31, 2015.

Actions Completed

During the period from June 2014 through March 31, 2015, we have completed many of these actions while several others remain ongoing.

Actions completed as of March 31, 2015 include:

- Realigning and reorganizing our sales, account management, and service delivery organization for 2015 growth;
- Restructuring and retargeting marketing services and operations for 2015 growth;
- Terminating and replacing certain vendors, contractors and consultants, resulting in increased service quality to our customers and the company, and material reductions in our cost structure;
- Relocating and consolidating our network operations center, resulting in greater control over the quality of service delivery to our customers, and a reduction in our cost structure;

- Consolidating our facilities and operations, including subletting approximately 50% of the square footage of our office space in one location, and terminating our lease for another location; and
- Reducing our overall headcount, net of contractor conversions, and including certain executives, and reducing the overall average salary of remaining workforce.

Actions in Process

We have several other actions and initiatives planned or already currently underway which are designed to further enhance our client service capabilities, quality of service delivery, operational efficiency and reduce our cost structure. These include:

- Key account and resource reviews related to our realigned sales, account management, and service delivery organization;
- Completing the integration of our accounting systems and related processes;
- Enabling certain system-based customer relationship management and project management processes across the consolidated enterprise;
- Comprehensively reviewing and streamlining our consolidated list of contractors, vendors, and service providers, improving quality of service and eliminating duplication wherever possible; and
- Finalizing our 2015 development roadmap related to our proprietary technology platforms.

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 40% or approximately \$5.35 million annually (non-GAAP disclosure).

We believe the consolidated Creative Realities, Inc. is positioned to be the global leader helping retailers and brands use the latest technology to improve their shopping experiences. We also believe that the combination of the foregoing actions, excluding significant transaction and other one-time costs related to our ongoing restructuring efforts and organizational realignment, will result in greater sales, margin, scale and operating efficiencies, all of which will ultimately lead to operating profitability and positive cash flows from operations.

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 Creative Realities, LLC and Broadcast International merger transactions; effectively managing and converting our sales pipeline to increase nonrecurring and recurring revenue as well as mitigate the risk and tendency for the timing of certain converted business opportunities to shift throughout the year and subsequently affect our forecasting; and our ongoing ability to continue to effectively manage and optimize our expenses, fixed cost base and working capital needs associated with funding a growing business delivering and supporting several large projects in a rapidly evolving industry.

Liquidity and Capital Resources

We incurred net losses and negative cash flows from operating activities for the three months ended March 31, 2015 and 2014. At March 31, 2015, we had cash and cash equivalents of \$473 and working capital of \$(2,236). Cash used in operating activities for the three months ended March 31, 2015 was \$(1,309).

Management believes that, despite its losses to date and while we can provide no assurance that our ongoing integration 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 exiting working capital resource, together with projected cash flows, are sufficient to fund its operations through as 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. 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. In May 2015, we obtained additional financing of \$0.5 million and in June 2015 additional financing of \$0.4 million. See Note 15 for details.

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 March 31, 2015, we had an accumulated deficit of \$(8,580). The cash flow (used in) operating activities was \$(1,309) and \$(426) for the three months ended March 31, 2015 and March 31, 2014, respectively. The majority of the cash consumed by operations for both periods was attributed to our net losses of \$(1,933) and \$(818) for the three months ended March 31, 2015 and March 31, 2014, respectively.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2015 was \$(29) compared to \$(14) during 2014.

Financing Activities

Net cash provided by financing activities during three months ended March 31, 2015 was \$1,238 compared to \$641 in 2014. The increase is mainly due to our notes payable borrowings.

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 three months ended March 31, 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 its 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 March 31, 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 this 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 Company, 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 annual 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 quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 5.

On April 13, 2015, we entered into a Separation Agreement and Release with our former Chief Executive Officer Paul Price. The agreement requires the Company to pay Mr. Price, as severance, the sum of \$400,000 on a prescribed schedule over a period of up to 16 months. In addition, the Company provides for the immediate vesting, as of April 13, 2015, the sum of 938,357 options to purchase common stock earlier granted pursuant to a written option agreement (with the remainder of all unvested options expiring pursuant to the terms of such option agreement). The agreement also contains a mutual release of legal claims.

On June 24, 2015, we closed on a \$400,000 secured convertible promissory note as part of a private offering of up to \$3.0 million in such notes, and contemporaneously agreed to the conversion of an earlier \$465,000 secured convertible promissory note issued to our affiliate Slipstream Communications, LLC. The conversion of the earlier issued note also involved the conversion of \$3 in accrued but unpaid interest thereon, together with a 25% premium. The private offering of secured convertible promissory notes also includes 50% warrant coverage that involves five-year common stock purchase warrants exercisable at \$0.28 per share. As a result, we have issued a total of 2,337,505 warrants to purchase common stock in this offering through the date of this report. The private offering is being made to accredited investors only pursuant to Regulation D under the Securities Act of 1933. Securities sold in this offering may not be resold absent registration under the Securities Act of 1933 or the applicability of an exemption from such registration requirements. The disclosure about the private offering contained in this report does not constitute an offer to sell or a solicitation of an offer to buy any securities of the Company, and is made only as required under applicable rules for filing current reports with the SEC, and as permitted under Rule 135c of the Securities Act of 1933.

Item 6. Exhibits

<u>Exhibit</u>	
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).
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).
10.1	Securities Purchase Agreement dated February 18, 2015, by and between Creative Realities, Inc. and Mill City Ventures III, Ltd. (incorporated by reference to Current Report on Form 8-K filed on February 24, 2015)
10.2	Secured Convertible Promissory Note dated February 18, 2015, issued in favor of Mill City Ventures III, Ltd. (incorporated by reference to Current Report on Form 8-K filed on February 24, 2015)
10.3	Warrant dated February 18, 2015, issued in favor of Mill City Ventures III, Ltd. (incorporated by reference to Current Report on Form 8-K filed on February 24, 2015)
10.4	Security Agreement dated February 18, 2015, by and among Creative Realities, Inc. and Broadcast International, Inc., Creative Realities, LLC, and Wireless Ronin Technologies Canada, Inc. (incorporated by reference to Current Report on Form 8-K filed on February 24, 2015)
31.1	Section 302 Certification of the Chief Executive Officer (<i>filed herewith</i>).
31.2	Section 302 Certification of the Chief Financial 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>).
32.2	Certification of Chief Financial 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.

CREATIVE REALITIES, INC.

Date: July 2, 2015

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

Exhibit Number	Description
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.

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this “Agreement”) is dated as of February 18, 2015, by and among (i) Creative Realities, Inc., a Minnesota corporation (the “Company”) and Creative Realities, Inc., a Utah corporation, Creative Realities, LLC, a Delaware limited liability company, and Wireless Ronin Technologies Canada, Inc., a Canada corporation (such entities, together with the Company, the “Company Parties”) and (ii) Mill City Ventures III, Ltd., a Minnesota corporation (“Purchaser”).

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to an exemption from the registration requirements of Section 5 of the Securities Act contained in Section 4(a)(2) thereof and/or Regulation D thereunder, the Company Parties desire to issue and sell to Purchaser, and Purchaser desires to purchase from the Company Parties, securities of the Company and the Company Parties as more fully described in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company Parties and Purchaser hereby agree as follows:

**ARTICLE I.
DEFINITIONS**

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, (a) capitalized terms that are not otherwise defined herein have the meanings given to such terms in the Note, as defined herein, and (b) the following terms have the meanings set forth in this Section 1.1:

“Action” shall have the meaning ascribed to such term in Section 3.1(j).

“Affiliate” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person as such terms are used in and construed under Rule 405 under the Securities Act.

“Board of Directors” means the Board of Directors of the Company.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States, or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Closing” means any closing of the purchase and sale of the Securities pursuant to Section 2.1.

“Closing Date” means the Trading Day on which all of the Transaction Documents have been executed and delivered by the parties thereto, and all conditions precedent to (i) the Purchaser’s obligations to pay the Purchase Amount and (ii) the obligations of the Company Parties to deliver the Securities, in each case, have been satisfied or waived, but in no event later than the third Trading Day following the date hereof, all as contemplated in Section 2.1.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the common stock of the Company, par value \$0.01 per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Company or the Subsidiaries, which would entitle the holder thereof to acquire at any time Common Stock.

“Company Counsel” means Maslon LLP, with offices located at 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, Minnesota 55402.

“Conversion Price” shall have the meaning ascribed to such term in the Note. “Conversion Shares” shall have the meaning ascribed to such term in the Note.

“Disclosure Schedules” means the Disclosure Schedules of the Company delivered concurrently herewith.

“Exchange Act” means the Securities Exchange Act of 1934, and the rules and regulations thereunder.

“GAAP” shall have the meaning ascribed to such term in Section 3.1(h). “Indebtedness” shall have the meaning ascribed to such term in Section 3.1(p). “Laws” shall have the meaning ascribed to such term in Section 3.1(k).

“Lien” means a lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

“Material Adverse Effect” means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to: (i) the legality, validity or enforceability of any Transaction Document, (ii) the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) the Company’s ability to perform in any material respect on a timely basis its obligations under any Transaction Document.

“Note” means the Secured Convertible Promissory Notes of the Company Parties offered and sold pursuant to this Agreement, the form of which is attached hereto as Exhibit A.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or instrumentality of a government).

“Principal Market” means the primary national securities exchange on which the Common Stock is then traded.

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Purchase Amount” means the aggregate amount to be paid for a Note and associated Warrants purchased hereunder as specified below the Purchaser’s name on the signature page of this Agreement and next to the heading “Purchase Amount,” in United States dollars and in immediately available funds.

“Purchaser Party” shall have the meaning ascribed to such term in Section 4.2. “Required Approvals” shall have the meaning ascribed to such term in Section 3.1(e).

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“SEC Reports” shall have the meaning ascribed to such term in Section 3.1(h).

“Securities” means the Note, the Warrants and the Underlying Shares.

“Securities Act” means the Securities Act of 1933, and the rules and regulations thereunder.

“Security Agreement” means that certain Security Agreement by and among the Company, Broadcast International, Inc., Creative Realities, LLC, and Wireless Ronin Technologies Canada, Inc., made in favor of the Purchaser, and pursuant to which the above-named corporate parties shall grant a security interest in their respective accounts receivable as collateral security for the obligations of the Company under the Note. The form of Security Agreement is attached hereto as Exhibit C.

“Short Sales” means all “short sales” as defined in Rule 200 of Regulation SHO under the Exchange Act (but shall not be deemed to include the location and/or reservation of borrowable shares of Common Stock).

“Subsidiary” means any subsidiary of the Company as set forth on Schedule 3.1(a)

“Trading Day” means (i) any day on which the Common Stock is listed or quoted and traded on its Principal Market, (ii) if the Common Stock is not then listed or quoted and traded on any national securities exchange, then a day on which trading occurs on any over-the-counter markets, or (iii) if trading does not occur on the over-the-counter markets, any business day.

“Transaction Documents” means this Agreement, the Note, the Warrants, the Security Agreement, and all exhibits and schedules hereto and thereto and any other documents or agreements executed in connection with the transactions contemplated hereunder and thereunder.

“Underlying Shares” means the Conversion Shares and the Warrant Shares.

“Warrants” means, collectively, the Common Stock purchase warrants delivered to the Purchaser at the Closing in accordance with Section 2.2(a) hereof, which Warrants shall be in the form of Exhibit B attached hereto.

“Warrant Shares” means the shares of Common Stock issuable upon exercise of the Warrants.

**ARTICLE II.
PURCHASE AND SALE**

2.1 Closing. On the Closing Date, and upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company Parties agree to sell, and the Purchaser agrees to purchase, \$1,000,000 in principal amount of a Note (at face value), and (ii) a number of Warrants as determined pursuant to Section 2.2(a)(iii). The Purchaser shall deliver to the Company, via wire transfer of immediately available funds equal to its Purchase Amount as set forth on the signature page hereto executed by such Purchaser, and the Company Parties shall deliver to the Purchaser an executed Note and a Warrant as determined pursuant to Section 2.2(a). In addition, the Company Parties and the Purchaser shall deliver the other items set forth in Section 2.2 at the Closing. Upon satisfaction of the covenants and conditions set forth in Sections 2.2 and 2.3, the Closing shall occur at the offices of Company Counsel or such other location as the parties shall mutually agree.

2.2 Deliveries.

(a) On or prior to the Closing Date, the Company shall deliver or shall have earlier delivered to the Purchaser the following:

(i) this Agreement duly executed by the Company Parties;

(ii) a Note registered in the name of the Purchaser and in the original principal amount equal to the Purchase Amount of such Purchaser;

(iii) a Warrant registered in the name of such Purchaser to purchase, at any time and from time to time, an aggregate number of shares of Common Stock equal to 50% of the number of Conversion Shares issuable upon any conversion of the Note, as determined at the time issued to the Purchaser at the Closing and at the initial Conversion Price;

(iv) the Security Agreement duly executed by each corporate party thereto; and

(v) a legal opinion from Company Counsel, in customary form and substance for transactions of the nature contemplated by this Agreement.

(b) On or prior to the Closing Date, the Purchaser shall deliver or shall have earlier delivered to the Company the following:

(i) this Agreement duly executed by such Purchaser; and

(ii) Purchaser's Purchase Amount by wire transfer to the account specified in writing by the Company, less a two percent (2.0%) origination fee (i.e., \$20,000) and less the reimbursable expenses described in Section 6.2 below.

2.3 Closing Conditions.

(a) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects on the Closing Date of the representations and warranties of the Purchaser contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

(ii) all obligations, covenants and agreements of the Purchaser required to be performed at or prior to the Closing Date shall have been performed;

(iii) there shall have been no Material Adverse Effect with respect to the Company since the date hereof;
and

(iv) the delivery by the Purchaser of the items set forth in Section 2.2(b) of this Agreement.

(b) The obligations of the Purchaser hereunder in connection with the Closing are subject to the following conditions being met:

(i) the accuracy in all material respects when made and on the Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein);

(ii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed;

(iii) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement; and

(iv) there shall have been no Material Adverse Effect with respect to the Company since the date hereof.

**ARTICLE III.
REPRESENTATIONS AND WARRANTIES**

3.1 Representations and Warranties of the Company. Except as set forth in the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or otherwise made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

(a) Subsidiaries. All of the direct and indirect subsidiaries of the Company are set forth on Schedule 3.1(a). The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

(b) Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not have or reasonably be expected to result in a Material Adverse Effect.

(c) Authorization; Enforcement. The Company and the Subsidiaries have the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents, as applicable, and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's shareholders in connection herewith or therewith other than in connection with the Required Approvals. The execution and delivery of the applicable Transaction Documents by the Subsidiaries, as applicable, and the consummation by the Subsidiaries of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company or the boards of directors or other governing bodies of the Subsidiaries in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and the Subsidiaries, as applicable, and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(d) No Conflicts. The execution, delivery and performance by the Company and the Subsidiaries, as applicable, of this Agreement and the other Transaction Documents to which they are a party, the issuance and sale of the Securities and the consummation by the Company and the Subsidiaries, as applicable, of the transactions contemplated hereby and thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

(e) Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than: (i) the notice and/or application(s) to each applicable Trading Market for the issuance and sale of the Securities and the listing of the Shares and Underlying Shares for trading thereon in the time and manner required thereby, if any, and (ii) the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws, which filings will be made by the Company within the time period required by such laws (collectively, the “Required Approvals”).

(f) Issuance of the Securities. The Note is duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be a duly and validly issued security of the Company, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Underlying Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and non-assessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents.

(g) Capitalization. The capitalization of the Company as of January 31, 2015, is as set forth on Schedule 3.1(g). The Company has not issued any capital stock since that date except as may be disclosed in SEC Reports, other than pursuant to the exercise of employee stock options, or pursuant to the conversion or exercise of Common Stock Equivalents. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or Common Stock Equivalents, except as set forth on Schedule 3.1(g). Except with respect to the holders of the Company’s Series A Preferred Convertible Stock and warrants issued in association therewith (and the conversion prices and exercise prices thereof, respectively, both of which will be adjusted as a result of the issuance of the Securities pursuant to this Agreement), the issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchaser) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities.

(h) SEC Reports; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the two years preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the “SEC Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company has never been an issuer subject to Rule 144(i) under the Securities Act. The financial statements of the Company included in the SEC Reports have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

(i) Material Changes; Undisclosed Events, Liabilities or Developments. Since the date of the latest SEC Report, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company’s financial statements pursuant to GAAP or disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its shareholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans. The Company does not have pending before the Commission any request for confidential treatment of information.

(j) Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an “Action”) which could reasonably be expected to have a Material Adverse Effect or that adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities. Attached as Schedule 3.1(j) is a summary of currently pending Actions involving the Company and the Subsidiaries. The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Compliance. Neither the Company nor any Subsidiary: (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters (collectively, “Laws”), except in each case as is set forth on Schedule 3.1(k).

(l) Title to Assets. The Company and the Subsidiaries do not own any real property. The Company and the Subsidiaries have good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for (i) Liens as do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and (ii) Liens for the payment of federal, state or other taxes, for which appropriate reserves have been made in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties.

(m) Fees. No brokerage or finder’s fees or commissions are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents.

(n) Private Placement. Assuming the accuracy of the Purchaser’s representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Note, Warrants and Underlying Shares by the Company to the Purchaser as contemplated hereby. The issuance and sale of the Securities hereunder does not contravene the rules and regulations of the Trading Market.

(o) Disclosure. The Company acknowledges and agrees that the Purchaser has not made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2.

(p) Indebtedness. Schedule 3.1(p) sets forth, all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, the term “Indebtedness” means (y) any liabilities for borrowed money or amounts owed in excess of \$50,000 (other than trade accounts payable incurred in the ordinary course of business); (z) all guaranties, endorsements and other contingent obligations in respect of indebtedness of others, whether or not the same are or should be reflected in the Company’s consolidated balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business. Except as set forth on Schedule 3.1(p), neither the Company nor any Subsidiary is in default with respect to any Indebtedness.

(q) Tax Status. Except as set forth on Schedule 3.1(q), the Company and its Subsidiaries each (i) has made or filed all United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (iii) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim.

The Purchaser acknowledges and agrees that the representations contained in Section 3.1 shall not affect the Company's right to rely on such Purchaser's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

3.2 Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein):

(a) Organization; Authority. The Purchaser is an entity duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation with full right, corporate power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by the Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate action, as applicable, on the part of the Purchaser. Each Transaction Document to which it is a party has been duly executed by the Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Understandings or Arrangements. The Purchaser is acquiring the Securities hereunder in the ordinary course of its business. The Purchaser understands that the Note, Warrants and Underlying Shares are "restricted securities" and will not have been registered under the Securities Act or any applicable state securities law, and represents that it is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law.

(c) Opportunity to Obtain Information. The Purchaser acknowledges that representatives of the Company have made available to the Purchaser the opportunity to review the books and records of the Company and its Subsidiaries and to ask questions of and receive answers from such representatives concerning the business and affairs of the Company and its Subsidiaries.

(d) Purchaser Status. At the time the Purchaser was offered the Securities, it was, and as of the date hereof it is, and on each date on which it converts any portion of the Note or exercises any Warrants, it will be an “accredited investor” as defined in Rule 501 under the Securities Act.

(e) Experience of Such Purchaser. The Purchaser has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. The Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(f) General Solicitation. The Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(g) Certain Transactions and Confidentiality. Other than consummating the transactions contemplated hereunder, the Purchaser has not, nor has any Person acting on behalf of or pursuant to any understanding with such Purchaser, directly or indirectly executed any purchases or sales, including Short Sales, of the securities of the Company during the period commencing as of the time that such Purchaser first received a term sheet (written or oral) from the Company or any other Person representing the Company setting forth the material terms of the transactions contemplated hereunder and ending immediately prior to the execution hereof. Other than to other Persons party to this Agreement, the Purchaser has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not affect such Purchaser’s right to rely on the Company’s representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

ARTICLE IV. OTHER AGREEMENTS OF THE PARTIES

4.1 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder to provide working capital for the Company and its Subsidiaries.

4.2 Indemnification. Subject to the provisions of this Section 4.2, the Company will indemnify and hold the Purchaser and its directors, officers, employees and agents (each, a “Purchaser Party”) harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys’ fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against the Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any shareholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser Party’s representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such shareholder or any violations by such Purchaser Party of state or federal securities laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel, or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel in the aggregate (i.e., for all Purchaser Parties). The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company’s prior written consent, which shall not be unreasonably withheld or delayed, or (z) to the extent, but only to the extent, that a loss, claim, damage or liability is attributable to any Purchaser Party’s breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents.

4.3 Reservation of Securities; Reporting Status; Compliance with Laws. The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may then be required to issue all of the Underlying Shares. In addition, from and after the date hereof and for so long as the Note remains issued and outstanding, the Company will (i) continue to file SEC Reports with the Commission, (ii) use commercially reasonable efforts to maintain its listing or quotation on a Trading Market, and (iii) will comply with all Laws.

4.4 Certain Transactions and Confidentiality. The Purchaser covenants that neither it nor any Affiliate acting on its behalf or pursuant to any understanding with it will execute any purchases or sales, including Short Sales of any of the Company's securities during the period commencing with the execution of this Agreement and ending at such time that the transactions contemplated by this Agreement are first publicly announced by the Company. Furthermore, the Purchaser covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company, such Purchaser will maintain the confidentiality of the existence and terms of this transaction and the information included in the Transaction Documents and the Disclosure Schedules.

4.5 Financial Reports. For so long as the Note remains issued and outstanding, the Company will provide to the Purchaser monthly profit and loss statements and balance sheets concurrently with the provision of such financial information to one or more directors of the Company, or as soon as such financial information becomes available (if not requested by or provided to one or more directors of the Company), whichever is sooner; provided, however, that beginning with the month of April 2015, such financial information shall in no event be provided later than 15 Business Days after the end of each month.

4.6 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of any Securities other than pursuant to an effective registration statement or Rule 144, or to the Company, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company (the fees and expenses of which shall be paid by such transferor), the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights and obligations of a Purchaser under this Agreement.

(b) The Purchasers agree to the imprinting, so long as is required by this Agreement, of a legend on any of the Note, Warrants and Underlying Shares in the following form:

[NEITHER] THIS SECURITY [NOR THE SECURITIES INTO WHICH THIS SECURITY IS [EXERCISABLE] [CONVERTIBLE]] HAS [NOT] BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AND, AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, TO THE EXTENT REQUIRED BY THE SECURITIES PURCHASE AGREEMENT DATED AS OF FEBRUARY 18, 2015, BY AND BETWEEN THE ISSUER AND MILL CITY VENTURES III, LTD., THE SUBSTANCE OF WHICH OPINION SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

4.7 General Covenants. During any such time as the Note(s) remain outstanding, the Company shall not take any of the following actions without the prior written approval of Purchasers (or its assignees) holding at least a majority in then-outstanding principal amount of the Note(s): (a) declare or pay any cash dividends on account of any Common Stock; (b) redeem any capital stock of the Company; or (c) incur any debt for borrowed money that is senior to the obligations under the Note in respect of payment or in respect of the "Collateral," as such term is defined in the Security Agreement.

**ARTICLE V.
REGISTRATION RIGHTS**

5.1 Resale Registration Statement. The Company shall amend its Registration Statement on Form S-1 (File No. 333-201806) (the “Resale Registration Statement”) to include the Underlying Shares.

5.2 Cut-Back. If, for any reason, the Commission (including an independent determination by the Company, in consultation with Company Counsel, based on existing written guidance or applicable rules of the Commission) or an underwriter participating in an underwritten primary offering conducted pursuant to the Resale Registration Statement requires that the number of shares to be registered for resale pursuant to the Resale Registration Statement be reduced, then such reduction (the “Cut Back”) shall be allocated pro rata among the parties whose shares have been included in the Resale Registration Statement, until the reduction so required shall have been effected.

5.3 Expenses. All expenses incurred by the Company in complying with this Article 5, including without limitation all registration and filing fees, printing expenses (if required), fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including reasonable counsel fees) incurred in connection with complying with state securities or “blue sky” laws, fees of the FINRA, transfer taxes, and fees of transfer agents and registrars, are called “Registration Expenses.” The Company will pay all Registration Expenses in connection with the Resale Registration Statement.

**ARTICLE VI.
GENERAL PROVISIONS**

6.1 Termination. This Agreement may be terminated by the Purchaser by written notice to the Company if the Closing has not been consummated on or before 30 days of the date hereof.

6.2 Fees and Expenses. Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement; provided, however, that the Company will pay for the reasonable attorneys’ fees of the Purchaser incurred in the course of negotiating, preparing the Transaction Documents in an aggregate amount not to exceed \$7,000. The Company shall pay all transfer agent fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers.

6.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

6.4 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of: (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto at or prior to 5:30 p.m. (Minneapolis, Minnesota time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (Minneapolis, Minnesota time) on any Trading Day, (c) the second Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

6.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchaser (or, in the case that any portion of the Note shall have been assigned, then the holders of at least a majority in the then-outstanding principal amount of the Notes may waive, modify or amend this Agreement), and in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

6.6 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

6.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchaser."

6.8 Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

6.9 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the conflicts-of-law principles thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in Hennepin County, Minnesota. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in Hennepin County, Minnesota, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action, suit or proceeding to enforce any provisions of the Transaction Documents, then the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

6.10 Execution. This Agreement may be executed in counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party, it being understood that the parties need not sign the same counterpart. If any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

6.11 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

6.12 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, the Purchaser and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

6.13 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

6.14 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto.

6.15 WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

COMPANY PARTIES

CREATIVE REALITIES, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

BROADCAST INTERNATIONAL, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

CREATIVE REALITIES, LLC

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

WIRELESS RONIN TECHNOLOGIES CANADA, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

Address for Notice to the Company Parties:

55 Broadway, 9th Floor
New York, New York 10006
Facsimile: 973-244-1535

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK
SIGNATURE PAGE FOR PURCHASER FOLLOWS]

[PURCHASER SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

IN WITNESS WHEREOF, the undersigned has caused this Securities Purchase Agreement to be duly executed by its respective authorized signatories as of the date first indicated above.

Name of Purchaser: **Mill City Ventures III, Ltd.**

Signature of Authorized Signatory of purchaser: /s/ Douglas M. Polinsky

Name of Authorized Signatory: Douglas M. Polinsky

Title of Authorized Signatory: CEO

Email Address of Authorized Signatory: dp@millcityventures3.com

Facsimile Number of Authorized Signatory: 952-479-1925

Address for Notice to Purchaser: **328 Barry Avenue S., Suite 210, Wayzata, MN 55391**

Address for Delivery of Note and Warrants to Purchaser (if not same as address for notice):

Purchase Amount: \$ **1,000,000.00**

Warrant Shares: **1,515,152**

EIN Number: 90-0316651

Exhibit A

Attached is the form of Note

Exhibit B

Attached is the form of Warrant

Exhibit C

Attached is the form of Security Agreement

Schedule 3.1(a)
Subsidiaries

<u>Parent Subsidiary</u>	<u>Jurisdiction of Organization</u>
Creative Realities, LLC	Delaware
Wireless Ronin Technologies Canada, Inc.	Canada
Broadcast International, Inc.	Utah
Interact Devices, Inc.	California

Schedule 3.1(g)
Capitalization

Creative Realities, Inc. Master Cap Table
Proprietary & Confidential

	<u>Beginning Balances</u>	<u>Merger Transactions</u>			<u>Post-Closing</u>	
	<u>Wireless Ronin Technologies, Inc.</u>	<u>Broadcast International, Inc.</u>	<u>CRI, LLC</u>	<u>Creative Realities, Inc.</u>	<u>Fully Diluted</u>	
Common Equity	6,789,566	7,180,477	29,138,580		43,108,623	
Stock Options	1,291,834	6,356	8,266,515	6,929,710	8,227,900	
Warrants	2,304,971	222,933			10,794,419	
Debt Conversions	3,196,549				3,196,549	
Convertible Preferred			12,975,000	281,120	13,256,120	
Fully Diluted	<u>13,582,920</u>	<u>7,409,766</u>	<u>50,380,095</u>	<u>7,210,830</u>	<u>78,583,612</u>	

Notes: (1) "Convertible Preferred" is presented on an as-converted basis, and the 281,120 shares presented in the Creative Realities, Inc. column are shares issued as in-kind dividends in connection with a 12/31/2014 dividend payment. (2) "Debt Conversions" are common shares issued upon the conversion of debt that took place coincident with the closing of the merger transaction with Creative Realities, LLC in August 2014. Thus, those shares should be understood as being issued and outstanding.

Schedule 3.1(j)

Actions

Company vs. HMN, Inc.

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 litigate our claims and contest the defendants' counterclaims. At this time, we do not believe this matter is likely to have a material and adverse impact on the Company.

Company vs. Core Technologies, Inc.

In November 2014, a former vendor alleging our failure to pay outstanding invoices initiated a breach-of-contract lawsuit against us. We have answered and asserted certain counterclaims. In the event we are unable to reach a negotiated settlement with the vendor, we intend to litigate our counterclaims and contest those claims made against us. At this time, we do not believe this matter is likely to have a material and adverse impact on the Company.

Schedule 3.1(k)
Compliance

Broadcast International, Inc. entered into certain agreements in settlement of various payables coincident with the closing of the merger transaction of that corporation with the Company (which was effected on August 1, 2014). Certain of the closing and post-closing payments required by those settlement agreements have not been made. No actions have been instituted by any of the contracting parties relating to that Subsidiary's non-performance.

Schedule 3.1(p)
Indebtedness

Creative Realities, LLC is a party to a three-year master lease agreement with Dell Computer including a \$50,000 leasing line established December 2014. Presently, we have used approximately \$15,500 of this line to purchase computer equipment. The lease contains a \$1 buyout at the end of the term.

Schedule 3.1(q)
Tax Status

None.

NEITHER THIS WARRANT NOR ANY OF THE SECURITIES ISSUABLE UPON EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS WARRANT, HOLDER REPRESENTS THAT HOLDER WILL NOT SELL OR OTHERWISE DISPOSE OF THIS WARRANT OR THE SECURITIES FOR WHICH IT MAY BE EXERCISED WITHOUT REGISTRATION OR COMPLIANCE WITH AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

WARRANT TO PURCHASE COMMON STOCK

Number of Shares of Common Stock: 1,515,152

Date of Issuance: February 18, 2015 (“Issuance Date”)

THIS CERTIFIES THAT, for value received, Mill City Ventures III, Ltd. (including any permitted and registered assigns, the “Holder”), is entitled to purchase from Creative Realities, Inc., a Minnesota corporation (the “Company”), up to 1,515,152 shares of Common Stock (the “Warrant Shares”) at the Exercise Price then in effect. This Warrant to Purchase Common Stock (this “Warrant”) is issued by the Company as of the date hereof pursuant to that certain Securities Purchase Agreement dated the date hereof, by and between the Company, certain subsidiaries of the Company, and Holder (the “Agreement”). Capitalized terms used in this Warrant shall have the meanings set forth in the Agreement unless otherwise defined in the body of this Warrant or in Section 13 below. For purposes of this Warrant, the term “Exercise Price” shall mean \$0.38 per share, subject to adjustment as provided herein, and the term “Exercise Period” shall mean the period commencing on the Issuance Date and ending on 5:00 p.m. New York time on the five-year anniversary thereof.

1. EXERCISE OF WARRANT.

(a) *Mechanics of Exercise* . Subject to the terms and conditions hereof, the rights represented by this Warrant may be exercised in whole or in part at any time or times during the Exercise Period by delivery of a written notice, in the form attached hereto as Exhibit A (the “ Exercise Notice ”), of the Holder’s election to exercise this Warrant. The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice with respect to less than all of the Warrant Shares shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the remaining number of Warrant Shares. On or before the third Trading Day (the “ Warrant Share Delivery Date ”) following the date on which the Company shall have received the Exercise Notice, and upon receipt by the Company of (i) payment to the Company of an amount equal to the applicable Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the “ Aggregate Exercise Price ” and together with the Exercise Notice, the “ Exercise Delivery Documents ”) in cash or by wire transfer of immediately available funds or (ii) notification from the Holder that this Warrant is being exercised pursuant to a Cashless Exercise, as defined below, the Company shall (or direct its transfer agent to) either (1) deliver Warrant Shares to Holder by crediting the account of Holder’s prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system if the Company is then a participant in such system and either (x) there is an effective registration statement permitting the resale of the Warrant Shares by the Holder or (y) the Warrant Shares are eligible for resale without volume or manner-of-sale limitations pursuant to Rule 144 (delivery pursuant to this clause (1) being referred to as “ DWAC Delivery ”), or otherwise (2) issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company’s share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. If the Company is able to deliver Warrant Shares through DWAC Delivery but fails to deliver such Warrant Shares by the Warrant Share Delivery Date, the Company shall pay to Holder, in cash as liquidated damages and not as a penalty, \$20 per Trading Day for each \$1,000 of Warrant Shares subject to such delay. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the certificates evidencing such Warrant Shares. If this Warrant is submitted in connection with any exercise pursuant to Section 1(c) and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 6) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised.

(b) *No Fractional Shares* . No fractional shares shall be issued upon the exercise of this Warrant as a consequence of any adjustment pursuant hereto. All Warrant Shares (including fractions) issuable upon exercise of this Warrant may be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share. If, after aggregation, the exercise would result in the issuance of a fractional share, the Company shall, in lieu of issuance of any fractional share, pay the Holder otherwise entitled to such fraction a sum in cash equal to the product resulting from multiplying the then-current fair market value of a Warrant Share by such fraction.

(c) *Cashless Exercise* . The Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the “ Net Number ” of shares of Common Stock determined according to the following formula (a “ Cashless Exercise ”):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A = the total number of shares with respect to which this Warrant is then being exercised.

B = the Weighted Average Price of the shares of Common Stock for the five consecutive Trading Days ending on the date immediately preceding the date of the Exercise Notice.

C = the Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

(d) *Holder's Exercise Limitations* . The Company shall not effect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, to the extent that after giving effect to issuance of Warrant Shares upon exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's "affiliates," as such term is defined in Rule 405 under the Securities Act of 1933, and any other persons acting as a group together with the Holder or any of the Holder's affiliates), would beneficially own in excess of the Beneficial Ownership Limitation, as defined below. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, non-exercised portion of this Warrant beneficially owned by the Holder or any of its affiliates and (ii) exercise or conversion of the unexercised or non-converted portion of any other convertible securities of the Company subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this paragraph (e), beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations thereunder (the "Exchange Act"), it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this paragraph applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination.

For purposes of this paragraph, in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (A) the Company's most recent periodic or annual report filed with the SEC, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or its transfer agent setting forth the number of shares of Common Stock outstanding. Upon the request of a Holder, the Company shall within two Trading Days confirm to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. Upon no fewer than 61 days' prior notice to the Company, a Holder may increase or decrease the Beneficial Ownership Limitation provisions of this paragraph, provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this Warrant held by the Holder and the provisions of this paragraph shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company and shall only apply to such Holder and no other Holder. The limitations contained in this paragraph shall apply to a successor Holder of this Warrant.

2. SUBDIVISION OR COMBINATION OF COMMON STOCK. If the Company at any time on or after the Issuance Date subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Shares will be proportionately increased. If the Company at any time on or after the Issuance Date combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Shares will be proportionately decreased. Any adjustment under this Section 2 shall become effective at the close of business on the date the subdivision or combination becomes effective.

3. FUNDAMENTAL TRANSACTIONS. If, at any time while this Warrant is outstanding, (i) the Company effects any merger of the Company with or into another entity and the Company is not the surviving entity (such surviving entity, the “Successor Entity”), (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or by another individual or entity, and approved by the Company) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares of Common Stock for other securities, cash or property and the holders of at least 50% of the Common Stock accept such offer, or (iv) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (other than as a result of a subdivision or combination of shares of Common Stock covered by Section 2(a) above) (in any such case, a “Fundamental Transaction”), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive the number of shares of Common Stock of the Successor Entity or of the Company and any additional consideration (the “Alternate Consideration”) receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event (disregarding any limitation on exercise contained herein solely for the purpose of such determination). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any Successor Entity in such Fundamental Transaction shall issue to the Holder a new warrant consistent with the foregoing provisions and evidencing the Holder’s right to exercise such warrant into Alternate Consideration.

4. NON-CIRCUMVENTION. The Company covenants and agrees that it will not, by amendment of its articles of incorporation, bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and non-assessable shares of Common Stock upon the exercise of this Warrant, and (iii) shall, for so long as this Warrant is outstanding, have authorized and reserved, free from preemptive rights, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant (without regard to any limitations on exercise).

5. WARRANT HOLDER NOT DEEMED A SHAREHOLDER. Except as otherwise specifically provided herein, this Warrant, in and of itself, shall not entitle the Holder to any voting rights or other rights as a shareholder of the Company. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a shareholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company.

6. REISSUANCE. If this Warrant is lost, stolen, mutilated or destroyed, the Company will, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant shall be of like tenor with this Warrant, and shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date.

7. TRANSFER.

(a) *Notice of Transfer*. The Holder, by acceptance hereof, agrees to give written notice to the Company before transferring this Warrant or transferring any Warrant Shares of such Holder's intention to do so, describing briefly the manner of any proposed transfer. Promptly upon receiving such written notice, the Company shall present copies thereof to the Company's counsel. If the proposed transfer may be effected without registration or qualification (under any federal or state securities laws), the Company, as promptly as practicable, shall notify the Holder thereof, whereupon the Holder shall be entitled to transfer this Warrant or to dispose of Warrant Shares received upon the previous exercise of this Warrant, all in accordance with the terms of the notice delivered by the Holder to the Company; provided, however, that an appropriate legend may be endorsed on this Warrant or the certificates for such Warrant Shares respecting restrictions upon transfer thereof necessary or advisable in the opinion of counsel and satisfactory to the Company to prevent further transfers which would be in violation of Section 5 of the Securities Act of 1933 and applicable state securities laws; and provided further that the prospective transferee or purchaser shall execute the Assignment of Warrant attached hereto as Exhibit B and such other documents and make such representations, warranties, and agreements as may be required solely to comply with the exemptions relied upon by the Company for the transfer or disposition of the Warrant or Warrant Shares.

(b) If the proposed transfer or disposition of this Warrant or such Warrant Shares described in the written notice given pursuant to this Section 7 may not be effected without registration or qualification of this Warrant or such Warrant Shares, the Holder will limit its activities in respect to such transfer or disposition as are permitted by law.

8. NOTICES. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given in accordance with the notice provisions contained in the Agreement. The Company shall provide the Holder with prompt written notice (i) immediately upon any adjustment of the Exercise Price, setting forth in reasonable detail, the calculation of such adjustment and (ii) at least ten days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the shares of Common Stock, (B) with respect to any grants, issuances or sales of any stock or other securities directly or indirectly convertible into or exercisable or exchangeable for shares of Common Stock or other property, pro rata to the holders of shares of Common Stock or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

9. AMENDMENT AND WAIVER. The terms of this Warrant may be amended or waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Holder.

10. GOVERNING LAW. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by, and construed and enforced in accordance with, the internal laws of the State of New York, without giving effect to the conflicts-of-law principles thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Warrant (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in Hennepin County, Minnesota. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in Hennepin County, Minnesota, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

11. DISPUTE RESOLUTION. A dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company or the Holder (as the case may be) shall submit the disputed determinations or arithmetic calculations via facsimile (a) within two business days after receipt of the applicable notice giving rise to such dispute to the Company or the Holder, as the case may be, or (b) if no notice gave rise to such dispute, at any time after the Holder learned of the circumstances giving rise to such dispute. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three business days of such disputed determination or arithmetic calculation being submitted to the Company or the Holder, as the case may be, then the Company shall, within two business days thereafter submit via facsimile (x) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and reasonably acceptable to the Holder or (y) the disputed arithmetic calculation of the Warrant Shares to the Company's independent public accountant. The Company shall cause at its expense the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten business days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent manifest error.

12. ACCEPTANCE. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

13. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

- (a) "Bloomberg" means Bloomberg Financial Markets.
- (b) "Common Stock" means (i) the Company's common stock, par value \$0.01 per share, and (ii) any share capital into which such common stock shall have been changed or any share capital resulting from a reclassification of such common stock.
- (c) "Principal Market" means the primary national securities exchange on which the Common Stock is then traded.
- (d) "SEC" means the U.S. Securities and Exchange Commission.
- (e) "Trading Day" means (i) any day on which the Common Stock is listed or quoted and traded on its Principal Market, (ii) if the Common Stock is not then listed or quoted and traded on any national securities exchange, then a day on which trading occurs on any over-the-counter markets, or (iii) if trading does not occur on the over-the-counter markets, any business day.
- (f) "Weighted Average Price" means, for any security as of any date, (i) the dollar-volume weighted-average price for such security on the Principal Market during the period beginning at 9:30 a.m., New York City time, and ending at 4:00 p.m., New York City time, as reported by Bloomberg or (ii) if the foregoing does not apply, the dollar-volume weighted-average price of such security in the principal over-the-counter market for such security during the period beginning at 9:30 a.m., New York City time, and ending at 4:00 p.m., New York City time, as reported by Bloomberg, or (iii) if no dollar-volume weighted-average price is reported for such security by Bloomberg for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in OTC Markets. If the Weighted Average Price cannot be calculated for such security on such date on any of the foregoing bases, the Weighted Average Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 11 with the term "Weighted Average Price" being substituted for the term "Exercise Price." All such determinations shall be appropriately adjusted for any share dividend, share split or other similar transaction during such period.

* * * * *

IN WITNESS WHEREOF , the Company has caused this Warrant to Purchase Common Stock to be duly executed as of the Issuance Date set forth above.

CREATIVE REALITIES, INC.

/s/ J OHN W ALPUCK

JOHN WALPUCK

Chief Financial Officer

EXHIBIT A

EXERCISE NOTICE

[To be executed by the registered holder to exercise this Warrant to Purchase Common Stock]

THE UNDERSIGNED holder hereby exercises the right to purchase _____ of the shares of Common Stock (“Warrant Shares”) of Creative Realities, Inc., a Minnesota corporation (the “Company”), evidenced by the attached copy of the Warrant to Purchase Common Stock (the “Warrant”). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Form of Exercise Price. The Holder intends that payment of the Exercise Price shall be made as (check one):
 - a cash exercise with respect to _____ Warrant Shares; and/or
 - a “Cashless Exercise” with respect to _____ Warrant Shares.
2. Payment of Exercise Price. In the event that the holder has elected a cash exercise with respect to some or all of the Warrant Shares to be issued pursuant hereto, the holder shall pay the Aggregate Exercise Price in the sum of \$ _____ to the Company in accordance with the terms of the Warrant.
3. Delivery of Warrant Shares. The Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

Date: _____

(Print Name of Registered Holder)

By: _____
Name: _____
Title: _____

EXHIBIT B

ASSIGNMENT OF WARRANT

[To be signed only upon authorized transfer of the Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto _____ the right to purchase _____ shares of common stock of Creative Realities, Inc., to which the within Warrant to Purchase Common Stock relates and appoints _____, as attorney-in-fact, to transfer said right on the books of Creative Realities, Inc. with full power of substitution and re-substitution in the premises. By accepting such transfer, the transferee has agreed to be bound in all respects by the terms and conditions of the within Warrant.

Dated: _____

(Signature) *

(Name)

(Address)

(Social Security or Tax Identification No.)

* The signature on this Assignment of Warrant must correspond to the name as written upon the face of the Warrant to Purchase Common Stock in every particular without alteration or enlargement or any change whatsoever. When signing on behalf of a corporation, partnership, trust or other entity, please indicate your position(s) and title(s) with such entity.

NEITHER THIS NOTE NOR ANY OF THE SECURITIES ISSUABLE UPON CONVERSION HEREOF HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. BY ACQUIRING THIS NOTE, THE HOLDER AGREES TO NOT SELL OR OTHERWISE DISPOSE OF THIS NOTE OR ANY SECURITIES INTO WHICH IT MAY BE CONVERTED WITHOUT REGISTRATION OR THE APPLICABILITY OF AN EXEMPTION FROM REGISTRATION UNDER THE AFORESAID ACTS AND THE RULES AND REGULATIONS THEREUNDER.

SECURED CONVERTIBLE PROMISSORY NOTE

\$1,000,000.00

February 18, 2015

FOR VALUE RECEIVED, Creative Realities, Inc., a Minnesota corporation (the “Company”), Creative Realities, Inc., a Utah corporation, Creative Realities, LLC, a Delaware limited liability company, and Wireless Ronin Technologies Canada, Inc., a Canada corporation (collectively, “Makers”), hereby jointly and severally promise to pay to the order of Mill City Ventures III, Ltd., or its successors, heirs or assigns (“Holder”), in lawful money of the United States of America, the principal sum of \$1,000,000, together with interest on the outstanding principal amount under this Secured Convertible Promissory Note (this “Note”) outstanding from time to time. This Note is being issued by Maker in connection with the execution and delivery of that certain Securities Purchase Agreement (the “Purchase Agreement”) dated the date hereof by and between Maker and Holder. Capitalized terms not defined herein shall have the meaning set forth in the Purchase Agreement.

1. Interest. Unless adjusted under Section 6.3, the interest on the outstanding principal amount of this Note shall accrue from the date hereof until payment in full at an annual rate equal to twelve percent (12%) (the “Interest Rate”), be payable monthly in arrears within five Business Days of the end of each calendar month after the date hereof (and commencing on March 6, 2015), and upon the Maturity Date, as defined below, or conversion or repayment pursuant to Section 3 or 4. Interest shall be calculated on the basis of a 365-day year, based on the actual number of days elapsed, and shall be payable in cash.

2. Maturity Date. Unless converted by Holder pursuant to the terms of Section 4, the principal amount of this Note, together with any remaining accrued but unpaid interest thereon, shall be due and payable in full on August 18, 2016 (“Maturity Date”).

3. Prepayment.

3.1 Optional Prepayment. At any time Maker may prepay all or any portion of the outstanding principal balance or accrued but unpaid interest hereunder upon at least ten days prior written notice to Holder, for a price equal to the sum (the “Prepayment Amount”) of (i) the then-outstanding principal to be prepaid, plus (ii) all accrued but unpaid interest thereon; provided, however, that any principal amount prepaid under this Section must be accompanied by the payment of a minimum amount of interest that, when aggregated with earlier payments of interest hereunder, equals at least 365 days of interest thereon calculated at the Interest Rate.

3.2 *Qualified Financings* . The Company shall provide Holder with at least ten days prior written notice before consummating an offering of equity securities, equity-linked securities, or debt securities of the Company in which the gross proceeds to be received by the Company equal, as of the date of such notice, and when aggregated with all prior financings involving the sale of equity securities, equity-linked securities, or debt securities of the Company from and after the date hereof (but exclusive of the amounts borrowed under this Note), at least \$3.5 million (a “Qualified Financing”). Within the ten-day period after the giving of such notice by the Company, Holder shall determine at its option whether to convert this Note pursuant to Section 4 or to elect repayment under this provision. If Holder fails to give written notice of any such election prior to the expiration of the ten-day period, then Holder shall be deemed to have elected repayment. If repayment is elected (or deemed elected) by Holder, the Company shall pay to Holder, at the time of consummation of the Qualified Financing, all then-outstanding principal of this Note plus all accrued and unpaid interest thereon.

3.3 *Change in Control Transaction* . The Company shall provide Holder with at least ten days prior written notice before consummating a Change in Control Transaction (as defined below). Within the ten-day period after the giving of such notice by the Company, Holder shall determine at its option whether to convert this Note pursuant to Section 4 or to elect repayment under this provision. If Holder fails to give written notice of any such election prior to the expiration of the ten-day period, then Holder shall be deemed to have elected repayment. For purposes of this Note, a “Change in Control Transaction” will mean the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events: (i) the sale of a majority of the assets of the Company; (ii) any Exchange Act Person, as defined below, becomes the owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s then-outstanding securities by virtue of a merger, consolidation or similar transaction; or (iii) there is consummated a merger, consolidation or similar transaction involving the Company (specifically including any triangular merger or consolidation) and, immediately after the consummation of such transaction, the shareholders of the Company immediately prior thereto do not own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving entity in such merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control Transaction will not be deemed to occur (1) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person acquiring the Company’s securities in a transaction or series of related transactions the primary purpose of which is to obtain financing through the issuance of equity securities, or (2) solely because or to the extent that the level of ownership held by any Exchange Act Person exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company, thereby reducing the number of shares outstanding. For purposes of this Note, “Exchange Act Person” shall mean any corporation, partnership, incorporated entity, unincorporated entity or association, or trust (each a “Person”), plus any individual natural person or “group” within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, together with any affiliates of the foregoing; provided, however, that “Exchange Act Person” will not include: (i) the Company or any subsidiary of the Company; (ii) any employee benefit plan of the Company or any subsidiary of the Company or any trustee or other fiduciary holding securities under an employee-benefit plan of the Company or any subsidiary of the Company; (iii) an underwriter temporarily holding securities pursuant to an offering of such securities; (iv) any Person owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of capital stock of the Company; or (v) any Person, individual natural person or “group” that, as of the original issue date of this Note and together with any affiliates of such Person, individual natural person or group, is the owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s then-outstanding securities.

4. Conversion; Repayment.

4.1 *Optional Conversion* . The unpaid principal amount of this Note or any accrued but unpaid interest thereon may at any time be converted, in whole or in part from time to time, at the option of the Holder, into shares of Common Stock at a conversion price equal to \$0.33 per share (the “Conversion Price”), subject, however, to adjustment pursuant to Section 4.3.

4.2 *Conversion Procedure* . In order for Holder to convert this Note into shares of Common Stock pursuant to Section 4.1, Holder shall surrender this Note to the Company accompanied by an executed conversion notice, the form of which is attached hereto as Exhibit A (the “Conversion Notice”). The Conversion Notice shall state the name or names (with address(es)) in which the certificate(s) for shares of Common Stock issuable upon such conversion (the “Conversion Shares”) shall be issued, and the amount of principal and accrued interest to be converted. On or before the third Trading Day (the “Conversion Share Delivery Date”) following the date on which the Company shall have received the Conversion Notice, Make shall (or direct its transfer agent to) either (1) deliver the Conversion Shares to Holder by crediting the account of Holder’s prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system if the Company is then a participant in such system and either (x) there is an effective registration statement permitting the resale of the Conversion Shares by the Holder or (y) the Conversion Shares are eligible for resale without volume or manner-of-sale limitations pursuant to Rule 144 (delivery pursuant to this clause (1) being referred to as “DWAC Delivery”), or otherwise (2) issue and dispatch by overnight courier to the address as specified in the Conversion Notice, a certificate, registered in the Company’s share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such conversion. If the Company is able to deliver Conversion Shares through DWAC Delivery but fails to deliver such Conversion Shares by the Conversion Share Delivery Date, the Company shall pay to Holder, in cash as liquidated damages and not as a penalty, \$20 per Trading Day for each \$1,000 of Conversion Shares subject to such delay.

4.3 *Equitable Adjustment* . If the Company, at any time while this Note is outstanding, shall (a) pay a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock, (b) subdivide outstanding shares of Common Stock into a larger number of shares, (c) combine (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (d) issue shares of capital stock by reclassification, then the Conversion Price shall be equitably adjusted based upon the proportionate increase of outstanding shares resulting from such action. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of shareholders entitled to receive such dividend, distribution or actual conversion and shall become effective immediately after the effective date in the case of a subdivision, conversion, combination or re-classification; provided, however, that the issuance by the Company, to any employees, directors or consultants of the Company, of any options or warrants to purchase Common Stock shall not in any event result in an adjustment of the Conversion Price pursuant to this paragraph.

4.4 *Beneficial Ownership Limitations* . The Company shall not effect any conversion of the Note, and a Holder shall not have the right to convert any portion of the Note, to the extent that, after giving effect to the conversion set forth on the applicable Notice of Conversion, such Holder (together with such Holder's "affiliates," as such term is defined in Rule 405 under the Securities Act, and any Persons acting as a group together with such Holder or any of such Holder's affiliates) would beneficially own in excess of the Beneficial Ownership Limitation, as defined below. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by such Holder and its affiliates shall include the number of shares of Common Stock issuable upon conversion of the Note with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which are issuable upon (i) conversion of the remaining unconverted portion of the Note beneficially owned by such Holder or any of its affiliates and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company that are subject to a limitation on conversion or exercise analogous to the limitation contained herein (including without limitation the Warrants) beneficially owned by such Holder or any of its affiliates. Except as set forth in the preceding sentence, for purposes of this Section, beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act. To ensure compliance with this restriction, each Holder will be deemed to represent to the Company each time it delivers a Notice of Conversion that such Notice of Conversion has not violated the restrictions set forth in this Section and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act.

For purposes of this Section, in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as stated in the most recent of the following: (i) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (ii) a more recent public announcement by the Company or (iii) a more recent written notice delivered to Holder by the Company or the transfer agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm to such Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including the Note, by such Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of Conversion Shares upon conversion of any portion of the Note by the Holder. Upon no fewer than 61 days' prior written notice to the Company, a Holder may increase or decrease the Beneficial Ownership Limitation provisions of this Section applicable to its conversion rights under this Note, provided that the Beneficial Ownership Limitation in no event exceeds 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of Conversion Shares upon conversion of this Note and the provisions of this Section shall continue to apply. Any such increase or decrease will not be effective until the 61st day after such notice is delivered to the Company and shall only apply to such Holder and no other holder of a similar promissory note of the Company. The limitations contained in this paragraph shall apply to a successor holder of this Note.

5. No Fractional Shares. No fractional shares of Common Stock shall be issuable upon conversion of this Note, or upon the payment of any interest hereunder, and the amount of such shares of Common Stock issuable shall be rounded down to the nearest whole number of shares of Common Stock.

6. Default.

6.1 *Events of Default*. The occurrence of any one or more of the following events shall constitute an event of default hereunder (“Event of Default”):

(a) Maker fails to make any payment of principal when due under this Note, which failure continues for a period of five Business Days;

(b) Maker fails to make any payment of interest when due under this Note, which failure continues for a period of five Business Days;

(c) Maker fails to observe and perform any other covenant or agreement on the Maker’s part to be observed or performed under this Note, which failure continues for a period of five Business Days after notice of such failure has been delivered to Maker;

(d) Maker fails to observe and perform any of the covenants or agreements on their part to be observed or performed under any Transaction Document and such failure shall continue for more than five Business Days after notice of such failure has been delivered to Maker;

(e) the Company (on a consolidated basis with all of its Subsidiaries) fails to maintain a 2:1 ratio of (i) accounts receivable plus cash to (ii) the outstanding principal amount of the Note, as measured at the end of each month during which there is an outstanding principal amount under this Note, beginning as of April 30, 2015; provided, however, that Maker shall have a 15-day period in which to cure any default occurring under this paragraph (e) by delivering a consolidated balance sheet to Holder, certified by the Company, evidencing compliance with the above-described ratio;

(f) the Company admits in writing its inability to pay its debts generally as they become due, files a petition in bankruptcy or a petition to take advantage of any insolvency act, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, on a petition in bankruptcy filed against it be adjudicated a bankrupt, or files a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof;

(g) a court of competent jurisdiction enters an order, judgment or decree appointing, without the consent of the Company, a receiver of the Company or of the whole or any substantial part of its property, or approving a petition filed against the Company seeking reorganization or arrangement of the Company under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of entry thereof; or

(h) any court of competent jurisdiction assumes custody or control of the Company or of the whole or any substantial part of its property under the provisions of any other law for the relief or aid of debtors, and such custody or control is not be terminated or stayed within 90 days from the date of assumption of such custody or control.

6.2 *Notice by Maker* . Maker shall notify Holder in writing as soon as practicable under the circumstances, but in any event within five days after the occurrence of any Event of Default of which Maker obtains actual knowledge.

6.3 *Remedies* . Upon the occurrence of any Event of Default, (i) the entire unpaid principal balance hereunder plus all interest accrued and unpaid thereon and all other sums due and payable to Holder under this Note shall, at the option of Holder, become due and payable immediately without presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor, all of which are hereby expressly waived by Maker and (ii) the Interest Rate on any principal balance and accrued but unpaid interest shall increase to an annual rate equal to eighteen percent (18%). To the extent permitted by law, Maker waives the right to and stay of execution and the benefit of all exemption laws now or hereafter in effect. In addition to the foregoing, upon the occurrence of any Event of Default, Holder may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Holder at law, equity or otherwise.

6.4 *Remedies Cumulative, Etc* . No right or remedy conferred upon or reserved to Holder under this Note, or now or hereafter existing at law or in equity or by statute or other legislative enactment, is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and concurrent, and shall be in addition to every other such right or remedy, and may be pursued singly, concurrently, successively or otherwise, at the sole discretion of Holder, and shall not be exhausted by any one exercise thereof but may be exercised as often as occasion therefor shall occur. No act of Holder shall be deemed or construed as an election to proceed under any one such right or remedy to the exclusion of any other such right or remedy; furthermore, each such right or remedy of Holder shall be separate, distinct and cumulative and none shall be given effect to the exclusion of any other.

6.5 *Costs and Expenses* . Maker will pay upon demand all reasonable costs and expenses of Holder, including reasonable attorneys' fees, incurred by Holder in enforcing its rights and remedies hereunder. If Holder brings suit (or files any claim in any bankruptcy, reorganization, insolvency or other proceeding) to enforce any of its rights hereunder and shall be entitled to judgment (or other recovery) in such action (or other proceeding), then Holder may recover, in addition to all other amounts payable hereunder, its reasonable expenses in connection therewith, including reasonable attorneys' fees, and the amount of such expenses shall be included in such judgment (or other form of award).

7. Exchange or Replacement of Note.

7.1 *Exchange* . At its option, Holder may in person or by duly authorized attorney surrender this Note for exchange at the office of Maker, and at the expense of Maker receive in exchange therefor a new Note in the same aggregate principal amount as the aggregate unpaid principal amount of the Note so surrendered and bearing interest at the same annual rate as the Note so surrendered, each such new Note to be dated as of the original issue date and to be in such principal amount and payable to such person or persons, or order, as such holder may designate in writing.

7.2 *Replacement* . Upon receipt by Maker of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note and (in case of loss, theft or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, Maker will make and deliver a new Note of like tenor in lieu of this Note.

8. General Provisions.

8.1 *Amendments, Waivers and Consents* . This Note may be amended, modified or supplemented, and waiver or consents to departures from the provisions of the Note may be given, if Maker and Holder both consent or agree in writing to the amendment, modification, waiver or consent.

8.2 *Severability* . In the event that for any reason one or more of the provisions of this Note or their application to any person or circumstance shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provision shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

8.3 *Assignment; Binding Effect* . Maker may not assign this Note without the prior written consent of Holder. Any attempted assignment in violation of this Section shall be null and void. Subject to the foregoing, this Note inures to the benefit of Holder, its successors and assigns, and binds each of the Maker, and its successors and permitted assigns. The words “Holder” and “Maker” herein shall be deemed and construed to include such respective successors and assigns.

8.4 *Notice* . All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable courier service with charges prepaid, or (iv) transmitted by hand delivery or facsimile, addressed as set forth on the signature pages hereto or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated on the signature page hereto (if delivered on a Business Day during normal business hours where such notice is to be received), or the first Business Day following such delivery (if delivered other than on a Business Day during normal business hours where such notice is to be received) or (b) on the second Business Day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur.

8.5 *Governing Law* . All questions concerning the construction, validity, enforcement and interpretation of this Note will be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the conflicts-of-law principles thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Note (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in Hennepin County, Minnesota. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in Hennepin County, Minnesota, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

8.6 *Waiver of Jury Trial* . TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, EACH MAKER AND HOLDER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS NOTE OR ANY OTHER TRANSACTION DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

* * * * *

IN WITNESS WHEREOF, Maker has executed and delivered this Note as of the date first stated above.

MAKER

CREATIVE REALITIES, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

BROADCAST INTERNATIONAL, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

CREATIVE REALITIES, LLC

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

**WIRELESS RONIN TECHNOLOGIES CANADA,
INC.**

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

EXHIBIT A

**CREATIVE REALITIES, INC.
SECURED CONVERTIBLE PROMISSORY NOTE**

CONVERSION NOTICE

To Whom It May Concern:

The undersigned holder of this Note hereby exercises the option to convert this Note, plus accrued and unpaid interest, in whole or in part as set forth below, into shares of common stock of Creative Realities, Inc., a Minnesota corporation, in accordance with the terms of the Secured Convertible Promissory Note, dated February 18, 2015, and directs that the shares issuable and deliverable upon the conversion be issued in the name of and delivered to the undersigned unless a different name has been indicated below.

Dated: _____

Amount of principal to be converted: \$ _____

Amount of accrued but unpaid interest: \$ _____

If shares are to be issued otherwise than to owner, please provide the Tax Identification Number of Transferee:

Signature of Holder

(If applicable, please print name and address of transferee (including zip code))

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this “Agreement”) is entered into as of February 18, 2015, by and between Creative Realities, Inc., a Minnesota corporation (the “Company”), those subsidiaries of the Company party hereto (collectively with the Company, the “Obligors” and each, an “Obligor”), and Mill City Ventures III, Ltd. (the “Secured Party”) under that certain Securities Purchase Agreement with the Company dated of even date herewith (the “Purchase Agreement”). Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to them in the Purchase Agreement.

NOW, THEREFORE, Obligors agree with Secured Party as follows:

1. Definitions. All terms defined in the Uniform Commercial Code of the State of Minnesota (the “UCC”) and used herein, unless otherwise defined herein, shall have the same definitions herein as specified in the UCC.
 2. Security Interest. Each Obligor hereby grants Secured Party a security interest in its accounts receivable, whether now owned or hereafter acquired or arising, and all proceeds of such accounts receivable (collectively, the “Collateral”).
 3. Obligations Secured. The security interest granted in this Agreement shall secure all of the obligations of the Company under the Note offered and sold pursuant to the Purchase Agreement, and all extensions, renewals or modifications thereof.
 4. Authorization to File Financing Statements. Each Obligor hereby irrevocably authorizes Secured Party at any time and from time to time to file in such form and in such offices as the Secured Party reasonably determines appropriate to perfect the security interests granted hereunder any initial financing statements and amendments thereto (and continuations thereof) that (a) indicate the Collateral as the accounts receivable of each Obligor, and (b) contain any other information required by Article 9 of the UCC or its equivalent in any foreign jurisdiction. Each Obligor agrees to furnish any such information to Secured Party promptly upon request.
 5. Ownership. Each Obligor represents and warrants that it owns, and to the extent that the Collateral is to be acquired after the date hereof will own, the Collateral free from encumbrance. Each Obligor will defend the Collateral against all claims of all persons at any time claiming the Collateral or any interest in the Collateral, except Secured Party.
 6. Representations, Warranties and Covenants Concerning Collateral. Each Obligor represents and warrants that no financing statement covering the Collateral is on file in any public office. Each Obligor warrants that (a) its exact legal name is as stated on the signature page of this Agreement, (b) it is an organization of the type and organized in the jurisdiction set forth on the signature page of this Agreement, and (c) its place(s) of business, its chief executive office and its mailing address, are set forth on the signature page of this Agreement. Each Obligor agrees that it will not change its name, any place of business, any location of its collateral, its mailing address or its chief executive office without giving at least 30 days prior written notice to Secured Party. The Collateral is and will remain personal property. The Obligors shall not change their type of organization, jurisdiction of organization or other legal structure without the prior written consent of Secured Party. Each Obligor hereby appoints Secured Party as its attorney-in-fact to do all acts and things which Secured Party may deem necessary to perfect and to continue perfected the security interest created hereby and to protect and to preserve the Collateral.
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7. Other Actions as to any and all Collateral. Each Obligor further agrees to take any other action reasonably requested by Secured Party to ensure the attachment, perfection and priority of, and the ability of Secured Party to enforce, Secured Party's security interest in any and all of the Collateral.

8. No Sale or Transfer. No Obligor may sell or transfer the Collateral except in the ordinary course of business prior to the occurrence of a Default. A sale or transfer in the ordinary course of business does not include a sale or transfer in partial or total satisfaction of a debt, or in bulk.

9. Inspection and Taxes. Each Obligor will at all reasonable times during normal business hours allow Secured Party and its agents, employees, attorneys or accountants to examine, inspect and make extracts from such Obligor's books and other records. Obligors will pay when due all taxes and assessments on the Collateral.

10. Costs. The Company agrees to pay all reasonable out-of-pocket fees, costs and expenses incurred in connection with any filing required hereunder, including without limitation, any financing statements pursuant to the UCC or similar laws, continuation statements, partial releases and/or termination statements related thereto or any expenses of any searches reasonably required by the Secured Party. If an Obligor fails to perform any of its duties hereunder, Secured Party may, but shall not be required to, do so on any Obligor's behalf. If an Obligor defaults under this Security Agreement, each Obligor will pay the costs, including the reasonable actual attorneys' fees, of Secured Party incurred in enforcing this Agreement. Any amounts expended by Secured Party in performing an Obligor's duties or enforcing this Security Agreement shall be payable by the Obligors to Secured Party on demand and shall bear interest at the rate applicable from time to time under the Note held by Secured Party. Any liability arising under this Section 10 will be joint and several among the Obligors.

11. Default. Obligors will each be in default under this Security Agreement upon the happening of any of the following events (each a "Default"): (a) an Obligor's failure to perform when due any of the obligations hereunder required to be performed by it (after giving effect to any applicable cure period); (b) the occurrence of any "Event of Default" as defined in the Note; or (c) any representation or warranty made by an Obligor herein is false or misleading in any material respect.

12. Remedies. This Agreement and Secured Party's rights under this Agreement or under applicable law may be enforced by Secured Party, at its discretion, against any one or more of the parties referred to above which are encompassed within the term Obligor, without any need to bring any enforcement action against the other parties who are encompassed within the term Obligor. At any time during the continuance of a Default, Secured Party may declare any or all monetary obligations under the Note due and payable, and shall have the remedies of Secured Party under the Uniform Commercial Code. Secured Party may take possession of the Collateral with or without judicial process. Secured Party may require any Obligor to assemble the Collateral and make it available to Secured Party. Secured Party will give the Obligors reasonable notice of the time that any intended sale or disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if the notice is mailed, postage prepaid, to any Obligor at least 20 calendar days before the time of the sale or disposition.

13. No Waivers. No waiver by Secured Party of any Default shall operate as a waiver of any other Default or of the same Default on a future occasion. The acceptance of this Security Agreement will not waive or impair any other security that Secured Party may have or hereafter acquire for the obligations secured hereunder, nor will the taking of any additional security waive or impair the rights granted in this Security Agreement. Secured Party may resort to any security it may have in any order it deems proper, and may apply any payments made on any part of the obligations secured hereunder to any part of such obligations, despite any directions of an Obligor to the contrary. No delay or omission of the Secured Party to exercise, and no course of dealing with respect to, any right, power or remedy accruing upon the occurrence and during the continuance of any Default as aforesaid shall impair any such right, power or remedy or shall be construed to be a waiver of any such Default or an acquiescence therein.

14. Governing Law; Binding Effect. This Security Agreement shall be governed by the laws of the State of New York without regard to its conflicts-of-law principles, and shall inure to the benefit of, and bind, Secured Party and each Obligor and their respective successors and assigns. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Security Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in Hennepin County, Minnesota. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in Hennepin County, Minnesota, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Security Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. No provision of this Security Agreement shall be amended, modified or waived other than by a written instrument that refers to this Security Agreement and is signed on behalf of Secured Party.

15. Termination. This Agreement shall terminate upon the indefeasible satisfaction and payment of all obligations owed to Secured Party by each Obligor, but shall automatically be reinstated with no further action by any party hereto, in the event any such payment is or is ordered to be returned by Secured Party for any reason whatsoever, including without limitation the insolvency, bankruptcy or reorganization of any Obligor, and each Obligor shall sign and deliver to the Secured Party all documents, and shall do such other acts and things, as may be necessary to reinstate and perfect the Secured Party's security interest.

16. Consent to Jurisdiction . AT THE OPTION OF SECURED PARTY, THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL OR STATE COURT SITTING IN NEW YORK, NEW YORK, OR IN ANY OTHER JURISDICTION WHERE THE COLLATERAL IS LOCATED; AND EACH PARTY CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT ANY PARTY COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, SECURED PARTY AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

* * * * *

IN WITNESS WHEREOF , the undersigned parties have set their hands to this Security Agreement to be effective as of the date first set forth above.

CREATIVE REALITIES, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

BROADCAST INTERNATIONAL, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

CREATIVE REALITIES, LLC

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

WIRELESS RONIN TECHNOLOGIES CANADA, INC.

By: /s/ John Walpuck
John Walpuck
Chief Financial Officer

OBLIGOR INFORMATION:

Obligor	Jurisdiction of Organization; Type of Organization	Address
Creative Realities, Inc.	Minnesota (corporation)	55 Broadway, 9th Floor New York, New York 10006
Broadcast International, Inc.	Utah (corporation)	6952 S. High Tech Drive Suite C, Salt Lake City, Utah 84047
Creative Realities, LLC	Delaware (limited liability company)	55 Broadway, 9th Floor New York, New York 10006
Wireless Ronin Technologies Canada, Inc.	Canada (corporation)	4510 Rhodes Drive, Suite 800, Windsor, Ontario

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

I, John J. Walpuck, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2015, of Creative Realities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 2, 2015

By: /s/ John J. Walpuck
John J. Walpuck
Interim Chief Executive Officer, Chief Operating
Officer and Chief Financial Officer

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

In connection with the Quarterly Report of Creative Realities, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Walpuck, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: July 2, 2015

By: /s/ John J. Walpuck
John J. Walpuck
Interim Chief Executive Officer, Chief Operating
Officer and Chief Financial Officer