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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Creative Realities, Inc.

Rating: Speculative Buy

Howard Halpern

November 13, 2023

CREX $2.06 — (NASDAQ)

	2021 A	2022 A	***2023 E***	***2024 E***
Total Revenues (in millions)	$18.4	$43.4	***$46.7***	***$70.0***
Earnings (loss) per share	$0.06*	$0.28**	***($0.52)****	***$0.25***

52-Week range	$4.00 – $1.22	Fiscal year ends:	December
Shares outstanding a/o 11/9/23	10.4 million	Revenue/shares (ttm)	$5.36
Approximate float	7.4 million	Price/Sales (ttm)	0.4X
Market Capitalization	$21.4 million	Price/Sales (2024) E	0.3X
Tangible Book value/shr	($2.21)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2024) E	8.2X

*All per share figures reflect a 1 for 3 reverse stock split effective March 27, 2023 *Includes an estimated net gain of $0.99 per share for certain items **Includes an estimated net gain of $1.78 per share for certain items ***Includes an estimated loss of ($0.17) per share related to equity guarantee charge*

Creative Realities, Inc., headquartered in Louisville, KY, provides a complete suite of digital solutions that enhance communications within the digital signage market. The company deploys the hardware, designs and manages the content on its digital signage platforms, as well as providing media advertising services in the following markets: automotive, advertising networks, apparel & accessories, convenience stores, food and quick service restaurants, gaming, theater, and stadium venues. Recurring revenue is derived from subscription licensing of its content management software offerings.

Key Investment Considerations:

Maintaining Speculative Buy rating but reducing our twelve-month price target to $5.50 per share from $6.50 per share due to a reduction in our 2024 sales per share forecast stemming from an increased share count.

Creative Realities has substantial growth potential for its end-to-end digital signage technology offerings in the US and international markets. Analysts project the US digital signage market growing 7.9% annually to $11.5 billion in 2028, up from an estimated $7.8 billion in 2023.

Reinforcing our 2023 and 2024 forecasts is guidance provided on November 9, 2023 by management that indicates strong 4Q34 revenue growth and 2024 revenues should range from $60 million to $80 million depending on project deployments and ramp of recurring revenue. CREX had a record high backlog of approximately $110 million. We forecast an annual recurring revenue run rate of $18.8 million entering 2024.

CREX reported (on 11-9-23) a 3Q23 loss per share of ($0.22) on revenue of $11.6 million. Excluding items, the loss per share was ($0.06) in 3Q23. In 3Q22, after excluding gains the loss per share was ($0.15) on revenue of $11.2 million. We projected a loss per share of ($0.07) on revenue of $12.6 million.

For 2023, we project a loss of ($0.52) per share on 7.7% revenue growth to $46.7 million. We previously forecast a loss per share of ($0.40) on revenue of $46.7 million. Our forecasts reflect 3Q23 results, company guidance, and approximately ($0.17) in charges related to fair value of equity guarantee.

For 2024, we project EPS of $0.25 on 49.9% revenue growth to $70 million. We previously forecast EPS of $0.35 per share on revenue of $70 million. Our revenue forecast anticipates a revised customer deployment schedule and increasing annual recurring revenue customer base. Our reduced EPS forecast is due primarily to an increased average share count to 10.4 million from our prior forecast of 7.8 million.

Please view our Disclosures on pages 14 - 16

Appreciation Potential

Maintaining Speculative Buy rating but reducing our twelve-month price target to $5.50 per share from $6.50 per share due to a reduction in our 2024 sales per share forecast reflecting an increased share count from the company's public offering of 3 million common shares in August 2023. Our rating and price target reflects the company's ability to leverage the more than 300,000 combined devices it manages within its network of digital signage customers. The February 2022 acquisition of Reflect Systems should support CREX's efforts to leverage its customer base through the addition of a technology suite of media advertising offerings enabling CREX to provide complete end-to-end solutions within the digital signage market. Entering 4Q23, the company had a record high backlog of approximately $110 million and an annual recurring revenue run rate of $15.6 million (up from $15.2 million entering 3Q23) We project entering 2024, CREX should generate an annual recurring revenue run rate of approximately $15.8 million and ending 2024 with a run rate approaching $18 million.

Our 12-month price target of $5.50 per share implies shares could appreciate more than 2.6-fold over the next twelve months. According to finviz.com, the average price-to-sales multiple for companies with similar to larger market capitalizations in the software application and infrastructure sectors is 1.7X (prior was 1.8X), compared to Creative Realities trailing price-to-sales multiple of 0.4X (prior was 0.6X). We anticipate investors are likely to accord CREX a multiple between the sector's multiple and its current trailing multiple due to projected sales growth of nearly 50% in 2024. We applied a price-to-sales multiple of 1X (prior was 1.1X) to our 2024 sales per share forecast of $6.72 (prior was $8.92), discounted for execution risks, to obtain a year-ahead price target of approximately $5.50 per share.

Creative Realities' valuation should improve as it reports revenue growth, generates sustained operating profits, and grow cash earnings. We anticipate the company generating an operating profit of $5.2 million in 2024, up from $85,000 in 2023 compared to an operating loss of $1.9 million (excluding $592,000 in acquisition related transaction costs) in 2022. In 2024, CREX should generate cash earnings of $7 million, up from estimated cash earnings of $2.7 million in 2023. Cash earning in 2022 was $2.6 million.

We believe Creative Realities is most suitable for risk tolerant investors seeking exposure to an emerging growth company providing digital signage and digital marketing solutions to its customers.

Overview

Creative Realities, Inc., headquartered in Louisville, KY, provides a complete suite of digital solutions that enhances communications with in the digital signage market. Digital signage utilize systems that deliver and display visual content such as digital images, video, streaming media, and marketing information that are managed by a content management system. The company deploys the hardware, designs and manages the content on its digital signage platforms, as well as provides media advertising services through the 1Q22 acquisition of Reflect Systems. CREX offerings are deployed to customers in the following markets, automotive, advertising networks, apparel & accessories, convenience stores, food service and quick service restaurants, gaming, theater, and stadium venues. CREX's recurring SaaS revenue is generated from subscription licensing of its content management software offerings that include its Reflect Systems media technology platform.

In February 2022, CREX acquired Reflect Systems, Inc., a Texas based provider of digital signage solutions, including software, and strategic and media services to a wide range of companies. Reflect's digital signage technology offerings power hundreds of thousands of active digital displays in the US, as well as assisting those customers with monetizing their digital media advertising networks.

Recent Developments

In August 2023, the company announced a new channel sales program the will be led by industry veteran Dave Petricig in order to complement its established direct enterprise sales efforts. The new program will take advantage of the company's established digital signage software platforms that includes ReflectView and Clarity, as well as its AdLogic platform for advertising monetization. Each of these platforms are positioned to be resold using a recurring sales model.

In September 2023, CREX extended its partnership with the Target Center (which is home to the NBA's Minnesota Timberwolves and the Minnesota Lynx of the WNBA) to transform the fan experience with advanced digital signage technology. The partnership call for will upgrading the arena's full internet TV and digital signage platforms, including software, displays and video walls, as well as deliver content creation design and optimization strategy.

In October 2023, Creative Realities announced a partnership with coffee franchise The Human Bean to redefine customer experiences across their vast network of drive-thru locations.

On November 8, 2023, Dennis McGill resigned as Chairman and as a director of the Creative Realties for family reasons effective immediately. Richard Mills, the company's CEO was appointed to serve as Chairman of the Board Following Mr. McGill's resignation, the Board of Directors approved a reduction in the size of the Board to four directors.

Operations

Creative Realities reports its revenue generating operations within two segments, hardware from the reselling of digital signage hardware from original equipment manufacturers such as Samsung and BrightSign, and services and other. Other revenue includes recurring subscription content management licensing and support revenue from its digital signage software technology platforms.

CREX's technology suite of digital signage solutions has the ability to deliver an integrated, omni-channel digital ecosystem that leverages data and analytics to drive consumer behavior. The data analytics technology offered to customers is designed to be adaptive, meaning the technology learns, responds, and changes the digital content displayed in real time through CREX's content management system.

Creatives Realities technology platforms are built in the cloud and manage more than 300,000 combined devices within its cloud-based digital signage network. The company can deploy hardware through a nationwide network of field technicians and then have its technology platforms reside at its network operations center located in Louisville, KY, that operates 24 hours a day, 7 days a week. The company's team provides creative design and content management capabilities that enable the installed digital signage to effectively connect a customer's brand and products to consumers. CREX also provides its customers with technologies in the areas of data analytics and content optimization, and data integration and development. Creative Realities believes it has a unique approach to data-driven design and measurement that enables it to ensure its customers have a positive and expanding return on investment by leveraging neuromarketing (refers to the measurement of physiological and neural signals to gain insight into customers' motivations, preferences, etc.) principals for future content optimization.

The company's newest offerings should enable it to rapidly expand and provide its existing customers with a network monetization strategy. CREX acquired its AdTech technology platform through the February 2022 acquisition of Reflect Systems. This new recurring revenue technology is the platform by which digital media advertising on existing digital signage can be delivered, scheduled, and developed from a centralized location.

Growth Strategy

Creative Realities aims to leverage its end-to-end technology platform within the intersection of event, retail, and out of home digital advertising technology markets, which could approximate over $38 billion globally by 2028. CREX's new digital advertising offering should allow for leveraging of its existing customer base as it has already begun marketing to their existing customers the Reflect AdLogic recurring revenue advertising management offering. As customers adopt this offering they should be able to monetize their already established digital signage screens with targeted advertising consumers. This growth should occur organically by cross selling its newly acquired technology platform and media advertising offerings to its existing customer base, as well as obtaining new customers by positioning itself as a provider of end-to-end digital signage technology solutions. Creative Realities intends to market its content management technology platforms to Reflect Systems' customer base, but more importantly work toward becoming a single integrated unit to gain new customers.

The company will be launching a channel partner program targeting small-to-medium sized business customers working with smaller integrators. The opportunity to roll out a channel partner program should enable CREX to leverage its digital signage solutions to integrators under a recurring revenue subscription license.

In 2023, CREX intends to launch a generative artificial intelligence solution that will be designed to change its content management application by deliver to customers a more contextual messaging that should drive consumer behavior and improve operational throughput, basket size, and profitability.

CREX is in a position to maintain and refresh its record backlog of approximately $110 million. The company announced an additional agreement with Starlite Media to supply and deploy up to 5,000 displays in conjunction with the expansion of their network at an initial deployment commitment valued at $2 million to CREX and approximately $50 million of additional backlog at full deployment.

In August 2024, the company will be Panera Bread's digital signage solution for both indoor and digital drive-thru beginning with new construction and remodel sites. It is anticipated the first deployments could occur as early as September 2023. Panera has over 2,000 locations and 1,000 drive-thru. This engagement should build overtime as Panera's franchises seek to modernize their stores and enhance revenue opportunities which CREX's solution provide.

The company intends to make target acquisitions of smaller market participants that generate revenue of $3 million to $10 million and 1 or 2 large customers. After an acquisition is made, CREX will cross sell its offerings and services, expand the number of devices on its digital signage network, move those customers onto its unified content management offerings, eliminate overhead, and drive scale and operating income.

Projections

Basis of Forecast

Our forecast reflects last year's acquisition of Reflect Systems that enables cross-selling of their digital signage platforms and media technology offerings to existing CREX customers, and selling and deploying hardware to Reflects' customers. CREX has a record high backlog of approximately $110 million and an annual recurring revenue run rate of $15.6 million entering 4Q23. We forecast an annual recurring revenue run rate of at least $15.8 million entering 2024 and approximately $18 million at the end of 2022. The backlog includes the marketing partnership with the Bowling Proprietors Association of America and Strike Ten Entertainment to become their official digital signage and digital menu board provider. In August 2023, management indicated that its Bowling Proprietors deployment experienced unanticipated third party supply chain delays for certain route/switch equipment. While resolved, the supply chain issue caused delays that impacted 3Q23 revenue results. Overall, this project began to roll by the end of 3Q23 and into 4Q24. Base on increased deployment visibility, CREX expects to generate revenue between $60 million and $80 million in 2024.

We are not forecasting (only recording what CREX reports) income tax expense as the company had approximately $10.7 million in federal and state net operating loss carryforwards at December 31, 2022.

Economy

In September 2023, the International Monetary Fund (IMF) revised its global economic growth estimates of 3% for 2023 and 2.9% for 2024. In July 2023, the IMF's prior projections called for growth of 3% in both 2023 and 2024.

The IMF revised its economic growth estimate for the US to an increase of 2.1% for 2023 and 1.5% for 2024. In July 2023, the IMF projected US economic growth of 1.8% and 1% for 2023 and 2024, respectively. The increase reflects stronger than anticipated consumption amid tight labor markets.

Operations 2023

We project 7.7% total revenue growth to $46.7 million (unchanged) reflecting service and other sales growth of 10.4% to $25.9 million from $23.5 million in 2022 due to increases in recurring revenue. We anticipate hardware sales increasing 4.6% to $20.8 million from $19.9 million base on company guidance issued on November 9, 2023.

We forecast gross profit increasing 16.2% to $20.6 million from $17.7 million in 2022 due primarily to revenue growth and gross margin expansion to 44.1% from 40.9% last year. We anticipate service and other gross margin of 60.6% compared to 61.6% in 2022. We estimate hardware gross margin improving to 23.7% from 16.5% in 2022.

We expect operating expenses increasing 3.2% to $20.5 million from $19.9 million in 2022, with the year-ago period excluding deal and transaction costs of $592,000 and bad debt expense of $164,000. We anticipate sales and marketing expense increasing 38.1% to $5 million from $3.7 million last year in order to facilitate continue growth in the company's backlog. We forecast D&A expense of $3.2 million compared to $2.8 million in the year-ago period along with R&D expense increasing by $210,000 to $1.5 million. We anticipate partly offsetting the increase in operating expenses is likely to be a decrease in G&A expense to $10.8 million from $11.7 million in 2022 as higher personnel costs are more than offset by reductions in merger related expenses that will not recur in the current period

We project a swing to operating income of $85,000 compared to an operating loss of $1.7 million (includes excludes items). The improvement reflects revenue growth, gross margin expansion, and operating expense margin improving to 44% compared to 45.9% (excluding items) in 2022.

We anticipate non-operating expense of $4.4 million (of which nearly $3.1 million is interest expense) compared to income of $4.4 million in 2022. In the year-ago period interest expense was $2.7 million. Non-operating income last year reflects $7.9 million positive change in fair value of warrant liability and other income and a positive change of $1.1 million related to equity guaranty, partly offset by a $237,000 negative change in fair value of settlement of obligations, and a $1.2 million debt waiver charge along with a $345,000 charge related to a warrant amendment. The current period reflects a $1.5 million negative change in equity guaranty.

We project a loss of ($0.52) per share, which includes approximately ($0.17) in charges related to fair value of equity guarantee. We previously forecast a loss per share of ($0.40) that did not include any charges.

Finances
We forecast 2023 cash earnings of $2.7 million and a decrease in working capital of $4.5 million resulting in cash from operations of $7.2 million. Cash from operations and net proceeds for nearly $5.5 million should cover capital expenditures, capitalized software development, and repayment of debt obligations increasing cash by $7.3 million to $8.9 million at December 31, 2023.

Operations – 2024
We project 49.9% total revenue growth to $70 million (unchanged) reflecting service and other sales growth of 33.8% to $34.7 million from an estimated $25.9 million in 2023 due to increases in recurring revenue stemming from deployments made in 2H23 and through 2024. We anticipate hardware sales increasing nearly 70% to $35.4 million from an estimated $20.8 million in 2023 due to an expanding customer base and the company's deployment to a large customer regains traction and picks up momentum in 1H24.

We forecast gross profit increasing 37.4% to $28.3 million from an estimated $20.6 million in 2023 due primarily to revenue growth, partly offset by gross margin compression to 40.5% from an estimated 44.1% in 2023. We anticipate service and other gross margin of 58%, down from an estimated 60.6% in 2023. We estimate hardware gross margin of 23.3% from an estimated 23.7% in 2023. The gross margin compression reflects the sales mix that should shift toward lower margin hardware sales due to initial deployments to new customers.

We expect operating expenses to increase by 12.6% to $23.1 million from an estimated $20.5 million in 2023. We project G&A expense increasing 14.5% to $14.4 million from an estimated $10.8 million in 2023 to support revenue growth. We anticipate sales and marketing expense increasing 20% to nearly $6.1 million from an estimated $5 million in 2023 to support the effort to continue building and refreshing its customer backlog. We forecast D&A and R&D expenses to be flat at $3.2 million and $1.5 million, respectively.

We project operating income increasing to $5.2 million from an estimated $85,000 in 2023. The improvement reflects revenue growth and operating expense margin improving to 33% compared to an estimated 44% in 2023.

We anticipate non-operating interest expense of $2.6 million compared to estimated expense of $3.1 million in 2023. The decrease reflects lower average debt balances.

We project net income of $2.6 million or $0.55 per share on average shares of 10.4 million. We previously projected net income of $2.8 or $0.35 per share on average shares of 7.8 million.

Finances
We forecast 2024 cash earnings of $7 million and a decrease in working capital of $2.8 million resulting in cash from operations of $9.9 million. Cash from operations is unlikely to cover capital expenditures, capitalized software, and repayment of debt obligations, reducing cash by $558,000 to nearly $8.4 million at December 31, 2024.

Digital Signage Market

Creative Realities end-to-end hardware and technology platforms are positioned to take advantage within the digital signage and digital advertising market. Digital signage systems deliver and display content such as digital images, video, streaming media, and information. The displayed content is filed, and the scheduled information is edited in a content management system (CMS). The stored data is distributed to media players installed at various customer locations.

US Digital Signage Market
In 2023, Mordor Intelligence published a report indicating that the US digital signage market is anticipated to reach $11.5 billion by 2028, up from nearly $7.9 billion estimated for 2023 for annualized growth of nearly 7.9%. A primary growth drive for the US digital signage market is the increasing need to enhance a customers' experience therefore within the industry turnkey solutions are seeing huge demand in order to cater to this demand.

Nearly every industry is using or find a place for digital outdoor signage. The most prominent usage is within restaurants (especially within quick serve and drive thru sectors), hotels, retail places, transit facilities, and entertainment events. In 2021, Screen Fluency statistics indicated that as a result of digital signage 76% of American consumers enter stores they had never visited before and 68% of Americans have paid for a product or service because its signage drew their attention.

Global Digital Signage Market
Expert Market Research published a report indicating that the global digital signage market is expected to grow 8% annually to $38.5 billion in 2028 from $24.5 billion in 2022. The growth drivers supporting their forecast include an increasing demand for the digitized promotion of products and services and rapid innovation that should produce a higher quality viewing experience.

3Q23 and 9M23 Results

3Q23 Results
CREX reported total revenue increased 3.5% to $11.6 million from $11.2 million. The increase reflects a $556,000 increase in services and other revenues to $6.7 million driven by a $543,000 gain in media sales attributable to the addition of sales resources and restructuring of third party selling contracts and a $420,000 gain in managed services revenue resulting from growing SaaS license counts, partly offset by a $505,000 decrease in installation services.

While hardware revenues decreased by $168,000 to $4.8 million, new customer deployments contributed $3 million to hardware segment sales.

Gross profit increased 17.5% to $5.1 million from nearly $4.8 million in the year-ago period due primarily to revenue growth and gross margin expansion to 45.8% from 40.4% last year. Gross margin improvement reflects higher hardware segment gross margin of 30.2% compared to 24% in 3Q22. Services and other gross margin improved to 57.1% compared to 53.7% last year. Overall gross margin improvement reflects a favorable revenue mix skewed to higher margin recurring SaaS revenues along with improvement in hardware segment gross margin due to the sale of higher margin custom manufactured kiosks.

Operating expenses increased 11.1% to $5.1 million from $4.6 million (excluding $168,000 in deal/transaction and bed debt expenses) in the year-ago period. While G&A expense decreased $157,000 to $2.6 million, sales and marketing expense increased $583,000 to $1.2 million. D&A expense was $817,000 compared to $885,000 in the year-ago period and R&D expense was $393,000 compared to $238,000 in 3Q22.

The company's generating operating income of $160,000 compared to an operating loss of $116,000 (excluding $168,000 in one-time charges) last year. The swing to an operating profit reflects revenue growth and gross margin improvement.

Non-operating expense was $2.1 million compared to an expense of $280,000 in 3Q23. The current period includes interest expense of $734,000, a negative change in fair value of equity guarantee of $1.4 million, and a $3,000 loss in other. The year-ago period reflects interest expense of $757,000 and positive changes of $442,000 related to fair value of equity guarantee and $37,000 related to settlement obligations. Other was a loss of $2,000 in the year-ago period.

Net loss was $1.9 million or ($0.22) per share on 8.7 million average shares compared to a net loss of $554,000 or ($0.08) per share on 7.3 million average shares in the year-ago period. Excluding other items (except interest expense) the loss per share in the current period was ($0.06). Excluding deal and transaction costs and other items (except interest expense), the loss per share in the year-ago period would have been approximately ($0.12) per share. We projected a loss per share of ($0.07) on revenue of $12.6 million.

9M23 Results

Total revenue decrease 6.5% to $30.7 million from $32.9 million due to a $4.5 million reduction in hardware revenues to $12.5 million, partly offset by a $2.4 million increase in services and other revenues to $18.1 million.

Gross profit increased 12.4% to $14.7 million from $13.1 million in the year-ago period due primarily to gross margin expansion to 47.8% from 39.8% last year.

Operating expenses increased to $15.3 million from $13.7 million (excluding $538,000 in deal/transaction expenses and $106,000 bad debt expense) last year.

The company's operating loss was $630,000 compared to a loss of $624,000 (excluding $644,000 in one-time charges) last year.

In Thousands $	9 Mos. '23	9 Mos. '22	% D
Total revenue	$ 30,708	$ 32,860	**(6.5%)**
Cost of sales	16,018	19,792	**(19.1%)**
Gross Profit	14,690	13,068	**12.4%**
Total Operating Expenses	15,320	14,336	**6.9%**
Operating Income (loss)	(630)	(1,268)	**NMF**
Total Other Income (expense)	(3,653)	4,524	**NMF**
Pre-Tax Income (loss)	(4,283)	3,256	**NMF**
Income Tax Expense (Benefit)	73	46	
Net income (loss)	(4,356)	3,210	**NMF**
Earnings per share	$ (0.56)	$ 0.50	
Avg Shares Outstanding	7,775	6,461	
Adjusted EBITDA	2,270	2,817	
Margin Analysis			
Gross margin	47.8%	39.8%	
Operating margin	(2.1%)	(3.9%)	
Pre-tax margin	(13.9%)	9.9%	

Source: company reports

Non-operating expense was $3.7 million compared to income of $4.5 million in 9M23. The current period includes interest expense of $2.3 million and a negative change in fair value of equity guarantee of $1.5 million, partly offset by a $132,000 gain in other. The year-ago period reflects interest expense of $2 million, a loss on debt waiver consent of $1.2 million, settlement obligations charge of $237,000, which was more than offset by positive changes of $7.9 million change in fair value of warrant liability and $24,000 net gain related to fair value of equity guarantee and warrant amendment.

Net loss was $4.4 million or ($0.56) per share on nearly 7.8 million average shares compared to a net income of $3.2 million or $0.50 per share on 6.5 million average shares in 9M22. Excluding items in the current period the loss per share would have been approximately ($0.37). In the year-ago period, excluding deal and transaction costs and other items (except interest expense), the loss per share would have been approximately ($0.41) per share.

Finances
In 9M23, cash earnings of $1.5 million and a decrease in working capital of $6.8 million resulted in cash from operations of $8.3 million. Cash from operations and net proceeds of nearly $5.5 million from the issuance of common stock covered capital expenditures and repayment of debt obligations. Cash increased by $6.7 million to $8.4 million at September 30, 2023.

Capital Structure
At September 30, 2023, CREX had total debt on its balance sheet of $14.8 million, of which $4.2 million is short-term consisting of a seller note ($521,000) provided to the owners of Reflect Systems that was acquired in February 2022. The seller note is expected to be paid off in February 2024. Also, the company recorded $3.7 million as short-term on a portion of consolidation term loan.

Creative Realities has $9 million (net of $963,000 debt-discount) outstanding on its 8% related party acquisition term loan, which matures in February 2025. The debt was issued with 2.5 million warrants. The company has $1.5 million (net of $282,000 debt-discount) outstanding on its 10% related party consolidation term loan that matures in February 2025. The debt was issued with nearly 2.7 million warrants.

On June 30, 2022, the company amended the terms of its warrants to remove the holder's option to exercise such warrants on a cashless basis utilizing the volume weighted average price. The amendments to the warrants also extend the term for an additional one year. The amendments to the warrants caused them to be accounted for as equity instruments in CREX's financial statements.

During August 2023, the company completed a public offering of its common stock without any warrant coverage. CREX issued 3 million shares of common stock at $2.00 per share. Net proceeds approximated $5.5 million after deducting underwriting fees and offering costs. Based on this offering the company's leverage ratio has improved to 2.6X at September 30, 2023 from 4.9X times as of December 31, 2022 (based on a trailing twelve months adjusted EBITDA). CREX anticipates its leverage ratio should be between 1.2X and 1.5X at the end of 2024 (barring any additional financings or strategic opportunities).

Competitive Landscape

Creative Realities' digital marketing technology and solutions are an evolving business with a fragmented competitive environment. Since the company provides a comprehensive (end-to-end) package of technology and marketing end-solution, it believes there are no direct competitors, only a large number of individual competitors that offer parts of a digital signage solution. Digital signage software competitors include private companies such as Stratacache and Four Winds Interactive. Marketing services and systems integrator competitors include private companies such as Sapient Nitro and SageNet, respectively. Overall some of the individual competitors could have significantly greater financial, technical and marketing resources than CREX and may be able to respond more rapidly to the new or emerging technologies or changes in customer requirements.

Within the digital signage market, the competitive landscape is marked by companies needing to gain and maintain broad market acceptance of their technologies, solutions, services, and platforms, and converting that acceptance into direct and indirect sources of revenue.

Risks

In our view, these are the principal risks underlying the stock.

Operating Losses
At September 30, 2023, the company's accumulated deficit was $54.8 million, up from $50.4 million at December 31, 2022. While CREX reported net income in 2021 and 2022, since 2019, it has yet to generate an annual operating profit. In 2022 the operating loss was slightly less than $2.5 million compared to an operating loss of slightly more than $2.5 million in 2021. While we anticipate the company generating operating income through our forecast

period, if our expectations are not achieved, it could result in the company's inability to execute its growth strategy during our forecast period.

Reliance on related party for financing operations – Going Concern

As of September 30, 2023, we estimate CREX's largest shareholder and investor, Slipstream Communications LLC owned 96% of its outstanding debt instruments, including two term loans, and has a beneficial ownership of 38% of outstanding common stock (on an as-converted, fully diluted basis). Pursuant to a second amended and restated credit and security agreement the company is required and began to make monthly repayments of principal its consolidation term loan (dated September 1, 2023). The monthly principal payment are approximately $370,000 and will continue each month until the maturity date on February 17, 2025, with total principal repayments of over $4.4 million. Management's plans do not alleviate substantial doubt CREX's ability to continue as a going concern.

Dilution

In February 2022, Creative Realities completed financing in order to complete the acquisition of Reflect Systems. The equity financing part of the acquisition which includes common stock and the exercise of some common stock warrants increased total shares outstanding. There are approximately 5.8 million common stock warrants outstanding (reflects the March 27, 2023 1 for 3 reverse stock split). Holders must pay cash to exercise outstanding warrants. So while outstanding shares could increase the company's cash balances would also increase.

The company has an at-the-market offering agreement in place to sell shares of its common stock to investors in the market, which if executed would be dilutive to shareholders. If CREX were to raise additional capital through issuances of equity or convertible debt securities, it would likely be dilutive to existing shareholders.

Supply Chain

The company's operations include the sale of digital media players and digital displays supplied by third parties, each of which require semiconductors to complete the manufacturing process. Even when inventory is available, the company may experience delays in transportation of these goods from manufacturers.

Regulation

Creative Realties operations are subject to regulation by various federal and state governmental agencies due to its radio frequency emission activities that are regulated by the U.S. Federal Communications Commission, and consumer protection laws of the U.S. Federal Trade Commission, as well as product safety regulatory activities of the U.S. Consumer Product Safety Commission, and environmental regulations.

Acquisition Risks

The company utilizes acquisitions as part of its growth strategy. Acquisitions that expand the company's operations in North America or in other parts of the world are likely to require management's time and effort in executing the acquisition and then consolidating it into existing operations. The diversion of management could diminish growth activities on existing operations.

Intellectual Property

Some of the company's operations involves ownership and licensing of software. The company is aware that this industry is characterized by frequent intellectual property claims and litigation. Any litigation to determine the validity claims, would likely be costly and time consuming and divert the efforts and attention of management and technical personnel, which would likely hamper current and future operations.

Cyber Security

The company could be adversely affected by malicious applications that make changes to its customers' computer systems and interfere with the operation of those systems. The ability to provide customers with a superior interactive marketing technology experience is critical to the company's success so if the efforts to combat these malicious applications fail, there may be claims based on such failure, as well of having CREX's reputation be harmed, which could potentially diminish its operations and financial condition.

Shareholder Control

Officers and directors collectively own or have a controlling interest in approximately 16.9% of the company's outstanding voting stock and additionally one shareholder owns approximately 43% of the company's outstanding voting stock as of a May 2023 SEC filing. Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

In 2022, average daily volume was nearly 181,00. Average daily volume decreased over the last three months (ending November 10, 2023) to 57,100. CREX has a float of approximately 7.4 million shares and outstanding shares of 10.4 million.

Creative Realities, Inc.
Consolidated Balance Sheets
FY2020 – FY2024E
(in thousands)

	FY2020A	FY2021A	FY2022A	3Q23A	**FY2023E**	**FY2024E**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 1,826	$ 2,883	$ 1,633	$ 8,376	**$ 8,944**	**$ 8,386**
Accounts receivable, net	2,302	3,006	8,263	5,865	**7,785**	**8,750**
Unbilled receivables	41	369	-	-	**-**	**-**
Inventories, net	2,351	1,880	2,267	2,306	**2,899**	**2,604**
Prepaid expense and other current assets - includes contracts	507	1,634	1,819	960	**1,868**	**1,400**
Total current assets	7,027	9,772	13,982	17,507	**21,495**	**21,140**
Operating lease right-of-use	931	654	1,584	1,198	**1,000**	**1,000**
Property and equipment, net	175	75	201	513	**500**	**490**
Intangible, net	4,955	4,850	23,752	23,975	**21,000**	**18,068**
Goodwill	7,525	7,525	26,453	26,453	**26,453**	**26,453**
Other assets	23	5	43	43	**43**	**43**
Total assets	$ 20,636	$ 22,881	$ 66,015	$ 69,689	**$ 70,491**	**$ 67,194**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Short-term seller note payable	1,637	-	1,248	521	**315**	**-**
Short-term related party convertible loans payable	-	-	1,251	3,690	**2,553**	**1,537**
Short-term term loan	-	-	2,000	-	**-**	**-**
Accounts payable	1,661	2,517	3,757	3,340	**3,044**	**3,472**
Accrued expenses	2,142	2,110	3,828	4,499	**3,522**	**4,166**
Deferred revenues	764	426	1,223	3,507	**4,500**	**5,500**
Customer deposits	770	1,525	2,478	3,532	**5,000**	**6,000**
Current maturities of operating leases	355	281	711	575	**575**	**575**
Current maturities of financing leases	4	-	-	-	**-**	**-**
Total current liabilities	7,333	6,859	16,496	19,664	**19,508**	**21,250**
Payroll protection program - note payable	1,552	-	-	-	**-**	**-**
Secured promissory note	-	-	208	-	**-**	**-**
Related party acquisition term loan, net	-	-	8,516	9,037	**8,861**	**4,773**
Related party loans payable, net	4,436	4,624	4,349	1,537	**1,537**	**-**
Related party convertible loans payable, at fair value	2,270	2,251	-	-	**-**	**-**
Contingent acquisition consideration, at fair value	-	-	9,789	11,250	**11,250**	**8,375**
Long-term obligations under operating leases	584	373	873	623	**1,758**	**2,200**
Accrued expenses	108	-	-	-	**-**	**-**
Other and deferred tax liabilities	-	45	205	175	**150**	**125**
Stockholders' equity:						
Common stock, $0.01 par value; authorized 200,000 shares;	109	120	72	104	**104**	**104**
Additional paid-in capital	56,712	60,863	75,916	82,064	**82,103**	**82,527**
Retained earnings (accumulated deficit)	(52,468)	(52,254)	(50,409)	(54,765)	**(54,780)**	**(52,160)**
Total stockholders' equity	4,353	8,729	25,579	27,403	**27,427**	**30,471**
Total liabilities and stockholders' equity	$ 20,636	$ 22,881	$ 66,015	$ 69,689	**$ 70,491**	**$ 67,194**
SHARES OUT	3,641	4,003	7,266	10,409	**10,410**	**10,450**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Annual Income Statement
FY2020 – FY2024E
(in thousands)

	FY20 A	FY21 A	FY22 A	**FY23 E**	**FY24 E**
Hardware	$ 8,991	$ 9,450	$ 19,895	**$ 20,806**	**$ 35,350**
Services and other	8,466	8,987	23,455	**25,902**	**34,650**
Total Revenues	$ 17,457	$ 18,437	$ 43,350	**$ 46,708**	**$ 70,000**
Cost of Sales per segement					
Hardware	6,251	6,914	16,613	**15,874**	**27,110**
Services and other	3,085	3,166	8,998	**10,214**	**14,550**
Total Cost of sales	9,336	10,080	25,611	**26,088**	**41,660**
Gross Profit	8,121	8,357	17,739	**20,620**	**28,340**
Operating Expenses:					
Sales and marketing	1,676	1,153	3,651	**5,041**	**6,050**
Research and development	1,083	550	1,251	**1,461**	**1,460**
General and administrative	9,293	7,598	11,728	**10,825**	**12,400**
Depreciation and amortization	1,474	1,364	2,833	**3,208**	**3,210**
Bad debt expense/(recovery)	-	(277)	164	-	-
Deal and transaction costs	-	518	592	-	-
Total Operating Expenses	24,203	10,906	20,219	**20,535**	**23,120**
Operating Income (loss)	(16,082)	(2,549)	(2,480)	**85**	**5,220**
Other income (expense)					
Interest (expense) includes amortization of debt discount	(1,023)	(805)	(2,743)	**(3,054)**	**(2,600)**
Gain (loss) on extinguishment/settlement of obligations	-	3,449	(237)	-	-
Change in fair value of special loan	-	166	-	-	-
Change in fair value of equity guarantee	-	-	1,074	**(1,461)**	-
Warrant amendment	-	-	(345)	-	-
Change in fair value of warrant liability	-	-	7,902	-	-
Loss on fair value of debt and debt waiver consent	(93)	-	(1,212)	-	-
Other income (expense), net	(13)	(7)	(4)	**132**	-
Total Other Income (expense)	(920)	2,803	4,435	**(4,383)**	**(2,600)**
Pre-Tax Income (loss)	(17,002)	254	1,955	**(4,298)**	**2,620**
Income Tax Expense (Benefit)	(158)	22	79	**73**	-
Net income (loss)	(16,844)	232	1,876	**(4,371)**	**2,620**
Earning (loss) per share	$ (4.96)	$ 0.06	$ 0.28	**$ (0.52)**	**$ 0.25**
Avg Shares Outstanding	3,398	3,920	6,664	8,470	**10,418**
Adjusted EBITDA	$ (3,226)	$ 1,221	$ 3,845	**$ 3,850**	**$ 9,610**
Margin Analysis					
Hardware	30.5%	26.8%	16.5%	**23.7%**	**23.3%**
Services and other	63.6%	64.8%	61.6%	**60.6%**	**58.0%**
Total gross margin	46.5%	45.3%	40.9%	**44.1%**	**40.5%**
Sales and marketing	9.6%	6.3%	8.4%	**10.8%**	**8.6%**
Research and development	6.2%	3.0%	2.9%	**3.1%**	**2.1%**
General and administrative	53.2%	41.2%	27.1%	**23.2%**	**17.7%**
Depreciation	8.4%	7.4%	6.5%	**6.9%**	**4.6%**
Operating margin	(92.1%)	(13.8%)	(5.7%)	**0.2%**	**7.5%**
Pre-tax margin	(97.4%)	1.4%	4.5%	**(9.2%)**	**3.7%**
Tax rate	0.9%	8.7%	4.0%	**(1.7%)**	**0.0%**
YEAR / YEAR GROWTH					
Total Revenues	(44.8%)	5.6%	135.1%	**7.7%**	**49.9%**

Source: Company reports and Taglich Brothers estimates

Creative Realities, Inc.
Income Statement Model
Quarters FY2022A – 2024E
(in thousands)

	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 A	FY22 A	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 E	**FY23 E**	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	**FY24 E**
Hardware	$ 6,459	$ 5,667	$ 5,015	$ 2,754	$ 19,895	$ 4,322	$ 3,437	$ 4,847	$ 8,200	**$ 20,806**	$ 9,000	$ 9,850	$ 9,000	$ 7,500	**$ 35,350**
Services and other	4,298	5,256	6,165	7,736	23,455	5,622	5,759	6,721	7,800	**25,902**	7,950	8,150	9,050	9,500	**34,650**
Total Revenues	$ 10,757	$ 10,923	$ 11,180	$ 10,490	$ 43,350	$ 9,944	$ 9,196	$ 11,568	$ 16,000	**$ 46,708**	$ 16,950	$ 18,000	$ 18,050	$ 17,000	**$ 70,000**
Cost of Sales per segement															
Hardware	5,382	4,610	3,811	2,810	16,613	3,206	2,724	3,384	6,560	**15,874**	6,975	7,390	6,930	5,815	**27,110**
Services and other	1,483	1,651	2,855	3,009	8,998	1,649	2,174	2,881	3,510	**10,214**	3,525	3,600	3,750	3,675	**14,550**
Total Cost of sales	6,865	6,261	6,666	5,819	25,611	4,855	4,898	6,265	10,070	**26,088**	10,500	10,990	10,680	9,490	**41,660**
Gross Profit	3,892	4,662	4,514	4,671	17,739	5,089	4,298	5,303	5,930	**20,620**	6,450	7,010	7,370	7,510	**28,340**
Operating Expenses:															
Sales and marketing	707	1,147	718	1,079	3,651	1,136	1,229	1,301	1,375	**5,041**	1,475	1,500	1,525	1,550	**6,050**
Research and development	241	418	238	354	1,251	366	377	393	325	**1,461**	365	365	365	365	**1,460**
General and administrative	2,754	2,562	2,789	3,623	11,728	2,898	2,595	2,632	2,700	**10,825**	2,900	3,050	3,100	3,350	**12,400**
Depreciation and amortization	707	468	885	773	2,833	779	797	817	815	**3,208**	810	805	800	795	**3,210**
Bad debt expense/(recovery)	106	-	58	-	164	-	-	-	-	-	-	-	-	-	-
Deal and transaction costs	391	37	110	54	592	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	4,906	4,632	4,798	5,883	20,219	5,179	4,998	5,143	5,215	**20,535**	5,550	5,720	5,790	6,060	**23,120**
Operating Income (loss)	(1,014)	30	(284)	(1,212)	(2,480)	(90)	(700)	160	715	**85**	900	1,290	1,580	1,450	**5,220**
Other income (expense)															
Interest (expense) includes amortization of debt discount	(449)	(750)	(757)	(787)	(2,743)	(803)	(787)	(734)	(730)	**(3,054)**	(700)	(650)	(635)	(615)	**(2,600)**
Gain (loss) on extinguishment/settlement of obligations	(245)	21	37	(50)	(237)	-	-	-	-	-	-	-	-	-	-
Change in fair value of equity guarantee	-	(73)	442	705	1,074	(76)	(16)	(1,369)	-	**(1,461)**	-	-	-	-	-
Warrant amendment	-	(345)	-	-	(345)	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liability	5,469	2,433	-	-	7,902	-	-	-	-	-	-	-	-	-	-
Loss on fair value of debt and debt waiver consent	(1,212)	-	-	-	(1,212)	-	-	-	-	-	-	-	-	-	-
Other income (expense), net	6	(1)	(2)	(7)	(4)	12	123	(3)	-	**132**	-	-	-	-	-
Total Other Income (expense)	3,569	1,285	(280)	(139)	4,435	(867)	(680)	(2,106)	(730)	**(4,383)**	(700)	(650)	(635)	(615)	**(2,600)**
Pre-Tax Income (loss)	2,555	1,315	(564)	(1,351)	1,955	(957)	(1,380)	(1,946)	(15)	**(4,298)**	200	640	945	835	**2,620**
Income Tax Expense (Benefit)	3	53	(10)	33	79	43	45	(15)	-	**73**	-	-	-	-	-
Net income (loss)	2,552	1,262	(554)	(1,384)	1,876	(1,000)	(1,425)	(1,931)	(15)	**(4,371)**	200	640	945	835	**2,620**
Earning (loss) per share	$ 0.52	$ 0.17	$ (0.08)	$ (0.19)	$ 0.28	$ (0.14)	$ (0.19)	$ (0.22)	$ (0.00)	**$ (0.52)**	$ 0.02	$ 0.06	$ 0.09	$ 0.08	**$ 0.25**
Avg Shares Outstanding	4,873	7,234	7,250	7,300	6,664	7,351	7,406	8,713	10,410	8,470	10,410	10,415	10,420	10,425	**10,418**
Adjusted EBITDA	$ 635	$ 933	$ 1,249	$ 1,028	$ 3,845	$ 957	$ 291	$ 1,022	$ 1,580	**$ 3,850**	$ 2,005	$ 2,390	$ 2,675	$ 2,540	**$ 9,610**
Margin Analysis															
Hardware	16.7%	18.7%	24.0%	(2.0%)	16.5%	25.8%	20.7%	30.2%	20.0%	**23.7%**	22.5%	25.0%	23.0%	22.5%	**23.3%**
Services and other	65.5%	68.6%	53.7%	61.1%	61.6%	70.7%	62.3%	57.1%	55.0%	**60.6%**	55.7%	55.8%	58.6%	61.3%	**58.0%**
Total gross margin	36.2%	42.7%	40.4%	44.5%	40.9%	51.2%	46.7%	45.8%	37.1%	**44.1%**	38.1%	38.9%	40.8%	44.2%	**40.5%**
Sales and marketing	6.6%	10.5%	6.4%	10.3%	8.4%	11.4%	13.4%	11.2%	8.6%	**10.8%**	8.7%	8.3%	8.4%	9.1%	**8.6%**
Research and development	2.2%	3.8%	2.1%	3.4%	2.9%	3.7%	4.1%	3.4%	2.0%	**3.1%**	2.2%	2.0%	2.0%	2.1%	**2.1%**
General and administrative	25.6%	23.5%	24.9%	34.5%	27.1%	29.1%	28.2%	22.8%	16.9%	**23.2%**	17.1%	16.9%	17.2%	19.7%	**17.7%**
Depreciation	6.6%	4.3%	7.9%	7.4%	6.5%	7.8%	8.7%	7.1%	5.1%	**6.9%**	4.8%	4.5%	4.4%	4.7%	**4.6%**
Operating margin	(9.4%)	0.3%	(2.5%)	(11.6%)	(5.7%)	(0.9%)	(7.6%)	1.4%	4.5%	**0.2%**	5.3%	7.2%	8.8%	8.5%	**7.5%**
Pre-tax margin	23.8%	12.0%	(5.0%)	(12.9%)	4.5%	(9.6%)	(15.0%)	(16.8%)	(0.1%)	**(9.2%)**	1.2%	3.6%	5.2%	4.9%	**3.7%**
Tax rate	0.1%	4.0%	1.8%	(2.4%)	4.0%	(4.5%)	(3.3%)	0.8%	0.0%	**(1.7%)**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	115.0%	233.3%	135.2%	94.2%	135.1%	(7.6%)	(15.8%)	3.5%	52.5%	**7.7%**	70.5%	95.7%	56.0%	6.2%	**49.9%**

Source: Company reports and Taglich Brothers estimates

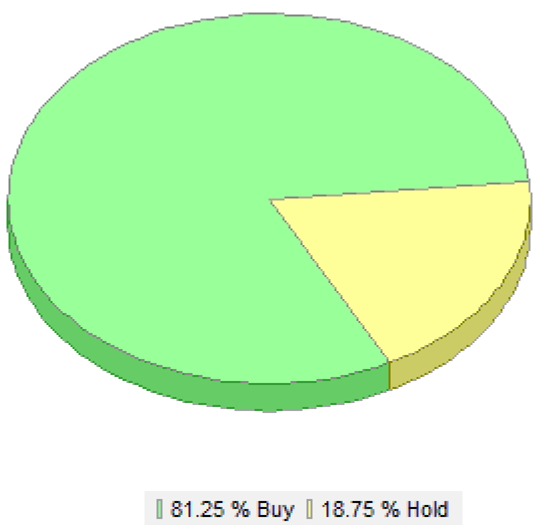
Creative Realities, Inc.
Cash Flow Statement
FY2020 – FY2024E
(in thousands)

	FY2020A	FY2021A	FY2022A	9 Mos. 23A	**FY2023E**	**FY2024E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (16,844)	$ 232	$ 1,876	$ (4,356)	**$ (4,371)**	**$ 2,620**
Depreciation and amortization	1,474	1,364	2,833	2,393	**3,208**	**3,210**
Amortizaton of debt discount	339	159	1,268	1,078	**1,425**	**900**
Stock-based compensation	719	1,893	2,116	539	**589**	**280**
(Gain)/loss on change in fair value of warrant liability	-	-	(7,902)	-	-	-
Allowance for doubful accounts	613	10	398	318	**318**	-
Loss on debt waiver consent	-	-	1,212	-	-	-
Loss on warrant amendment	-	-	345	-	-	-
Employee retention and other government credits	-	(785)	-	-	-	-
Non-cash interest expense on related party loans	517	467	-	-	-	-
Non-cash receivables from in-process projects	-	(369)	-	-	-	-
Non-cash application of customer deposits to completed projects	-	(506)	-	-	-	-
Stock compensation issued to vendors for services	-	130	-	-	-	-
Deferred tax (benefit)/expense	(175)	-	-	44	**44**	-
Gain on forgiveness of PPP loan	-	(1,552)	-	-	-	-
Gain on settlement of seller note	-	(1,538)	-	-	-	-
Loss (gain) on obligation settlement	(209)	(359)	237	-	-	-
Loss on disposal of assets and change in excess/obsotete inventory	13	-	1,275	-	-	-
Loss on fair value of debt	93	(166)	-	-	-	-
Goodwill impairment	10,646	-	-	-	-	-
Loss (gain) on earnout liability and contingent consideration	-	-	(1,074)	1,461	**1,461**	-
Cash earnings (burn)	(2,814)	(1,020)	2,584	1,477	**2,674**	**7,010**
Changes In:						
Accounts receivable and unbilled receivables	1,793	(673)	(3,927)	2,080	**478**	**(965)**
Inventories - work-in-progress	(1,972)	471	(1,472)	(39)	**(632)**	**295**
Prepaid expenses and other current assets	(71)	18	480	859	**(49)**	**468**
Vendor deposits	(116)	(360)	-	-	-	-
Other assets	130	-	-	-	-	-
Operating lease right of use asset, net	149	277	-	-	-	-
Accounts payable and other current payables	3	869	914	(53)	**(713)**	**428**
Deferred revenue	(8)	(338)	(462)	2,284	**3,277**	**1,000**
Accrued expenses, net	(502)	206	1,112	683	**(306)**	**644**
Customer deposits	15	1,261	110	1,054	**2,522**	**1,000**
Operating lease liabilities, net	(139)	(285)	-	-	-	-
Other, net	2	45	(47)	(39)	**(55)**	**(25)**
(Increase)/decrease in Working Capital	(716)	1,491	(3,292)	6,829	**4,522**	**2,845**
Net cash provided (used in) Operations	(3,530)	471	(708)	8,306	**7,196**	**9,855**
Cash Flows from Investing Activities						
Purchase of property and equipment	(92)	(19)	(149)	(287)	**(300)**	**(250)**
Acquisition of a business, net of cash acquired	-	-	(17,186)	-	-	-
Capitalization of internal and external labor for software development	(565)	(1,140)	(4,140)	(2,851)	**(300)**	**(2,500)**
Cash flow provided (used in) Investing Activities	(657)	(1,159)	(21,475)	(3,138)	**(600)**	**(2,750)**
Cash Flows from Financing Activities						
Proceeds from common stock issuance, net of issuance costs	1,831	1,849	-	5,454	**5,454**	-
Proceeds from sale of common stock in PIPE, net of offering expenses	-	-	1,814	-	-	-
Proceeds from sale and exercise of pre-funded warrants in PIPE, net	-	-	8,295	-	-	-
Proceeds from acquisition loan, net	-	-	9,868	-	-	-
Term loan proceeds (repayment)	-	-	2,000	(2,930)	**(3,477)**	**(4,788)**
Proceeds from payroll protection program loan	1,552	-	-	-	-	-
Principal payments on finance leases	(24)	(4)	-	(14)	**(14)**	-
Repayment of short-term related party	-	-	-	-	-	-
Repayment of seller note	-	(100)	(1,044)	(935)	**(1,248)**	-
Proceeds from warrant exercise into common stock	120	-	-	-	-	-
Other financing activities, contingent consideration net	-	-	-	-	-	**(2,875)**
Net cash provided (used) by Financing	3,479	1,745	20,933	1,575	**715**	**(7,663)**
Net change in Cash	(708)	1,057	(1,250)	6,743	**7,311**	**(558)**
Cash Beginning of Period	2,534	1,826	2,883	1,633	**1,633**	**8,944**
Cash End of Period	$ 1,826	$ 2,883	$ 1,633	$ 8,376	**$ 8,944**	**$ 8,386**

Source: Company reports and Taglich Brothers estimates

Price Chart

Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

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I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.