

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

**FORM 10-K**

**(Mark One)**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended **December 31, 2019**
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27408

**SPAR GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**33-0684451**

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

**333 Westchester Avenue, Suite 204, White Plains, New York**

(Address of principal executive offices)

**10604**

(Zip Code)

Registrant's telephone number, including area code: (248) 364-7727

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	SGRP	The NASDAQ Stock Market LLC

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

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Emerging Growth Company

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

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2019, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$7.4 million.

The number of shares of the Registrant's Common Stock outstanding as of March 30, 2020, was 21,100,638 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement on Schedule 14A for the registrant's 2020 Annual Meeting of Stockholders scheduled to be held on May 13, 2020, to be filed with the Securities and Exchange Commission subsequently, are incorporated by reference into Part III of this Form 10-K.

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SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2019 (this "Annual Report"), contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, made by, or respecting, SPAR Group, Inc. ("SGRP") and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"). There also are "forward-looking statements" contained in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on or about May 13, 2020 (the "Proxy Statement"), which SGRP expects to file on or about April 22, 2020, with the Securities and Exchange Commission (the "SEC"), and SGRP's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and statements as and when filed with the SEC (including this Annual Report and the Proxy Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, the "Securities Laws").

All statements (other than those that are purely historical) are forward-looking statements. Words such as "may," "will," "expect," "intend," "believe," "estimate," "anticipate," "continue," "plan," "project," or the negative of these terms or other similar expressions also identify forward-looking statements. Forward-looking statements made by the Company in this Annual Report may include (without limitation) statements regarding: risks, uncertainties, cautions, circumstances and other factors ("Risks"); and plans, intentions, expectations, guidance or other information respecting the pursuit or achievement of the Company's five corporate objectives (growth, customer value, employee development, greater productivity & efficiency, and increased earnings per share), building upon the Company's strong foundation, leveraging compatible global opportunities, growing the Company's client base and contracts, continuing to strengthen its balance sheet, growing revenues and improving profitability through organic growth, new business development and strategic acquisitions, and continuing to control costs. The Company's forward-looking statements also include (without limitation) those made in this Annual Report in "Business", "Risk Factors", "Legal Proceedings", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Directors, Executive Officers and Corporate Governance", "Executive Compensation", "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters", and "Certain Relationships and Related Transactions, and Director Independence".

You should carefully review and consider the Company's forward-looking statements (including all risk factors and other cautions and uncertainties) and other information made, contained or noted in or incorporated by reference into this Annual Report, the Proxy Statement and the other applicable SEC Reports, but you should not place undue reliance on any of them. The results, actions, levels of activity, performance, achievements or condition of the Company (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition) and other events and circumstances planned, intended, anticipated, estimated or otherwise expected by the Company (collectively, "Expectations"), and our forward-looking statements (including all Risks) and other information reflect the Company's current views about future events and circumstances. Although the Company believes those Expectations and views are reasonable, the results, actions, levels of activity, performance, achievements or condition of the Company or other events and circumstances may differ materially from our Expectations and views, and they cannot be assured or guaranteed by the Company, since they are subject to Risks and other assumptions, changes in circumstances and unpredictable events (many of which are beyond the Company's control). In addition, new Risks arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Accordingly, the Company cannot assure you that its Expectations will be achieved in whole or in part, that it has identified all potential Risks, or that it can successfully avoid or mitigate such Risks in whole or in part, any of which could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.

These forward-looking statements reflect the Company's Expectations, views, Risks and assumptions only as of the date of this Annual Report, and the Company does not intend, assume any obligation, or promise to publicly update or revise any forward-looking statements (including any Risks or Expectations) or other information (in whole or in part), whether as a result of new information, new or worsening Risks or uncertainties, changed circumstances, future events, recognition, or otherwise.

## PART I

### Item 1. Business

#### **THE COMPANY'S BUSINESS GENERALLY**

SPAR Group, Inc., a Delaware corporation incorporated in 1995 ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides its merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandise, office supply, grocery, drug, dollar, independent, automotive, convenience, home improvement, and electronics stores. The Company also provides retailers with new store openings, store remodeling and major reset requirements, as well as furniture and other product assembly services in stores, homes and offices and marketing research services. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May 2001. The Company currently does business in 10 countries that encompass approximately 50% of the total world population through its operations in the United States, Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

Merchandising services primarily consist of regularly scheduled, special project and other product services provided at the store level, and the Company may be engaged by either the retailer or the manufacturer. Those services may include restocking and adding new products, removing spoiled or outdated products, resetting categories on the shelf in accordance with client or store schematics, confirming and replacing shelf tags, setting new sale or promotional product displays and advertising, replenishing kiosks, demonstrating or promoting a product, providing on-site audit and in-store event staffing services and providing product assembly services in stores, homes and offices. Other merchandising services include whole store or departmental remodels or resets, including new store openings, new product launches and in-store demonstrations, special seasonal or promotional merchandising, focused product support and product recalls. The Company continues to seek expansion of its merchandising, assembly and marketing services business throughout the world.

See *Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks*, below.

#### ***An Overview of the Merchandising and Marketing Services Industry:***

The merchandising and marketing services industry includes manufacturers, retailers, brokers, distributors and professional service merchandising companies. Merchandising services primarily involve placing orders, shelf maintenance, display placement, reconfiguring products on store shelves and replenishing product inventory. Additional marketing services include, but are not limited to, new store sets and remodels, audits, sales assist, installation and assembly, product demos/sampling, promotion and various others. The Company believes that merchandising and marketing services add value to retailers, manufacturers and other businesses and enhance sales by making a product more visible and more available to consumers.

Historically, retailers staffed their stores as needed to provide these services to ensure that manufacturers' inventory levels, the advantageous display of new items on shelves, and the maintenance of shelf schematics and product placement were properly merchandised. However, retailers, in an effort to improve their margins, have decreased their own store personnel and increased their reliance on manufacturers to perform such services. At one time, manufacturers attempted to satisfy the need for merchandising and marketing services in retail stores by utilizing their own sales representatives. Additionally, retailers also used their own employees to merchandise their stores to satisfy their own merchandising needs. However, both manufacturers and retailers discovered that using their own sales representatives and employees for this purpose was expensive and inefficient. In addition, the changing retail environment, driven by the rise of digital and mobile technology, as well as the increase of online shopping, is fostering even more challenges to the labor model of retailers and manufacturers. These challenges include increased consumer demand for more interaction and engagement with retail sales associates, stores remodels to accommodate more technology, installation and continual maintenance of in-store digital and mobile technology, in-store pick-up and fulfillment of online orders and increased inventory management to reduce out-of-stocks from omnichannel shopping.

Most manufacturers and retailers have been, and SPAR Group believes they will continue, outsourcing their merchandising and marketing service needs to third parties capable of operating at a lower cost or increased efficiencies simultaneously by serving multiple manufacturers. The Company also believes that it is well positioned, as a domestic and international merchandising and marketing services company, to provide these services to retailers, manufacturers and other businesses around the world more effectively and efficiently than other available alternatives.

SPAR Group believes, that while online shopping has changed the way shoppers shop, the merchandising and marketing services business is the continued preference of consumers to shop in stores and their tendency to make product purchase decisions once inside the store. Accordingly, merchandising and marketing services and in-store product promotions have proliferated and diversified. Retailers are continually re-merchandising and re-modeling entire departments and stores in an effort to respond to new product developments and changes in consumer preferences. The Company estimates that these activities will continue to help retailers separate themselves from online options for customers. Both retailers and manufacturers are seeking third party merchandisers to help them meet the increased demand for these labor-intensive services.

In addition, the consolidation of many retailers and changing store formats have created opportunities for third party merchandisers when an acquired retailer's stores are converted to the look and format of the acquiring retailer. In many of those cases, stores are completely remodeled and re-merchandised to implement the new store formats.

SPAR Group believes the current trend in business toward globalization fits well with its expansion model. As companies expand into foreign markets, they will need assistance in merchandising or marketing their products. As evidenced in the United States, retailer and manufacturer sponsored merchandising and marketing programs are both expensive and inefficient. The Company also believes that the difficulties encountered by these programs are only exacerbated by the logistics of operating in foreign markets. This environment has created an opportunity for the Company to exploit its global mobile and data network based technology (as further described below) and its business model worldwide.

***The Company's Domestic and International Segments:***

In order to cultivate and expand the Company's merchandising and marketing service businesses in both domestic and foreign markets, and ensure a consistent approach to those businesses worldwide, the Company has historically divided its world focus into two geographic areas, the United States, which is the sales territory for its Domestic Division, and all locations outside the United States, which are the sales territories for its International Division. To that end, the Company also (1) provides to all of its locations its proprietary digital and mobile based operating, scheduling, tracking and reporting systems (including language translations, ongoing client and financial reports and ongoing IT support), (2) provides and requires all of its locations to comply with the Company's financial reporting and disclosure controls and procedures, ethics code and other policies, (3) provides accounting and auditing support and tracks and reports certain financial and other information separately for those two divisions, and (4) has management teams in its corporate offices responsible for supporting and monitoring the management, sales, marketing and operations of each of the Company's international subsidiaries and maintaining consistency with the Company's other subsidiaries worldwide.

Each of the Company's divisions provides merchandising and other marketing services primarily on behalf of consumer product manufacturers, distributors and retailers at mass merchandise, office supply, grocery, drug, dollar, independent, automotive, convenience, home improvement and electronics stores in their respective territories. SPAR Group's clients include the makers and distributors of general merchandise, health and beauty care, consumer goods, home improvement, home entertainment, and food products in their respective territories.

The Company's international business is conducted through a foreign subsidiary incorporated in its primary territory. The primary territory establishment date (which may include predecessors), the percentage of the Company's equity ownership, and the principal office location for its US (domestic) subsidiaries and each of its foreign (international) subsidiaries is as follows:

<u>Primary Territory</u>	<u>Date Established</u>	<u>SGRP Percentage Ownership</u>	<u>Principal Office Location</u>
<u>Domestic</u>			
United States of America	1979	100%	White Plains, New York
National Merchandising Services, LLC	2012	51%	Fayetteville, Georgia
Resource Plus of North Florida, Inc.	2018	51%	Jacksonville, Florida
<u>International</u>			
Japan	May 2001	100%	Tokyo, Japan
Canada	June 2003	100%	Vaughan, Ontario, Canada
South Africa	April 2004	51%	Durban, South Africa
India	April 2004	51%	New Delhi, India
Australia	April 2006	51%	Melbourne, Australia
China	March 2010	51%	Shanghai, China
Mexico	August 2011	51%	Mexico City, Mexico
Turkey	November 2011	51%	Istanbul, Turkey
Brazil	September 2016	51%	Sao Paulo, Brazil

### ***Financial Information about the Company's Domestic and International Segments:***

The Company provides similar merchandising and marketing services throughout the world, operating within two reportable segments, its Domestic and International Divisions (as described above). The Company tracks and reports certain financial information separately for these two segments using the same metrics. The primary measurement utilized by management is operating profit level, historically the key indicator of long-term growth and profitability, as the Company is focused primarily on reinvesting the operating profits of each of its international subsidiaries back into local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two segments, which includes their respective net revenues and operating income for each of the years ended December 31, 2019 and 2018, and their respective assets as of December 31, 2019 and 2018, is provided in Note 12 to the Company's Consolidated Financial Statements – *Segment Information*, below.

### **THE COMPANY'S BUSINESS STRATEGIES**

As the marketing services industry continues to expand both in the United States and internationally, many large retailers and manufacturers are outsourcing their merchandising and marketing service needs to third-party providers. The Company believes that offering marketing services on a national and global basis will provide it with a competitive advantage. Moreover, the Company believes that successful use of and continuous improvements to its technology infrastructure, including the Company's proprietary global digital and mobile technological systems (including servers and other hardware) and its logistical, communication, scheduling, tracking, reporting and accounting software and applications (the "Global Technology Systems"), is key to providing clients with a high level of client service while maintaining efficient, lower cost operations. The Global Technology Systems use proprietary software and applications of the Company as well as software (including operating system, office, exchange, data base and server programs) licensed and hardware purchased or leased from third parties and telecommunication services provided by third parties. The Global Technology Systems can be accessed through the computers or mobile devices of its authorized personnel and clients and allows the Company to communicate with field management, schedule the store-specific field operations more efficiently, receive information, incorporate, quantify the benefits of its services to clients faster, respond to clients' needs quickly and rapidly implement client programs. The Company's objective is to continue to expand international retail merchandising and marketing services by pursuing its operating and growth strategy, as described below.

### ***Increasing the Company's Sales Efforts:***

The Company is seeking to increase revenues from its current clients, as well as to establish long-term relationships with new clients (many of which currently use other merchandising companies for various reasons). In addition to expanding its direct sales efforts, the Company is working to strengthen the senior executive relationships between the Company and its clients, is executing a marketing plan to expand the Company's presence in media and client channels, and is receiving and responding to an increasing number of requests for proposals ("RFPs") from potential and existing clients. The Company believes its technology, field implementation and other competitive advantages will allow it to capture a larger share of this market over time. However, there can be no assurance that any increased sales will be achieved.

### ***Improving the Company's Operating Efficiencies:***

The Company will continue to seek greater operating efficiencies. The Company believes that its existing field force and technology infrastructure can support additional clients and revenue in both its Domestic and International Divisions.

### ***Developing New Services:***

The Company is seeking to increase revenues through the internal development and implementation of new services as well as industry collaborations that add value to its clients' retail merchandising related activities, some of which have been identified and are currently being tested for feasibility and market acceptance. However, there can be no assurance that any new services will be developed or that any such new service can be successfully marketed.

### ***Leveraging and Improving on the Company's Technological Strengths:***

The Company believes that providing merchandising and marketing services in a timely, accurate and efficient manner, as well as delivering timely, accurate and useful reports to its clients, are key components that are and will continue to be critical to the Company's success. The Company's Global Technology Systems improve the productivity of the services provided by merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), whose services are provided to the Company by an independent third party (the "Independent Field Vendor"), to permit another independent third party (the "Independent Field Administrator") to locate, schedule, deploy and administer domestic Field Specialists using such vendor's local, regional, district and other personnel (each a "Field Administrator"), and to provide timely data to the Company's clients. Field Specialists use smartphones, tablets, laptops, and personal computers to report (through the internet or mobile or telecommunication networks) the status of each store or client product serviced into the Company's Global Technology Systems. Field Specialists report on a variety of issues such as store conditions and status of client products (e.g. out of stocks, inventory, display placement) or they may scan and process new orders for certain products.

The Company's Global Technology Systems include an automated labor tracking system for the Field Specialists to communicate work assignment completion information (via the internet or other telecommunication infrastructure) by using, among other things, smartphones, laptops and personal computers, cellular telephones or landlines. This tracking system enables the Company to report hours and other completion information for each work assignment on a daily basis and provides the Company with daily, detailed tracking of service completion. This information is analyzed and displayed in a variety of reports that can be accessed by both the Company and its clients via a secure website.

The Company believes that it can continue to improve, modify and adapt its technology to support merchandising and other marketing services for additional clients and projects in the United States and in foreign markets. The Company has successfully modified and is currently utilizing certain of its software applications in the operation of its International Division. The Company's Global Technology Systems are developed, operated, managed, maintained, and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A.

Portions of the Company's proprietary scheduling, tracking, coordination, reporting and expense software (the "Co-Owned Software") currently included in the Company's Global Technology Systems are co-owned by the Company and the Company's affiliates, SPAR Business Services, Inc. ("SBS"), and SPAR InfoTech, Inc. ("Infotech"). The Company's Global Technology Systems (including the Co-Owned Software) are maintained and further developed and improved by the Company at its own expense at a cost of \$1.3 million in both 2019 and 2018. See *"An Overview of the Merchandising and Marketing Services Industry"*, above, and *"The Company's Competition"*, below, and Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Other Related Party Transactions and Arrangements*, below.

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada, and as a result, SBS' rights in the Co-Owned Software and Licensed Marks are assets of SBS' estate, subject to sale or transfer in any court approved reorganization or liquidation, and could be acquired by competitors or other adverse or unsavory parties. In addition, Infotech is currently suing the Company in New York and threatening to sue the Company in Romania. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters, Infotech Litigation Against SGRP and SBS Bankruptcy*, below. See also *Dependence Upon and Risks of Services Provided by Independent Contractors, Potential Conflicts with Affiliates*, and *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts* in Item 1A -- Risk Factors, below.

#### ***Acquisition Strategies and Strategic Acquisitions:***

The Company is seeking to acquire businesses or make other arrangements with companies that offer similar merchandising or marketing services both in the United States and worldwide. The Company believes that increasing its industry expertise, further developing and refining its technology systems, adding services, and increasing its geographic breadth and local market depth will allow it to service its clients more efficiently and cost effectively. Through such acquisition strategies, the Company may realize additional operating and revenue synergies and may leverage existing relationships with manufacturers, retailers and other businesses to capitalize on cross-selling opportunities. However, there can be no assurance that any of the acquisition strategies will occur or whether, if completed, the integration of the acquired businesses will be successful or the anticipated efficiencies and cross-selling opportunities will occur. See Item 1 - Business - *The Company's Domestic and International Segments*, above.

One key to the Company's domestic and international expansion strategy is its emphasis on developing, maintaining, improving, deploying and marketing its Global Technology Systems that run on and are developed, managed, maintained and controlled worldwide from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A. The Company's Global Technology Systems are accessible through computers and mobile devices by the local representatives of the Company and its clients in order to enhance local operations, give the Company an important marketing distinction and advantage over its competitors (such as real-time access to field reporting), and provide the Company with a technological means to exercise its supervision and control over its subsidiaries, both domestic and international. The Company provides access to its Global Technology Systems for its worldwide operations through its control center on a real-time basis 24/7/365. In addition, this strategy is strengthened internationally by the Company's internally developed translation software, which allows its current and future programs included in its Global Technology Systems to be available in any language for any market in which it currently operates or desires to enter in the future. See Item 1 - Business - *Leveraging and Improving on the Company's Technological Strengths*, above, and *The Company's Trademarks and Technology*, below.



Another key to the Company's international and domestic expansion is its strategy of seeking a minority (*i.e.*, non-controlling) investor that is experienced (directly or through its principals) in the local area and not otherwise affiliated with the Company (each a "Local Investor") for each new consolidated joint venture subsidiary acquired by the Company. The Company supervision and control over each such consolidated subsidiary is strengthened through its subsidiary documentation and the use of its Global Technology Systems. The Company's supervision and control is further strengthened by its company-wide executive management, administrative support, accounting oversight, procedures and controls (financial and reporting), and corporate codes and policies that apply to each such subsidiary (the Company's "Global Administration", and together with its Global Technology Systems, the Company's "Global Contributions"). The Company also seeks to own a majority (at least 51%) of such a subsidiary's equity while the Local Investor purchases a minority equity interest in it (49% or less). Since 2014 the Company has sought (in the governing documents for each new acquisitions or reorganization) to have a majority of the members of such subsidiary's board of directors, to have all quorums and matters decided by a simple majority of its equity or directors, and to have such subsidiary agree to be bound by the Company's financial and reporting controls and procedures, ethics code, and other corporate codes and policies. In addition to its equity participation, a Local Investor provides certain services and the useful local attention, perspective and relationships of a substantial (although non-controlling) equity owner with a strong financial stake in such subsidiary's success (the "Local Contributions"). The Local Investor also often contributes an existing customer base and a seasoned operating infrastructure as additional Local Contributions to the subsidiary in which it invests. As of the date of this Annual Report, National Merchandising Services, LLC and Resource Plus of North Florida, Inc., in the U.S.A. (see below) and each of the Company's international operating subsidiaries (other than those in Canada and Japan) has a Local Investor. See Item 1A - *Risk Factors - Risks Associated with International and Domestic Subsidiaries, Risks of Having Material Local Investors and Local Executives in International and Domestic Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, Note 2 to the Company's Consolidated Financial Statements – *Summary of Significant Accounting Policies: Principles of Consolidation, Accounting for Joint Venture Subsidiaries*, Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - International Related Party Services and Related Party Transactions and Arrangements in the Brazil Acquisition*, Note 13 to the Company's Consolidated Financial Statements – *Purchase of Interests in Subsidiaries*, below.

#### **DESCRIPTIONS OF THE COMPANY'S SERVICES**

The Company currently provides a broad array of domestic and international services to some of the world's leading companies. The Company believes its full-line capabilities provide fully integrated solutions that distinguish the Company from its competitors. These capabilities include the ability to respond to multi-national client RFPs, to develop plans at one centralized location, to effect chain-wide execution, to implement rapid, coordinated responses to its clients' needs and to report on a real time basis throughout the world. The Company also believes its international presence, industry-leading technology, centralized decision-making ability, local follow-through, ability to perform large-scale initiatives on short notice, and strong retailer relationships provide the Company with a significant advantage over local, regional or other competitors.

The Company currently provides six principal types of merchandising and marketing services: syndicated services, dedicated services, project services, assembly services, audit services and in-store event staffing services.

#### ***Syndicated Services:***

Syndicated services consist of regularly scheduled, routed merchandising and marketing services provided at the retail store level for retailers, manufacturers and distributors. These services are performed for multiple manufacturers and distributors, including, in some cases, manufacturers and distributors whose products are in the same product category. Syndicated services may include activities such as:

- Reordering and replenishment of products
- Ensuring that the Company's clients' products authorized for distribution are in stock and on the shelf or sales floor
- Adding new products that are approved for distribution but not yet present on the shelf or sales floor
- Implementing store planogram schematics
- Setting product category shelves in accordance with approved store schematics
- Ensuring that product shelf tags are in place
- Checking for overall salability of the clients' products
- Placing new product and promotional items in prominent positions
- Kiosk replenishment and maintenance

***DEDICATED SERVICES:***

Dedicated services consist of merchandising and marketing services, generally as described above, which are performed for a specific retailer or manufacturer by a dedicated organization, sometimes including a management team working exclusively for that retailer or manufacturer. These services include many of the above activities detailed in syndicated services, as well as, new store set-ups, store remodels and fixture installations. These services are primarily based on agreed-upon rates and fixed management fees.

***Project Services:***

Project services consist primarily of specific in-store services initiated by retailers and manufacturers, such as new store openings, new product launches, special seasonal or promotional merchandising, focused product support, product recalls, in-store product demonstrations and in-store product sampling. The Company also performs other project services, such as kiosk product replenishment, inventory control, new store sets and existing store resets, re-merchandising, remodels and category implementations, under annual or stand-alone project contracts or agreements.

***Retail New Store Openings and Remodeling Services:***

Retailer specific services consist primarily of in-store services initiated by retailers, such as new store openings, new store sets and existing store resets and remodels, under annual or stand-alone project contracts or agreements.

New store openings and remodels are particularly susceptible to external factors and these projects are being delayed by many clients due to the effects of the Novel Coronavirus. See *Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks*, below.

***Assembly Services:***

The Company's assembly services are initiated by retailers, manufacturers or consumers, and upon request the Company assembles furniture, grills, and many other products in stores, homes and offices. The Company performs ongoing routed coverage at retail locations to ensure that furniture and other product lines are well displayed and maintained, and builds any new items or replacement items, as required. In addition, the Company provides in-home and in-office assembly to customers who purchase their product from retailers, whether in store, online or through catalog sales.

***In-Store Event Staffing Services:***

The Company provides in-store product samplings, in-store product demonstrations and assisted sales in national chains in target markets worldwide.

### **Retail Compliance and Price Audit Services:**

The Company's retail compliance and price audit services are initiated by retailers and manufacturers and focus on the following:

- Validating store promotions
- Confirming the planned placements and layout
- Auditing compliance with corporate branding and signage
- Verifying product placement, displays, point of sale materials, etc.
- Collecting inventory levels and out-of-stock status
- Providing current, accurate pricing intelligence
- Conducting competitive price audits (by product, by market)
- Conducting internal price audits to:
  - o Ensure pricing accuracy and consistency; and
  - o Verify promotional and everyday price changes

### **Other Marketing Services:**

Other marketing services performed by the Company include:

*Mystery Shopping* - Anonymously calling and visiting retail outlets (e.g. stores, restaurants, banks) to check on distribution or display of a brand and to evaluate products, service of personnel, condition of store, etc.

*Data Collection* - Gathering sales and other information systematically for analysis and interpretation.

### **THE COMPANY'S SALES AND MARKETING**

The Company offers global merchandising solutions to clients that have worldwide distribution. This effort is spearheaded out of the Company's headquarters in the United States, and the Company continues to develop local markets through its domestic and international subsidiaries throughout the world.

The Company's marketing and sales efforts within its Domestic Division are structured to develop new national, regional and local business within the United States, including new sales and customers through the Company's acquisitions of existing businesses. The Company's domestic corporate business development team directs its efforts toward the senior management of prospective and existing clients. Marketing and sales targets and strategies are developed at the Company's headquarters and communicated to the Company's domestic sales force for execution. Marketing efforts concentrate on enhancing SPAR's position as an industry leader, promoting its key advantages, strengthening its industry presence and supporting sales. The Company's sales force is located nationwide and works from both the Company's offices and their home offices. In addition, the Company's domestic corporate account executives play an important role in the Company's new business development efforts within its existing manufacturer, distributor and retailer client base.

The Company's marketing and sales efforts within its International Division are structured to develop new national, regional and local business in both new and existing international territories by acquiring existing businesses and within the Company's existing international territories through targeted sales efforts. The Company has an international acquisition team whose primary focus is to seek out and develop acquisitions throughout the world. Marketing and sales targets and strategies are developed within an international subsidiary, in consultation with the Company's U.S. headquarters, with assistance from the applicable Local Investor, and are communicated to the Company's applicable international sales force for execution. The Company's international sales force for a particular territory is located throughout that territory and work from the Company's office in that territory and their home offices. In addition, the Company's international corporate account executives play an important role in the Company's new business development efforts within the Company's existing manufacturer, distributor and retail client base within their respective territories.

As part of the retailer consolidation, retailers are centralizing most administrative functions, including operations, procurement and category management. In response to this centralization and the growing importance of large retailers, many manufacturers have reorganized their selling organizations around a retailer team concept that focuses on a particular retailer. The Company has responded to this emerging trend and currently has on-site personnel in place at select retailers.

The Company's business development process includes a due diligence period to determine the objectives of the prospective or existing client, the work required to satisfy those objectives and the market value of such work to be performed. The Company employs a formal cost development and proposal process that determines the cost of each element of work required to achieve such client's objectives. The Company uses these costs, together with an analysis of market rates, to develop a formal quotation that is then reviewed at various levels within the organization. The pricing of this internal proposal must meet the Company's objectives for profitability, which are established as part of the business planning process. After the Company approves this quotation, a detailed proposal is presented to the Company's prospective or existing client. However, the Company has agreed, and in the future may agree, from time to time to perform services for a client that become or turn out to be unprofitable even though the Company expected to make a profit when agreeing to perform them. See Item 1A – *Risk Factors - Risks of Unprofitable Services, Variability of Operating Results and Uncertainty in Client Revenue, and Risks of Losses and Financial Covenant Violations*, below.

#### **THE COMPANY'S CUSTOMER BASE**

The Company currently represents numerous manufacturers and/or retail clients in a wide range of retail chains and stores worldwide, and its customers (which it refers to as clients) include the following markets:

- Mass Merchandisers
- Pharmacies
- Grocery Stores
- Office Supply Stores
- Dollar Stores
- Automotive Stores
- Convenience Stores
- Specialty Stores
- Electronic Stores
- Home Improvement Stores
- Other retail outlets (such as discount and electronic stores, independents, in-home and in-office, etc.)

The Company did not have any clients that represented 10% or more of the Company's net revenue for the years ended December 31, 2019 and 2018.

#### **THE COMPANY'S COMPETITION**

The marketing services industry is highly competitive. The Company's competition in the Domestic and International Divisions arise from a number of large enterprises, many of which are national or international in scope. The Company also competes with a large number of relatively small enterprises with specific client, channel or geographic coverage, as well as with the internal marketing and merchandising operations of its existing and prospective clients. The Company believes that the principal competitive factors within its industry include development and deployment of technology, breadth and quality of client services, cost, the ability to execute specific client priorities rapidly and consistently over a wide geographic area, and the ability to ideate and operate as a retail business partner delivering value above the base services. The Company believes that its current structure favorably addresses these factors and establishes it as a leader in many retailer and manufacturer verticals. The Company also believes it has the ability to execute major national and international in-store initiatives and develop and administer national and international manufacturer programs. Finally, the Company believes that, through the use and continuing improvement of its Global Technology Systems, other technological efficiencies and various cost controls, the Company will remain competitive in its pricing and services.

## THE COMPANY'S TRADEMARKS AND TECHNOLOGY

The Company has numerous registered trademarks. Although the Company believes its trademarks may have value, the Company believes its services are sold primarily based on breadth and quality of service, cost, and the ability to execute specific client priorities rapidly, efficiently and consistently over a wide geographic area. Certain of the Company's "SPAR" trademarks (the "Licensed Marks") are licensed (i) for use in the United States royalty free and in perpetuity pursuant to license agreements that commenced in 1999 with its affiliates, SBS and Infotech and through SBS its other affiliate, SAS, is permitted to use the Licensed Marks (as defined in *RELATED PARTIES AND RELATED PARTY LITIGATION*, in Item 3, below), (ii) for use worldwide royalty free and in perpetuity pursuant to informal license arrangements with its wholly owned subsidiaries, (iii) for use in their respective jurisdictions royalty free pursuant to license agreements for limited terms with its joint venture subsidiaries (executed contemporaneously with their respective joint venture agreements), and (iv) in the United States for limited terms and modest royalties pursuant to license agreements with the Independent Field Vendor and Independent Field Administrator respectively providing Field Specialists and Field Administrators to the Company domestically that commenced in 2018. Portions of the Company's proprietary scheduling, tracking, coordination, reporting and expense software (the "Co-Owned Software") currently included in the Company's Global Technology Systems are co-owned by the Company, SBS and Infotech. The Company's Global Technology Systems (including the Co-Owned Software) are maintained and further developed and improved by the Company at its own expense at a cost of \$1.3 million in both 2019 and 2018. Except for SBS and Infotech (that do not need such software licenses because of their co-ownership), each subsidiary and vendor trademark license and arrangement also licenses the Co-Owned Software to the licensee. See *An Overview of the Merchandising and Marketing Services Industry, The Company's Competition, and Leveraging and Improving on the Company's Technological Strengths*, in this Item 1 above, and Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Other Related Party Transactions and Arrangements*, below.

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada, and as a result, SBS' rights in the Co-Owned Software and Licensed Marks are assets of SBS' estate, subject to sale or transfer in any court approved reorganization or liquidation, and could be acquired by competitors or other adverse or unsavory parties. In addition, Infotech is currently suing the Company in New York and threatening to sue the Company in Romania. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters, Infotech Litigation Against SGRP and SBS Bankruptcy*, below. See also *Dependence Upon and Risks of Services Provided by Independent Contractors, Potential Conflicts with Affiliates and Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts* in Item 1A -- Risk Factors, below.

## THE COMPANY'S LABOR FORCE

Worldwide the Company utilized a labor force of approximately 22,000 people in 2019, including the services of Field Specialists and Field Administrators furnished by independent third parties.

The Company executes and administers its domestic field services through the services of field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), substantially all of whom are provided to the Company and engaged by independent third parties and located, scheduled, deployed and administered domestically through the services of local, regional, district and other personnel (each a "Field Administrator"), and substantially all of the Field Administrators are in turn are employed by other independent third parties.

As of December 31, 2019, the Company's Domestic Division's labor force totaled approximately 7,800 including the services of Field Specialists and Field Administrators furnished by independent third parties. The Company's Domestic Division employed a labor force of 775 individuals, 735 full-time employees and 40 part-time employees engaged in domestic operations. In the Company's Domestic Division, the Company's merchandising, audit, assembly and other services for its domestic clients are performed by Field Specialists provided by independent third parties, approximately 7,000 of whose services were supplied to the Company since August 2018 by a new independent vendor (the "Independent Field Vendor") under contract and license with the Company (and to the Company's knowledge substantially all of whom were engaged as independent contractors by that vendor). The Field Administrators are provided by other independent third parties, 53 of whom were supplied to the Company since August 2018 by another new independent vendor (the "Independent Field Administrator") under contract and license with the Company. Prior to August 2018, substantially all of the Company's domestic Field Specialists were supplied by the Company's independent affiliate, SBS and substantially all of the Company's domestic Field Administrators were supplied by another of the Company's independent affiliates, SAS. The Company stopped using the services of SBS and SAS after July 2018. See Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, below. See also Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters*, below.

In part as a result of the adverse determination in 2016 in *Clothier* that SBS had misclassified its employees as independent contractors (see Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters - Clothier Case*, below), the Company, with the approval of SGRP's Board of Directors (the "Board") and SGRP's Audit Committee, began an extensive re-programming of its proprietary field service software to accommodate scheduling and compensating a field workforce of part time employees and in May of 2018 shifted to an all employee servicing model for Field Specialist services to support the performance of the Company's services in California for clients in this critical market. Management currently estimates that the potential incremental annual cost of this change in California from third party independent contractors to Company employees was approximately \$300,000 in 2019. The Company continues to reevaluate its business model of using third party independent contractors as Field Specialists elsewhere (whether or not provided by others) in light of changing client requirements and legal and regulatory environments and intends to begin testing an employee based model nationally for certain domestic clients that are requiring the Company to use employees as Field Specialists. The Company expects that using employees as Field Specialists in additional states will cost substantially more than using third party independent contractors for the same services. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters*, and Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, below.

As of December 31, 2019, the Company's International Division's labor force totaled approximately 14,000. Approximately 860 individuals were engaged locally by its foreign subsidiaries, 841 full-time and 15 part-time employees. The International Division's field force consisted of approximately 12,900 Field Specialists engaged locally by our foreign subsidiaries in their respective international operations. See Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - International Related Party Services*, below.

The Company considers its relations with its own employees and independent vendors to be generally good.

#### CORPORATE WEBSITE

The Company's website can be found at: <http://www.sparinc.com>, and the Company's SEC filings are available on that website under the Tab SEC Filings.

#### **Item 1A. Risk Factors**

Investing in SGRP's common stock ("SGRP Common Stock") involves a high degree of risk and is subject to a number of risks, uncertainties, cautions, circumstances and other factors ("Risks") that could cause the Company's actual results to differ materially from those projected or otherwise expected in any forward-looking statements or other information (see *Forward-Looking Statements* immediately preceding Part I, above).

The following are some of the important Risks faced by the Company, but they are not all of the Risks facing the Company. Those Risks listed below are in addition to the Risks and other information contained elsewhere in this Annual Report, the Proxy Statement and the Company's other SEC Reports, and all of them should be carefully considered in evaluating the Company and its business. If any of those Risks occur or become more significant (in whole or in part), or if any presently unknown Risk occurs, it could materially and adversely affect the results, actions, levels of activity, performance, achievements or condition of the Company (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition).

You should carefully review and consider the following Risks as well as those made, contained or noted in or incorporated by reference into this Annual Report, the Proxy Statement or other applicable SEC Report, but you should not place undue reliance on any of them. All forward-looking statements and other information attributable to the Company or persons acting on its behalf are expressly subject to and qualified by all such Risks.

Those Risks reflect our expectations, views and assumptions only as of the date of this Annual Report, and the Company does not intend, assume any obligation, or promise to publicly update or revise any such Risk or information (in whole or in part), whether as a result of new information, new or worsening Risks or uncertainties, changed circumstances, future events, recognition, or otherwise.

#### ***Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks***

Any outbreaks or rapid spread of a contagious disease or other outbreak, or the fear of it, including the recent outbreak of the coronavirus (first detected in Wuhan, China), and other adverse public health developments in countries where the Company operates could significantly disrupt the retail operations of or the global and domestic supply chains for our customers and our work for them. In addition, the coronavirus or other outbreak may result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect retail demand. Any of those events may change or disrupt the needs or demands of the Company's customers and could have a material and adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

The extent to which such coronavirus or other outbreak will impact the Company or its performance or condition will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the geographic spread, severity, treatability and duration of the outbreak, the actions that may be taken by governmental authorities and the Company's customers in response to the outbreak (including quarantines and transportation, border and retail restrictions and closures), and the possible adverse impact of the outbreak on the global economy, systems and telecommunication service cost, quality and availability, credit and capital cost and availability, and insurance cost, coverage and availability.

New store openings and remodels with the Company's assistance are particularly susceptible to external factors and are being delayed by many of the Company's clients due to the effects of the Novel Coronavirus, and the Company is in the process of temporarily furloughing employees to reflect current reduced demands.

#### ***Dependence on Largest Customer and Large Retail Chains***

As discussed above in *Company's Customer Base*, the Company currently does not have a significant customer concentration. However, there can be no assurance that the Company will be able to obtain new business, renew existing client contracts at the same or higher levels of pricing or that our current clients will not turn to competitors, cease operations, elect to self-operate or terminate contracts with us. In addition, consolidation by the Company's clients in the industries it serves could result in our losing business if the combined entity chooses a different provider, and the bankruptcy of a significant customer could result in the loss of substantial receivables or the return of substantial recent payments. The loss of any of its customers, the loss of the ability to provide merchandising and marketing services in those chains, the loss of substantial receivables or payments, or the failure to attract new large clients could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Dependence on Trend Towards Outsourcing***

The business and growth of the Company depends in large part on the continued trend toward outsourcing of merchandising and marketing services, which the Company believes has resulted from the consolidation of retailers and manufacturers, as well as the desire to seek outsourcing specialists to reduce fixed operation expenses and concentrate internal staff on customer service and sales. There can be no assurance that this trend in outsourcing will continue, as companies may elect to perform such services internally. A significant change in the direction of this trend generally, or a trend in the retail, manufacturing or business services industry not to use, or to reduce the use of, outsourced marketing services such as those provided by the Company, could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Dependence on Retailers with Physical Stores***

Retailers with physical store locations are facing increasing consolidation and competition from eCommerce/virtual stores. Some retailers with physical stores have failed, others are struggling, and others are merging in this highly competitive environment. Although the Company's merchandising services help physical retailers in successfully competing against virtual stores, and the Company provides assembly and other services utilized by online retailers, the Company's business and growth depends in large part on the continuing need for in-store merchandising of products and the continuing success of retailers with physical store locations. There can be no assurance that the in-store merchandising of products will increase or even continue at current levels or that retailers with physical store locations will continue to compete successfully in those stores, and some retailers are shifting their sales focus to their virtual online stores. A significant decrease in such need for in-store merchandising or success of such physical stores could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See also *Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks*, above.

### ***Failure to Compete Successfully***

The merchandising and marketing services industry is highly competitive and the Company has competitors that are larger (or part of larger holding companies) and may be better financed. In addition, the Company competes with: (i) a large number of relatively small enterprises with specific client, channel or geographic coverage; (ii) the internal merchandising and marketing operations of its existing and prospective clients; (iii) independent brokers; and (iv) smaller regional providers. Remaining competitive in the highly competitive merchandising and marketing services industry requires that the Company monitor and respond to trends in all industry sectors. There can be no assurance that the Company will be able to anticipate and respond successfully to such trends in a timely manner. If the Company is unable to compete successfully, it could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

If certain competitors were to combine into integrated merchandising and marketing services companies, or additional merchandising and marketing service companies were to enter into this market, or existing participants in this industry were to become more competitive, it could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Risks of Losses and Financial Covenant Violations***

In the past, the Company has suffered operating losses and may suffer operating losses in the future. In addition, certain one-time charges and adverse operating results during 2018 resulted in the Company being in default of certain of its financial covenants with its prior lender.

The Company changed its domestic lender in April 2019 and entered into a new credit facility with increased availability and improved financial and other covenants. See Item 7 – *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 4 to the Company's Consolidated Financial Statements - *Credit Facilities – North Mill Credit Facility*, below. There can be no assurances that in the future: that the Company will be profitable; that the Company will not violate covenants of its current or future credit facilities; that if it does violate them, that the Company's lenders will waive any violations of such covenants; that the Company will continue to have adequate lines of credit; or that the Company will continue to have sufficient availability under its lines of credit. Accordingly, minimal profitability by the Company, additional one-time charges, and changes in the composition and quality of its borrowing base (see Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.), as well as any failure to maintain sufficient availability or lines of credit from the Company's lenders (which may involve their subjective judgment), could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

See also *Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks*, above.

### ***Variability of Operating Results and Uncertainty in Client Revenue***

The Company has experienced and, in the future, may experience fluctuations in quarterly operating results. Factors that may cause the Company's quarterly operating results to vary from time to time and may result in reduced revenue and profits include: (i) the number of active client projects; (ii) seasonality of client products; (iii) client delays, changes and cancellations in projects; (iv) staffing requirements, indemnifications, risk allocations, primary insurance coverages, intellectual property claims, and other contractual provisions and concessions demanded by clients that are unilateral, unreasonable and very time consuming to review and attempt to negotiate; (v) the timing requirements of client projects; (vi) the completion of major client projects; (vii) the timing of new engagements; (viii) the timing of personnel cost increases; (ix) service locations and conditions with higher than contemplated personnel costs (remote areas, higher minimum wages, higher skill sets required, etc.); and (x) the loss of major clients. In addition, the Company is subject to revenue or profit uncertainties resulting from factors such as unprofitable client work (see below) and the failure of clients to pay. These revenue fluctuations could materially and adversely affect the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Risks of Unprofitable Services***

The Company has agreed, and in the future may agree, from time to time to perform services for its clients that become unprofitable even though the Company expected to make a profit when agreeing to perform them. The Company's services for a particular client or project may be or become unprofitable due to mistakes or changes in circumstance, including (without limitation) any (i) mistakes or omissions made in investigating, evaluating or understanding any relevant circumstance, requirement or request of the Company's client or any aspect of the prospective services or their inherent problems, (ii) mistakes made in pricing, planning or performing the prospective service, (iii) service non-performance, or free re-performance, (iv) changes in cost, personnel, regulations or other performance circumstances, (v) service locations and conditions with higher than contemplated personnel costs (remote areas, higher minimum wages, higher skill sets required, etc.); or (vi) costs of settling or defending indemnifications, risk allocations, primary insurance coverages, intellectual property claims, or other contractual provisions or concessions. Unprofitable services could reduce the Company's net revenues and, if material in gross amount or degree of unprofitability, could materially and adversely affect the Company or its actual, expected, performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Failure to Develop New Services***

A key element of the Company's growth strategy is the development and sale of new services. While several new services are under current development, there can be no assurance that the Company will be able to develop and market new services successfully. The Company's inability or failure to devise useful merchandising or marketing services or to complete the development or implementation of a particular service for use on a large scale, or the failure of such services to achieve market acceptance, could adversely affect the Company's ability to achieve a significant part of its growth strategy and the absence of such growth could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected and could limit the Company's ability to significantly increase its revenues and profits.

### ***Return Risks on Software Capital Expenditures***

All software requires continual work and improvements to maintain function, industry compatibility, and relevance. The Company has made and will continue to make significant investments in maintaining and improving its existing Global Technology Systems and developing new software, applications and systems, which is a complex and lengthy process and totaled \$1.3 million in both 2019 and 2018, for capitalized software improvement and development. The Company may not have sufficient funds for such maintenance or improvements and may not be able to charge its clients for such maintenance or improvements or otherwise recover its costs. New software, applications and developments may never occur or become marketable, chargeable or profitable. However, a failure to maintain or improve its existing Global Technology Systems or develop new software, applications or systems could result in a loss of clients.



The failure by the Company to maintain or improve its existing Global Technology Systems or develop successfully new software, applications or systems (including unrecovered development costs or client attrition) could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

#### ***Inability to Identify, Acquire and Successfully Integrate Acquisitions***

Another key component of the Company's growth strategy is the acquisition of businesses across the United States and worldwide that offer similar merchandising or marketing services. The successful implementation of this strategy depends upon the Company's ability to identify suitable acquisition candidates, acquire such businesses on acceptable terms, finance the acquisition and consolidate and integrate their operations successfully with those of the Company. There can be no assurance that such candidates will be available or, if such candidates are available, that the price will be attractive or that the Company will be able to identify, acquire, finance, consolidate or integrate such businesses successfully. In addition, in pursuing such acquisition opportunities, the Company may compete with other entities with similar growth strategies; these competitors may be larger and have greater financial and other resources than the Company. Competition for these acquisition targets could also result in increased prices of acquisition targets and/or a diminished pool of companies available for acquisition.

The successful integration of these acquisitions also involves a number of additional risks, including: (i) conflicts between the clients of the acquired business and the clients of the Company; (ii) the inability to retain the clients of the acquired business; (iii) the lingering effects of poor client relations or service performance by the acquired business, which also may negatively affect the Company's existing business; (iv) the inability to retain over the long term the desirable management, key personnel and other employees of the acquired business; (v) the inability to fully realize the desired efficiencies and economies of scale; (vi) conflicts between the management of the acquired business and the management of the Company; (vii) the inability to establish, implement or police the Company's existing standards, controls, procedures and policies on the acquired business; (viii) the diversion of management's attention from the day-to-day business of the Company to acquisition-related matters; and (ix) exposure to client, employee and other legal claims for activities of the acquired business prior to acquisition. In addition, any acquired business could perform significantly worse than expected. Resolving those issues can be particularly difficult in a joint venture acquisition where management of the acquired business retain or obtain a significant (generally 49%) interest in the acquired business. See also *Risks of Having Material Local Investors and Local Executives in International and Domestic Subsidiaries* and *Risks Associated with International Business*, below.

The inability to identify, acquire, finance and successfully integrate such merchandising or marketing services business could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

#### ***Uncertainty of Financing for, and Dilution Resulting from, Future Acquisitions and Settlements***

The timing, size and success of acquisition and litigation settlement efforts and any associated capital commitments cannot be readily predicted. Future acquisitions and litigation settlements may be financed by issuing shares of the SGRP Common Stock, cash, or a combination thereof. If the SGRP Common Stock does not maintain a sufficient market value, or if potential acquisition candidates or litigants are otherwise unwilling to accept the SGRP Common Stock as part of the consideration for the sale of their businesses or settlement of their litigation, the Company may be required to obtain additional capital through debt or equity financings. To the extent the SGRP Common Stock is used for all or a portion of the consideration to be paid for future acquisitions or legal settlements, dilution may be experienced by existing stockholders. A "super majority" vote of at least 75% of all SGRP directors is now required for any SGRP stock issuance of more than 500,000 SGRP shares (other than pursuant to stockholder approved plans) and such issuance can be blocked by any two directors acting on behalf of any group (including the Majority Stockholders). In addition, there can be no assurance that the Company will be able to obtain the additional financing it may need for its acquisitions or litigation settlements on terms that the Company deems acceptable. Failure to obtain such capital would materially and adversely affect the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Reliance on the Global Technology System and Third Party Vendors***

The Company relies on its Global Technology Systems for (among other things) the scheduling, tracking, coordination and reporting of its merchandising and marketing services. In addition to proprietary software and applications of the Company, the Global Technology Systems use and rely upon software (including operating system, office, exchange, data base and server programs) licensed and hardware purchased or leased from third parties and telecommunication services provided by third parties, which third party software, hardware and telecommunication services may not continue to be available at all or (if available) with the necessary access, uptime, speeds or bandwidth, at reasonable prices or on commercially reasonable terms. See *Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks*, above. Any defect, error or other performance failure in such third-party software, hardware or service also could result in a defect, error or performance failure in our client services. Systems can experience excess traffic and related inefficiencies, from increased demand or otherwise, as well as increased cyberattacks by hackers and other saboteurs. To the extent that systems experience increased demands on current capacity and for additional capacity from (among other things) an increase in the numbers of users, frequency or duration of use, bandwidth requirements of software, applications and users (including the increasing demand from the Company's clients for data-intensive as-serviced pictures from the Field Specialists), or cyberattacks, there can be no assurance that the Company's technological systems and third party software, hardware and telecommunication providers will continue to be able to support the demands placed on them by such increased demand or negative events.

The Company relies on third-party vendors to provide its telecommunication network access and other services used in its business, and the Company has no control over such third-party providers. Additionally, a cybersecurity breach that results in unauthorized access to sensitive consumer or corporate information contained in these systems may adversely affect the Company's reputation and lead to claims against it. Such claims could include identity theft or other similar fraud-related claims and claims related to violations of applicable data privacy laws. Any system failure, accident or security breach could result in disruptions to the Company's operations. To the extent that any disruption or security breach results in a loss or damage to the Company's data, or results in inappropriate disclosure of confidential information, it could cause significant damage to the Company's reputation, affect its relationships with its customers, lead to claims against it and ultimately harm its business. In addition, the Company may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

Any such software, hardware or service unavailability or unreasonable pricing or terms, defect, error or other performance failure in such third-party software, hardware or service, increased capacity demands, disruption in services, security breach or protective measures could increase the Company's costs of operation and reduce its efficiency and performance, which could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Economic and Retail Uncertainty***

The markets in which the Company operates are cyclical and subject to the effects of economic downturns. The current political, social and economic conditions, including the impact of terrorism on consumer and business behavior, make it difficult for the Company, its vendors and its clients to accurately forecast and plan future business activities. Substantially all of the Company's key clients are either retailers or those seeking to do product merchandising at retailers. Should the retail industry experience a significant economic downturn, the resultant reduction in product sales could significantly decrease the Company's revenues. See also *Risks Associated with the Novel Coronavirus (COVID-19) Outbreak or Other Similar Outbreaks*, above. The Company also has risks associated with its clients changing their business plans and/or reducing their marketing budgets in response to economic conditions, which could also significantly decrease the Company's revenues. Such revenue decreases could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Risks Associated with Furniture and Other Related Assembly Services***

The Company's technicians assemble furniture and other products in the stores, homes and offices of customers. Working at a customer's store, home or office could give rise to claims against the Company for errors, omissions or misconduct by those technicians, including (without limitation) harassment, personal injury, death, damage to or theft of customer property, or other civil or criminal misconduct by such technicians. Claims also could be made against the Company as a result of its involvement in such assembly services due to (among other things) product assembly errors and omissions, product defects, deficiencies, breakdowns or collapse, products that are not merchantable or fit for their particular purpose, products that do not conform to published specifications or satisfy customer expectations, or products that cause personal injury, death or property damage, in each case whether actual, alleged or perceived by customers, and irrespective of how much time may have passed since such assembly. If such claims are asserted and adversely determined against the Company, then to the extent such claims are not covered by indemnification from the product's seller or manufacturer or by insurance, they could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

## **Risks Associated with Audit Services**

The auditing services industry is highly competitive and the Company has competitors that are larger (or part of larger holding companies) and may be better financed. In addition, the Company competes with: (i) a large number of relatively small enterprises with specific client, channel or geographic coverage; (ii) the internal auditing operations of its existing and prospective clients; and (iii) smaller regional providers. Remaining competitive in the highly competitive auditing services industry requires that the Company monitor and respond to trends in all industry sectors. There can be no assurance that the Company will be able to anticipate and respond successfully to such trends in a timely manner. If the Company is unable to compete successfully, it could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

## **Dependence Upon and Risks of Services Provided by Third Party Independent Contractors and Related Litigation**

The success of the Company's domestic business is dependent upon the successful execution and administration of its domestic field services through the services of field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), substantially all of whom are provided to the Company and engaged by independent third parties and located, scheduled, deployed and administered domestically through the services of local, regional, district and other personnel (each a "Field Administrator"), and substantially all of the Field Administrators are in turn are employed by other independent third parties.

Prior to July 2018, substantially all of the services of the Field Specialists were supplied to the Company by SPAR Business Services, Inc. ("SBS"), the Company's affiliate. Due to (among other things) the adverse determination in 2016 in *Clothier* that SBS had misclassified its employees as independent contractors and the ongoing proceedings against SBS (see *SBS Clothier Litigation*, *SBS Field Specialist Litigation* and *SBS Bankruptcy*, under the caption *Legal Proceedings*, below), SBS' continued higher charges, and the Company's identification of an experienced Independent Field Vendor who would provide comparable services on substantially better terms, the Company terminated the services of SBS effective July 27, 2018, and the Company has engaged that Independent Field Vendor to replace at substantially lower costs and on substantially better terms those field services previously provided by SBS (other than in California, where the Company is using its own employees). Effective August 1, 2018, the Company also has engaged the Independent Field Administrator (see below) at substantially lower costs and on substantially better terms to replace those Field Administrator services formerly provided by SPAR Administrative Services, Inc. ("SAS"), an affiliate of SBS.

The appropriateness of SBS' treatment of its Field Specialists as independent contractors had been periodically subject to legal review or challenge (both currently and historically) by various states and others. See Note 6 to the Company's Consolidated Financial Statements – *Commitments and Contingencies - SBS Bankruptcy*, *SBS Field Specialist Litigation* *SBS Clothier Litigation*, *SGRP Hogan Litigation*, and *SBS and SGRP Litigation Generally*, below. As provided in SBS' Prior Agreement, the Company is not obligated or liable, and the Company has not otherwise agreed and does not currently intend, to reimburse SBS for any judgment or similar amount (including any damages, settlement, or related tax, penalty, or interest) in any legal review, challenge or other proceeding against or involving SBS, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts). See Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, below.

SBS and Robert G. Brown have repeatedly disputed the right of the Company and SGRP's Audit Committee to review and decide whether the reimbursement of any related party defense and other expense reimbursements was in the best interests of the Company. However, management has also denied the appropriateness of such reimbursements as unfounded and unsubstantiated. The related parties have more recently argued that it is the duty of the Board to overrule the Audit Committee and management and force the accrual and payment of those reimbursements. See Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, *SBS Bankruptcy*, *Settlement and March 2020 Claim*, and *March 2020 Claim*, below. As a result of SGRP's separate settlement of the *Clothier* Case, on June 13, 2018, the Company gave SBS notice that it would no longer reimburse any such legal expenses related to this legal action, and in connection with the termination of SBS' services, which ceased after July 2018, the Company advised SBS that the Company would no longer reimburse any SBS legal defense expenses, but SBS and Robert G. Brown continue to demand such reimbursements. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Clothier Litigation*, below.

The Company received no services from SBS or SAS after the termination of their respective services took effect. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, in connection with any proceedings against SBS, SBS may additionally claim that the Company is somehow liable for the defense of and any judgment or similar amount imposed against SBS and pursue that claim with litigation. The Company does not believe there is any basis for such claims and would defend them vigorously. There can be no assurance that plaintiffs or someone else will not claim that the Company is liable (under applicable law, through reimbursement or indemnification, or otherwise) for any such judgment or similar amount imposed against SBS, or that the Company will be able to defend successfully any claim. Any imposition of liability on the Company for any such amount could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

As a result of SBS filing for Chapter 11 bankruptcy (see Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, below), there can be no assurance that SBS will ever be able to fully pay any amounts owed to the Company by SBS and any damage awards resulting from any legal determination adverse to SBS that may result in third party creditors seeking payment from the Company in connection with SBS's bankruptcy case. Mr. Robert G. Brown and his companies are and have been involved in a number of material adverse claims and actions against the Company. On March 6, 2020, Robert G. Brown sent an email communication demanding payment to SBS from the Company of \$1,707,374. At SGRP's March 2020 Board meeting, Mr. Bartels was requested by an independent director to compile a list of claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bringing their total claims to approximately \$3 million. The Company has completely rejected those unfounded and unsubstantiated claims, and believes it was released from all such claims by SBS in the SBS bankruptcy reorganization. See Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services, SBS Bankruptcy, Settlement and March 2020 Claim*, and *March 2020 Claim*, below. See also *Infotech Litigation and Settlement*, below. While the Company believes that no such amount is owed, the ultimate result of this dispute cannot be known at this time. The Company believes that the robust and comprehensive mutual releases in the SBS Settlement Agreement provide valuable relief from the current potential future claims and litigation by SBS respecting the Company's past involvement with SBS, including the March 2020 Claim.

Any imposition of such liability on the Company could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

The Company had utilized the services of SBS to support its in-store merchandising needs. See Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, which led to repeated litigation respecting SBS' independent contractor classifications (see Note 6 to the Company's Condensed Consolidated Financial Statements - *Commitments and Contingencies -- SBS Field Specialist Litigation and SBS Clothier Litigation*, below). The Company has endeavored to mitigate the risks of such litigation by shifting to an all employee servicing model for Field Specialists to support the performance of the Company's services in California with the Company's own employees and by engaging an unrelated experienced independent vendor under contract and license to supply the Company with the services of such vendor's Field Specialists in other jurisdictions. See Item 1. Business -- *The Company's Labor Force*, above.

The Company believes that its business model of executing its services domestically (other than in California, where the Company is using its own employees) through independent contractors provided by others is equally effective but inherently less costly than doing so with employees, both under applicable tax and employment laws and otherwise. However, the Company continues to reevaluate its business model of using third party independent contractors as Field Specialists outside of California in light of changing client requirements and legal and regulatory environments. The Company expects that using employees as Field Specialists in additional states will cost substantially more than using third party independent contractors for the same services. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters*, and Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, below.

The Independent Field Vendor also utilizes independent contractors to the extent permitted by applicable law, and it is possible that the appropriateness of its treatment of Field Specialists as independent contractors will be periodically subject to legal review or challenge by various states and others. The Company in its discretion may review and decide each request by the Independent Field Vendor for reimbursement of its legal defense expenses on a case-by-case basis, including the relative costs and benefits to the Company of doing so, but the Independent Field Vendor has agreed that the Company has no obligation to do so. See Item 1. Business -- *The Company's Labor Force*, above.

To the Company's knowledge its Independent Field Vendor is not involved in any material proceeding involving its independent contractors. However: (i) if the Company approves its reimbursement of any material legal defense costs of the Independent Field Vendor approved; or if (ii) the Company somehow becomes liable for any legal expenses incurred by SBS, SAS, the Independent Field Vendor, any related party or any third party in defending any claim or satisfying any judgment against such parties; or (iii) if the Company somehow becomes liable through any judicial determination for any judgment against the Independent Field Vendor, Independent Field Administrator, SBS, SAS, any related party or other vendor or service provider (in whole or in part); or (iv) if any such proceeding or matter causes (A) any decrease in the Independent Field Administrator's or the Independent Field Vendor's performance (quality or otherwise), (B) any inability by the Independent Field Administrator or the Independent Field Vendor to execute the services for the Company or to continue with its present business model, or (C) any increase in the Company's use of employees (rather than independent contractors) as its domestic Field Specialists; then any of the foregoing, in whole or in part, could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

Current material and potentially material proceedings involving independent contractors against SBS and, in one instance, the Company are further described under the caption Legal Proceedings, below and in Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

### ***Current and Potential Conflicts with Affiliates***

SBS, SAS, and SPAR InfoTech, Inc. ("Infotech"), have provided services from time to time to the Company and are related parties and affiliates of SGRP. SBS, SAS and Infotech are not under the control or part of the consolidated Company and none of them was ever included in the Company's consolidated financial statements. SBS is an affiliate because it is owned by Robert G. Brown, and, through November 2018, was also owned in part by William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP's predecessor, Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired) and will automatically again become a director of SGRP, as discussed below, and Mr. Bartels was and continues to be Vice Chairman and a director and officer of SGRP. Mr. Brown and family members also have been and are stockholders, directors and executive officers of various other affiliates of SGRP.

Robert G. Brown, SBS, SAS and Infotech are and have been involved in a number of material adverse claims and actions against the Company, and have been engaged or have threatened to engage in legal proceedings against the Company, which may result in future judgments adverse to the Company. On March 6, 2020, Robert G. Brown sent an email communication demanding payment to SBS from the Company of \$1,707,374. At SGRP's March 2020 Board meeting, Mr. Bartels was requested by an independent director to compile a list of claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bringing their total claims to approximately \$3 million. The Company has completely rejected those unfounded and unsubstantiated claims, and believes it was released from all such claims by SBS in the SBS bankruptcy reorganization. The Company does not believe there is any reasonable basis for any new similar claims and would defend them vigorously. See *Legal Proceedings*, below and *Dependence Upon and Risks of Services Provided by Third Party Independent Contractors and Related Litigation*, above, and *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts*, in these *Risk Factors*, below, and Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, and Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services, SBS Bankruptcy, Settlement and March 2020 Claim*, and *March 2020 Claim*, below.

Although neither SBS nor SAS has provided any services to the Company after their service terminations were effective on or shortly before July 31, 2018. SBS and SAS have apparently continued to operate and claim that the Company owes them for all their post-termination expenses in perpetuity. See Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services, SBS Bankruptcy, Settlement and March 2020 Claim*, and *March 2020 Claim*, below. See also Note 6 to the Company's Condensed Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, below.

On March 6, 2020, Robert G. Brown sent an email communication demanding payment to SBS from the Company of \$1,707,374. At SGRP's March 2020 Board meeting, Mr. Bartels was requested by an independent director to compile a list of claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bringing their total claims to approximately \$3 million. The Company has completely rejected those unfounded and unsubstantiated claims, and believes it was released from all such claims by SBS in the SBS bankruptcy reorganization. All such invoices and demands have been rejected by the Company. The Company has determined that it is not obligated to reimburse any such post-termination expense (other than for potentially reimbursing SAS for mutually approved reasonable short term ordinary course transition expenses in previously allowed categories needed by SAS to wind down its business, if any), and that such a payment would be an impermissible gift to a related party under Company policy and applicable law, which determinations have been supported by SGRP's Audit Committee. The SBS invoices included legal expenses for its continuing defense in the Clothier Case even though SGRP on June 13, 2018, gave SBS notice that it would no longer reimburse any such expenses as a result of SGRP's separate settlement of the Clothier Case. See *Dependence Upon and Risks of Services Provided by Third Party Independent Contractors and Related Litigation*, above, and Note 10 to the Company's Condensed Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services, SBS Bankruptcy, Settlement and March 2020*, and *March 2020 Claim*, and Note 6 to the Company's Condensed Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

The Company expects that SBS and SAS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of their post-termination expenses, including repeated litigation. See Note 6 to the Company's Condensed Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

Additionally, portions of the Company's proprietary scheduling, tracking, coordination, reporting and expense software (the "Co-Owned Software") currently included in the Company's Global Technology Systems are co-owned by the Company and SBS and Infotech, which may result in conflicts arising in the future. See "*An Overview of the Merchandising and Marketing Services Industry*" and "*The Company's Competition*", above, and Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Other Related Party Transactions and Arrangements*, below. Certain of the Company's "SPAR" trademarks (the "Licensed Marks") are also licensed for use (i) in the United States royalty free and in perpetuity pursuant to license agreements that commenced in 1999 with its affiliates, SBS and Infotech (as defined in *Related Parties And Related Party Litigation*, in Item 3, below), (ii) worldwide royalty free and in perpetuity pursuant to informal license arrangements with its wholly owned subsidiaries, (iii) in their respective jurisdictions royalty free pursuant to license agreements for limited terms with its foreign joint venture subsidiaries, and (iv) in the United States for limited terms and modest royalties pursuant to license agreements with the Independent Field Vendor and Independent Field Administrator respectively providing Field Specialists and Field Administrators to the Company domestically that commenced in 2018. Except for SBS and Infotech (which don't need such software licenses because of their co-ownership), each subsidiary and vendor trademark license and arrangement also licenses the Co-Owned Software to the licensee.

The Company has contracts with certain international affiliates, including certain service providers to the Company's foreign joint venture subsidiaries. Any disagreement or other dispute in the business relationships arising in connection with such contracts may create a conflict of interest and cause such affiliates to act outside of the best interests of the Company. See Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - International Related Party Services*, below.

Any litigation with any affiliate, any diminution in the value, availability or usefulness of the Co-Owned Software or Licensed Marks, or any cancellation, other nonperformance or material pricing increase under the Company's arrangements with any vendor, could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts***

The Company's co-founders, Mr. Robert G. Brown and Mr. William H. Bartels, are significant stockholders of SGRP. Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired) and will automatically again become a director of the SGRP, as discussed below, and Mr. Bartels was and continues to be Vice Chairman and a director and officer of SGRP. Mr. Robert G. Brown and certain of his related parties, SP/R, Inc. Defined Benefit Pension Trust which is a trust for the benefit (in part) of Mr. Robert G. Brown and controlled by Mr. Robert G. Brown's children as its trustees (the "SP/R Trust"), and together with Mr. Robert G. Brown the "Brown Group"), and Innovative Global Technologies, LLC ("IGT"), and together with the Brown Group the "Brown Expanded Group"), and William H. Bartels together own approximately 54.3% of the SGRP Shares. IGT received its SGRP Shares from Mr. Robert G. Brown.

The SGRP Shares owned by the Brown Expanded Group and Mr. Bartels are and at the time were sufficient for a unilateral action by written stockholder consent without the approval or involvement of the Board or any Committee. On March 1, 2020, SGRP received delivery of fully-executed written consent actions (the "March 2020 Consents") from the Brown Expanded Group and Mr. Bartels increasing the Board size by one director, thereby creating a vacancy, and unilaterally selecting, appointing and electing Mr. Robert G. Brown to the Board to fill such vacancy. The Brown Extended Group and Mr. Bartels at that time had sufficient SGRP Shares to approve the March 2020 Consents. SGRP is taking the position that Mr. Robert G. Brown's appointment as a director of SGRP will become effective and Mr. Robert G. Brown will be seated on the Board, on or about April 24, 2020, upon the required notice to SGRP's stockholders under applicable SEC rules.

On October 14, 2019, SGRP received delivery of fully-executed written consent actions (the "October 2019 Consents") from the Brown Group (prior to the IGT share transfer from Mr. Brown) and Mr. Bartels increasing the Board size by one director, thereby creating a vacancy, and unilaterally selecting, appointing and electing Mr. Panagiotis ("Panos") N. Lazaretos to the Board to fill such vacancy. The Brown Group and Mr. Bartels at that time had sufficient SGRP Shares to approve the October 2019 Consents. See *Information in Connection with Appointment of Robert G. Brown as a Director*, and *Proposal 1 -- Background, Brown Group Special Meeting Request, Brown Group Annual Meeting Proposal, Appointment and Election of Panagiotis ("Panos") N. Lazaretos as a Director* in SGRP's Definitive Proxy Statement and Information Statement on Schedules 14A and 14C, respectively, respecting the unilateral election of Robert G. Brown as a SGRP Director by written consents and SGRP's Special Meeting of Stockholders to be held virtually on April 23, 2020 (the "Proxy/Information Statement"), which was filed with the SEC on April 3, 2020. See also Item 9B -- Other Information -- *Failure to Maintain a Majority of Independent Directors on the Board*, below.

On June 29, 2018, and July 5, 2018, SGRP received Written Consents from the Majority Stockholders endeavoring to unilaterally approve the selection, appointment and election of Mr. Jeffrey A. Mayer as a director of SGRP and remove Lorrence Kellar as an independent director, which was contested and ultimately concluded in a negotiated settlement. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters -- Settled Delaware Litigations*, below.

On August 20, 2019, the Brown Group called for a special stockholder meeting (the "Special Meeting") that included several proposals for the stockholders to consider (the "Special Meeting Proposals"). The Special Meeting Proposals include the removal as directors from the Board of Mr. Arthur B. Drogue, Chairman of the Board, and Mr. R. Eric McCarthy, Chairman of the Governance Committee and former Chairman of the Audit Committee (through February 29, 2020), which could lead to a further violation of Nasdaq's Board Independence Rule. Messrs. Drogue and McCarthy are each independent directors. See Proposals 1 and 2 in the Proxy/Information Statement. The Special Meeting Proposals also included a proposal to consider and vote on increasing the size of the Board by one additional director if no vacancy then exists on the Board, and electing Mr. James R. Brown Sr. (brother of Robert G. Brown and father to Peter Brown a director and minority owner of SPAR Brazil) as a Director of SGRP to serve until the next annual meeting of stockholders and until his successor is elected and qualified (See Proposal 7 in the Proxy/Information Statement), which also could lead to a further violation of Nasdaq's Board Independence Rule. Since there is no presumption of independence, Mr. James R. Brown Sr. is currently considered non-independent. See *Risks of a Nasdaq Delisting and Penny Stock Trading*, below. See also *Removal would Violate Nasdaq's Board Independence Rule, Determining Independence and Re-determining Status of Messrs. Mayer and Lazaretos*, and *Proposal 7 – Stockholder Proposal to Increase the Size of the Board By One Additional Director If No Vacancy Then Exists on the Board and to Elect James R. Brown Sr. as a Director* in the Proxy/Information Statement. See also Item 9B -- Other Information -- *Failure to Maintain a Majority of Independent Directors on the Board*, below.

Pursuant to the Company's previous Settlement, SGRP's By-Laws require any board vacancies to be exclusively filled by the Board within a 90 day period, giving time for the Board to follow SGRP's director nomination policy and locate, interview, review and evaluate candidates (the "Compromise Vacancy Procedure"). The Special Meeting Proposals also included a proposal to consider and approve the stockholder proposed Amendment No. 1 to the 2019 By-Laws to change the Compromise Vacancy Procedure and reduce the previously agreed upon period of time during which the Board may exclusively fill any vacancies on the Board from 90 days to 30 days (See Proposal 3 in the Proxy/Information Statement); If approved, such By-Law amendment would violate the Settlement Agreement, and would bypass the Compromise Vacancy Procedure and Nasdaq's nomination requirements. The Special Meeting Proposals included proposals: (i) to consider and approve the stockholder proposed Amendment No. 2 to the 2019 By-Laws that would require the Board to have a majority of "Independent Directors" as newly defined in the proposed amendment (See Proposal 4 in the Proxy/Information Statement, which may be inconsistent with Nasdaq requirements).

On February 8, 2020, the Brown Extended Group called for the addition of certain proposals (the "May Meeting Proposals") at the annual meeting of SGRP's stockholders in May (the "May Meeting") that included proposals for amendments to the 2019 By-Laws attempting to (and would if submitted and approved) (i) change the stockholder votes required to elect directors and remove directors in such a way that would favor large majority shareholders; (ii) treat abstentions as other than votes of "no" or "against" as required by Delaware law; (iii) decrease the required stockholder participation in a special meeting request from 25% to 20%; and (iv) reduce to zero the period in which SGRP's Board (and its Governance Committee) may exclusively fill vacancies on the Board. If approved, such By-Law amendment would violate the Settlement Agreement, and would bypass the Compromise Vacancy Procedure and Nasdaq's nomination requirements.

Mr. Brown (including the SP/R Trust and IGT) beneficially owns approximately 29.2% (or approximately 6.2 million shares) of the SGRP Common Stock; and Mr. Bartels beneficially owns approximately 25.1% (or approximately 5.3 million shares) of the SGRP Common Stock; which amounts were calculated using their respective individual beneficial ownership and the total outstanding ownership (approximately 21.1 million shares) of the SGRP Common Stock on a non-diluted basis at February 24, 2020. This means that together Mr. Brown and Mr. Bartels (the "Majority Stockholders") beneficially own as a group a total of approximately 54.3% (or 11.5 million shares) of the SGRP Common Stock. If Messrs. Brown and Bartels act together again as group they have, and under certain circumstances if Mr. Brown acts alone he has, the ability to control (or significantly influence in the case of Mr. Brown acting alone) the election or removal of directors, the approval or disapproval of acquisitions, mergers, employee benefit plans, amendments to the Company's charter and/or bylaws, changes in Board size and all other matters that must or could be approved by the Company's stockholders.

On June 1, 2018, June 29, 2018, July 5, 2018, August 6, 2018, January 25, 2019, October 18, 2019, February 11, 2020 and March 11, 2020, the Majority Stockholders filed amended Schedule 13Ds with the SEC, in which they each acknowledged that they "may be deemed to comprise a 'group' within the meaning of [the Securities Exchange Act of 1934]" and "may act in concert with respect to certain matters", including various listed items. Pursuant to those Schedule 13D filings, the Majority Stockholders have acted as a control group and adopted written consents to unilaterally, and without the participation of the Board, Governance Committee or other stockholders, add Mr. Robert G. Brown, Mr. Panagiotis ("Panos") Lazaretos, and Mr. Jeffrey A. Mayer to the Board and remove Mr. Laurence T. Kellar from the Board without cause. Mr. Robert G. Brown will likely be seated on the Board on or about April 24, 2020.

Mr. Robert G. Brown and related parties also have executed written requests forcing SGRP to call a special stockholders' meeting (currently scheduled for April 23, 2020) to consider (i) removal of Mr. Arthur B. Drogue, currently one of five independent directors of SGRP and its Chairman, from the Board, without cause, (ii) removal of Mr. R. Eric McCarthy, currently one of five independent directors of SGRP and Chairman of its Governance Committee (as of 3-1-2020), from the Board, without cause, (iii) addition to the Board of Mr. James R. Brown Sr. (who is the brother of Robert G. Brown and the father of Peter W. Brown, a director who joined the Board in May 2018 to represent the Brown family interests), and (iv) adoption of various amendments to SGRP's By-Laws which are favorable to the Majority Stockholders and not approved or supported by a majority of SGRP's Board or Independent Directors.

Prior to SGRP's 2019 annual stockholders' meeting (the "2019 Annual Meeting"), Jack Partridge, an independent director of SGRP, retired effective as of the close of business on May 15, 2019. Mr. Partridge indicated that he was prepared to serve on the Board for another year, but based on Mr. Partridge's discussions with Mr. Bartels and the preliminary vote totals (including Mr. Brown's votes), Mr. Partridge believed that the Majority Stockholders would vote "against" him, so he elected to retire before the 2019 Annual Meeting.

Mr. Brown and Mr. Bartels continue to have significant influence and leverage over the Company's business, corporate governance and other significant actions, including those involving stockholder approvals. A "super majority" vote of at least 75% of all SGRP directors is now required under the Restated By-Laws for any committee assignment, SGRP stock issuance of more than 500,000 SGRP shares (other than pursuant to stockholder approved plans), or By-Laws changes, which can be blocked by any two directors acting on behalf of any group (including the Majority Stockholders). The interests of the Majority Stockholders (such as changing Board composition and potentially weakening its independence, obtaining related party payments previously denied by the Company and Audit Committee and obtaining new retirement benefits for Mr. Brown previously denied by the Company and Compensation Committee) may be materially different from time to time from, and potentially in conflict with, the interests of other stockholders, and ownership concentration could cause, delay or prevent a change in the Company's control or otherwise discourage the Company's potential acquisition by another person, any of which could cause the market price of the SGRP Common Stock to decline and that decline could be significant.

Mr. Brown and Mr. Bartels continue to request material payments from the Company for various reasons, which they appear to believe involve millions of dollars directly or indirectly owed to them, and which Mr. Brown has said he will litigate to obtain. As the Majority Stockholder group, Mr. Robert G. Brown and Mr. Bartels also had previously stated their desire to add new directors of their unilateral choosing, including their execution of Written Consents to add Mr. Robert G. Brown, Mr. Panagiotis ("Panos") Lazaretos, and Mr. Jeffrey A. Mayer to the Board and to remove Mr. Laurence T. Kellar from the Board without cause. Mr. Robert G. Brown will likely be seated on the Board on or about April 24, 2020. See *Information in Connection with Appointment of Robert G. Brown as a Director in the Proxy/Information Statement*.

Mr. Robert G. Brown and related parties also have executed written requests forcing SGRP to call a special stockholders' meeting (currently scheduled for April 23, 2020) to consider (i) removal of Mr. Arthur B. Drogue, currently one of five independent directors of SGRP and its Chairman, from the Board, without cause, (ii) removal of Mr. R. Eric McCarthy, currently one of five independent directors of SGRP and Chairman of its Governance Committee (as of 3-1-2020), from the Board, without cause, (iii) addition to the Board of Mr. James R. Brown Sr. (who is the brother of Robert G. Brown and the father of Peter W. Brown, a director who joined the Board in May 2018 to represent the Brown family interests), and (iv) adoption of various amendments to SGRP's By-Laws which are favorable to the Majority Stockholders and not approved or supported by a majority of SGRP's Board or Independent Directors. See the Proposals in the Proxy/Information Statement.

Acting as a group, Mr. Brown and Mr. Bartels could remove all or any part of the current Board by voting "remove" in the upcoming special stockholders meeting, or by voting "no" for targeted incumbents in the upcoming annual stockholders meeting or by executing more written consents. With fewer or no independent directors on the Board, Mr. Brown and Mr. Bartels could eventually be able to pay themselves without any effective restriction or accountability. The Company remains open to any reasonable settlement with Mr. Brown and Mr. Bartels that: (i) focuses on properly documented and substantiated claims; (ii) is approved as a related party transaction by SGRP's Audit Committee as fair, appropriate and beneficial to the Company and all of its stockholders; (iii) is acceptable to the Company's domestic lender; (iv) completely and finally releases the Company from current and future claims and litigation involving Mr. Brown, Mr. Bartels and their affiliates; and (v) stabilizes the Board and Company for a reasonable number of years.

There can be no assurance that the Majority Stockholders will refrain from together taking any further unilateral action through their written consents, coordinated votes as directors or stockholders, or otherwise. If such actions by the Majority Stockholders continue in the future, the Company must continue to devote significant management time and legal and financial resources, which would otherwise be spent on the Company's day-to-day business operations, to respond to and attempt to resolve the frequent claims, responses and actions by the Majority Stockholders (individually and on behalf of SBS, SAS and Infotech), which have been increasing in frequency and intensity. If the Majority Stockholders together continue to take such unilateral actions without restriction (see Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters – Delaware Litigations Settlement*, below), it could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

#### ***Risks of Common Stock Ownership***

Dividends on SGRP Common Stock are discretionary, have never been paid, are subject to restrictions in the Company's credit facilities and applicable law and can only be paid to the holders of SGRP Common Stock if the accrued and unpaid dividends and potential dividends are first paid to the holders of the Series A Preferred Stock. In the event of the Company's liquidation, dissolution, or winding-up, the holders of Common Stock are only entitled to share in the Company's assets, if any, that remain after the Company makes payment of and provision for all of the Company's debts and liabilities and the liquidation preferences of all of the Company's outstanding Preferred Stock. There can be no assurance that sufficient funds will remain in any such case for dividends or distributions to the holders of SGRP Common Stock. A "super majority" vote of at least 75% of all SGRP directors is now required for any SGRP stock issuances of more than 500,000 shares (other than pursuant to stockholder approved plans), which issuance can be blocked by any two directors acting on behalf of any group (including the Majority Stockholders).



### ***Risks related to the Company's Preferred Stock***

The Company's ability to issue or redeem Preferred Stock, or any rights to purchase such shares, could discourage an unsolicited acquisition proposal. For example, the Company could impede a business combination by issuing a series of preferred stock containing class voting rights that would enable the holders of such preferred stock to block a business combination transaction. Alternatively, the Company could facilitate a business combination transaction by issuing a series of preferred stock having sufficient voting rights to provide a required percentage vote of the stockholders. Additionally, under certain circumstances, the Company's issuance of preferred stock could adversely affect the voting power of the holders of the SGRP Common Stock. SGRP's Board could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of SGRP's stockholders may believe to be in their best interests or in which SGRP's stockholders may receive a premium for their stock over prevailing market prices of such stock. A "super majority" vote of at least 75% of all SGRP directors is now required for any SGRP preferred stock issuance, which issuance can be blocked by any two directors acting on behalf of any group (including the Majority Stockholders).

### ***Risks of Illiquidity in SGRP Common Stock***

The market price of SGRP Common Stock has historically experienced and may continue to experience significant volatility. During the year ended December 31, 2019, the sale price of SGRP Common Stock fluctuated from \$0.51 to \$1.38 per share. The Company believes that its Common Stock is subject to wide price fluctuations due to (among other things) the following:

- The relatively small public float and corresponding thin trading market for SGRP Common Stock, attributable to (among other things) the large block of voting shares beneficially owned by the Company's co-founders (as noted below) and generally low trading volumes, and that thin trading market may cause small trades to have significant impacts on SGRP Common Stock price.
- The substantial beneficial ownership of the Company's voting stock and potential control by Mr. Robert G. Brown and Mr. William H. Bartels, who are the Company's co-founders. Mr. Bartels is a director and Officer of the Company. Mr. Brown beneficially owns approximately 29.2% (or 6.2 million shares) of the SGRP Common Stock, and Mr. Bartels beneficially owns approximately 25.1% (or 5.3 million shares) of the SGRP Common Stock, which amounts were calculated using their individual beneficial ownerships and the total outstanding ownership (21.1 million shares) of the SGRP Common Stock on a non-diluted basis at February 24, 2020. This means that together they and their group beneficially own a total of approximately 53.2% (or 11.4 million shares) of the SGRP Common Stock (see *Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, below).
- The periodic potential risk of the delisting of SGRP Common Stock from trading on The Nasdaq Stock Market LLC ("Nasdaq") (as described below).
- Any announcement, estimate or disclosure by the Company, or any projection or other claim or pronouncement by any of the Company's competitors or any financial analyst, commentator, blogger or other person, respecting (i) any new service created or improved, significant contract, business acquisition or relationship, or other publicized development by the Company or any of its competitors, or (ii) any change, fluctuation or other development in the Company's actual, estimated or desired affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition or in those of any of the Company's competitors, in each case irrespective of accuracy or validity and whether or not adverse or material.
- The general volatility of stock markets, consumer and investor confidence, and the general state of the economy (which often affect the prices of stock issued by the Company and many others without regard to financial results or condition).

If the Company issues (other than at fair market value for cash) or the Majority Stockholders sell a large number of shares of SGRP Common Stock, or if the market perceives such an issuance or sale is likely or imminent, the market price of SGRP Common Stock could decline and that decline could be significant.

The Company also has repurchased SGRP Common Stock from time to time, and currently has in place a Repurchase Program (as defined and described in Item 5 - *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*, below). Those repurchases could adversely affect the market liquidity of the SGRP Common Stock.

In addition, the volatility in the market price of SGRP Common Stock could lead to class action securities litigation that could in turn impose substantial costs on the Company, divert management's attention and resources from the day-to-day operations of the Company's business and harm the Company's stock price, the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

## **Risks of Dilution**

The Company may issue stock options and award restricted stock to directors, officers, employees and consultants in the future at Common Stock per-share exercise prices below the market price(s). In addition, the Company may issue shares of SGRP Common Stock in the future in furtherance of the Company's acquisitions or development of businesses or assets or litigation settlements. Each of those and other issuances of SGRP Common Stock could have a dilutive effect on the value of currently held shares, depending on the price the Company is paid (or the value of the assets or business acquired) for such shares, market conditions at the time and other factors. A "super majority" vote of at least 75% of all SGRP directors is now required for any SGRP stock issuance of more than 500,000 shares (other than pursuant to stockholder approved plans), which issuance can be blocked by any two directors acting on behalf of any group (including the Majority Stockholders).

## **Risks of a Nasdaq Delisting and Penny Stock Trading**

Passage of the Special Meeting Proposals to remove Mr. Arthur B. Drogue and Mr. R. Eric McCarthy as directors from the Board, and add Mr. James R. Brown Sr. (brother of Robert G. Brown and father to Peter Brown a director and minority owner of SPAR Brazil) as a director to the Board, could violate the Board Independence Rule (as defined below). See *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts*, above, and *Removal would Violate Nasdaq's Board Independence Rule and Determining Independence and Re-determining Status of Messrs. Mayer and Lazaretos* in the Proxy/Information Statement. See also Item 9B -- Other Information -- *Failure to Maintain a Majority of Independent Directors on the Board*, below.

On December 31, 2019, SGRP received a notification letter from Nasdaq (the "Third Nasdaq Board Independence Deficiency Letter"), stating that SGRP no longer complied with Nasdaq's majority independent director requirement, as set forth in Nasdaq Listing Rule 5605(b)(1) (the "Board Independence Rule") as a result of the Majority Stockholders unilaterally selecting, appointing and electing Mr. Panagiotis ("Panos") N. Lazaretos to the Board. See *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts*, above, and SGRP's Current Reports on Form 8-K as filed with the SEC on January 31, 2020, and January 7, 2020.

In a letter from SGRP to Nasdaq dated January 31, 2020, SGRP submitted the following compliance plan to Nasdaq (the "Third Compliance Plan"):

- On January 23, 2020, the Governance Committee re-evaluated the independence of Mr. Lazaretos, Jeffrey A. Mayer and Peter W. Brown, which included their re-evaluation of information previously provided.
- The Governance Committee discussed the information, reviewed the status of Peter Brown, Panos Lazaretos, Jeff Mayer and recognized that each director, according to their duty of care and loyalty to the public company, will operate and vote appropriately, including their responsibility to recuse themselves from voting on any issue they deem appropriate given any past or current relationships or dealings on any matter brought before the board.
- Accordingly, the Governance Committee unanimously re-determined Mr. Lazaretos to be independent without regard to any related party restrictions, re-determined Mr. Mayer to be fully independent without regard to any (and removed all) related party restrictions, and confirmed Mr. Brown to be non-independent. (Mr. Mayer recused himself and abstained from the vote on his status.)
- As a result, pursuant to that determination and the applicable previous Governance Committee's determinations, there were five independent directors on the Board as of January 23, 2020 (Arthur B. Drogue, Arthur H. Baer, R. Eric McCarthy, Jeffrey A. Mayer and Panagiotis ("Panos") N. Lazaretos) and three non-independent directors on the Board (Christiaan M. Olivier, William H. Bartels, and Peter W. Brown), which constitutes more than a majority of independent directors.
- Accordingly, in a letter from SGRP confirmed the Governance Committee's belief that the Board now has a majority of independent directors and satisfies Nasdaq Listing Rule 5605(b)(1).

Nasdaq has not yet responded to the Third Compliance Plan. Nasdaq informally indicated they were waiting for the Special Meeting Results respecting the Special Meeting Proposals on the proposed independent director removals and non-independent director addition described above.

On July 25, 2019, following the May departure of Jack Partridge, SGRP received a notification letter from Nasdaq (the "Second Nasdaq Board Independence Deficiency Letter") stating that SGRP was no longer in compliance with the Nasdaq's Board Independence Rule and Nasdaq Rule 5605(c) (the "Audit Committee Composition Rule") and that SGRP had until May 15, 2020 to correct those deficiencies. See SGRP's Current Report on Form 8-K as filed with the SEC on July 31, 2019. On September 2, 2019, the Board appointed Arthur H. Baer to the Board to fill that and appointed Mr. Baer to the Board's Audit, Compensation and Governance Committees and Special Subcommittee, all on the recommendation of its Governance Committee. On September 3, 2019, Mr. Baer agreed to serve on the Board and its Committees. SGRP's Governance Committee determined that Mr. Baer will be an independent director as he (among other things) satisfies the applicable requirements under Nasdaq rules, including under Rule 5605(a), SEC rules, and SGRP's governance documents and policies. For more details respecting Mr. Baer's appointment, see SGRP's Current Report on Form 8-K as filed with the SEC on September 6, 2019.

As a result, pursuant to that determination and the applicable previous Governance Committee's determinations, on September 6, 2019, SGRP had 4 independent directors out of 7, and thus the Board then had a majority of independent directors. In addition to Mr. Baer, the independent directors are Mr. Arthur B. Drogue (Chairman of the Board and Chairman of the Governance Committee), Mr. R. Eric McCarthy (Chairman of the Audit Committee through February 29, 2018), and Jeffrey A. Mayer (Chairman of the Compensation Committee since August 2019).

On September 10, 2019, Nasdaq sent SGRP a letter, stating in part: "Based on the information regarding the appointment of Arthur H. Baer to the Company's Board of Directors and audit committee, effective September 3, 2019, Staff has determined that the Company complies with the Rules, and this matter is now closed.

SGRP received a notification letter from Nasdaq, dated December 13, 2018 (the "First Nasdaq Board Independence Deficiency Letter"), stating that SGRP no longer complied with Nasdaq's Board Independence Rule as a result of the Status Quo Order adding Mr. Jeffrey Mayer to SGRP's Board. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters -- Delaware Litigation Settlement*, below). On January 31, 2019, SGRP submitted its plan to Nasdaq to regain compliance with the Board Independence Rule (the "First Compliance Plan").

In the First Compliance Plan, SGRP explained that it had more fully vetted and re-evaluated the independence of Mr. Mayer, based on (among other things) Mr. Mayer's independent business skills, his contribution to the Settlement (as defined in the Compliance Plan) process, his interactions with the Board of Directors of the Corporation (the "Board") over the last five months, and his lack of financial dealings with the Majority Stockholders (as defined in the Compliance Plan), and determined that he has the requisite independence to be considered an independent director under Rule 5605 (a)(2) for the purposes of serving on the Board and its Compensation Committee. He will, however, be considered an interested director and excluded from any decision respecting any related party matter (as defined in the Compliance Plan), which are within the Audit Committee's purview, and he is not being appointed to the Audit Committee or the Governance Committee. However, he is now considered fully independent. See above

On February 5, 2019, Nasdaq sent SGRP a letter stating that Nasdaq "Staff has determined that since the Company's Board of Directors currently consists of four independent and three non-independent directors, it complies with the Rule and this matter is now closed".

SGRP received a notification letter from Nasdaq dated December 10, 2018 (the "Nasdaq Bid Price Deficiency Letter"), stating that SGRP had failed to maintain a minimum closing bid price of \$1.00 per share for shares of the SGRP Common Stock for the prior 30 consecutive business days preceding the Nasdaq Bid Price Deficiency Letter (i.e., October 25, 2018 - December 7, 2018) as required by Nasdaq Listing Rule 5550(a)(2) (the "Bid Price Rule"). The Nasdaq Bid Price Deficiency Letter provided that SGRP had until June 10, 2019, as a grace period to regain compliance with the Bid Price Rule by maintaining a closing bid price of \$1.00 per share for a minimum of ten consecutive business days. By letter dated June 11, 2019, Nasdaq extended that grace period to December 9, 2019. If at any time during the grace period the bid price of SGRP's Common Stock closes at \$1.00 per share or more for a minimum of ten consecutive business days, Nasdaq would provide SGRP with written confirmation of compliance. On September 4, 2019, Nasdaq sent SGRP a letter stating in part that SGRP had regained compliance during the extended grace period with Nasdaq's minimum Bid Price Rule and that such matter was closed.

There can be no assurance that the Company will be able to comply in the future with Nasdaq's Board Independence Rule or Bid Price Rule or other Nasdaq continued listing requirements. See *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts*, above. If the Company fails to satisfy the applicable continued listing requirement and continues to be in non-compliance with the Bid Price Rule and the applicable six-month grace period ends, Nasdaq may commence delisting procedures against the Company (during which the Company may have additional time of up to six months to appeal and correct its non-compliance). If the SGRP Common Stock shares were ultimately delisted by Nasdaq, trading of the SGRP Common Stock could be limited to "over-the-counter" trades and the market liquidity of the SGRP Common Stock could be adversely affected, which could result in a decrease in the market price of the SGRP Common Stock due to (among other things) the potential for increased spreads between bids and asks, lower trading volumes and reporting delays in over-the-counter trades and the negative implications and perceptions that could arise from such a delisting. See also Item 9B -- Other Information -- *Failure to Maintain a Majority of Independent Directors on the Board*, below.

In addition to the foregoing, if the SGRP Common Stock is delisted from Nasdaq and is traded on the over-the-counter market, the application of the "penny stock" rules could adversely affect the market price of the SGRP Common Stock and increase the transaction costs to sell those shares. The SEC has adopted regulations which generally define a "penny stock" as any equity security not listed on a national securities exchange or quoted on Nasdaq that has a market price of less than \$5.00 per share, subject to certain exceptions. If the SGRP Common Stock is delisted from Nasdaq and is traded on the over-the-counter market at a price of less than \$5.00 per share, the SGRP Common Stock would be considered a penny stock. Unless otherwise exempted, the SEC's penny stock rules require a broker-dealer, before a transaction in a penny stock, to deliver a standardized risk disclosure document that provides information about penny stock and the risks in the penny stock market, the current bid and offer quotations for the penny stock, the compensation of the broker-dealer and the salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. Further, prior to a transaction in a penny stock, the penny stock rules require the broker-dealer to provide a written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's agreement to the transaction. If applicable in the future, the penny stock rules may restrict the ability of brokers-dealers to sell the SGRP Common Stock and may adversely affect the ability of investors to sell their shares.

### ***Risk of Failure to Maintain Effective Internal Controls***

Establishing and maintaining effective internal control over financial reporting and disclosures are necessary for the Company to provide reliable financial and other reporting in accordance with accounting principles generally accepted and applicable securities and other law in the United States. Because of its inherent limitations, internal controls over financial and other reporting are not intended to provide absolute assurance that the Company could prevent or detect a misstatement of its financial statements or other reports or fraud. Any failure to maintain an effective system of internal control over financial and disclosure reporting could limit the Company's ability to report its financial results and file its other reports accurately and timely or to detect and prevent fraud. A significant financial or disclosure reporting failure or material weakness in internal control over financial or other reporting could cause a loss of investor confidence and a decline in the market price of the SGRP Common Stock. See also *Risks of Having Material Local Investors and Local Executives in International and Domestic Subsidiaries, below*.

### ***Risks of Having Material Local Investors and Local Executives in International and Domestic Subsidiaries***

The Company's international model is to join forces with Local Investors (as defined below) having merchandising service expertise and combine their knowledge of the local market with the Company's proprietary software and expertise in the merchandising business. The Company also has begun to use this model in the United States (see Item 1 – *Business - The Company's Domestic and International Segments, above*). As a result, each of the Company's international subsidiaries (other than Canada and Japan) and NMS and RPI domestically are owned in material part by an entity in the local country where the international or domestic subsidiary resides and that entity is not otherwise affiliated with the Company (e.g., the "Local Investor"). The agreements between the Company and the Local Investor in the respective international or domestic subsidiaries specify, among other things, the equity, programming and support services the Company is required to provide and the equity, credit support, certain services and management support that the Local Investor is required to provide to the international or domestic subsidiary. Certain of those subsidiaries also may be procuring field merchandising execution through affiliates of the applicable Local Investors. The Local Investor or its principal generally is the Chief Executive Officer of the international or domestic subsidiary for an open-ended term and has considerable autonomy and authority over its operations. The Local Investors also may wish to conduct the subsidiary's business differently than desired by the Company. In the event of any disagreement or other dispute in the business relationships between the Company and Local Investor, the Local Investor may have one or more conflicts of interest with respect to the relationship and could cause the applicable international or domestic subsidiary to operate or otherwise act in a way that is not consistent with the Company's instructions or best interests. Using Local Investors in an acquisition has risks. See *Inability to Identify, Acquire and Successfully Integrate Acquisitions, above*.

The agreements generally have unlimited contract terms and parties generally do not have the right to unilaterally withdraw. However, a non-defaulting party has the right to terminate such agreement upon the other party's default, receipt of notice and failure to cure within a specified period (generally 60 days internationally or 30 days domestically). In addition, either party, at any time after the end of a specified period (usually between three and five years), may: (1) sell all or part of its equity interest in the international subsidiary to a third party by providing a written notice to the other party of such intentions (in which case the other party has the right of first refusal and may purchase the equity of the offering party under the same terms and conditions) (a "Right of First Refusal"); or (2) offer to purchase the equity of the other party (in which case the other party generally has 120 days to either accept or reject the offer or to reverse the transaction and actually purchase the offering party's equity under the same terms and conditions) (a "Buy/Sell Right").

The Company believes its relationships with the Local Investors in its international subsidiaries remain good. Most of the Company's respective international subsidiary contracts are either at or near the end of the applicable periods during which either of the parties may trigger the Right of First Refusal and Buy/Sell provisions described above. Both the Company and such Local Investors, as part of their ongoing relationship, are or will be assessing appropriate action as described above.

There can be no assurance that the Company could (if necessary under the circumstances) successfully (i) enforce its legal remedies and stop a Local Investor's principals from leaving the local subsidiary and establishing a competing business, (ii) replace equity, credit support, management, field merchandiser and other services currently provided by any Local Investor in sufficient time to perform its client obligations or (iii) provide these services and or equity in the event the Local Stockholder were to sell its stock or reduce any support to the Company's subsidiary in the applicable country. Any cancellation, other nonperformance or material change under the subsidiary agreements with Local Investors could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Risks Associated with International and Domestic Subsidiaries***

While the Company endeavors to limit its exposure for claims and losses in any international or domestic consolidated subsidiary through contractual provisions, insurance and use of single purpose entities for such ventures, there can be no assurance that the Company will not be held liable for the claims against and losses of a particular international or domestic consolidated subsidiary under applicable local law or local interpretation of any subsidiary agreements or insurance provisions. If any such claims and losses should occur, be material in amount and be successfully asserted against the Company, such claims and losses could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### ***Risks Associated with Foreign Currency***

The Company also has foreign currency risk exposure associated with its international subsidiaries. In 2019, these foreign currency exposures were primarily concentrated in the Mexican Peso, South African Rand, Chinese Yuan, Japanese Yen, Indian Rupee, Canadian Dollar, Australian Dollar, and Brazilian Real.

### ***Risks Associated with International Business***

The Company's expansion strategy includes expansion into various countries around the world. There can be no assurances that the respective business environments will remain favorable. In the future, the Company's international operations and sales may be affected by the following risks, which may adversely affect United States companies doing business in foreign countries:

- Political and economic risks, including terrorist attacks and political instability;
- Various forms of protectionist trade legislation that currently exist or have been proposed;
- Expenses associated with customizing services and technology;
- Local laws and business practices that favor local competition;
- Dependence on local vendors and potential for undisclosed related party transactions;
- Multiple, conflicting and changing governmental laws, regulations and enforcement;
- Potentially adverse tax and employment law consequences;
- Local accounting principles, practices and procedures;
- Local legal principles, practices and procedures, local contract review and negotiation, and limited familiarity with contract issues (excessive warranties, extra-territoriality, sweeping intellectual property claims and the like);
- Limited familiarity or an unwillingness to comply with, or wrongly believing the inapplicability of, generally accepted accounting principles in the USA ("GAAP"), applicable corporate controls and policies of the Company (including its ethics code), or applicable law in the USA (including Nasdaq rules, securities laws, anti-terrorism law, Sarbanes Oxley and the Foreign Corrupt Practices Act);
- Foreign currency exchange rate fluctuations and limits on the export of funds;
- Substantial communication barriers, including those arising from language, culture, custom and time zones; and
- Supervisory challenges arising from agreements, distance, physical absences and such communication barriers.

If any developments should occur with respect to any of those international risks and materially and adversely affect the Company's applicable international subsidiary, such developments could have a material adverse effect on the Company or its performance or condition (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

The Company does not own any real property. The Company leases certain office space and storage facilities for its corporate headquarters, divisions and subsidiaries under various operating leases, which expire at various dates during the next six years. These leases generally require the Company to pay rents at market rates, subject to periodic adjustments, plus other charges, including utilities, real estate taxes and common area maintenance. The Company believes its relationships with its landlords to be generally good. However, as these leased facilities generally are used for offices and storage, the Company believes that other leased spaces could be readily found and utilized on similar terms should the need arise.

The Company currently maintains its corporate headquarters in approximately 6,000 square feet of leased office space located in White Plains, New York, the lease for which originally expired November 30, 2022, however during 2019 the Company exercised an early lease termination option effecting a future lease termination of September 30, 2020. The Company maintains its data processing center and warehouse at its regional office in Auburn Hills, Michigan, under an extended operating lease expiring October 31, 2025. The Auburn Hills facility will become the corporate headquarters when the New York location is vacated in September 2020. However, new facilities may be added should the need arise in the future.

The following is a list of the headquarter locations for the Company and its international subsidiaries:

**DOMESTIC:**

White Plains, NY (Corporate Headquarters)  
Auburn Hills, MI (Operational Headquarters)  
Southfield, MI (Worldwide Data Center)  
Fayetteville, GA  
Jacksonville, FL

**INTERNATIONAL:**

Vaughan, Ontario, Canada	Tokyo, Japan	Durban, South Africa
New Delhi, India	Melbourne, Australia	Mexico City, Mexico
Shanghai, China	Istanbul, Turkey	Sao Paulo, Brazil

**Item 3. Legal Proceedings**

The Company is a party to various legal actions and administrative proceedings arising in the normal course of business. In the opinion of Company's management, resolution of these matters is not anticipated to have a material adverse effect on the Company or its estimated or desired affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

**Background: Related Parties And Related Party Litigation**

SPAR Business Services, Inc., f/k/a SPAR Marketing Services, Inc. ("**SBS**"), SPAR Administrative Services, Inc. ("**SAS**"), and SPAR InfoTech, Inc. ("**Infotech**"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by an entity controlled by Robert G. Brown, and prior to November 2018, was owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels, Peter W. Brown and certain other relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. Messrs. Brown and Bartels (including, as applicable, certain related parties, the "**Majority Stockholders**") collectively own approximately 53.2% of SGRP's common stock and are the founders of SGRP. Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired) and will automatically again become a director of SGRP, as discussed below, and Mr. Bartels is Vice Chairman and a director of SGRP. Mr. Bartels retired as an employee of the Company as of January 1, 2020 (in accordance with the actions of SGRP's Compensation Committee on January 22, 2020). See *Bartels' Retirement and Director Compensation*, in Note 16 to the Company's Consolidated Financial Statements -- *Subsequent Events*, below. Messrs. Brown and Bartels also are stockholders, directors and/or executive officers of various affiliates of SGRP.

For recent actions by the Majority Stockholders to change or potentially change the Board and 2019 By-Laws, see *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts*, above.

**Delaware Litigation Settlement**

On September 4, 2018, SGRP filed in the Court of Chancery of the State of Delaware (the "**Chancery Court**") a claim, C.A. No. 2018-0650, which it amended on September 21, 2018 (the "**By-Laws Action**"), in a Verified Complaint Seeking Declaratory Judgment and Injunctive Relief against the Majority Stockholders. SGRP sought to invalidate the proposed amendments to SGRP's By-Laws put forth in a written consent by the Majority Stockholders (the "**Proposed Amendments**") because the Board's Governance Committee believed that the Proposed Amendments would have negatively impacted all stockholders (particularly minority stockholders) by (among other things) weakening the independence of the Board through new supermajority requirements, eliminating the Board's independent majority requirement, and subjecting various functions of the Board respecting vacancies on the Board to the prior approval of the holders of a majority of the Common Stock (i.e., the Majority Stockholders), and thus also potentially reducing the representation of SGRP's minority stockholders.

On September 18, 2018, Robert G Brown (one of the Majority Stockholders) commenced an action in the Chancery Court pursuant to 8 Del. C. §225(a) from (C.A. No. 2018-00687-TMR) (the "225 Action") against the 225 Defendants seeking to remove Lorrence T. Kellar from the Board and add Jeffrey Mayer to the Board.

On January 18, 2019, SGRP, Messrs. Brown and Bartels, Christiaan Olivier (Chief Executive Officer, President and a Director of SGRP), and all four of the members of the Governance Committee at that time, namely Lorrence T. Kellar (Chairman), Jack W. Partridge, Arthur B. Drogue and R. Eric McCarthy (together with Mr. Olivier, the "225 Defendants"), reached a settlement (the "Delaware Settlement") in the By-Laws Action and the 225 Action (together, the "Delaware Actions") and had the Delaware Actions then dismissed.

In the Delaware Settlement, the parties agreed to amend and restate SGRP's By-Laws (the "2019 Restated By-Laws") with negotiated changes to the Proposed Amendments that preserved the current roles of the Governance Committee and Board in the location, evaluation, and selection of candidates for director and in the nominations of those candidates for the annual stockholders meeting and appointment of those candidates to fill Board vacancies (other than those under a stockholder written consent making a removal and appointment, which is unchanged). The Board approved and adopted the 2019 Restated By-Laws on January 18, 2019. The Governance Committee and the Board believe that those changes in the 2019 Restated By-Laws will help the Corporation maintain the independent Board desired by them.

Additionally, as part of the Delaware Settlement, the parties to the Delaware Actions executed a Limited Mutual Release Agreement limited to the Delaware Actions, subject to specific exclusions (the "Delaware Releases"), and the parties to the Delaware Actions mutually agreed upon Stipulations of Dismissal ending those actions without prejudice and without admission or retraction of any fact cited therein, and the parties caused them to be filed with the Chancery Court on January 18, 2019.

The Delaware Releases are limited to matters related to those actions described therein and subject to specific exclusions, and the parties expressly preserved all unrelated actions and claims. Accordingly, there remain a number of unresolved claims and actions (each a "Non-Settled Matter") between the Company and certain related parties, including (without limitation) post termination claims by and against SBS (which has been resolved in a voluntary bankruptcy proceeding in Nevada by SBS -- see *SBS Bankruptcy, Settlement, and March 2020 Claim*, below) and SAS and the lawsuit by Infotech against the Company (which has been resolved in a settlement -- see *Infotech Litigation and Settlement*, below), by Messrs. Brown and Bartels for advancement and indemnification of legal fees and expenses in connection with the Delaware Actions and certain related party claims (see *Advancement Claims*, below). For further information regarding the details of the Delaware Settlement, the Delaware Releases, the Non-Settled Matters, see Note 8 to the Company's Consolidated Financial Statements in *Commitments and Contingencies -- Legal Proceedings -- Related Parties and Related Party Litigation -- Delaware Litigation Settlement, Advancement Claims and Non-Settled Matters, SBS Field Specialist Litigation, SBS Clothier Litigation, and SGRP Hogan Litigation* in SGRP's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2019 (the "Q2 2019 Quarterly Report"). and Note 8 to the Company's Consolidated Financial Statements in the *Commitments and Contingencies -- Legal Proceedings -- SBS Rodgers Litigation* in SGRP's Quarterly Report on Form 10-Q filed with the SEC on November 18, 2018 (the "Q3 2018 Quarterly Report").

#### ***Background: Recent Actions of the Majority Stockholders and their Control Group***

On June 1, 2018, June 29, 2018, July 5, 2018, August 6, 2018, January 25, 2019, October 18, 2019, February 11, 2020 and March 11, 2020, the Majority Stockholders filed amended Schedule 13Ds with the SEC, in which they each acknowledged that they "may be deemed to comprise a 'group' within the meaning of [the Securities Exchange Act of 1934]" and "may act in concert with respect to certain matters", including various listed items. Pursuant to those Schedule 13D filings, the Majority Stockholders have acted as a control group and adopted written consents to unilaterally, and without the participation of the Board, Governance Committee or other stockholders, add Mr. Robert G. Brown, Mr. Panagiotis ("Panos") Lazaretos, and Mr. Jeffrey A. Mayer to the Board and remove Mr. Laurence T. Kellar from the Board without cause. Mr. Robert G. Brown will likely be seated on the Board on or about April 24, 2020. See *Risks of a Nasdaq Delisting and Penny Stock Trading*, above

Prior to SGRP's 2019 annual stockholders' meeting (the "2019 Annual Meeting"), Jack Partridge, an independent director of SGRP, retired effective as of the close of business on May 15, 2019. Mr. Partridge indicated that he was prepared to serve on the Board for another year, but based on Mr. Partridge's discussions with Mr. Bartels and the preliminary vote totals (including Mr. Brown's votes), Mr. Partridge believed that the Majority Stockholders would vote "against" him, so he elected to retire before the 2019 Annual Meeting.

On July 10, 2019, Robert G Brown wrote in an email communication to Arthur B. Drogue, an independent director and Chairman of the Board, to which he copied Mr. Bartels, Mr. Peter W. Brown and Mr. Jeffery Mayer (each a director), expressing Mr. Brown's concerns with the positions of certain of SGRP's directors (the "July 10 Email"), including the independent directors. The concerns listed in the July 10 Email include SGRP's refusal to reimburse the alleged expenses of entities owned by, or affiliated with, the Majority Stockholders, that have not been approved by the Audit Committee and SGRP's management (collectively, the "Brown Demands"). Mr. Bartels has since repeated several of the Brown Demands. These amounts were included in his March 2020 Demand (See *SBS Bankruptcy, Settlement, and March 2020 Claim*, below). Mr. Brown further demanded in the July 10 Email that the directors change their positions and accept the Brown Demands or resign. In the July 10 Email, Mr. Brown indicated his desire to have SGRP's directors acquiesce to his requests or resign, neither of which SGRP's independent directors believe are in the best interests of SGRP and its stockholders, which Mr. Drogue communicated to the Majority Stockholders in response to the July 10 Email. For further information regarding Mr. Brown's demands, his threatened removal of directors who oppose such demands and the Majority Stockholders' request to hold a special stockholders meeting to affect such director removals. See SGRP's Current Report on Form 8-K filed with the SEC on August 23, 2019.

In furtherance of furthered such threats to remove directors who do not comply with his demands, Mr. Robert G. Brown and related parties have executed and delivered written requests forcing SGRP to call a special stockholders' meeting (currently scheduled for April 23, 2020) to consider (i) removal of Mr. Arthur B. Drogue, currently one of five independent directors of SGRP and its Chairman, from the Board, without cause, (ii) removal of Mr. R. Eric McCarthy, currently one of five independent directors of SGRP and Chairman of its Governance Committee (as of 3-1-2020), from the Board, without cause, (iii) addition to the Board of Mr. James R. Brown Sr. (who is the brother of Robert G. Brown and the father of Peter W. Brown, a director who joined the Board in May 2018 to represent the Brown family interests), and (iv) adoption of various amendments to SGRP's By-Laws which are favorable to the Majority Stockholders and not approved or supported by a majority of SGRP's Board or Independent Directors. See *Risks of a Nasdaq Delisting and Penny Stock Trading*, above. See SGRP's Definitive Proxy Statement and Information Statement on Schedules 14A and 14C, respectively, for the registrant's 2020 Special Meeting of Stockholders scheduled to be held on April 23, 2020, as filed with the Securities and Exchange Commission on April 3, 2020.

For additional recent actions by the Majority Stockholders to change or potentially change the Board and 2019 By-Laws, see *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts*, above.

### **Advancement Claims**

From October 2018 through January 2019, the Majority Stockholders, in a series of correspondence, demanded from SGRP advancement and indemnification of their respective shares of legal fees and expenses incurred by them in connection with the By-Laws Action and the 225 Action and other related party litigation matters.

On November 2, 2018, in a letter from his counsel, Mr. Bartels demanded advancement of his proportionate share of the legal fees and expenses incurred in his defense of the By-Laws Action against him.

SGRP's Audit Committee determined on November 5, 2018, that Mr. Bartels was not entitled to indemnification by SGRP for his fees and expenses incurred in his defense of the By-Laws Action because (among other things) Mr. Bartels was sued predominately as a stockholder in the By-Laws Action and not as a director and the By-Laws Action alleged numerous instances of improper conduct by Mr. Bartels that could preclude indemnification under the Corporation's By-Laws. However, the Audit Committee made no determination regarding improper conduct or the issue of advancement.

On November 28, 2018, Mr. Bartels filed with the Court a Verified Complaint For Advancement against SGRP (the "Bartels Advancement Complaint") seeking advancement of his proportionate share of the legal fees and expenses incurred in the By-Laws Case against him ("Allocated By-Laws Expenses"). In evaluating the Bartels Advancement Complaint, counsel advised SGRP that generally advancement was somewhat different than indemnification in that money was advanced on the condition (which Bartels have accepted in writing) that the advances be repaid if indemnification was determined to be improper on the grounds of improper conduct or otherwise.

In December 2018 SGRP reached agreement with Mr. Bartels through counsel to conditionally make his reasonably documented Allocated By-Laws Expenses (the "Bartels Advancement Settlement"), pursuant to which payment to Mr. Bartels of the accepted Allocated By-Laws Expenses was paid in April 2019. If Mr. Bartels is ultimately determined to not be entitled to indemnification, he could still be obligated to return all amounts advanced to him by SGRP.

On December 3, 2018, Robert G. Brown sent an email to Mr. McCarthy, Chairman of SGRP's Audit Committee, demanding advancement from SGRP for his proportionate share of the legal fees and expenses incurred by him in the By-Laws Action against him (the "Brown Advancement Demand").



Counsel advised that Brown had been sued as a stockholder and conspirator in the By-Laws Action against him, and not as a director, and they didn't believe Brown could reasonably and successfully bring or wage a lawsuit for advancement. SGRP, with the support of its Audit Committee, rejected the Brown Advancement Demand, stating that "The bylaw action does not sue you in your capacity as an officer or director of the company. Section 6.02 of the bylaws requires the proceeding subject to advancement to be brought "by /reason of the Indemnitee's position with the Corporation or any of its subsidiaries ... at the request of the Corporation ...." This provision does not, and was not intended to, cover shareholders for advancement.

On January 27, 2019, Mr. Robert G. Brown sent a draft of his proposed Delaware litigation complaint in an email to Arthur Drogue, SGRP's Chairman, threatening to sue SGRP respecting the Brown Advancement Demand, which he repeated in an email to Mr. McCarthey on February 2, 2019. On March 21, 2020, Mr. Robert G. Brown repeated the Brown Advancement Demand and sent a slightly revised draft complaint that would purportedly change the contemplated litigation jurisdiction from Delaware to Massachusetts. No explanation was given for this change and SGRP believes that Mr. Robert G. Brown does not live or work in Massachusetts, but Mr. Robert G. Brown's brother, James S. Brown, is a Massachusetts lawyer and a candidate for election as a SGRP director at the April 23, 2020, special stockholder meeting at the unilateral direction of Mr. Robert G. Brown and related parties. No such complaint has been filed by Mr. Brown through April TBD, 2020, and SGRP continues to deny the Brown Advancement Demand. In addition, SGRP believes that the Delaware Court has exclusive jurisdiction pursuant to SGRP's 2019 Restated By-Laws and the Settlement.

For further information regarding such advancement claims, see Note 8 to the Company's Consolidated Financial Statements in the Q2 2019 Quarterly Report - Commitments and Contingencies -- *Legal Proceedings – Advancement Claims*.

### **SBS Bankruptcy, Settlement and March 2020 Claim**

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case"). On March 18, 2019, the Company filed claims in the SBS Chapter 11 Case seeking reimbursement for \$378,838 for SMF's funding of the Affinity Security Deposits and \$12,963 for SMF's funding of the field payment checks that would have otherwise bounced, and \$1,839,459 for indemnification of SGRP for its settlement (see below) of the Clothier class action case in California ("Clothier") and legal costs and an unspecified amount for indemnification of SGRP for the Hogan action (see below) and other to be discovered indemnified claims.

On August 6, 2019, SGRP, and its subsidiaries SPAR Marketing Force, Inc. ("SMF"), a Nevada corporation, and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation, submitted to the U.S. District Court in Nevada (the "Bankruptcy Court") their Compromise and Settlement Agreement, dated July 26, 2019 (the "Settlement Agreement"), with SBS, a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession, and SBS, LLC, a Nevada limited liability company. The Settlement Agreement was submitted in the SBS Chapter 11 Case. Pursuant to the Settlement Agreement, the Company settled its claims for (among other things) indemnification from SBS in Clothier and the Rodgers class action case in Texas ("Rodgers"), and SBS released all receivable and other claims against the Company. See Note 10 to the Company's Consolidated Financial Statements – Related Party Transactions – *SBS Bankruptcy, Settlement, and March 2020 Claim*, above.

On August 6, 2019, the Bankruptcy Court approved the Settlement Agreement and the SBS reorganization pursuant to SBS' First Amended Chapter 11 Plan of Reorganization, as amended by the Settlement Agreement (the "Plan of Reorganization"). Pursuant to its Plan of Reorganization, SBS also settled its potential liability in the Clothier and Rodgers cases, but Robert G. Brown and William H. Bartels were not released from Clothier, any related case or Rodgers. For further information regarding the Clothier and Rodgers cases, the SBS bankruptcy and the Settlement Agreement, including SBS's potential competition with SGRP and the potential involvement of certain SGRP directors in the management of SBS following the Plan of Reorganization, see SGRP's Current Report on Form 8-K filed with the SEC on Aug 8, 2019. See Note 8 to the Company's Consolidated Financial Statements in the *Commitments and Contingencies -- Legal Proceedings -- SBS Rodgers Litigation* in the Q3 2018 Quarterly Report. In the Settlement Agreement, except for the carve out described in the next paragraph, SBS completely released the Company from all obligations that may be owed to SBS.

On March 6, 2020, Robert G. Brown demanded payment in full of \$1,707,374 to SBS from SMF and SGRP pursuant to the SBS Settlement Agreement. The Settlement Agreement includes a specific carve out clause for the payment of specific fees for services provided by SBS to SMF. The clause required a special review, by a third party prominent auditing firm, as verification that SMF actually made those payments to SBS. The report has been completed and properly supports the Company's position that all such fees were paid to SBS (the "March 2020 Claim"). The Company disagrees that such amount is owed. The Company believes that the robust and comprehensive mutual releases in the SBS Settlement Agreement provide valuable relief from potential future claims and litigation by SBS respecting the Company's past involvement with SBS, including the March 2020 Claim. However, Robert G. Brown, president, director and indirect owner of SBS, since and notwithstanding the Court's approval of the SBS Settlement Agreement, has continued to allege that the claims and amounts that were fully released pursuant to the SBS Settlement Agreement and approved by the bankruptcy court are due to SBS from the Company, and the Company strongly disagrees.

At SGRP's March 2020 Board meeting, Mr. William H. Bartels was requested by an independent director to compile a list of claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bring their total claims to approximately \$3 million. Since all such SBS claims have been completely released by SBS (with Mr. Brown's approval), the Company owes nothing and will not accrue anything respecting Mr. Brown's renewed claims.

The March 2020 Claim includes estimates for the legal defenses of Robert G. Brown and William H. Bartels in California ("PAGA") and Texas ("Rodgers") in cases that do not involve and never included the Company and for which the Company believes it has no liability. The March 2020 Claim also includes defense expenses for SBS' Clothier case, which expenses SBS settled for a highly discounted amount in its bankruptcy reorganization but now wants the Company to pay in full. SBS in its bankruptcy reorganization settled its potential liability in the Rodgers and Clothier cases has, and since July 2019 had, no more defense expenses in those cases. SGRP settled Clothier separately and was never in the Rodgers case. However, the alleged continued willful misclassification by SBS of its ICs after the Clothier misclassification determination is the basis for the PAGA lawsuit against Brown and Bartels. See Note 8 to the Company's Consolidated Financial Statements in the *Commitments and Contingencies -- Legal Proceedings -- SBS Field Specialist Litigation, SBS Clothier Litigation, and SGRP Hogan Litigation* in SGRP's Quarterly Report in the Q2 2019 Quarterly Report, and Note 8 to the Company's Consolidated Financial Statements in the *Commitments and Contingencies -- Legal Proceedings -- SBS Rodgers Litigation* in SGRP's Quarterly Report on Form 10-Q filed with the SEC in the Q3 2018 Quarterly Report. Mr. Bartels' list also includes payments of \$500,000 per year to Robert G. Brown for extended retirement and advisory fees, although the Company has never proposed, committed or agreed to them and on several occasions specifically rejected Mr. Brown's proposals in various forms for them.

### ***Infotech Litigation and Settlement***

On September 19, 2018, SGRP was served with a Summons and Complaint by SPAR InfoTech, Inc. ("Infotech"), an affiliate of SGRP that is owned principally by Robert G. Brown (one of the Majority Stockholders) as plaintiff commencing a case against SGRP (the "Infotech Action"). The Infotech Action sought payment from SGRP of approximately \$190,000 for alleged lost tax benefits and other expenses that it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and that were previously denied on multiple occasions by both management and SGRP's Audit Committee (whose approval was required because Infotech is a related party).

In 2016, SGRP acquired SPAR Brasil Serviços de Merchandising e Tecnologia S.A. ("SPAR BSMT"), its Brazilian subsidiary, with the assistance of Robert G. Brown (while he was still Chairman and an officer and director of SGRP) and his nephew, Peter W. Brown, who became an indirect 10% owner of SPAR BSMT, and later became a director of SGRP on May 3, 2018. Robert G. Brown used his private company, Infotech and undisclosed foreign companies to structure the acquisition for SGRP.

Robert G. Brown incurred his alleged expenses associated with the transaction through Infotech, including salary allocations for unauthorized personnel and claims for his "lost tax breaks". Robert G. Brown submitted his unauthorized and unsubstantiated "expenses" to SGRP, and SGRP's Audit Committee allowed approximately \$50,000 of them (which was paid by the Company) and disallowed approximately \$150,000 of them. His claim increased to over \$190,000 in the Infotech Action. The Company vigorously denied owing any of those amounts.

In 2018, Infotech also threatened to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech (the "Romanian Claim"). Infotech gave a draft complaint to the Company in 2018. The Company also vigorously denied owing any of those obligations or amounts.

In order to avoid the expenses of protracted litigation, SGRP's Management and the Audit Committee agreed that it would be in the best interest of all stockholders to reach a reasonable settlement of both the Infotech Action and the Romanian Claim for installment payments in reasonable amounts and mutual releases of all other related claims. Management had offered \$225,000 to settle both, but at the urging of the Board and assurances of several Board members that it would help them persuade Robert G. Brown to settle, management agreed to increase the settlement offer to a total of \$275,000. After extensive negotiation between the Company and Infotech, Robert G. Brown accepted the \$275,000 offer and the parties entered into the Confidential Settlement Agreement and Mutual Release on October 8, 2019 (the "Infotech Settlement Agreement"), which was approved and ordered by the Court on October 30, 2019, and the Infotech Action was discontinued (dismissed) with prejudice.

The Infotech Settlement Agreement requires the Company to make payments totaling \$275,000 in four installments: (i) \$75,000 following Court approval (which Payment has already been made); (ii) \$75,000 within 30 days following discontinuance of the Infotech Action (which was discontinued on October 30, 2019); (iii) \$75,000 within 60 days following discontinuance of the Infotech Action; and (iv) \$50,000 within 90 days following discontinuance of the Infotech Action. The Company paid the first four installments and has made an appropriate accrual for the final installment as of December 31, 2019. In January 2020, the Company made the final payment to Infotech.

The Company believes that the robust and comprehensive mutual releases in the Infotech Settlement Agreement provide valuable relief from potential future claims and litigation by Infotech respecting the Company's past involvement with Infotech in the Brazilian and Romanian transactions.

#### **SBS Field Specialist Litigation**

The Company's merchandising, audit, assembly and other services for its domestic clients are performed by field merchandising, auditing, assembly and other field personnel (each a "Field Specialist") furnished by others and substantially all of whose services were provided to the Company prior to August 2018 by SBS, the Company's affiliate, SBS is not a subsidiary or in any way under the control of SGRP, SBS is not consolidated in the Company's financial statements, SGRP did not manage, direct or control SBS, and SGRP did not participate in or control the defense by SBS of any litigation against it. The Company terminated its relationship with SBS and received no services from SBS after July 27, 2018. For affiliation, termination, contractual details and payment amounts, see Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, above.

The appropriateness of SBS' treatment of Field Specialists as independent contractors had been periodically subject to legal challenge (both currently and historically) by various states and others. SBS' expenses of defending those challenges and other proceedings generally were, through but not after the termination of the SBS services, reimbursed by the Company after and to the extent the Company determined (on a case by case basis) that those defense expenses were costs of providing services to the Company.

The Company settled its potential liability (as a current or former party) under two class action lawsuits against SBS, namely Clothier and Hogan. SBS was separately dismissed from the Hogan class action prior to the Company's settlement. SBS settled with Clothier and Rodgers in the SBS Bankruptcy, but Robert G. Brown and William H. Bartels were not released from Clothier, any related case or Rodgers (see above). The Company has never been a party to the Rodgers case. See Note 8 to the Company's Consolidated Financial Statements in the Q2 2019 Quarterly Report - *Commitments and Contingencies -- SBS Clothier Litigation and SGRP Hogan Litigation*, and Note 8 to the Company's Consolidated Financial Statements in the *Commitments and Contingencies -- Legal Proceedings -- SBS Rodgers Litigation* in the Q3 2018 Quarterly Report.

Any claim made and proven by Robert G. Brown, William H. Bartels, SBS, SAS, any other related party or any third party that the Company is somehow liable (through indemnification or otherwise) for any judgment or similar amount imposed against Mr. Brown, Mr. Bartels, SBS or SAS or any other related party, in each case in whole or in part, could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 8 to the Company's Consolidated Financial Statements in the Q2 2019 Quarterly Report - *Commitments and Contingencies*.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### *The Company's Capital Stock Generally*

SGRP's certificate of incorporation authorizes it to issue 47,000,000 shares of common stock with a par value of \$0.01 per share (the "SGRP Common Stock"), which all have the same voting, dividend and liquidation rights. SGRP Common Stock is traded on the Nasdaq Capital Market ("Nasdaq") under the symbol "SGRP". On December 31, 2019, there were 21,102,335 shares of SGRP Common Stock outstanding in the aggregate (which does not include Treasury Shares), and 8.4 million shares (or approximately 38.0%) of SGRP Common Stock beneficially owned by non-affiliates of the Company in the aggregate on a non-diluted basis (i.e., SGRP's public float). See Item IA - Risk Factors - Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts, above, and Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, below.

SGRP's certificate of incorporation also authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as SGRP's Board of Directors may establish in its discretion from time to time. SGRP has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series A Preferred Stock (the "Series A Preferred Stock"), which preferred shares have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. 554,402 shares of Series A preferred stock were previously issued, reacquired and retired. After such retirement, 2,445,598 shares of Series A Preferred Stock remain authorized and available for issuance. At December 31, 2019, no shares of Series A Preferred Stock were issued and outstanding. SGRP can change or cancel the authorized Series A Preferred Stock, and to the extent it reduces such authorization without issuance, it can create other series of Preferred Stock with potentially different dividends, preferences and other terms. The holders of SGRP Common Stock and Series A Preferred Stock vote together for directors and other matters, other than matters pertaining only to the Series A Preferred Stock (such as amending SGRP's Certificate of Designation of Series A Preferred Stock) where only the holders of the Series A Preferred Stock are entitled to vote.

#### *Market Information*

SGRP's Common Stock is traded on the Nasdaq Capital Market ("Nasdaq") under the symbol "SGRP". As of December 31, 2019, there were approximately 165 stockholders of record.

#### *Dividends*

The Company has never declared or paid any cash dividends on its Common Stock and does not anticipate paying cash dividends on its Common Stock in the foreseeable future. The Company currently intends to retain future earnings to finance its operations and fund the growth of the business. Any payment of future dividends will be at the discretion of the Board of Directors of the Company and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions in respect to the payment of dividends and other factors that the Company's Board of Directors deems relevant.

### ***Equity Compensation***

Information regarding the Company's equity compensation plans may be found in Item 12 of this Annual Report, which is hereby incorporated by reference.

### ***Stock Repurchase Program***

The Company's 2017 Stock Repurchase Program (the "2017 Repurchase Program"), as approved by SGRP's Audit Committee and adopted by its Board of Directors on November 10, 2017 and ratified on March 14, 2018. Under the 2017 Repurchase Program, SGRP may repurchase shares of SGRP Common Stock through November 10, 2020, but not more than 500,000 shares in total, and those repurchases would be made from time to time in the open market and through privately-negotiated transactions, subject to general market and other conditions. SGRP does not intend to repurchase any shares in the market during any blackout period applicable to its officers and directors under the SPAR Group, Inc. Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information As Adopted, Restated, Effective and Dated as of May 1, 2004, and As Further Amended Through March 10, 2011 (other than purchases that would otherwise be permitted under the circumstances for anyone covered by such policy). As of December 31, 2019, the Company had 500,000 shares remaining to be purchased under the 2017 Repurchase Program.

### ***SGRP Common Stock Issuances***

During 2019, the Company issued 317,852 new shares of SGRP Common Stock in support of its requirement to satisfy employee exercised stock option grants under its existing registered stock compensation and stock purchase plans (See Note 11 – Stock Based Compensation). In 2018, SGRP did not issue any new SGRP Common Stock.

### **Item 6. Selected Financial Data**

Not applicable.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, made or respecting by SPAR Group, Inc. ("SGRP") and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"). See FORWARD-LOOKING STATEMENTS preceding Part I, above. There also are "forward-looking statements" contained elsewhere in this Annual Report, the Proxy Statement, and the other applicable SEC Reports filed with the SEC from time to time under the Securities Act, the Exchange Act and other Securities Laws (as all such terms are defined in FORWARD-LOOKING STATEMENTS, preceding Part I, above).*

*All forward-looking statements and other information attributable to the Company or persons acting on its behalf are expressly subject to and qualified by all of the risks, uncertainties, cautions, circumstances and other factors ("Risks") facing the Company, including the Risks and other information described in Item IA - Risk Factors, above, or elsewhere in this Annual Report, the Proxy Statement or any other applicable SEC Report.*

*The Company does not intend, assume any obligation, or promise to publicly update or revise any such forward-looking statement, Risk or information (in whole or in part), whether as a result of new information, new or worsening Risks or uncertainties, changed circumstances, future events, recognition, or otherwise.*

### Overview

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandise, office supply, grocery, drug, dollar, home improvement, independent, automotive, convenience and electronics stores, as well as providing furniture and other product assembly services in stores, homes and offices and marketing research services. The Company has supplied these services in the United States since certain of its merchandising predecessors were formed in 1985 and research predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May 2001. Today the Company operates in 10 countries that encompass approximately 50% of the total world population through operations in the United States, Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

### Critical Accounting Policies & Estimates

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in Note 2 to the Company's Consolidated Financial Statements - *Summary of Significant Accounting Policies*. These policies have been consistently applied in all material respects and address such matters as revenue recognition, doubtful accounts and credit risks, internal use software development costs, asset impairment recognition, consolidation of subsidiaries and other companies. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are appropriate under the circumstances.

### Impairment of Long-Lived Assets

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of the Company's property and equipment and intangible assets subjected to amortization may not be recoverable. When indicators of potential impairment exist, the Company assesses the recoverability of the assets by estimating whether the Company will recover its carrying value through the undiscounted future cash flows generated by the use of the asset and its eventual disposition. Based on this analysis, if the Company does not believe that it will be able to recover the carrying value of the asset, the Company records an impairment loss to the extent that the carrying value exceeds the estimated fair value of the asset. If any assumptions, projections or estimates regarding any asset change in the future, the Company may have to record an impairment to reduce the net book value of such individual asset.

### **Accounting for Joint Venture Subsidiaries**

For the Company's less than wholly owned subsidiaries, the Company first analyzes to determine if a joint venture subsidiary is a variable interest entity (a "VIE") in accordance with ASC 810 and if so, whether the Company is the primary beneficiary requiring consolidation. A VIE is an entity that has (i) insufficient equity to permit it to finance its activities without additional subordinated financial support or (ii) equity holders that lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary, which is the entity that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that potentially could be significant to the entity. Variable interests in a VIE are contractual, ownership, or other financial interests in a VIE that change with changes in the fair value of the VIE's net assets. The Company continuously re-assesses at each level of the joint venture whether the entity is (i) a VIE, and (ii) if the Company is the primary beneficiary of the VIE. If it was determined that an entity in which the Company holds an interest qualified as a VIE and the Company was the primary beneficiary, it would be consolidated.

Based on the Company's analysis for each of its 51% owned joint ventures, the Company has determined that each is a VIE and that Company is the primary beneficiary of that VIE. In addition to its controlling interest, the Company controls the proprietary information technology that is used at and is significant to each joint venture and the Company has the ability to control other key decisions. Accordingly, the Company has the power to direct key activities and the obligation to absorb losses or the right to receive benefits that could be significant and consolidates each joint venture under the VIE rules and reflects the 49% interests in the Company's consolidated financial statements as non-controlling interests. The Company records these non-controlling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss or equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the non-controlling interest holder based on its economic ownership percentage.

### **Revenue Recognition**

The Company's services are provided to its clients under contracts or agreements. The Company bills its clients based upon service fee arrangements. Revenues under service fee arrangements are recognized when the service is performed. Customer deposits, which are considered advances on future work, are recorded as revenue in the period services are provided.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers." Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605) and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method with the impact upon adoption not significant.

The Company records revenue from contracts with its customers through the execution of a Master Service Agreement ("MSA") that are effectuated through individual Statements of Work ("SOW" and with the applicable MSA collectively a "Contract"). The MSAs generally define the financial, service, and communication obligations between the client and SPAR while the SOWs state the project objective, scope of work, time frame, rate and driver in which SPAR will be paid. Only when the MSA and SOW are combined as a Contract can all five revenue standard criteria be met. The Company integrates a series of tasks promised within these Contracts into a bundle of services that represent the combined performance obligation of Merchandising Services. Such Merchandising Services are performed over the duration of the SOW. Most Merchandising Services are performed on a daily, weekly or monthly basis. Revenue from Merchandising Services are recognized as the services are performed based on a rate per driver basis (per hour, store visit or unit stocked) with services delivered as they are consumed.

All of the Company's Contracts with customers have a duration of one year or less, with over 90% being completed in less than 30-days, and revenue is recognized as services are performed. Given the nature of the Company's business, how the Contracts are structured and how the Company is compensated the Company has elected the right-to-invoice practical expedients method allowed under the revenue standard.

### **Doubtful Accounts and Credit Risks**

The Company continually monitors the collectability of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$438,000 and \$533,000 at December 31, 2019, and 2018, respectively. Bad debt expense was \$83,000 and \$196,000 for the years ended December 31, 2019 and 2018, respectively.

**Internal Use Software Development Costs**

The Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalized software development costs are amortized over three years on a straight-line basis.

The Company capitalized approximately \$1.3 million of costs related to software developed for internal use in both 2019 and 2018, and recognized approximately \$1.3 million of amortization of capitalized software for both the years ended December 31, 2019 and 2018.



## Results of Operations

The following table sets forth selected financial data and such data as a percentage of net revenues for the years indicated (dollars in millions).

	Year Ended December 31,			
	2019	%	2018	%
Net revenues	\$ 252.9	100%	\$ 229.1	100%
Cost of revenues	203.6	80.5	184.9	80.7
Selling, general & administrative expense	36.9	14.6	38.4	16.8
Depreciation & amortization	2.2	0.9	2.1	0.9
Interest expense, net	1.0	0.4	1.0	0.5
Other (income), net	(0.3)	(0.1)	(0.4)	(0.2)
Income before income taxes	9.4	3.7	3.1	1.3
Income tax expense	3.6	1.4	1.4	0.6
Net income	5.8	2.3	1.7	0.7
Net income attributable to non-controlling interest	(3.4)	(1.4)	(3.2)	(1.4)
Net income (loss) attributable to SPAR Group, Inc.	\$ 2.4	1.0%	\$ (1.5)	(0.7)%

### Results of operations for the year ended December 31, 2019, compared to the year ended December 31, 2018

#### Net Revenues

Net revenues for the year ended December 31, 2019, were \$252.9 million compared to \$229.2 million for the year ended December 31, 2018, an increase of \$23.7 million or 10.3%. Domestic contributed \$10.7 million and the international segment contributed \$13.0 million of the increase year over year.

Domestic net revenues totaled \$90.7 million and \$80.0 million at December 31, 2019 and 2018, respectively. The increase of \$10.7 million or 13.3% is primarily attributable to project growth.

International net revenues totaled \$162.2 million for the year ended December 31, 2019, compared to \$149.1 million for the year ended December 31, 2018, an increase of \$13.1 million or 8.8%. The increase in 2019 international net revenues was primarily due to increased revenue in Brazil, Mexico, Canada, and Japan. See Note 12 to the Company's Consolidated Financial Statements – *Segment Information*, below.

#### Cost of Revenues

The Company's cost of revenues consists of its in-store labor and field management wages, related benefits, travel and other direct labor-related expenses and was 80.5% of net revenue for the year ended December 31, 2019 compared to 80.7% of net revenues for the year ended December 31, 2018.

Domestic cost of revenue as a percent of net revenue was 76.5% for both years ended December 31, 2019 and 2018.

International cost of revenue as a percent of net revenue was 82.8% and 82.9% for the years ended December 31, 2019 and 2018, respectively. The international cost of revenue percentage decrease of 0.1% percentage point was primarily due to margin improvements in Mexico, India, and Brazil.

## **Selling, General and Administrative Expenses**

Selling, general and administrative expenses of the Company include its corporate overhead, project management, information technology, executive compensation, human resources, legal and accounting expenses. Selling, general and administrative expenses were approximately \$36.9 million and approximately \$38.4 million for the years ended December 31, 2019 and 2018, respectively.

Domestic selling, general and administrative expenses totaled approximately \$16.9 million for the year ended December 31, 2019 compared to approximately \$19.9 million for the year ended December 31, 2018. Of the decrease of approximately \$3.0 million, the cost savings is attributed to SGRP (\$2 million) and Resource Plus (\$800,000).

International selling, general and administrative expenses totaled approximately \$20.0 million and \$18.5 million for the years ended December 31, 2019 and 2018, respectively.

## **Depreciation and Amortization**

Depreciation and amortization expense totaled approximately \$2.2 million and \$2.1 million for the years ended December 31, 2019 and 2018, respectively.

## **Interest Expense**

The Company's interest expense was \$1.0 million and \$1.0 million for the years ended December 31, 2019 and 2018, respectively.

The international segment contributed \$402,000 to the decrease in the Company's 2019 interest expense primarily due to borrowing requirements from the Company's subsidiary in Brazil and a reduction in interest income in South Africa. In the domestic segment, 2019 interest expense increased by approximately \$353,000 compared to 2018 primarily due to rate increase.

## **Other Income**

Other income was \$266,000 and \$406,000 for the years ended December 31, 2019 and 2018, respectively.

## **Income Tax**

The income tax expense for the years ended December 31, 2019 and 2018 was \$3.6 million and \$1.4 million, respectively.

## **Non-controlling Interest**

Net operating profits from the non-controlling interests, relating to the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$3.4 million and \$3.2 million for the years ended December 31, 2019 and 2018, respectively.

## **Net Income (Loss)**

The Company reported a net income attributable to SPAR Group, Inc. of \$2.4 million for the year ended December 31, 2019, or \$0.12 per basic share, compared to a net loss of \$1.5 million for the year ended December 31, 2018, or (\$0.07) per diluted share, based on basic shares outstanding of 20.9 million at December 31, 2019, and 20.7 million at December 31, 2018.

## **Off Balance Sheet Arrangements**

None.

## **Liquidity and Capital Resources**

For the years ended December 31, 2019 and 2018, the Company had net income before non-controlling interest of \$5.8 million and \$1.5 million, respectively.

Net cash provided by operating activities was \$6.1 million and \$2.1 million for the years ended December 31, 2019 and 2018, respectively. Net cash provided by operating activities was primarily due to cash impacting earnings and increases in accounts payable and accrued expenses, partially offset by increases in accounts receivable, and prepaid and other assets.

Net cash used in investing activities for the years ended December 31, 2019 and 2018, was approximately \$1.4 million and \$0.9 million, respectively. The net cash used in investing activities during 2019 was attributable to fixed asset.

Net cash used in financing activities for the year ended December 31, 2019 was approximately \$2.0 million compared to \$0.2 million provided by financing activities in 2018. Net cash used in financing activities during 2019 was primarily due to net borrowing on lines of credit.

The above activity and the impact of foreign exchange rate changes resulted in an increase in cash and cash equivalents for the year ended December 31, 2019 of approximately \$3.3 million.

At December 31, 2019, the Company had net working capital of \$17.4 million, as compared to net working capital of \$12.6 million at December 31, 2018. The Company's current ratio was 1.4 and 1.3 at December 31, 2019 and December 31, 2018, respectively.

### ***Credit Facilities:***

The Company is a party to various domestic and international credit facilities. See Note 4 to the Company's Consolidated Financial Statements – *Credit Facilities*.

These various domestic and international credit facilities require compliance with their respective financial covenants. During 2019, the Company was in compliance with all other financial covenants.

Management believes that based upon the continuation of the Company's existing credit facilities, projected results of operations, vendor payment requirements and other financing available to the Company (including amounts due to affiliates), sources of cash availability should be manageable and sufficient to support ongoing operations over the next year. However, delays in collection of receivables due from any of the Company's major clients, a significant reduction in business from such clients, or a negative economic downturn resulting from the impact of the COVID-19 virus, could have a material adverse effect on the Company's business, cash resources and ongoing ability to fund operations.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable.

### **Item 8. Financial Statements and Supplementary Data**

See Item 15 – *Exhibits and Financial Statement Schedules* of this Annual Report on Form 10-K.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the registrant, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Management has designed such internal control over financial reporting by the Company to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (2013)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2019.

## **Management's Evaluation of Disclosure Controls and Procedures**

The Company's chief executive officer and chief financial officer have each reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2019, as required by Exchange Act Rules 13a-15(b) and Rule 15d-15(b). Based on that evaluation, the chief executive officer and chief financial officer have each concluded that the Company's current disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in reports it files, or submits under the Exchange Act were recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

## **Changes in Internal Controls**

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's 2019 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **Item 9B. Other Information**

### ***Failure to Maintain a Majority of Independent Directors on the Board***

The Board and the Governance Committee have determined that the Board should always have a majority of independent directors as required by applicable Nasdaq and SEC rules. SGRP's Statement of Policy Regarding Director Qualifications and Nominations dated as of May 18, 2004, requires that (among other things) a majority of the directors of the Board, and all of the members of its Audit Committee, Compensation Committee and Governance Committee, be independent directors as required by applicable Nasdaq and SEC rules. Nasdaq Listing Rule 5605(b)(1) requires a majority of the board of directors of a listed company to consist of independent directors, as defined in Rule 5605(a)(2) (together, the "Board Independence Rules").

At the time of his appointment, Mr. Lazaretos was classified as non-independent and caused SGRP to fail to comply with the Nasdaq's Board Independence Rule. On December 31, 2019, SGRP received a notification letter from Nasdaq (the "Nasdaq Board Independence Deficiency Letter"), stating that SGRP was no longer in compliance with the Board Independence Rule as a result of Mr. Lazaretos being added to the Board pursuant to the Written Consents of the Majority Stockholders. See SGRP's Current Reports on Form 8-K as filed with the SEC on January 31, 2020, and January 7, 2020. See also SGRP's Current Reports on Form 8-K as filed with the SEC on January 31, 2020, September 16, 2019, August 23, 2019 and August 12, 2019.

On January 23, 2020, the Governance Committee re-evaluated the independence of Mr. Lazaretos and Mr. Mayer, which included their re-evaluation of information previously provided. Accordingly, the Governance Committee believes that the Board now has a majority of independent directors and satisfies Nasdaq Listing Rule 5605(b)(1) and has advised Nasdaq of the above in a letter on February 4, 2020.

The Governance Committee has not yet evaluated the independence of Robert G. Brown. However, Robert G. Brown is the uncle of Mr. Peter Brown, and is a significant stockholder of SGRP, a member of a 13D control group, and SGRP's former Chairman and director. Since there is no presumption of independence under Nasdaq Rules or the Charter of the Governance Committee, Robert G. Brown will be considered non-independent unless and until determined otherwise by the Governance Committee (if ever).

The eight-member Board currently has five independent directors (Arthur B. Drogue, Arthur H. Baer, R. Eric McCarthey, Jeffrey A. Mayer and Panagiotis ("Panos") N. Lazaretos) and three non-independent directors on the Board (Christiaan M. Olivier, William H. Bartels, and Peter W. Brown), which constitutes more than a majority of independent directors, and the Company believes satisfies Nasdaq's Board Independence Rules. See SGRP's Current Report on Form 8-K respecting such compliance as filed with the SEC on September 16, 2019, and for details respecting Arthur Baer's appointment as an independent director, see SGRP's Current Report on Form 8-K as filed with the SEC on September 6, 2019. When Robert G. Brown's appointment as a director of SGRP becomes effective, the nine-member Board will have five independent directors on the Board, and four non-independent directors, which constitutes more than a majority of independent directors and which will satisfy Nasdaq's Board Independence Rules.

However, Robert G. Brown's appointment will result in SGRP having less than a majority (three out of seven or four out of eight) of independent directors as required by applicable Nasdaq rules if, at the Special Meeting pursuant to the Written Request, stockholders vote "for" the proposals respecting the removal of Mr. Arthur B. Drogue and Mr. R. Eric McCarthey (currently two of five independent directors of SGRP) from the Board.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Reference is made to the information set forth under the captions "The Board of Directors of the Corporation", "Executives and Officers of the Corporation", "Security Ownership of Certain Beneficial Owners and Management" and "Corporate Governance" in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 13, 2020, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2020, but not later than 120 days after the end of the Company's 2019 fiscal year), which information is incorporated by reference to this Annual Report. For clarity (and without limitation), information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS" shall not be deemed to be incorporated by reference in this Annual Report.

Without in any way limiting any of the information incorporated by reference above, in order to (among other things) assist the Board and the Audit Committee in connection with an overall review of the Company's related party transactions and certain worker classification-related litigation matters, in April 2017 the Board formed a special subcommittee of the Audit Committee (the "Special Subcommittee") to (among other things) review the structure, documentation, fairness, conflicts, fidelity, appropriateness, and practices respecting each of the relationships and transactions discussed in Item 13 – *Certain Relationships and Related Transactions, and Director Independence*, and Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions* (including those described under *Domestic Related Party Services* in that Item and Note). The Special Subcommittee is continuing that review with the assistance of special auditors and counsel is currently being retained by such Subcommittee. The Company is currently unable to predict the duration, ultimate scope, or results of this review by the Special Subcommittee. See also Item 1 *Business - The Company's Labor Force*, Item 1A - *Risk Factors - Potential Conflicts with Affiliates, Potential Conflicts with Affiliates, and Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, and Item 3 - *Legal Proceedings*, above, and Note 6 to the Company's Consolidated Financial Statements – *Commitments and Contingencies - Legal Matters*, and Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - Domestic Related Party Services*, below.

### Item 11. Executive Compensation

Reference is made to the information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management", "Executive Compensation, Directors and Other Information", "Executive Compensation, Equity Awards and Options", and "Compensation Plans", in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 13, 2020, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2020, but not later than 120 days after the end of the Company's 2019 fiscal year), which information is incorporated by reference to this Annual Report. For clarity (and without limitation), information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS" shall not be deemed to be incorporated by reference in this Annual Report.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Reference is made to the information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management", "Executive Compensation, Equity Awards and Options", and "Compensation Plans" in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 13, 2020, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2020, but not later than 120 days after the end of the Company's 2019 fiscal year), which information is incorporated by reference to this Annual Report. For clarity (and without limitation), information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS" shall not be deemed to be incorporated by reference in this Annual Report.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Reference is made to the information set forth under the caption "Transactions with Related Persons, Promoters and Certain Control Persons" in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 13, 2020, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2020, but not later than 120 days after the end of the Company's 2019 fiscal year), which information is incorporated by reference to this Annual Report. For clarity (and without limitation), information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS" shall not be deemed to be incorporated by reference in this Annual Report.

Without in any way limiting any of the information incorporated by reference above, in order to (among other things) assist the Board and the Audit Committee in connection with an overall review of the Company's related party transactions and certain worker classification-related litigation matters, in April 2017 the Board formed a special subcommittee of the Audit Committee (the "Special Subcommittee") to (among other things) review the structure, documentation, fairness, conflicts, fidelity, appropriateness, and practices respecting each of the relationships and transactions discussed in Item 13 – *Certain Relationships and Related Transactions, and Director Independence*, and Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions* (including those described under *Domestic Related Party Services* in that Item and Note). The Special Subcommittee is continuing that review with the assistance of special auditors and counsel currently being retained by such Subcommittee. The Company is currently unable to predict the duration, ultimate scope, or results of this review by the Special Subcommittee. See also Item 1 *Business - The Company's Labor Force*, Item 1A - *Risk Factors - Potential Conflicts with Affiliates, Potential Conflicts with Affiliates*, and *Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, and Item 3 - *Legal Proceedings*, above, and Note 6 to the Company's Consolidated Financial Statements – *Commitments and Contingencies - Legal Matters*, and Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - Domestic Related Party Services*, below.

### **Item 14. Principal Accountant Fees and Services**

Reference is made to the information set forth under the caption "PROPOSAL 2 - RATIFICATION, ON AN ADVISORY BASIS, OF THE APPOINTMENT OF BDO USA, LLP AS THE COMPANY'S PRINCIPAL INDEPENDENT ACCOUNTANTS" in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 13, 2020, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2020, but not later than 120 days after the end of the Company's 2019 fiscal year), which information is incorporated by reference to this Annual Report. For clarity (and without limitation), information appearing in the section "REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS" shall not be deemed to be incorporated by reference in this Annual Report.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

#### 1. Index to Financial Statements filed as part of this report:

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-2
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2019 and 2018	F-3
Consolidated Statements of Equity for the years ended December 31, 2019 and 2018	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018	F-5
Notes to Consolidated Financial Statements	F-6

#### 2. Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 2019 and 2018	F-46
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#### 3. Exhibits

<b>Exhibit Number</b>	<b>Description</b>
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3.1	<a href="#">Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name of PIA Merchandising Services, Inc.), a amended ("SGRP"), incorporated by reference to SGRP's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1"), and <a href="#">the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes SGRP's name to SPAR Group, Inc.) (incorporated by reference to Exhibit 3.1 to SGRP's Quarterly Report on Form 10-Q for the 3rd Quarter ended September 30, 1999).</a></a>
3.2	<a href="#">Certificate of Designation of Series "A" Preferred Stock of SPAR Group, Inc., as of March 28, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC on March 31, 2008).</a>
3.3	<a href="#">Amended and Restated By-Laws of SPAR Group, Inc., as adopted, restated, effective and dated January 18, 2019 (incorporated by reference to Exhibit 3.3 to SGRP's Current Report on Form 8-K, as filed with the SEC on January 25, 2019).</a>
3.4	<a href="#">Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).</a>
3.5	<a href="#">Charter of the Compensation Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).</a>
3.6	<a href="#">Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).</a>
3.7	<a href="#">Charter of the Special Subcommittee of the Board of Directors of SPAR Group, Inc., adopted in April 7, 2017 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018).</a>

- 3.8 [SPAR Group, Inc. Statement of Policy Respecting Stockholder Communications with Directors, adopted on May 18, 2004 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004\).](#)
- 3.9 [SPAR Group, Inc. Statement of Policy Regarding Director Qualifications and Nominations, adopted on May 18, 2004 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004\).](#)
- 3.10 [SPAR Group, Inc. Statement of Policy Respecting Complaints and Communications by Employees and Others as Amended and Restated a of August 13, 2015 \(also known as the Whistleblower Policy\) \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018\).](#)
- 3.11 [SGRP 2018 Stock Repurchase Program as approved by SGRP's Audit Committee and adopted by its Board of Directors on November 10, 2017 and ratified on March 14, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018\).](#)
- 4.1 [Form of SGRP's Common Stock Certificate \(incorporated by reference to SGRP's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-3 \(Registration No. 333-162657\) as filed with the SEC on February 7, 2011\).](#)
- 4.2 [Form of SGRP's Preferred Stock Certificate \(incorporated by reference to SGRP's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-3 \(Registration No. 333-162657\) as filed with the SEC on February 7, 2011\).](#)
- 4.3 Registration Rights Agreement entered into as of January 21, 1992, by and between SGRP (as successor to, by merger in 1996 with, PI/ Holding Corporation, f/k/a RVM Holding Corporation, the California Limited Partnership, The Riordan Foundation and Creditanstalt Bankverine (incorporated by reference to the Form S-1).
- 4.4 [SGRP's Offer to Exchange Certain Outstanding Stock Options for New Stock Options dated August 24, 2009 \(incorporated by reference to Exhibits 99\(a\)\(1\)\(A\) through \(G\) of SGRP's Schedule TO dated August 24, 2009, as filed with the SEC on August 25, 2009 \("SGRP's SC TO-I"\)\).](#)
- 10.1 [2018 Stock Compensation Plan of SGRP, effective as of May 2, 2018 \(incorporated by reference to Annex A to SGRP's Definitive Proxy Statement filed with the SEC on April 18, 2018\).](#)
- 10.2 [SPAR Group, Inc. 2008 Stock Compensation Plan, effective as of May 29, 2008, and as amended through May 28, 2009 \(the "SGRP 2008 Plan"\) \(incorporated by reference to SGRP's Current Report on Form 8-K dated June 4, 2009, as filed with the SEC on June 4, 2009\).](#)
- 10.3 [Summary Description and Prospectus dated August 24, 2009, respecting the SPAR Group, Inc. 2008 Stock Compensation Plan, as amended \(incorporated by reference to Exhibit 99\(a\)\(1\)\(G\) to SGRP's SC TO-I\).](#)
- 10.4 [Form of Nonqualified Stock Option Contract for new awards under the SGRP 2008 Plan \(incorporated by reference to SGRP's first and final amendment to its SC TO-I on Schedule TO I/A dated October 20, 2009, as filed with the SEC on October 22, 2009\).](#)
- 10.5 [2000 Stock Option Plan, as amended through May 16, 2006 \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the SEC on November 14, 2006\).](#)
- 10.6 [2001 Employee Stock Purchase Plan \(incorporated by reference to SGRP's Proxy Statement for SGRP's annual stockholders meeting held on August 2, 2001, as filed with the SEC on July 12, 2001\).](#)
- 10.7 [2001 Consultant Stock Purchase Plan \(incorporated by reference to SGRP's Proxy Statement for SGRP's Annual meeting held on August 2 2001, as filed with the SEC on July 12, 2001\).](#)
- 10.8 [SGRP 2018 Stock Repurchase Program as approved by SGRP's Audit Committee and adopted by its Board of Directors on November 10 2017 and ratified on March 14, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31 2017, as filed with the SEC on April 2, 2018\).](#)
- 10.9 [Amended and Restated Change in Control Severance Agreement between William H. Bartels and SGRP, dated as of December 22, 2001 \(incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010\).](#)
- 10.10 [Amended and Restated Change in Control Severance Agreement between James R. Segreto and SGRP, dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.1 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 8, 2018\).](#)
- 10.11 [First Amendment to Amended and Restated Change in Control Severance Agreement between James R. Segreto and SGRP dated as of November 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.12 [Amended and Restated Change in Control Severance Agreement between Kori G. Belzer and SGRP, dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.2 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 8, 2018\).](#)



- 10.13 [First Amendment to Amended and Restated Change in Control Severance Agreement between Kori G. Belzer and SGRP dated as of November 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.14 [Amended and Restated Change in Control Severance Agreement between Gerard Marrone and SGRP dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.3 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 8, 2018\).](#)
- 10.15 [First Amendment to Amended and Restated Change in Control Severance Agreement between Gerard Marrone and SGRP dated as of November 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.16 [Amended and Restated Change in Control Severance Agreement between Steven J. Adolph and SGRP dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.4 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 8, 2018\).](#)
- 10.17 [Executive Officer Severance Agreement between Steven J. Adolph and SGRP dated as of June 17, 2016 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.18 [Corrected First Amendment to Severance Agreements between Steven J. Adolph and SGRP dated as of August 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.19 [Second Amendment to Severance Agreements between Steven J. Adolph and SGRP dated as of November 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.20 [Amended and Restated Change in Control Severance Agreement between Lawrence David Swift and SGRP dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.5 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 8, 2018\).](#)
- 10.21 [First Amendment to Amended and Restated Change in Control Severance Agreement between Lawrence David Swift and SGRP dated as of November 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.22 [Amended and Restated Change in Control Severance Agreement between Christiaan M. Olivier and SGRP dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.1 to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, as filed with the SEC on August 20, 2018\).](#)
- 10.23 [Executive Officer Severance Agreement between Christiaan M. Olivier and SGRP dated as of September 5, 2017 \(incorporated by reference to Exhibit 10.2 to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, as filed with the SEC on August 20, 2018\).](#)
- 10.24 [First Amendment to Severance Agreements between Christiaan M. Olivier and SGRP dated as of November 8, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.25 [Amended and Restated Field Service Agreement dated and effective as of January 1, 2004, by and between SPAR Marketing Services, Inc. and SPAR Marketing Force, Inc. \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004\).](#)
- 10.26 [First Amendment to Amended and Restated Field Service Agreement between SPAR Marketing Services, Inc., a Nevada corporation, and SPAR Marketing Force, Inc., a Nevada corporation \("SMF"\), dated September 30, 2008, and effective as of September 24, 2008 \(the "First Amendment"\). \(incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 6, 2008\).](#)
- 10.27 [Amended and Restated Field Management Agreement dated and effective as of January 1, 2004, by and between SPAR Management Services, Inc., and SPAR Marketing Force, Inc. \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004\).](#)
- 10.28 [Amended and Restated Programming and Support Agreement by and between SPAR Marketing Force, Inc. and SPAR InfoTech, Inc., dated and effective as of September 15, 2007 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on November 14, 2007\).](#)
- 10.29 [Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003\).](#)
- 10.30 [Trademark License Agreement dated as of July 8, 1999, by and between SPAR InfoTech, Inc., and SPAR Trademarks, Inc. \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003\).](#)
- 10.31 [Joint Venture Agreement dated as of March 29, 2006, by and between FACE AND COSMETIC TRADING SERVICES PTY LIMITED and SPAR International Ltd., respecting the Company's subsidiary in Australia \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007\).](#)
- 10.32 [Joint Venture Shareholders Agreement between Friedshelf 401 \(Proprietary\) Limited, SPAR Group International, Inc., Derek O'Brien, Brian Mason, SMD Meridian CC, Meridian Sales & Merchandising \(Western Cape\) CC, Retail Consumer Marketing CC, Merhold Holding Trust in respect of SGRP Meridian \(Proprietary\) Limited, dated as of June 25, 2004, respecting SGRP's consolidated subsidiary in South Africa \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005\).](#)

- 10.33 [Joint Venture Agreement dated as of September 3, 2012, by and between Combined Manufacturers National \(Pty\) Ltd and SGRP Meridia \(Pty\) Ltd, respecting SGRP's additional consolidated subsidiary in South Africa \(incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013\).](#)
- 10.34 [Joint Venture Agreement dated as of August 2, 2011, by and among Todopromo, S.A. de C.V., Sepeme, S.A. de C.V., Top Promoservicios S.A. de C.V., Conapad, S.C., Mr. Juan Francisco Medina Domenzain, Mr. Juan Francisco Medina Staines, Mr. Jorge Carlos Medina Staines Mr. Julio Cesar Hernandez Vanegas, and SPAR Group International, Inc., respecting SGRP's consolidated subsidiary in Mexico \(incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013\).](#)
- 10.35 [Joint Venture Agreement dated as of August 30, 2012, by and between National Merchandising of America, Inc., a Georgia corporation SPAR NMS Holdings, Inc., a Nevada corporation and consolidated subsidiary of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012\).](#)
- 10.36 [Joint Venture Contract dated July 4, 2014, among SPAR China Inc., established and existing under the laws of Hong Kong, Wedon Shanghai, Co., Ltd., organized and existing under the laws of P.R. China, Shanghai Gold Pack Investment Management Co., Ltd., organized and existing under the laws of P.R. China, and XU Gang, an Australian citizen \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC on April 17, 2017\).](#)
- 10.37 [Joint Venture Agreement dated as of September 13, 2016, by and between JK Consultoria Empresarial Ltda.-ME, a limitada formed under the laws of Brazil, Earth Investments, LLC, a Nevada limited liability company, and SGRP Brasil Participações Ltda., a limitada formed under the laws of Brazil \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018\).](#)
- 10.38 [Field Services Agreement dated as of September 1, 2012, between National Merchandising of America, Inc., a Georgia corporation, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012\).](#)
- 10.39 [Asset Purchase Agreement dated as of March 15, 2013, between Market Force Information, Inc., a Delaware corporation, and SPAF Marketing Force, Inc., a Nevada corporation and consolidated subsidiary of SGRP \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on March 20, 2013\).](#)
- 10.40 [Master Field Services Agreement dated as of August 1, 2013, between National Retail Source, LLC, a Georgia limited liability company and affiliate of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013\).](#)
- 10.41 [Share Purchase Agreement \(respecting equity and debt interests in SPAR Business Ideas Provider S.R.L.\) dated as of August 31, 2013 between SPAR InfoTech, Inc. \("Infotech"\), a Nevada corporation and affiliate of SGRP, and SPAR International Ltd. \("SPAR Cayman"\), a Cayman Islands corporation and consolidated subsidiary of SGRP \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013\).](#)
- 10.42 [Stock Purchase Agreement as of October 13, 2017, by and between the SPAR Marketing Force, Inc. \("SMF"\), as buyer and Joseph L. Paulk as seller \(the "Resource Paulk SPA"\) \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.43 [Stock Purchase Agreement as of October 13, 2017, by and between SMF, as buyer, and Richard Justus, as seller \(the "Resource Justus SPA"\) \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.44 [\\$2,600,000.00 secured promissory note from SMF to Joseph L. Paulk dated as of January 1, 2018 \(the "Resource Paulk Note"\) \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)

- 10.45 [Securities Pledge and Escrow Agreement securing the Resource Paulk Note between SMF and Joseph L. Paulk dated as of January 1, 2018 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.46 [Guaranty of the Resource Paulk Note by SPAR Group, Inc. \("SGRP"\), in favor of Joseph L. Paulk dated as of January 1, 2018 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.47 [\\$100,000.00 secured Promissory Note from SMF to Richard Justus dated as of January 1, 2018 \(the "Resource Justus Note"\) \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.48 [Securities Pledge and Escrow Agreement securing the Resource Justus Note between SMF and Richard Justus dated as of January 1, 2018 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.49 [Executive Officer Employment Terms and Severance Agreement between RPI and Richard Justus dated as of January 1, 2018 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 16, 2018\).](#)
- 10.50 [Loan and Security Agreement entered into as of April 10, 2019, by and among North Mill Capital LLC, a Delaware limited liability company \("North Mill"\), SPAR Marketing Force, Inc., a Nevada corporation \(the "US NM Borrower"\), SPAR Canada Company, an unlimited company organized under the laws of Nova Scotia \(the "Canadian NM Borrower"\), and each of SPAR Group, Inc., a Delaware corporation \("SGRP"\), and SPAR Acquisition, Inc., SPAR Canada, Inc., SPAR Trademarks, Inc., and SPAR Assembly & Installation, Inc. each a Nevada corporation \(including SGRP, each as a "NM Guarantor"\), \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.51 [\\$12,500,000.00 Revolving Credit Master Promissory Note dated April 10, 2019, issued by the US NM Borrower to North Mill \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.52 [CDN\\$2,500,000.00 Revolving Credit Master Promissory Note dated April 10, 2019, issued by the Canadian NM Borrower to North Mill \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.53 [Corporate Guaranty dated as of April 10, 2019, from the NM Guarantors to North Mill, \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.54 [Collateral Pledge Agreement dated as of April 10, 2019, by SGRP, the US NM Borrower and SPAR Acquisition, Inc., in favor of North Mill \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.55 [Collateral Assignment \(Security Agreement\) \(Trademarks\) effective: April 10, 2019, from SPAR Trademarks, Inc., to North Mill \(incorporated by reference to SGRP's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2018, as filed with the SEC on April 24, 2019\).](#)
- 10.56 [Loan Agreement dated as of January 16, 2018, by and among PNC Bank, National Association \("PNC"\), and SPAR Group, Inc. \("SGRP"\) and certain of its direct and indirect subsidiaries in the United States and Canada, namely SPAR Marketing Force, Inc., SPAR Assembly & Installation, Inc., and SPAR Canada Company \(each, a "PNC Borrower" and collectively, the "PNC Borrowers"\), and SPAR Canada, Inc., SPAR Acquisition, Inc., SPAR Group International, Inc., and SPAR Trademarks, Inc. \(together with SGRP, each a "PNC Guarantor" and collectively, the "PNC Guarantors"\) \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 26, 2018\).](#)
- 10.57 [US\\$9,000,000.00 Committed Line Of Credit Note dated January 16, 2018, issued by the PNC Borrowers to PNC \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 26, 2018\).](#)
- 10.58 [Guaranty and Suretyship Agreement dated as of January 16, 2018, by and among the PNC Guarantors and PNC \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 26, 2018\).](#)
- 10.59 [Security Agreement dated as of January 16, 2018, by and among the PNC Borrowers and PNC Guarantors \(each, a "PNC Loan Party" and collectively, the "PNC Loan Parties"\) and PNC \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 26, 2018\).](#)
- 10.60 [Revolving Loan and Security Agreement dated as of July 6, 2010 \(the "Sterling Loan Agreement"\), by and among SGRP, and certain of its direct and indirect subsidiaries, namely SPAR Incentive Marketing, Inc., PIA Merchandising Co., Inc., Pivotal Sales Company, National Assembly Services, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks Inc., SPAR Marketing Force, Inc. and SPAR, Inc. \(each a "Subsidiary Borrower", and together with SGRP, collectively, the "SPAR Sterling Borrowers"\), and Sterling National Bank, as Agent \(the "Sterling Agent"\), and Sterling National Bank and Cornerstone Bank, as lender \(collectively, the "Sterling Lenders"\) \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010\).](#)
- 10.61 [Secured Revolving Loan Note in the original maximum principal amount of \\$5,000,000 issued by the SPAR Sterling Borrowers to Sterling National Bank pursuant to \(and governed by\) the Sterling Loan Agreement and dated as of July 6, 2010 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010\).](#)
- 10.62 [Secured Revolving Loan Note in the original maximum principal amount of \\$1,500,000 issued by the SPAR Sterling Borrowers to Cornerstone Bank pursuant to \(and governed by\) the Sterling Loan Agreement and dated as of July 6, 2010 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010\).](#)

- 10.63 [Limited Continuing Guaranty of the obligations of the SPAR Sterling Borrowers under the Sterling Loan Agreement from Robert G. Brown and William H. Bartels in favor of the Sterling Lenders dated as of July 6, 2010 \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010\).](#)
- 10.64 [Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of September 1, 2011, and effective as of June 1, 2011, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent and confirmed by Robert G. Brown and William H. Bartels as guarantors \(incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 21, 2012\).](#)
- 10.65 [Second Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated and effective as of July 1, 2012 among the SPAR Sterling Borrowers, the Sterling Lenders \(including Cornerstone as a departing Lender\), and the Sterling Agent \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on August 10, 2012\).](#)
- 10.66 [Third Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of February 11, 2013, and effective as of January 1, 2013, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent \(incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on April 2, 2013\).](#)
- 10.67 [Fourth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, effective as of July 1, 2013, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., and SPAR Marketing Force, Inc., as "Borrower" \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 15, 2013\).](#)
- 10.68 [Fifth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of October 30, 2013, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., and SPAR Marketing Force, Inc., each as an original "Borrower" and SPAR Canada, Inc., SPAR Canada Company and SPAR Wings & Ink Company, each as a "Borrower" newly added to such loan agreement by such amendment \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013\).](#)
- 10.69 [Sixth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of July 1, 2014 by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, as filed with the SEC on May 14, 2015\).](#)
- 10.70 [Amended and Restated Secured Revolving Loan Note dated as of July 1, 2014, in the original maximum principal amount of \\$7,500,000 issued to Sterling National Bank by SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such note, pursuant to \(and governed by\) the Sterling Loan Agreement as amended \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, as filed with the SEC on May 14, 2015\).](#)
- 10.71 [Seventh Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of September 28, 2015, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 30, 2016\).](#)

- 10.72 [Amended and Restated Secured Revolving Loan Note dated as of September 28, 2015, in the original maximum principal amount of \\$8,500,000 issued to Sterling National Bank by SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such note, pursuant to \(and governed by\) the Sterling Loan Agreement as amended \(incorporated by reference to SGRP' Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on March 30, 2016\).](#)
- 10.73 [Waiver letter from Sterling National Bank, dated as of May 16, 2016, but effective as of March 31, 2016 \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on August 15, 2016\).](#)
- 10.74 [Waiver letter from Sterling National Bank, dated as of November 18, 2016, but effective as of September 30, 2016 \(incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 21, 2016\).](#)
- 10.75 [Eighth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of December 22, 2016, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP' Current Report on Form 8-K, as filed with the SEC on December 28, 2016\).](#)
- 10.76 [Amended and Restated Secured Revolving Loan Note dated as of December 22, 2016, in the original maximum principal amount of \\$9,000,000 issued to Sterling National Bank by SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such note, pursuant to \(and governed by\) the Sterling Loan Agreement as amended \(incorporated by reference to SGRP' Current Report on Form 8-K, as filed with the SEC on December 28, 2016\).](#)
- 10.77 [Ninth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of March 3 2017, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP' Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC on April 17, 2017\).](#)
- 10.78 [Amended and Restated Secured Revolving Loan Note dated as of March 3, 2017, in the original maximum principal amount of \\$9,000,000 issued to Sterling National Bank by SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such note, pursuant to \(and governed by\) the Sterling Loan Agreement as amended \(incorporated by reference to SGRP' Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC on April 17, 2017\).](#)
- 10.79 [Tenth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of June 27 2017, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR Installation & Assembly, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP' Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, as filed with the SEC on May 22, 2017\).](#)
- 10.80 [Eleventh Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of June 27, 2017, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR Installation & Assembly, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 5, 2017\).](#)

- 10.81 [Twelfth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of September 6, 2017, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR Installation & Assembly, Inc., SPAI Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAI Canada Company, each as a "Borrower" under such loan agreement as of such amendment date \(incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on September 25, 2017\).](#)
- 10.82 [Confirmation of Credit Facilities Letter by Royal Bank of Canada in favor of SPAR Canada Company dated as of October 17, 2006 \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007\).](#)
- 10.83 [Confirmation of Credit Facilities Letter Terms and Conditions by SPAR Canada Company in favor of Royal Bank of Canada dated as of October 20, 2006 \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007\).](#)
- 10.84 [Waiver Letter and Amendment by and between Royal Bank of Canada and SPAR Canada Company, dated as of March 31, 2008 \(incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 31, 2008\).](#)
- 10.85 [Letter of Offer dated September 29, 2011, and General Business Factoring Agreement \(undated\) between Oxford Funding Pty Ltd and SPARFACTS Pty Ltd \(incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013\).](#)
- 10.86 [Letter from Nasdaq to the Company dated July 13, 2017, giving the Company notice that it had regained compliance with Nasdaq's Bid Price Rule \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018\).](#)
- 10.87 [Limited Mutual Release Agreement, dated as of January 18, 2019, among Robert G. Brown, William H. Bartels, Christiaan Olivier, Lorrenc T. Kellar, Jack W. Partridge, Arthur B. Drogue and R. Eric McCarthey \(incorporated by reference to Exhibit 10.1 to SGRP's Current Report on Form 8-K, as filed with the SEC on January 25, 2019\).](#)
- 10.88 [Stipulation of Dismissal, dated as of January 18, 2019 \(incorporated by reference to Exhibit 10.2 to SGRP's Current Report on Form 8-K, as filed with the SEC on January 25, 2019\).](#)
- 10.89 [Stipulation and Proposed Order of Dismissal, dated as of January 23, 2019 \(incorporated by reference to Exhibit 10.3 to SGRP's Current Report on Form 8-K, as filed with the SEC on January 25, 2019\).](#)
- 10.90 [Notice of Termination of Service Term to Become Effective August 1, 2018, and dated May 7, 2018, from SPAR Marketing Force, Inc., to SPAR Administrative Services, Inc. \(incorporated by reference to Exhibit 10.1 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 10, 2018\).](#)
- 10.91 [Notice of Cessation of Use of SBS Services Anticipated on or before August 15, 2018, and dated May 23, 2018, from SPAR Marketing Force, Inc., to SPAR Business Services, Inc. \(incorporated by reference to Exhibit 10.1 to SGRP's Current Report on Form 8-K, as filed with the SEC on May 25, 2018\).](#)
- 14.1 [SPAR Group Code of Ethical Conduct for its Directors, Executives, Officers, Employees, Consultants and other Representatives Amended and Restated \(as of\) March 15, 2018 \(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC on April 2, 2018\).](#)

14.2	<a href="#"><u>Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information, as adopted, restated, effective and dated as of May 1, 2004, and as further amended through March 10, 2011 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 15, 2011).</u></a>
21.1	<a href="#"><u>List of Subsidiaries (as filed herewith).</u></a>
23.1	<a href="#"><u>Consent of BDO USA, LLP (as filed herewith).</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).</u></a>
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPAR Group, Inc.

By: /s/ Christiaan M. Olivier  
Christiaan M. Olivier  
Chief Executive Officer

Date: April 14, 2020

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Christiaan M. Olivier and James R. Segreto and each of them, jointly and severally, his attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE	TITLE
<u>/s/ Christiaan M. Olivier</u> Christiaan M. Olivier Date: April 14, 2020	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Arthur B. Drogue</u> Arthur B. Drogue Date: April 14, 2020	Chairman of the Board and Director
William H. Bartels Date: April 14, 2020	Vice Chairman and Director
<u>/s/ R. Eric McCarthey</u> R. Eric McCarthey Date: April 14, 2020	Director
<u>/s/ Jeffrey A. Mayer</u> Jeffrey A. Mayer Date: April 14, 2020	Director
<u>/s/ Arthur H. Baer</u> Arthur H. Baer Date: April 14, 2020	Director
Peter W. Brown Date: April 14, 2020	Director
Panagiotis N. Lazaretos Date: April 14, 2020	Director
<u>/s/ James R. Segreto</u> James R. Segreto Date: April 14, 2020	Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)



## Report of Independent Registered Public Accounting Firm

Board of The Directors and Stockholders  
SPAR Group, Inc. and Subsidiaries  
White Plains, New York

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of SPAR Group, Inc. (the "Company") and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note 15 to the consolidated financial statements, the Company has changed its method of accounting for leases for the year ended December 31, 2019 due to the adoption of Accounting Standards Codification Topic 842, *Leases*.

### Emphasis of Matter

As more fully described in Note 16 to the consolidated financial statements, the Company may be materially impacted by the novel strain Coronavirus (COVID-19) which was declared a global pandemic by the World Health Organization in March 2020.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2013.

/s/ BDO USA, LLP  
Troy, Michigan  
April 14, 2020

**SPAR Group, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(In thousands, except share and per share data)

	December 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,458	\$ 7,111
Accounts receivable, net	49,299	46,142
Prepaid expenses and other current assets	2,404	1,879
Total current assets	<u>62,161</u>	<u>55,132</u>
Property and equipment, net	2,848	2,950
Operating lease right-of-use assets	4,948	–
Goodwill	3,784	3,788
Intangible assets, net	2,796	3,332
Deferred income taxes	1,883	2,568
Other assets	1,115	1,325
Total assets	<u>\$ 79,535</u>	<u>\$ 69,095</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 9,186	\$ 8,668
Accrued expenses and other current liabilities	18,548	18,168
Due to affiliates	4,666	4,645
Customer incentives and deposits	594	620
Lines of credit and short-term loans	8,932	10,414
Current portion of operating lease liabilities	2,828	–
Total current liabilities	<u>44,754</u>	<u>42,515</u>
Operating lease liabilities, less current portion	2,120	–
Long-term debt	1,300	1,806
Total liabilities	<u>48,174</u>	<u>44,321</u>
Commitments and contingencies – See Note 6		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value:		
Authorized and available shares– 2,445,598 Issued and outstanding shares– None – December 31, 2019 and December 31, 2018	–	–
Common stock, \$.01 par value:		
Authorized shares – 47,000,000 Issued shares – 21,102,335 – December 31, 2019 and 20,784,483 – December 31, 2018	211	208
Treasury stock, at cost 1,697 shares – December 31, 2019 and 7,895 shares – December 31, 2018	(2)	(8)
Additional paid-in capital	16,511	16,304
Accumulated other comprehensive loss	(3,616)	(3,638)
Retained earnings	5,851	3,432
Total SPAR Group, Inc. equity	<u>18,955</u>	<u>16,298</u>
Non-controlling interest	12,406	8,476
Total equity	<u>31,361</u>	<u>24,774</u>
Total liabilities and equity	<u>\$ 79,535</u>	<u>\$ 69,095</u>

See accompanying notes to the Company's consolidated financial statements.

**SPAR Group, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
*(In thousands, except per share data)*

	Year Ended December 31,	
	2019	2018
Net revenues	\$ 252,876	\$ 229,191
Cost of revenues	203,626	184,904
Gross profit	49,250	44,287
Selling, general and administrative expense	36,869	38,449
Depreciation and amortization	2,190	2,109
Operating income	10,191	3,729
Interest expense, net	1,046	1,095
Other (income), net	(266)	(406)
Income before income tax expense	9,411	3,040
Income tax expense	3,578	1,402
Net income	5,833	1,638
Net income attributable to non-controlling interest	(3,414)	(3,189)
Net income (loss) attributable to SPAR Group, Inc.	\$ 2,419	\$ (1,551)
Basic income (loss) per common share attributable to SPAR Group, Inc.	\$ 0.12	\$ (0.07)
Diluted income (loss) per common share attributable to SPAR Group, Inc.	\$ 0.11	\$ (0.07)
Weighted average common shares – basic	20,916	20,684
Weighted average common shares – diluted	21,157	20,684
Net income	\$ 5,833	\$ 1,638
Other comprehensive income (loss):		
Foreign currency translation adjustments	538	(3,284)
Comprehensive income (loss)	6,371	(1,646)
Comprehensive income attributable to non-controlling interest	(3,930)	(1,837)
Comprehensive income (loss) attributable to SPAR Group, Inc.	\$ 2,441	\$ (3,483)

See accompanying notes to the Company's consolidated financial statements.

**SPAR Group, Inc. and Subsidiaries**  
**Consolidated Statements of Equity**  
*(In thousands)*

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance at January 1, 2018	20,681	\$ 207	104	\$ (115)	\$ 16,271	\$ (1,690)	\$ 4,977	\$ 5,905	\$ 25,555
Share-based compensation	-	-	-	-	221	-	-	-	221
Exercise of stock options	104	1	(75)	97	(185)	-	-	-	(87)
Distributions to non-controlling investors	-	-	-	-	-	(16)	6	(1,914)	(1,924)
Reissued treasury shares – RSUs	-	-	(21)	10	(3)	-	-	-	7
Non-controlling interest related to Resource Plus acquisition	-	-	-	-	-	-	-	2,648	2,648
Other comprehensive income	-	-	-	-	-	(1,932)	-	(1,352)	(3,284)
Net income (loss)	-	-	-	-	-	-	(1,551)	3,189	1,638
Balance at December 31, 2018	20,785	208	8	(8)	16,304	(3,638)	3,432	8,476	24,774
Share-based compensation	-	-	-	-	235	-	-	-	235
Exercise of stock options	317	3	(6)	6	(28)	-	-	-	(19)
Other comprehensive income	-	-	-	-	-	22	-	516	538
Net income	-	-	-	-	-	-	2,419	3,414	5,833
Balance at December 31, 2019	21,102	\$ 211	2	\$ (2)	\$ 16,511	\$ (3,616)	\$ 5,851	\$ 12,406	\$ 31,361

See accompanying notes to the Company's consolidated financial statements.

**SPAR Group, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(In thousands)

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net income	\$ 5,833	\$ 1,638
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,190	2,109
Amortization of operating lease assets	893	–
Bad debt, net	83	196
Deferred income tax expense (benefit)	792	(85)
Share based compensation	235	186
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable, net	(3,160)	(9,296)
Prepaid expenses and other assets	(432)	852
Accounts payable	530	(144)
Operating lease liabilities	(893)	–
Accrued expenses, other current liabilities and customer incentives and deposits	76	6,594
Net cash provided by operating activities	<u>6,147</u>	<u>2,050</u>
<b>Investing activities</b>		
Purchases of property and equipment and capitalized software	(1,378)	(1,622)
Purchase of Resource Plus subsidiary, net of cash acquired	–	767
Net cash used in investing activities	<u>(1,378)</u>	<u>(855)</u>
<b>Financing activities</b>		
Net borrowing (payments) on lines of credit	7,979	1,700
Payoff of bank line of credit	(9,598)	–
Payments related to stock options exercised	(19)	(52)
Proceeds from term debt	–	872
Payments on term debt	(333)	(333)
Distribution to non-controlling investors	–	(1,914)
Payments on capital lease obligations	–	(72)
Net cash provided by (used in) financing activities	<u>(1,971)</u>	<u>201</u>
Effect of foreign exchange rate changes on cash	549	(3,112)
Net change in cash and cash equivalents	<u>3,347</u>	<u>(1,716)</u>
Cash and cash equivalents at beginning of year	7,111	8,827
Cash and cash equivalents at end of year	<u>\$ 10,458</u>	<u>\$ 7,111</u>
<b>Supplemental disclosure of cash flows information</b>		
Interest paid	\$ 825	\$ 994
Income taxes paid	\$ 197	\$ 309

See accompanying notes to the Company's consolidated financial statements.

## Notes to Consolidated Financial Statements

**1. Business and Organization**

The SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides in-store event staffing, product sampling, audit services, furniture and other product assembly services, technology services and marketing research services. Assembly services are performed in stores, homes and offices while those other services are primarily performed in mass merchandise, office supply, grocery, drug, home improvement, independent, convenience and electronics stores.

Merchandising services primarily consist of regularly scheduled, special project and other product services provided at the store level, and the Company may be engaged by either the retailer or the manufacturer. Those services may include restocking and adding new products, removing spoiled or outdated products, resetting categories "on the shelf" in accordance with client or store schematics, confirming and replacing shelf tags, setting new sale or promotional product displays and advertising, replenishing kiosks, providing in-store event staffing and providing assembly services in stores, homes and offices. Other merchandising services include whole store or departmental product sets or resets, including new store openings, new product launches and in-store demonstrations, audit services, special seasonal or promotional merchandising, focused product support and product recalls. The Company also provides technology services and marketing research services.

The Company operates in 10 countries and divides its operations into two reportable segments: its Domestic Division, which provides those services in the United States of America since certain of its predecessors were formed in 1979, and its International Division, which began operations in May 2001 and provides similar merchandising, marketing, audit and in-store event staffing services in Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

The Company's Domestic Division provides nationwide merchandising and other marketing services throughout the United States of America ("US") primarily on behalf of consumer product manufacturers and retailers at mass merchandise, office supply, grocery, drug, dollar, home improvement, independent, automotive, convenience and electronics stores. Included in its clients are home entertainment, general merchandise, health and beauty care, consumer goods and food products companies.

The Company executes and administers its domestic field services through the services of field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), substantially all of whom are provided to the Company and engaged by independent third parties and located, scheduled, deployed and administered domestically through the services of local, regional, district and other personnel (each a "Field Administrator"), and substantially all of the Field Administrators are in turn employed by other independent third parties. Substantially all the Field Specialist services were provided by an affiliate to the Company, SPAR Business Services, Inc. ("SBS"), for this reporting period through July 2018 when the Company terminated its relationship with SBS. Effective August 2018, substantially all the Field Specialist services were provided by an independent company, FDM Associates Inc. ("FDM") The Company is still reevaluating its domestic business model of using independent contractor Field Specialists provided by other third parties in light of changing client requirements and regulatory environments and intends to begin testing an employee based model for certain domestic clients that are requiring the Company to use employees as Field Specialists.

The Company's international business in each territory outside the US is conducted through a foreign subsidiary incorporated in its primary territory. The primary territory establishment date (which may include predecessors), the percentage of the Company's equity ownership, and the principal office location for its US (domestic) subsidiaries and each of its foreign (international) subsidiaries is as follows:

<u>Primary Territory</u>	<u>Date Established</u>	<u>SGRP Percentage Ownership</u>	<u>Principal Office Location</u>
<b><u>Domestic</u></b>			
United States of America	1979	100%	White Plains, New York
National Merchandising Services, LLC	2012	51%	Fayetteville, Georgia
Resource Plus of North Florida, Inc.	2018	51%	Jacksonville, Florida
<b><u>International</u></b>			
Japan	May 2001	100%	Tokyo, Japan
Canada	June 2003	100%	Vaughan, Ontario, Canada
South Africa	April 2004	51%	Durban, South Africa
India	April 2004	51%	New Delhi, India
Australia	April 2006	51%	Melbourne, Australia
China	March 2010	51%	Shanghai, China
Mexico	August 2011	51%	Mexico City, Mexico
Turkey	November 2011	51%	Istanbul, Turkey
Brazil	September 2016	51%	Sao Paulo, Brazil

## **2. Summary of Significant Accounting Policies**

### ***Principles of Consolidation***

The Company consolidates its 100% owned subsidiaries and all of its 51% owned joint venture subsidiaries in accordance with the provisions required by the Consolidation Topic 810 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All significant intercompany accounts and transactions have been eliminated.

### ***Accounting for Joint Venture Subsidiaries***

For the Company's less than wholly owned subsidiaries, the Company first analyzes to determine if a joint venture subsidiary is a variable interest entity (a "VIE") in accordance with ASC 810 and if so, whether the Company is the primary beneficiary requiring consolidation. A VIE is an entity that has (i) insufficient equity to permit it to finance its activities without additional subordinated financial support or (ii) equity holders that lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary, which is the entity that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that potentially could be significant to the entity. Variable interests in a VIE are contractual, ownership, or other financial interests in a VIE that change with changes in the fair value of the VIE's net assets. The Company continuously re-assesses at each level of the joint venture whether the entity is (i) a VIE, and (ii) if the Company is the primary beneficiary of the VIE. If it was determined that an entity in which the Company holds an interest qualified as a VIE and the Company was the primary beneficiary, it would be consolidated.

Based on the Company's analysis for each of its 51% owned joint ventures, the Company has determined that each is a VIE and the Company is the primary beneficiary of that VIE. In addition to its controlling interest, the Company controls the proprietary information technology that is used at and is significant to each joint venture and the Company has the ability to control other key decisions. Accordingly, the Company has the power to direct key activities and the obligation to absorb losses or the right to receive benefits that could be significant and consolidates each joint venture under the VIE rules and reflects the 49% interests in the Company's consolidated financial statements as non-controlling interests. The Company records these non-controlling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss or equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the non-controlling interest holder based on its economic ownership percentage.

### ***Use of Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the US ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the amounts disclosed for contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

### ***Cash Equivalents***

The Company considers all highly liquid short-term investments with original maturities of three months or less at the time of acquisition to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

### ***Concentration of Credit Risk***

The Company maintains cash balances with high quality financial institutions and periodically evaluates the creditworthiness of such institutions and believes that the Company is not exposed to significant credit risk.

### ***Revenue Recognition***

The Company's services are provided to its clients under contracts or agreements. The Company bills its clients based upon service fee arrangements. Revenues under service fee arrangements are recognized when the service is performed. Customer deposits, which are considered advances on future work, are recorded as revenue in the period services are provided.

## **2. Summary of Significant Accounting Policies (continued)**

The Company records revenue from contracts with its customers through the execution of a Master Service Agreement ("MSA") that are effectuated through individual Statements of Work ("SOW" and with the applicable MSA collectively a "Contract"). The MSAs generally define the financial, service, and communication obligations between the client and SPAR while the SOWs state the project objective, scope of work, time frame, rate and driver in which SPAR will be paid. Only when the MSA and SOW are combined as a Contract can all five revenue standard criteria be met. The Company integrates a series of tasks promised within these Contracts into a bundle of services that represent the combined performance obligation of Merchandising Services. Such Merchandising Services are performed over the duration of the SOW. Most Merchandising Services are performed on a daily, weekly or monthly basis. Revenue from Merchandising Services are recognized as the services are performed based on a rate per driver basis (per hour, store visit or unit stocked) with services delivered as they are consumed.

All of the Company's Contracts with customers have a duration of one year or less, with over 90% being completed in less than 30-days, and revenue is recognized as services are performed. Given the nature of the Company's business, how the Contracts are structured and how the Company is compensated, the Company has elected the right-to-invoice practical expedient allowed under the revenue standard.

### **Unbilled Accounts Receivable**

Unbilled accounts receivable represent services performed but not billed and are included as accounts receivable.

### **Doubtful Accounts and Credit Risks**

The Company continually monitors the collectability of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$438,000 and \$533,000 at December 31, 2019, and 2018, respectively. Bad debt expense was \$83,000 and \$196,000 for the years ended December 31, 2019 and 2018, respectively.

### **Property and Equipment and Depreciation**

Property and equipment, including leasehold improvements, are stated at cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease term, using the straight-line method. Maintenance and minor repairs are charged to expense as incurred. Depreciation expense for the years ended December 31, 2019 and 2018 (including amortization of capitalized software as described below) was \$1.7 million and \$1.5 million respectively.

### **Internal Use Software Development Costs**

The Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during preliminary project and post-implementation stages, as well as software maintenance and training costs, are expensed in the period in which they are incurred. Capitalized software development costs are amortized over three years on a straight-line basis.

The Company capitalized \$1.3 million of costs related to software developed for internal use in both 2019 and 2018, and recognized approximately \$1.3 and \$1.2 million of amortization of capitalized software for the years ended December 31, 2019 and 2018, respectively.



## **2. Summary of Significant Accounting Policies (continued)**

### **Impairment of Long-Lived Assets**

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of the Company's property and equipment and intangible assets subjected to amortization may not be recoverable. When indicators of potential impairment exist, the Company assesses the recoverability of the assets by estimating whether the Company will recover its carrying value through the undiscounted future cash flows generated by the use of the asset and its eventual disposition. Based on this analysis, if the Company does not believe that it will be able to recover the carrying value of the asset, the Company records an impairment loss to the extent that the carrying value exceeds the estimated fair value of the asset. If any assumptions, projections or estimates regarding any asset change in the future, the Company may have to record an impairment to reduce the net book value of such individual asset.

### **Goodwill**

Goodwill may result from business acquisitions. Goodwill is assigned to reporting units based on the expected benefit from the synergies arising from each business combination, determined by using certain financial metrics, including the forecast discounted cash flows associated with each reporting unit. The goodwill acquired in a business combination is allocated to the appropriate reporting unit as of the acquisition date.

Goodwill is subject to annual impairment tests and interim impairment tests if impairment indicators are present. The impairment tests require the Company to first assess qualitative factors to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. The Company is not required to calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. If the qualitative assessment indicates a potential impairment, the Company performs the two step quantitative impairment test. Step one of the two step impairment test is to compare the fair value of the reporting unit with the reporting unit's carrying amount including goodwill. If the test indicates that the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss shall be recognized in an amount equal to that excess. The Company has determined that a two-step quantitative goodwill impairment test was only considered necessary for one of the domestic reporting units, as of December 31, 2019 and 2018. Based on the results of this test, no impairment loss was recognized.

### **Accounting for Share Based Compensation**

The Company measures all employee share-based compensation awards using a fair value method and records the related expense in the financial statements over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are realized from the exercise of stock options and are reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations. For each award that has a graded vesting schedule, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. Share based employee compensation expense for the years ended December 31, 2019 and 2018 was \$235,000 and \$221,000, respectively.

### **Fair Value Measurements**

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The generally accepted accounting principles fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3 – Prices or valuation techniques where little or no market data is available that requires inputs significant to the fair value measurement and unobservable.

## **2. Summary of Significant Accounting Policies (continued)**

If the inputs used to measure the fair value fall within different levels of the hierarchy, the fair value is determined based upon the lowest level input that is significant to the fair value measurement. Whenever possible, the Company uses quoted market prices to determine fair value. In the absence of quoted market prices, the Company uses independent sources and data to determine fair value. Due to their short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximated the fair values (Level 1) at December 31, 2019 and 2018. The carrying value of the Company's long-term debt with variable interest rates approximates fair value based on instruments with similar terms (Level 2).

### **Accounting for Income Taxes**

Income tax provisions and benefits are made for taxes currently payable or refundable, and for deferred income taxes arising from future tax consequences of events that were recognized in the Company's financial statements or tax returns and tax credit carry forwards. The effects of income taxes are measured based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. If necessary, a valuation allowance is established to reduce deferred income tax assets to an amount that will more likely than not be realized.

The calculation of income taxes involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step involves evaluating the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step involves estimating and measuring the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as the Company has to determine the probability of various possible outcomes. The Company's evaluation of uncertain tax positions is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

The Tax Cuts and Jobs Act ("the Tax Act") signed into law a comprehensive U.S. tax reform package that, effective January 1, 2018, among other things, lowered the corporate income tax rate from 35% to 21% and moved the country towards a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of foreign subsidiaries. See Note 5 to the Company's Consolidated Financial Statements – *Income Taxes*, below, for further information on the tax impacts of the Tax Act.

### **Net Income Per Share**

Basic net income per share amounts are based upon the weighted average number of common shares outstanding. Diluted net income per share amounts are based upon the weighted average number of common and potential common shares outstanding except for periods in which such potential common shares are anti-dilutive. Potential common shares outstanding include stock options and restricted stock and are calculated using the treasury stock method.

### **Translation of Foreign Currencies**

The financial statements of the foreign entities consolidated into the Company's consolidated financial statements were translated into United States dollar equivalents at exchange rates as follows: balance sheet accounts for assets and liabilities were converted at year-end rates, equity at historical rates and income statement accounts at average exchange rates for the year. The resulting translation gains and losses are reflected in accumulated other comprehensive income or loss in the consolidated statements of equity.

### **New Accounting Pronouncements**

In December 2019, the FASB issued ASU 2019-12 simplifying various aspects related to the accounting for income taxes. The guidance removes exceptions to the general principles in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The ASU is effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

## 2. Summary of Significant Accounting Policies (continued)

In August 2018, the FASB issued ASU 2018-13 which eliminates, adds and modifies certain fair value measurement disclosures. The ASU is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact to the consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02 allowing reclassification from accumulated other comprehensive income (loss) to retained earnings for the income tax effects resulting from the Act enacted by the U.S. federal government in December 2017. The new guidance eliminates the stranded tax effects resulting from the Act and will improve the usefulness of information reported to financial statement users. It also requires certain disclosures about stranded tax effects. ASU 2018-02 relates only to the reclassification of the income tax effects of the Act and does not change the underlying guidance requiring that the effect of a change in tax laws or rates be included in income from continuing operations. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. It should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09 clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. It does not change the accounting for modifications. The ASU was effective prospectively for reporting periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 simplifying the accounting for goodwill impairment for all entities. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). The ASU is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company does not expect the adoption to have a material impact on the goodwill impairment testing process or the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments (Topic 326) Credit Losses". Topic 326 changes the impairment model for most financial assets and certain other instruments. Under the new standard, entities holding financial assets and net investment in leases that are not accounted for at fair value through net income are to be presented at the net amount expected to be collected. An allowance for credit losses will be a valuation account that will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. Topic 326 is effective as of January 1, 2020, although in November 2019, the FASB delayed the effective date until fiscal years beginning after December 15, 2022 for Security Exchange Commission ("SEC") filers eligible to be smaller reporting companies under the SEC's definition, as well as private companies and not-for-profit entities. The Company qualifies as a smaller reporting company under the SEC's definition. Early adoption is permitted. The Company is currently evaluating the impact of Topic 326 on its consolidated balance sheets, statements of operations, statements of cash flows and related disclosures.

In February 2016, the FASB issued ASU 2016-02 amending the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability are initially measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S. GAAP, the presentation of expenses and cash flows depends primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization's leasing activities. An additional optional transition method to adopt the new lease standard at the adoption date, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption is allowed. The Company adopted this guidance with the optional transition method effective January 1, 2019. See Leases Obligations footnote 15 for the impact on the consolidated financial statements.

**3. Supplemental Balance Sheet Information (in thousands)**

	December 31,	
	2019	2018
Accounts receivable, net, consists of the following:		
Trade	\$ 38,558	\$ 34,824
Unbilled	8,423	8,305
Non-trade	2,756	3,546
	<u>49,737</u>	<u>46,675</u>
Less allowance for doubtful accounts	(438)	(533)
Accounts Receivable, net	<u>\$ 49,299</u>	<u>\$ 46,142</u>

	December 31,	
	2019	2018
Property and equipment consist of the following:		
Equipment	\$ 4,062	\$ 6,249
Furniture and fixtures	2,319	2,254
Leasehold improvements	308	278
Capitalized software development costs	13,549	12,210
	<u>20,238</u>	<u>20,991</u>
Less accumulated depreciation and amortization	(17,390)	(18,041)
Property and equipment, net	<u>\$ 2,848</u>	<u>\$ 2,950</u>

	United States	International	Total
Goodwill:			
Balance December 31, 2018	\$ 3,150	\$ 638	\$ 3,788
Change in goodwill due to impact of foreign currency	-	(4)	(4)
Balance December 31, 2019	<u>\$ 3,150</u>	<u>\$ 634</u>	<u>\$ 3,784</u>

	December 31,	
	2019	2018
Intangible assets consist of the following:		
Customer contracts and lists	\$ 2,731	\$ 2,680
Trade names	900	900
Patents	870	870
Non compete	520	520
	<u>5,021</u>	<u>4,970</u>
Less accumulated amortization	(2,225)	(1,638)
Intangible assets, net	<u>\$ 2,796</u>	<u>\$ 3,332</u>

Intangible assets consist primarily of customer contracts and lists, trade names, patents and non-compete agreements, all of which have a finite useful life. Intangible assets are amortized based on either the pattern in which the economic benefits of the intangible assets are estimated to be realized or on a straight-line basis, which approximates the manner in which the economic benefits of the intangible asset will be consumed. Amortization is generally not deductible for tax purposes.

### 3. Supplemental Balance Sheet Information (continued)

The Company is amortizing its intangible assets of \$5.0 million over lives ranging from 5 to 25 years. Amortization expense for the years ended December 31, 2019 and 2018 was approximately \$476,000 and \$569,000, respectively. The annual amortization for each of the following years succeeding December 31, 2019, is summarized as follows:

Year	Amount
2020	533
2021	533
2022	508
2023	419
2024	280
Thereafter	523
<b>Total</b>	<b>\$ 2,796</b>

	December 31,	
	2019	2018
Accrued expenses and other current liabilities:		
Taxes payable	\$ 2,788	\$ 2,961
Accrued salaries and wages	9,248	6,503
Accrued accounting and legal expenses	1,944	3,777
Uncertain tax position reserves	-	101
Litigation settlement	1,200	1,300
Accrued third party labor	2,010	737
Other	1,358	2,789
Accrued expenses and other current liabilities	<b>\$ 18,548</b>	<b>\$ 18,168</b>

### 4. Credit Facilities

#### Domestic Credit Facilities

##### North Mill Capital Credit Facility

On April 10, 2019, the Company repaid and replaced its 2018 credit facility from PNC Bank, National Association ("PNC") with a new secured revolving credit facility in the United States and Canada (the "NM Credit Facility") with North Mill Capital, LLC ("NM").

In order to obtain, document and govern the new NM Credit Facility: SGRP and certain of its direct and indirect subsidiaries in the United States and Canada, namely SPAR Marketing Force, Inc. ("SMF") and SPAR Canada Company ("SCC") (each, a "NM Borrower" and collectively, the "NM Borrowers"), and SPAR Canada, Inc., SPAR Acquisition, Inc., SPAR Assembly and Installation, Inc., and SPAR Trademarks, Inc. (together with SGRP, each a "NM Guarantor" and collectively, the "NM Guarantors"), entered into eighteen (18) month individual Loan and Security Agreements with NM dated as of April 10, 2019 (the "NM Loan Agreements") which secures the obligations of the NM Loan Parties to NM with pledges of substantially all of the assets of the NM Loan Parties (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets); the SMF NM Borrower issued its \$10.5 million Revolving Credit Master Promissory Note to NM dated April 10, 2019 and the SCC NM Borrower issued its \$1.5 million Revolving Credit Master Promissory Note to NM dated April 10, 2019 (the "Original NM Notes"), which evidences the NM Borrowers' loans and other obligations to NM; the NM Guarantors entered into a Guaranty Agreement with NM dated as of April 10, 2019 (the "NM Guaranty"), which guaranties the NM Borrowers' loans and other obligations to NM. The NM Credit Facility has an approved borrowing capacity of \$12.5 million for the SMF NM Borrower and \$2.5 million for the SCC NM Borrower. Subsequent to December 31, 2019, the NM Credit Facility was extended for twelve (12) months to October 2021.

On April 10, 2019, the Company drew down an initial advance under the NM Credit Facility of approximately \$9.6 million, which was used to repay the Company's existing PNC credit facility.

The NM Credit Facility currently requires the NM Borrowers to pay interest on the loans equal to (A) Prime Rate designated by Wells Fargo Bank, plus (B) one hundred twenty five basis points (1.25%), or a minimum of 6.75%. On December 31, 2019, the aggregate interest rate was the minimum of 6.75% per annum, and the outstanding loan balance was \$8.2 million. Outstanding amounts are classified as short-term debt.

#### **4. Credit Facilities (continued)**

In addition, the Company is paying a fee to NM in the amount of 1.5% of the Promissory Notes or \$180,000 payable at \$10,000 per month over the term of the agreement. The Company utilized a broker to assist in this financing and has paid a fee of \$120,000 for their services.

Revolving loans are available to the Borrowers under the NM Credit Facility based upon the borrowing base formula defined in the NM Loan Agreement (principally 85% of "eligible" accounts receivable less certain reserves and 60% of eligible unbilled accounts receivable at a maximum limit of \$4.5 million).

The NM Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the NM Borrowers, including, maintaining a positive trailing EBITDA for each Borrower and limits on capital expenditures and other investments. The Company was in compliance as of December 31, 2019.

##### **PNC Credit Facility**

In January 2018, the Company repaid and replaced its credit facility from Sterling Bank with a secured revolving credit facility in the United States and Canada (as amended the "PNC Credit Facility") with PNC Bank, National Association.

On April 10, 2019, the Company repaid and replaced its 2018 PNC Credit Facility with the NM Credit Facility.

##### **Fifth Third Credit Facility**

On January 9, 2018, the Company completed its acquisition of a 51% interest in its new subsidiaries, Resource Plus of North Florida, Inc., and related companies (collectively, "Resource Plus"). See Note 13 to the Company's Consolidated Financial Statements – *Purchase of Interests in Subsidiaries – Resource Plus Acquisition*, below. When acquired, Resource Plus was a party to a revolving line of credit facility it secured on May 23, 2016, (the "Fifth Third Credit Facility") from Fifth Third Bank for \$3.5 million, which was scheduled to expire on May 23, 2018. Effective April 11, 2018, the term of the Fifth Third Credit Facility was extended and is currently scheduled to become due on April 23, 2020. A Fifth Third Credit facility extension is currently being negotiated.

Revolving loans of up to \$3.5 million are available to Resource Plus under the Fifth Third Credit Facility based upon the borrowing base formula defined in the agreement (principally 80% of "eligible" accounts receivable less certain reserves). As of December 31, 2019, there was no outstanding balance. The Fifth Third Credit Facility is secured by substantially all assets of Resource Plus.

The Fifth Third Credit Facility currently requires Resource Plus to pay interest on the loans there under equal to (A) the Daily LIBOR Rate (as defined in the agreement) per annum, plus (B) two hundred fifty basis points (2.50%). On December 31, 2019, the aggregate interest rate under that formula was 5.2% per annum.

##### **Other Debt**

Effective with the closing of the Resource Plus acquisition in January 2018, the Company entered into promissory notes with the sellers totaling \$2.3 million. The notes are payable in annual installments at various amounts due on December 31st of each year starting with December 31, 2018 and continuing through December 31, 2023. As such these notes are classified as both short term and long term based on scheduled maturities. The total balance owed at December 31, 2019 was \$1.6 million.

##### **International Credit Facilities:**

SPARFACTS Australia Pty. Ltd. has a secured line of credit facility with National Australia Bank, effective October 31, 2017, for \$800,000 (Australian) or approximately \$561,000 USD (based upon the exchange rate at December 31, 2019). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The outstanding balance with National Australia Bank as of December 31, 2019 was \$196,000 (Australian) or \$138,000 USD and is due on demand.

**4. Credit Facilities (continued)**

SPAR Todopromo has secured a line of credit facility with BBVA Bancomer Bank for 5.0 million Mexican Pesos or approximately \$264,000 USD (based upon the exchange rate at December 31, 2019). The revolving line of credit was secured on March 15, 2016, and originally expired March 2018. The facility has been amended to extend the terms to March 2020. The variable interest rate is TIIE (Interbank Interest Rate) +4%, which resulted in an annual interest rate of 11.90% as of December 31, 2019. The outstanding balance at December 31, 2019 was zero. The facility had been effectively closed and replaced on December 13, 2019 with a credit facility from Steel Factoring for 5.0 million Mexican Pesos or approximately \$264,000 USD (based upon exchange rate at December 31, 2019). The revolving line of credit expires December 2020. The annual interest rate was 18.00% as of December 31, 2019. The outstanding balance at December 31, 2019 was 5.0 million Mexican Pesos or approximately \$264,000 USD (based upon the exchange rate at December 31, 2019).

On November 29, 2016, SPAR Brazil established a line of credit facility with Itau Bank for 4.0 million Brazilian Real or approximately \$996,000 USD (based upon the exchange rate at December 31, 2019). The facility provides for borrowing with no formal guarantees. This account was closed as of July 1, 2018.

On December 26, 2016, SPAR Brazil secured a line of credit facility with Daycoval Bank for 5.0 million Brazilian Real or approximately \$1.2 million USD (based upon the exchange rate at December 31, 2019). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). This account was closed as of October 5, 2018.

On May 25, 2018, SPAR Brazil established a temporary line of credit facility with Banco Safra for 3.0 million Brazilian Real or approximately \$747,000 USD (based upon the exchange rate at December 31, 2019). The agreement was from month to month at the Company's request. This account was closed as of August 13, 2018.

On May 29, 2018, SPAR Brazil established a line of credit facility with Banco Bradesco for 1.2 million Brazilian Real or approximately \$299,000 USD (based upon the exchange rate at December 31, 2019). The account was closed in November 2019.

On October 5, 2018 SPAR Brazil secured a line of credit facility with Branco Bradesco for approximately 3.5 million Brazilian Real or approximately \$878,000 USD (based upon the exchange rate at December 31, 2019). The account was closed in December 2019.

On October 5, 2018 SPAR Brazil secured a line of credit facility with Branco Santander for approximately 381,000 Brazilian Real or approximately \$95,000 USD (based upon the exchange rate at December 31, 2019). The annual interest rate as of December 31, 2019 was 16.52%. The outstanding balance as of December 31, 2019 was approximately 184,000 Brazilian Real or approximately \$46,000 USD.

	<b>Interest Rate as of December 31, 2019</b>		<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
USA - North Mill Capital	6.75 %		8,151	-	-	-	-
USA - Fifth Third Bank	5.20 %		-	-	-	-	-
USA - Resource Plus Sellers	1.85 %		333	300	300	700	-
Australia - National Australia Bank	6.60 %		138	-	-	-	-
Mexico - Steel Factoring	18.00 %		264	-	-	-	-
Brazil - Santander	16.52 %		46	-	-	-	-
Total			<u>\$ 8,932</u>	<u>\$ 300</u>	<u>\$ 300</u>	<u>\$ 700</u>	<u>\$ -</u>

**Summary of Unused Company Credit and Other Debt Facilities (in thousands):**

	December 31, 2019	December 31, 2018
<u>Unused Availability:</u>		
United States	\$ 3,694	\$ 4,253
Australia	423	238
Brazil	49	304
Mexico	-	102
Total Unused Availability	<u>\$ 4,166</u>	<u>\$ 4,897</u>

#### 4. Credit Facilities (continued)

Management believes that based upon the continuation of the Company's existing credit facilities, projected results of operations, vendor payment requirements and other financing available to the Company (including amounts due to affiliates), sources of cash availability should be manageable and sufficient to support ongoing operations over the next year. However, delays in collection of receivables due from any of the Company's major clients, or a significant reduction in business from such clients could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

#### 5. Income Taxes

Beginning in 2018, the Tax Cuts and Jobs Act (the "Act") included two new U.S. corporate tax provisions, the global intangible low-taxed income ("GILTI") and the base-erosion and anti-abuse tax ("BEAT"). The GILTI provision requires the Company to include in its U.S. income tax return non-U.S. subsidiary earnings in excess of an allowable return on the non-U.S. subsidiary's tangible assets. The Company has elected to treat GILTI as a period cost. The Company evaluated the GILTI resulting in a financial statement impact of approximately \$500,000 and \$400,000 for the year ended December 31, 2019 and December 31, 2018 respectively. The Company is below the three year average gross receipts threshold for BEAT to apply.

Income (loss) before income taxes is summarized as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Domestic	\$ 2,207	\$ (2,802)
Foreign	7,204	5,842
<b>Total:</b>	<b>\$ 9,411</b>	<b>\$ 3,040</b>

The income tax expense (benefit) is summarized as follows (in thousands):

	Year Ended December 31,	
	2019	2018
<b>Current:</b>		
Federal	\$ 357	\$ (155)
Foreign	2,397	1,501
State	139	158
<b>Deferred:</b>		
Federal	691	(54)
Foreign	(138)	147
State	132	(195)
<b>Net expense</b>	<b>\$ 3,578</b>	<b>\$ 1,402</b>

The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The items causing this difference are as follows (dollars in thousands):

	Year Ended December 31,			
	2019	Rate	2018	Rate
Provision for income taxes at federal statutory rate	\$ 1,976	21.0%	\$ 638	21.0%
State income taxes, net of federal benefit	214	2.3%	(73)	-2.4%
Permanent differences	251	2.6%	(60)	-2.0%
Foreign tax rate differential	717	7.6%	304	10.0%
GILTI tax	527	5.6%	439	14.4%
Other	(107)	-1.1%	154	5.5%
<b>Net expense</b>	<b>\$ 3,578</b>	<b>38.0%</b>	<b>\$ 1,402</b>	<b>46.5%</b>



**5. Income Taxes (continued)**

Deferred taxes consist of the following (in thousands):

	December 31,	
	2019	2018
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 717	\$ 1,357
Federal Research and Development Credit	240	240
Deferred revenue	43	109
Accrued payroll	88	73
Allowance for doubtful accounts and other receivable	18	36
Share-based compensation expense	524	545
Foreign subsidiaries	932	733
Depreciation	573	396
Right To Use Assets	1,730	-
Other	485	439
Valuation allowance	(353)	(292)
<b>Total deferred tax assets</b>	<b>4,997</b>	<b>3,636</b>
<b>Deferred tax liabilities:</b>		
Goodwill & Intangible assets of subsidiaries	879	589
Capitalized software development costs	505	479
Right To Use Liabilities	1,730	-
<b>Total deferred tax liabilities</b>	<b>3,114</b>	<b>1,068</b>
<b>Net deferred taxes</b>	<b>\$ 1,883</b>	<b>\$ 2,568</b>

At December 31, 2019, the Company has Federal and State NOL carryforwards of \$3.25 million which if unused will expire in years 2026 through 2032, except for approximately \$670,000 that has no expiration.

Approximately \$300,000 of the NOLs were incurred prior to the acquisition of PIA Merchandising Services, Inc. in 1999. The acquisition resulted in a change of ownership under Internal Revenue Code ("IRC") section 382 and placed a limit on the amount of pre-acquisition NOLs that may be used each year to reduce taxable income. This NOL of approximately \$300,000 was unused in 2018 and was written off, resulting in a \$84,000 tax expense.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing net deferred tax assets. For our U.S. based net deferred tax assets, which are approximately \$2 million, management continues to monitor its operating performance and currently believes that the achievement of the required future taxable income necessary to realize these deferred assets is more-likely-than-not. Key considerations in this assessment includes current tax law that is expected to continue to generate future U.S. taxable income based on the results of our foreign operations (GILTI tax), our expectation of continued improvements in U.S. operating results and the period of time available to generate future taxable income. It is reasonably possible that this belief could change in the near term requiring the establishment of a valuation allowance which could significantly impact our operating results.

A reconciliation of the beginning and ending amount of uncertain tax position reserves is as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Beginning balance	\$ 101	\$ 116
Removal for tax provisions of prior years	(93)	(15)
<b>Ending balance</b>	<b>\$ 8</b>	<b>\$ 101</b>

Interest and penalties that the tax law requires to be paid on the underpayment of taxes should be accrued on the difference between the amount claimed or expected to be claimed on the return and the tax benefit recognized in the financial statements. The Company's policy is to record this interest and penalties as additional tax expense.

**5. Income Taxes (continued)**

Details of the Company's tax reserves at December 31, 2019, are outlined in the table below (in thousands):

	Taxes	Interest	Penalty	Total Tax Liability
Domestic				
State	\$ 8	\$ 3	\$ 1	\$ 12
Federal	–	–	–	–
International	–	–	–	–
<b>Total reserve</b>	<b>\$ 8</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 12</b>

In management's view, the Company's tax reserves at December 31, 2019 and 2018, for potential domestic state tax liabilities were sufficient. The Company has evaluated the tax liabilities of its international subsidiaries and does not believe a reserve is necessary at this time.

SPAR and its subsidiaries file numerous consolidated, combined and separate company income tax returns in the U.S. Federal jurisdiction and in many U.S. states and foreign jurisdictions. With few exceptions, SPAR is subject to U.S. Federal, state and local income tax examinations for the years 2014 through the present. However, tax authorities have the ability to review years prior to the position taken by the Company to the extent that SPAR utilized tax attributes carried forward from those prior years.

**6. Commitments and Contingencies**

**Legal Matters**

The Company is a party to various legal actions and administrative proceedings arising in the normal course of business. In the opinion of Company's management, resolution of these matters is not anticipated to have a material adverse effect on the Company or its estimated or desired affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

**RELATED PARTIES AND RELATED PARTY LITIGATION:**

SBS, SPAR Administrative Services, Inc. ("**SAS**"), and SPAR InfoTech, Inc. ("**Infotech**"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by an entity controlled by Robert G. Brown and prior to November 2018 was owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels, Peter W. Brown and certain other relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. Messrs. Brown and Bartels (including, as applicable, certain related parties, the "**Majority Stockholders**") collectively own approximately 53.2% of SGRP's common stock and are the founders of SGRP. Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired) and will automatically again become a director of SGRP, as discussed below, and Mr. Bartels is Vice Chairman and a director of SGRP. Mr. Bartels retired as an employee of the Company as of January 1, 2020 (in accordance with the actions of SGRP's Compensation Committee on January 22, 2020). See *Bartels' Retirement and Director Compensation*, in Note 16 to the Company's Consolidated Financial Statements -- *Subsequent Events*, below. Messrs. Brown and Bartels also are stockholders, directors and/or executive officers of various affiliates of SGRP.

## 6. Commitments and Contingencies (continued)

### Delaware Litigation Settlement

On September 4, 2018, SGRP filed in the Court of Chancery of the State of Delaware (the "Chancery Court") a claim, which it amended on September 21, 2018 (the "By-Laws Action"), in a Verified Complaint Seeking Declaratory Judgment and Injunctive Relief against the Majority Stockholders. SGRP sought to invalidate the proposed amendments to SGRP's By-Laws put forth in a written consent by the Majority Stockholders (the "Proposed Amendments") because the Board's Governance Committee believed that the Proposed Amendments would have negatively impacted all stockholders (particularly minority stockholders) by (among other things) weakening the independence of the Board through new supermajority requirements, eliminating the Board's independent majority requirement, and subjecting various functions of the Board respecting vacancies on the Board to the prior approval of the holders of a majority of the Common Stock (i.e., the Majority Stockholders), and thus also potentially reducing the representation of SGRP's minority stockholders.

On September 18, 2018, Robert G. Brown (one of the Majority Stockholders) commenced an action in the Chancery Court pursuant to 8 Del. C. §225(a) from (C.A. No. 2018-00687-TMR) (the "225 Action") against the 225 Defendants seeking to remove Lorrence T. Kellar from the Board and add Jeffrey Mayer to the Board.

On January 18, 2019, SGRP, Messrs. Brown and Bartels, Christiaan Olivier (Chief Executive Officer, President and a Director of SGRP), and all four of the members of the Governance Committee at that time, namely Lorrence T. Kellar (Chairman), Jack W. Partridge, Arthur B. Drogue and R. Eric McCarthy (together with Mr. Olivier, the "225 Defendants"), reached a settlement (the "Delaware Settlement") in the By-Laws Action and the 225 Action (together, the "Delaware Actions") and had the Delaware Actions then dismissed.

In the Delaware Settlement, the parties agreed to amend and restate SGRP's By-Laws (the "2019 Restated By-Laws") with negotiated changes to the Proposed Amendments that preserved the current roles of the Governance Committee and Board in the location, evaluation, and selection of candidates for director and in the nominations of those candidates for the annual stockholders meeting and appointment of those candidates to fill Board vacancies (other than those under a stockholder written consent making a removal and appointment, which is unchanged). The Board approved and adopted the 2019 Restated By-Laws on January 18, 2019. The Governance Committee and the Board intended that those changes in the 2019 Restated By-Laws will help the Corporation maintain the independent Board desired by them.

Additionally, as part of the Delaware Settlement, the parties to the Delaware Actions executed a Limited Mutual Release Agreement limited to the Actions and subject to specific exclusions (the "Delaware Releases"), and the parties to the Delaware Actions mutually agreed upon Stipulations of Dismissal ending those actions without prejudice and without admission or retraction of any fact cited therein, and the parties caused them to be filed with the Chancery Court on January 18, 2019.

The Delaware Releases are limited to matters related to those actions described therein and subject to specific exclusions, and the parties expressly preserved all unrelated actions and claims. Accordingly, there remain a number of unresolved claims and actions (each a "Non-Settled Matter") between the Company and certain related parties, including (without limitation) post termination claims by and against SBS (which has been resolved in a voluntary bankruptcy proceeding in Nevada by SBS -- see *SBS Bankruptcy, Settlement, and March 2020 Claim*, below) and SAS and the lawsuit by Infotech against the Company (which has been resolved in a settlement -- see *Infotech Litigation and Settlement*, below), and the claims by Messrs. Brown and Bartels for advancement and indemnification of legal fees and expenses in connection with the Delaware Actions and certain related party claims (see *Advancement Claims*, below).

### Advancement Claims

From October 2018 through January 2019, the Majority Stockholders, in a series of correspondence, demanded from SGRP advancement and indemnification of their respective shares of legal fees and expenses incurred by them in connection with the By-Laws Action and the 225 Action and other related party litigation matters.

On November 2, 2018, in a letter from his counsel, Mr. Bartels demanded advancement of his proportionate share of the legal fees and expenses incurred in his defense of the By-Laws Action against him.

**6. Commitments and Contingencies (continued)**

SGRP's Audit Committee determined on November 5, 2018, that Mr. Bartels was not entitled to indemnification by SGRP for his fees and expenses incurred in his defense of the By-Laws Action because (among other things) Mr. Bartels was sued predominately as a stockholder in the By-Laws Action and not as a director and the By-Laws Action alleged numerous instances of improper conduct by Mr. Bartels that could preclude indemnification under the Corporation's By-Laws. However, the Audit Committee made no determination regarding improper conduct or the issue of advancement.

On November 28, 2018, Mr. Bartels filed with the Court a Verified Complaint For Advancement against SGRP (the "Bartels Advancement Complaint") seeking advancement of his proportionate share of the legal fees and expenses incurred in the By-Laws Case against him ("Allocated By-Laws Expenses"). In evaluating the Bartels Advancement Complaint, counsel advised SGRP that generally advancement was somewhat different than indemnification in that money was advanced on the condition (which Bartels have accepted in writing) that the advances be repaid if indemnification was determined to be improper on the grounds of improper conduct or otherwise.

In December 2018 SGRP reached agreement with Mr. Bartels through counsel to conditionally make his reasonably documented Allocated By-Laws Expenses (the "Bartels Advancement Settlement"), pursuant to which payment to Mr. Bartels of the accepted Allocated By-Laws Expenses was paid in April 2019. If Mr. Bartels is ultimately determined to not be entitled to indemnification, he could still be obligated to return all amounts advanced to him by SGRP.

On December 3, 2018, Robert G. Brown sent an email to Mr. McCarthy, Chairman of SGRP's Audit Committee, demanding advancement from SGRP for his proportionate share of the legal fees and expenses incurred by him in the By-Laws Action against him (the "Brown Advancement Demand").

Counsel advised that Brown had been sued as a stockholder and conspirator in the By-Laws Action against him, and not as a director, and they didn't believe Brown could reasonably and successfully bring or wage a lawsuit for advancement. SGRP, with the support of its Audit Committee, rejected the Brown Advancement Demand, stating that "The bylaw action does not sue you in your capacity as an officer or director of the company. Section 6.02 of the bylaws requires the proceeding subject to advancement to be brought "by /reason of the Indemnitee's position with the Corporation or any of its subsidiaries ... at the request of the Corporation ...." This provision does not, and was not intended to, cover shareholders for advancement.

On January 27, 2019, Mr. Robert G. Brown sent a draft of his proposed Delaware litigation complaint in an email to Arthur Drogue, SGRP's Chairman, threatening to sue SGRP respecting the Brown Advancement Demand, which he repeated in an email to Mr. McCarthy on February 2, 2019. On March 21, 2020, Mr. Robert G. Brown repeated the Brown Advancement Demand and sent a slightly revised draft complaint that would purportedly change the contemplated litigation jurisdiction from Delaware to Massachusetts. No explanation was given for this change and SGRP believes that Mr. Robert G. Brown does not live or work in Massachusetts, but Mr. Robert G. Brown's brother, James S. Brown, is a Massachusetts lawyer and a candidate for election as a SGRP director at the April 23, 2020, special stockholder meeting at the unilateral direction of Mr. Robert G. Brown and related parties. No such complaint has been filed by Mr. Brown through April TBD, 2020, and SGRP continues to deny the Brown Advancement Demand. In addition, SGRP believes that the Delaware Court has exclusive jurisdiction pursuant to SGRP's 2019 Restated By-Laws and the Settlement.

***SBS Bankruptcy, Settlement and March 2020 Claim***

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case"). On March 18, 2019, the Company filed claims in the SBS Chapter 11 Case seeking reimbursement for \$378,838 for SMF's funding of the Affinity Security Deposits and \$12,963 for SMF's funding of the field payment checks that would have otherwise bounced, and \$1,839,459 for indemnification of SGRP for its settlement (see below) of the Clothier class action case in California ("Clothier") and legal costs and an unspecified amount for indemnification of SGRP for the Hogan action (see below) and other to be discovered indemnified claims.

**6. Commitments and Contingencies (continued)**

On August 6, 2019, SGRP, and its subsidiaries SPAR Marketing Force, Inc. ("SMF"), a Nevada corporation, and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation, submitted to the U.S. District Court in Nevada (the "Bankruptcy Court") their Compromise and Settlement Agreement, dated July 26, 2019 (the "Settlement Agreement"), with SBS, a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession, and SBS, LLC, a Nevada limited liability company. The Settlement Agreement was submitted in the SBS Chapter 11 Case. Pursuant to the Settlement Agreement, the Company settled its claims for (among other things) indemnification from SBS in the Clothier and Rodgers cases, and SBS released all receivable and other claims against the Company. See Note 10 to the Company's Consolidated Financial Statements – Related Party Transactions – *SBS Bankruptcy, Settlement, and March 2020 Claim*, below.

On August 6, 2019, the Bankruptcy Court approved the Settlement Agreement and the SBS reorganization pursuant to SBS' First Amended Chapter 11 Plan of Reorganization, as amended by the Settlement Agreement (the "Plan of Reorganization"). Pursuant to its Plan of Reorganization, SBS also settled its potential liability in the Clothier and Rodgers cases, but Robert G. Brown and William H. Bartels were not released from Clothier, any related case or Rodgers.

On March 6, 2020, Robert G. Brown demanded payment in full of \$1,707,374 to SBS from SMF and SGRP pursuant to the Settlement Agreement. The Settlement Agreement includes a specific carve out clause for the payment of specific fees for services provided by SBS to SMF. The clause required a special review, by a third party prominent auditing firm, as verification that SMF actually made those payments to SBS. The report has been completed and properly supports the Company's position that all such fees were paid to SBS (the "March 2020 Claim"). The Company disagrees that such amount is owed. The Company believes that the robust and comprehensive mutual releases in the SBS Settlement Agreement provide valuable relief from potential future claims and litigation by SBS respecting the Company's past involvement with SBS, including the March 2020 Claim. However, Robert G. Brown, president, director and indirect owner of SBS, since and notwithstanding the Court's approval of the SBS Settlement Agreement, has continued to allege that the claims and amounts that were fully released pursuant to the SBS Settlement Agreement and approved by the bankruptcy court are due to SBS from the Company, and the Company strongly disagrees. Since all such SBS claims have been completely released by SBS (with Mr. Brown's approval), the Company owes nothing and will not accrue anything respecting Mr. Brown's renewed claims.

At SGRP's March 2020 Board meeting, Mr. William H. Bartels was requested by an independent director to compile a list of claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bring their total claims to approximately \$3 million.

The March 2020 Claim includes estimates for the legal defenses of Robert G. Brown and William H. Bartels in California ("PAGA") and Texas ("Rodgers") in cases that do not involve and never included the Company and for which the Company believes it has no liability. The March 2020 Claim also includes defense expenses for SBS' Clothier case, which expenses SBS settled for a highly discounted amount in its bankruptcy reorganization but now requests the Company to pay in full. SBS in its bankruptcy reorganization settled its potential liability in the Rodgers and Clothier cases has, and since July 2019 had, no more defense expenses in those cases. SGRP settled Clothier separately and has never been included in Rodgers. However, the alleged willful misclassification by SBS of its ICs after the Clothier misclassification determination is the basis for the PAGA lawsuit against Brown and Bartels. Mr. Bartels' list also includes payments of \$500,000 per year to Robert G. Brown for extended retirement and advisory fees, although the Company has never proposed, committed or agreed to them and on several occasions specifically rejected Mr. Brown's proposals in various forms for them.

## 6. Commitments and Contingencies (continued)

### **Infotech Litigation and Settlement**

On September 19, 2018, SGRP was served with a Summons and Complaint by SPAR InfoTech, Inc. ("Infotech"), an affiliate of SGRP that is owned principally by Robert G. Brown (one of the Majority Stockholders) as plaintiff commencing a case against SGRP (the "Infotech Action"). The Infotech Action sought payment from SGRP of approximately \$190,000 for alleged lost tax benefits and other expenses that it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and that were previously denied on multiple occasions by both management and SGRP's Audit Committee (whose approval was required because Infotech is a related party).

In 2016, SGRP acquired SPAR Brasil Serviços de Merchandising e Tecnologia S.A. ("SPAR BSMT"), its Brazilian subsidiary, with the assistance of Robert G. Brown (while he was still Chairman and an officer and director of SGRP) and his nephew, Peter W. Brown, who became an indirect 10% owner of SPAR BSMT, and later became a director of SGRP on May 3, 2018. Robert G. Brown used his private company, Infotech and undisclosed foreign companies to structure the acquisition for SGRP.

Robert G. Brown incurred his alleged expenses associated with the transaction through Infotech, including salary allocations for unauthorized personnel and claims for his "lost tax breaks". Robert G. Brown submitted his unauthorized and unsubstantiated "expenses" to SGRP, and SGRP's Audit Committee allowed approximately \$50,000 of them (which was paid by the Company) and disallowed approximately \$150,000 of them. His claim increased to over \$190,000 in the Infotech Action. The Company vigorously denied owing any of those amounts.

In 2018, Infotech also threatened to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech (the "Romanian Claim"). Infotech gave a draft complaint to the Company in 2018. The Company also vigorously denied owing any of those obligations or amounts.

In order to avoid the expenses of protracted litigation, SGRP's Management and the Audit Committee agreed that it would be in the best interest of all stockholders to reach a reasonable settlement of both the Infotech Action and the Romanian Claim for installment payments in reasonable amounts and mutual releases of all other related claims. Management had offered \$225,000 to settle both, but at the urging of the Board and assurances of several Board members that it would help them persuade Robert G. Brown to settle, management agreed to increase the settlement offer to a total of \$275,000. After extensive negotiation between the Company and Infotech, Robert G. Brown accepted the \$275,000 offer and the parties entered into the Confidential Settlement Agreement and Mutual Release on October 8, 2019 (the "Infotech Settlement Agreement"), which was approved and ordered by the Court on October 30, 2019, and the Infotech Action was discontinued (dismissed) with prejudice.

The Infotech Settlement Agreement requires the Company to make payments totaling \$275,000 in four installments: (i) \$75,000 following Court approval (which Payment has already been made); (ii) \$75,000 within 30 days following discontinuance of the Infotech Action (which was discontinued on October 30, 2019); (iii) \$75,000 within 60 days following discontinuance of the Infotech Action; and (iv) \$50,000 within 90 days following discontinuance of the Infotech Action. The Company paid the first four installments and has made an appropriate accrual for the final installment as of December 31, 2019. In January 2020, the Company made the final payment to Infotech.

The Company believes that the robust and comprehensive mutual releases in the Infotech Settlement Agreement provide valuable relief from potential future claims and litigation by Infotech respecting the Company's past involvement with Infotech in the Brazilian and Romanian transactions.

### **SBS Field Specialist Litigation**

The Company's merchandising, audit, assembly and other services for its domestic clients are performed by field merchandising, auditing, assembly and other field personnel (each a "Field Specialist") furnished by others and substantially all of whose services were provided to the Company prior to August 2018 by SBS, the Company's affiliate, SBS is not a subsidiary or in any way under the control of SGRP, SBS is not consolidated in the Company's financial statements, SGRP did not manage, direct or control SBS, and SGRP did not participate in or control the defense by SBS of any litigation against it. The Company terminated its relationship with SBS and received no services from SBS after July 27, 2018. For affiliation, termination, contractual details and payment amounts, see Note 10 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, above.

## 6. Commitments and Contingencies (continued)

The appropriateness of SBS' treatment of Field Specialists as independent contractors had been periodically subject to legal challenge (both currently and historically) by various states and others. SBS' expenses of defending those challenges and other proceedings generally were, through but not after the termination of the SBS services, reimbursed by the Company after and to the extent the Company determined (on a case by case basis) that those defense expenses were costs of providing services to the Company.

The Company settled its potential liability (as a current or former party) under two class action lawsuits against SBS, namely Clothier and Hogan. SBS was separately dismissed from the Hogan class action prior to the Company's settlement. SBS settled with Clothier and Rodgers in the SBS Bankruptcy, but Robert G. Brown and William H. Bartels were not released from Clothier, any related case or Rodgers (see above). The Company has never been a party to the Rodgers case.

Any claim made and proven by Robert G. Brown, William H. Bartels, SBS, SAS, any other related party or any third party that the Company is somehow liable (through indemnification or otherwise) for any judgment or similar amount imposed against Mr. Brown, Mr. Bartels, SBS or SAS or any other related party, in each case in whole or in part, could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

### **SBS Clothier Litigation**

Melissa Clothier was engaged by SBS (then known as SPAR Marketing Services, Inc.) and provided services pursuant to the terms of an "Independent Merchandiser Agreement" with SBS (prepared solely by SBS) acknowledging her engagement as an independent contractor. On June 30, 2014, Ms. Clothier filed suit against SBS and the Company styled Case No. RG12 639317, in the Superior Court in Alameda County, California (the "Clothier Case"), in which Ms. Clothier asserted claims on behalf of herself and a putative class of similarly situated merchandisers in California who are or were classified by SBS as independent contractors at any time between July 16, 2008, and June 30, 2014. Ms. Clothier alleged that she and other class members were misclassified by SBS as independent contractors (instead of as employees) and that, as a result of this misclassification, the defendants improperly underpaid them in violation of various California minimum wage and overtime laws. The Company was originally a defendant in the Clothier Case but was subsequently dismissed from the action without prejudice (meaning it could have joined back into the case).

The court ordered that the case be heard in two phases. Phase one was limited to the determination of whether members of the class were misclassified as independent contractors. After hearing evidence, receiving post-trial briefings and considering the issues, the Court issued its Statement of Decision on September 9, 2016, finding that the class members had been misclassified by SBS as independent contractors rather than employees (the "Clothier Misclassification Determination"). The plaintiffs and SBS then moved into phase two to determine damages (if any), which has included discovery as to the measure of damages in this case.

Facing significant potential damages in the Clothier Case, SGRP chose, and on June 7, 2018, entered into mediation with the plaintiffs and plaintiff's counsel in the Clothier Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SGRP asked SBS to participate financially and provide its knowledge in that mediation, but SBS and its stockholders wanted SGRP to bear the full cost of any settlement and on several occasions they declined or failed to participate in that mediation. SGRP disagreed, insisting on the Majority Stockholders' and SBS' economic participation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, subject to the final court approval (the "Clothier Settlement"). Final approval was granted on September 20, 2019. and the Company was released by plaintiff and the settlement class from all other liability under the Clothier Case. The Company recorded a \$1.3 million charge for the Clothier Settlement during 2018, when the agreement in the Clothier Settlement was reached. Pursuant to the Clothier Settlement SGRP will pay a maximum settlement amount of \$1.3 million, payable in four equal annual installments that commenced with the first payment of \$325,000 in December 2019. The \$975,000 balance was accrued as of December 31, 2019.

Since SGRP has no further involvement in the Clothier Case, SGRP stopped paying (as of June 7, 2018) for SBS' legal expenses (defense and appeal) in the Clothier Case and notified SBS. Defendants continue to demand that those expenses be reimbursed by SGRP.

SBS did not participate in the Clothier Settlement and was not released. Rather than proceed to the damage portion of the trial respecting trial the Clothier Misclassification Determination, SBS filed for bankruptcy protection. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters -- SBS Bankruptcy, Settlement and March 2020 Claim and SAS Settlement Discussions and Arbitration*, above.

## **6. Commitments and Contingencies (continued)**

### **SBS and SGRP Hogan Litigation**

Paradise Hogan was engaged by and provided services to SBS as an independent contractor pursuant to the terms of an "Independent Contractor Master Agreement" with SBS (prepared solely by SBS) acknowledging his engagement as an independent contractor. On January 6, 2017, Hogan filed suit against SBS and SGRP (and part of the Company), styled Civil Action No. 1:17-cv-10024-LTS, in the U.S. District Court for District of Massachusetts. Hogan initially asserted claims on behalf of himself and an alleged nationwide class of similarly situated individuals who provided services to SBS and SGRP as independent contractors. Hogan alleged that he and other alleged class members were misclassified by SBS as independent contractors (instead of as employees), and as a result of this purported misclassification, Hogan asserted claims on behalf of himself and the alleged Massachusetts class members under the Massachusetts Wage Act and Minimum Wage Law for failure to pay overtime and minimum wages, as well as state law claims for breach of contract, unjust enrichment, quantum meruit, and breach of the covenant of good faith and fair dealing. In addition, Hogan asserted claims on behalf of himself and the nationwide class for violation of the Fair Labor Standards Act's overtime and minimum wage provisions. On March 28, 2017, SGRP moved to refer Hogan's claim to arbitration pursuant to his agreement, to dismiss or stay Hogan's case pending arbitration, and to dismiss Hogan's case for failure to state a specific claim upon which relief could be granted.

On March 12, 2018, the Court denied the Motion to Compel Arbitration as to SGRP because as drafted by SBS, the arbitration clause did not reference or protect SGRP according to the Court. However, the Court eventually granted SBS the right to arbitrate without SGRP. SGRP appealed to the First Circuit contesting the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP.

On January 25, 2019, the First Circuit issued a judgment affirming the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP and remanding the case back to the District Court for further proceedings. As a result, SGRP would have been required to go to trial without SBS.

Facing lengthy and costly litigation and significant potential damages in the Hogan Case, on March 27, 2019, SGRP entered into mediation with the plaintiffs and plaintiff's counsel in the Hogan Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SBS and its stockholders were no longer involved in that case and so were not involved in that mediation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement (the "Hogan Settlement"), which was approved by the court and became final in November 2019, and the Company was released by plaintiff and the settlement class from all other liability under the Hogan Case. Pursuant to the Hogan Settlement, SGRP paid a maximum settlement amount of \$250,000 (in three installments), which payments commenced in December 2019 with the first payment of \$150,000. The balance of \$100,000 was accrued as of December 31, 2019 with \$50,000 paid in March 2020 and the remaining \$50,000 payable in June 2020.

## **7. Treasury Stock**

Pursuant to the Company's 2017 Stock Repurchase Program (the "2017 Repurchase Program"), as approved by SGRP's Audit Committee and adopted by its Board of Directors on November 10, 2017 and ratified on March 14, 2018, the Company may repurchase shares of SGRP Common Stock through November 10, 2020, but not more than 500,000 shares in total, and those repurchases would be made from time to time in the open market and through privately-negotiated transactions, subject to general market and other conditions. SGRP does not intend to repurchase any shares in the market during any blackout period applicable to its officers and directors under the SPAR Group, Inc. Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information As Adopted, Restated, Effective and Dated as of May 1, 2004, and As Further Amended Through March 10, 2011 (other than purchases that would otherwise be permitted under the circumstances for anyone covered by such policy). As of December 31, 2019, the Company had 500,000 shares remaining to be purchased under the 2017 Repurchase Program. Under the preceding stock repurchase program (adopted in 2012 and extended and modified in 2015), the Company repurchased all 532,235 shares through December 31, 2019.



### **8. Preferred Stock**

SGRP's certificate of incorporation authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. The Company issued 554,402 of SGRP shares to affiliated retirement plans which were all converted into common shares in 2011 (including dividends earned thereon), leaving 2,445,598 shares of remaining authorized preferred stock. At December 31, 2019, no shares of SGRP Series A Preferred Stock were issued and outstanding.

### **9. Retirement Plans**

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible domestic employees. The Company made a discretionary contribution of \$50,000 for the year ended December 31, 2019 and did not make a contribution in 2018.

### **10. Related Party Transactions**

SGRP's Audit Committee has the specific duty and responsibility to review and approve the overall fairness and terms of all material related-party transactions. The Audit Committee receives affiliate contracts and amendments thereto for its review and approval (to the extent approval is given), and these contracts are periodically (often annually) again reviewed, in accordance with the Audit Committee Charter, the ethics code, the rules of the Nasdaq Stock Market LLC ("Nasdaq"), and other applicable law to ensure that the overall economic and other terms will be (or continue to be) no less favorable to the Company than would be the case in an arms-length contract with an unrelated provider of similar services (i.e., its overall fairness to the Company, including pricing, payments to related parties, and the ability to provide services at comparable performance levels). The Audit Committee periodically reviews all related party relationships and transactions described below.

**10. Related Party Transactions (continued)**

**Domestic Related Party Services:**

SBS, SAS, and Infotech have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by Robert G. Brown and prior to December 2018 was owned by William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned principally by Robert G. Brown. Mr. Robert G. Brown and Mr. Bartels are the Majority Stockholders (see below), members of a 13D control group and founders of SGRP, Mr. Robert G. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired), and Mr. Bartels was and continues to be Vice Chairman and a director of SGRP, but retired as an employee of SGRP as of January 1, 2020 (See Note 16 to the Company's Consolidated Financial Statements - *Subsequent Events – Bartels' Retirement and Director Compensation*, in Note 16 to the Company's Consolidated Financial Statements -- *Subsequent Events*, below). Mr. Robert G. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies – Legal Matters*, below.

The Company executes its domestic field services through the services of field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), substantially all of whom are provided to the Company and engaged by independent third parties and located, scheduled, deployed and administered domestically through the services of local, regional, district and other personnel (each a "Field Administrator"), and substantially all of the Field Administrators are in turn are employed by other independent third parties.

SBS provided substantially all of the Field Specialist services in the U.S.A. to the Company from January 1 through July 27, 2018, and an independent vendor and licensee provided them for the balance of 2018. The Company paid \$13.3 million during the nine months ended September 30, 2018, to SBS for its provision as needed of the services of approximately 4,500 of SBS's available Field Specialists in the U.S.A. (which amounted to approximately 43% of the Company's total domestic Field Specialist service expense for the nine months ended September 30, 2018).

Since the termination of the Amended and Restated Field Service Agreement with SBS on December 1, 2014 (as amended, the "Prior SBS Agreement"), the Company and SBS agreed to an arrangement where the Company reimbursed SBS for the Field Specialist service costs and certain other approved reimbursable expenses incurred by SBS in performing services for the Company and paid SBS a revised fixed percentage of such reimbursable expenses (the "Cost Plus Fee") equal to 2.96% of those reimbursable expenses, subject to certain offsetting credits. The Company had offered, at various times since 2014, new agreements to SBS confirming that reimbursable expenses were subject to review and approval by the Company, but SBS rejected that proposal.

Due to (among other things) the adverse determination in 2016 in *Clothier* that SBS had misclassified its employees as independent contractors and the ongoing proceedings against SBS (which could have had a material adverse effect on SBS's ability to provide future services needed by the Company), SBS' continued higher charges and expense reimbursement disputes, and the Company's identification of an experienced independent third party company (the "Independent Field Vendor") who would provide comparable services on substantially better terms, the Company terminated the services of SBS effective July 27, 2018, and the Company has engaged that Independent Field Vendor to replace those field services previously provided by SBS (other than in California). The Company similarly terminated SAS and has engaged another independent third party company on to replace those administrative services formerly provided by SAS, effective August 1, 2018 (the "Independent Field Administrator").

**10. Related Party Transactions (continued)**

Even though the Company believes it had paid SBS for all services provided through July 27, 2018, the Company received notice that there may not have been sufficient funds in SBS' bank accounts to honor all payments SBS had made by check to their Field Specialists. Based on this notice, the Company withheld approximately \$112,000 of final mark-up compensation due SBS and had used these funds to make payments into the SBS bank account designated for Field Specialist payments to ensure all SBS Field Specialists that had provided services to the Company were properly compensated for those services. The \$112,000 had been completely exhausted and the Company was required to fund an additional \$13,000 to cover these duplicate Field Specialist payments.

The Company has reached a non-exclusive agreement on better terms than SBS with an experienced independent third-party vendor to provide substantially all of the domestic Field Specialist services used by the Company. The Company has also reached a separate non-exclusive agreement than with SAS with another independent third-party vendor to provide substantially all of the domestic Field Administrator services used by the Company. The Company transitioned to such new vendors during July 2018.

SAS provided substantially all of the Field Administrators in the U.S.A. to the Company from January 2018 through termination of services in July 2018. The Company paid \$2.7 million to SAS for these services in 2018.

In addition to these field service and administration expenses, SAS also incurred other administrative expenses related to benefit and employment tax expenses of SAS and payroll processing, and other administrative expenses and SBS incurred expenses for processing vendor payments, legal defense and other administrative expenses (but those expenses were only reimbursed by SGRP to the extent approved by the Company as described below).

No SAS compensation to any officer, director or other related party (other than to Mr. Peter W. Brown, a related party as noted below, pursuant to previously approved budgets) had been reimbursed by the Company.

On May 7, 2018, the Company gave a termination notice to SAS specifying July 31, 2018, as the end of the Service Term under (and as defined in) SAS Agreement signed in 2016. The Company has reached a non-exclusive agreement with an independent third party vendor to provide substantially all of the domestic Independent Field Administrators used by the Company.

Although SAS has not provided or been authorized to perform any services to the Company after their terminations described above effective on or before July 31, 2018, SAS has apparently continued to operate and claim that the Company owes them for all of their post-termination expenses for the foreseeable future. For the period from August, 2018 through September 30, 2019, SAS has invoiced the Company over \$200,000. All such invoices have been rejected by the Company. The Company has determined that it is not obligated to reimburse any such post-termination expense (other than for potentially reimbursing SAS for mutually approved reasonable short term ordinary course transition expenses in previously allowed categories needed by SAS to wind down its business, if any), and that such a payment would be an impermissible gift to a related party under applicable law, which determinations have been supported by SGRP's Audit Committee.

The Company expects that SBS and SAS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of their post-termination expense, including repeated litigation. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters - SBS Bankruptcy, Settlement and March 2020 Claim and SAS Settlement Discussions and Arbitration*, above.

Any claim by Robert G. Brown, William H. Bartels, SAS, any other related party or any third party that the Company is somehow liable for any judgment or similar amount imposed against SBS or SAS or any other related party, any judicial determination that the Company is somehow liable for any judgment or similar amount imposed against SBS or SAS or any other related party, or any increase in the Company's use of employees (rather than the services of independent contractors provided by third parties) to perform Field Specialist services domestically, in each case in whole or in part, could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, above.

**10. Related Party Transactions (continued)**

Current material and potentially material legal proceedings impacting the Company are described in (to be define) These descriptions are based on an independent review by the Company and do not reflect the views of SBS, its management or its counsel. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, in connection with any proceedings against SBS, SBS continues to claim that the Company is somehow liable to reimburse SBS for its expenses in those proceedings. The Company does not believe there is any basis for such claims and would defend them vigorously.

Infotech sued the Company in New York seeking reimbursement for approximately \$190,000 respecting alleged lost tax benefits and other expenses it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and previously denied on multiple occasions by both management and SGRP's Audit Committee, whose approval was required because Infotech is a related party. Infotech also threatened to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech, for which the Company vigorously denies liability. The Company and Infotech settled this matter, See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters -- Infotech Litigation and Settlement*, above.

Peter W. Brown was appointed as a Director on the Board as of May 3, 2018, replacing Mr. Robert G. Brown upon his retirement from the Board and Company at that date. He is not considered independent because Peter Brown is affiliate and related party in respect of SGRP and was proposed by Mr. Robert G. Brown to represent the Brown family interests. He worked for and is a stockholder of SAS (see above) and certain of its affiliates, he is the nephew of Mr. Robert G. Brown, he is a director of SPAR Brasil Serviços de Merchandising e Tecnologia S.A., a Brazilian corporation and SGRP subsidiary ("SPAR BSMT") and owns Earth Investments LLC, ("EILLC"), which owns 10% interest in the SGRP's Brazilian subsidiary.

National Merchandising Services, LLC ("NMS"), is a consolidated domestic subsidiary of the Company and is owned jointly by SGRP through its indirect ownership of 51% of the NMS membership interests and by National Merchandising of America, Inc. ("NMA"), through its ownership of the other 49% of the NMS membership interests. Mr. Edward Burdekin is the Chief Executive Officer and President and a director of NMS and also is an executive officer and director of NMA. Ms. Andrea Burdekin, Mr. Burdekin's wife, is the sole stockholder and a director of NMA and a director of NMS. NMA is an affiliate of the Company but is not under the control of or consolidated with the Company. Mr. Burdekin also owns 100% of National Store Retail Services ("NSRS"). Since September 2018, NSRS provided substantially all of the domestic merchandising specialist field force used by NMS. For those services, NMS agrees to reimburse NSRS the total costs for providing those services and to pay NSRS a premium equal to 1.0% of its total cost.

Also, NMS leases office and operational space that is owned personally by Mr. Burdekin. The Lease expense is \$2,000 a month. While there is no formal signed agreement, there is no expected change to the arrangement.

On August 10, 2019, NMS, to protect continuity of its Field Specialist nationwide, petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "NMS Chapter 11 Case"), and as a result, the claims of NMS' creditors must now generally be pursued in the NMS Chapter 11 Case. On August 11, 2019, NSRS and Mr. Burdekin also filed for reorganization in the NMS Chapter 11 Case NMS is part of the consolidated Company. Currently the Company believes that the NMS Chapter 11 Case is not likely to have a material adverse effect on the Company, and the Company's ownership of and involvement in NMS is not likely to change as a result of the NMS Chapter 11 Case or any resulting NMS reorganization.

Resource Plus of North Florida, Inc. ("RPI"), is a consolidated domestic subsidiary of the Company and is owned jointly by SGRP through its indirect ownership of 51% of the RPI membership interests and by Mr. Richard Justus through his ownership of the other 49% of the RPI membership interests. Mr. Justus has a 50% ownership interest in RJ Holdings which owns the buildings where RPI is headquartered and operates. Both buildings are subleased to RPI.

**SBS Bankruptcy, Settlement and March 2020 Claim**

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case").

**10. Related Party Transactions (continued)**

Management recommended, and the Audit Committee agreed, that it would be in the best interest of all stockholders to oppose SBS's proposed reorganization unless a reasonable settlement could be reached, and that any settlement should include a reasonable disposition of the SGRP Claims (as defined in the SBS Settlement Agreement) and mutual releases of all other claims. After extensive negotiation between the SBS Parties and the SGRP Parties, the parties entered into the Compromise and Settlement Agreement dated as of July 26, 2019, and was signed and released over the succeeding weekend (the "SBS Settlement Agreement").

On August 6, 2019, with the support of (among others) the Clothier and Rodgers plaintiffs and the Company, the Court approved the SBS Settlement Agreement and the SBS Reorganization pursuant to the SBS Plan (as defined in the SBS Settlement Release). The SBS Settlement Agreement provides for a mutual release of claims (including the SBS Claims and the SGRP Claims, as defined therein), except for the following:

- i. SBS will pay to the applicable SGRP Parties the SGRP Claims (for \$2,231,260, was then discounted to their pro rata share (among all creditors of the same class) of the New Value Contribution (after discount, est. \$111,563) and of the Settlement Contribution in twenty-four (24) equal monthly amounts (after discount, est. \$62,534), starting January 2020 and without any interest (collectively, the "Discounted Claim Payments"), as such terms are defined in the SBS Settlement Agreement.
- ii. SMF will pay to SBS the Proven Unpaid A/R (as defined in the SBS Settlement Agreement) upon its determination (as described below).

In the SBS Settlement Agreement, the parties agreed to have a third party financial and accounting services firm, independently determine the Proven Unpaid A/R based on parameters set forth in the SBS Settlement Agreement. In the SBS Settlement Agreement, the parties will accept the determination of Rehmann as final and binding, and all other claims and amounts are released. Rehmann has determined that the Company had paid all amounts due to SBS and that the Proven Unpaid A/R equals zero.

The Company has recorded the total settlement amount of \$174,097 as of December 31, 2019. This settlement amount is payable in 24 equal monthly payments of \$7,254 starting January 1, 2020. To date SBS is in default of the first four payments and formal default notices have been sent to SBS. As of this date the Company believe these SBS payments must ultimately be paid by SBS and will continue to evaluate its collectability from SBS and establish reserves as appropriate.

**International Related Party Services:**

SGRP Meridian (Pty), Ltd. ("Meridian") is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 23% by FRIEDSHELF 401 Proprietary Limited (owned by Mr. Brian Mason and Mr. Garry Bristow) and 26% by Lindicom Proprietary Limited. Mr. Mason is President and a director and Mr. Bristow is an officer and director of Meridian. Mr. Mason is also an officer and director and 50% shareholder of Merhold Property Trust ("MPT"). Mr. Mason and Mr. Bristow are both officers and directors and both own 50% of Merhold Cape Property Trust ("MCPT"). Mr. Mason and Mr. Bristow are officers and owners of Merhold Holding Trust ("MHT") which provides similar services like MPT. MPT owns the building where Meridian is headquartered and also owns 20 vehicles, all of which are subleased to Meridian. MCPT provides a fleet of 172 vehicles to Meridian under a 4 year lease program.

SPAR Todopromo is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by the following individuals: Mr. Juan F. Medina Domenzain, Juan Medina Staines, Julia Cesar Hernandez Vanegas, and Jorge Medina Staines. Mr. Juan F. Medina Domenzain is an officer and director of SPAR Todopromo and is also majority shareholder (90%) of CONAPAD ("CON") which supplied administrative and operational consulting support to SPAR Todopromo in 2016.

Mr. Juan F. Medina Domenzain ("JFMD"), partner in SPAR Todopromo, leased a warehouse to SPAR Todopromo. The lease expires on December 31, 2020.

SPAR Brasil Serviços de Merchandising e Tecnologia S.A., a Brazilian corporation ("SPAR BSMT") is owned 51% by the Company, 39% by JK Consultoria Empresarial Ltda.-ME, a Brazilian limitada ("JKC"), and 10% by Earth Investments, LLC, a Nevada limited liability company ("EILLC").

**10. Related Party Transactions (continued)**

JKC is owned by Mr. Jonathan Dagues Martins, a Brazilian citizen and resident ("**JDM**") and his sister, Ms. Karla Dagues Martins, a Brazilian citizen and resident. JDM is the Chief Executive Officer and President of each SPAR Brazil company pursuant to a Management Agreement between JDM and SPAR BSMT dated September 13, 2016. JDM also is a director of SPAR BSMT. Accordingly, JKC and JDM are each a related party in respect of the Company. EILLC is owned by Mr. Peter W. Brown, a citizen and resident of the USA ("**PWB**") and a director of SPAR BSMT and SGRP and nephew of SGRP's largest shareholder and member of a 13D control group, Robert G. Brown. Accordingly, PWB and EILLC are each a related party in respect of the Company.

SPAR BSMT has contracted with Ms. Karla Dagues Martins, a Brazilian citizen and resident and JDM's sister and a part owner of SPAR BSMT, to handle the labor litigation cases for SPAR BSMT and its subsidiaries. These legal services are being provided to them by Ms. Martins' company, Karla Martins Sociedade de Advogados ("**KMSA**"). Accordingly, Mr. Jonathan Dagues Martins and Ms. Karla Dagues Martins are each an affiliate and a related party in respect of the Company.

**Summary of Certain Related Party Transactions:**

The following costs of affiliates were charged to the Company (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Services provided by affiliates:</b>		
Field Specialist Service expenses* (SBS)	\$ -	\$ 15,404
Field Administration Service expenses* (SAS)	-	2,738
National Store Retail Services (NSRS)	5,586	986
Office Lease Expenses (Mr. Burdekin)	24	24
Office Lease Expenses (RJ Holdings)	724	247
Office and vehicle rental expenses (MPT)	64	66
Vehicle rental expenses (MCPT)	1,175	1,248
Office and vehicle rental expenses (MHT)	281	228
Consulting and administrative services (CON)	130	220
Warehouse Rental (JFMD)	52	49
Legal Services (KMSA)	123	135
Sparfacts	42	-
<b>Total services provided by affiliates</b>	<b>\$ 8,201</b>	<b>\$ 21,345</b>

\* Includes substantially all overhead (in the case of SAS and SBS), or related overhead, plus any applicable markup. The services provided by SAS and SBS were terminated as of July 2018.

Due to affiliates consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Loans from local investors:(1)</b>		
Australia	\$ 467	\$ 226
Brazil	139	139
China	2,271	2,130
Mexico	623	1,001
Resource Plus	531	531
South Africa	635	618
<b>Total due to affiliates</b>	<b>\$ 4,666</b>	<b>\$ 4,645</b>

(1) Represent loans from the local investors into the Company's subsidiaries (representing their proportionate share of working capital loans). The loans have no payment terms and are due on demand and as such have been classified as current liabilities in the Company's consolidated financial statements.

## 10. Related Party Transactions (continued)

### *Affinity Insurance:*

In addition to the above, through August 1, 2018, SAS purchased insurance coverage from Affinity Insurance, Ltd. ("Affinity") for worker compensation, casualty and property insurance risk for itself, for SBS on behalf of Field Specialists that require such insurance coverage (if they do not provide their own), and for the Company. SAS owns a minority (less than 1%) of the common stock in Affinity. Based on informal arrangements between the parties, the Affinity insurance premiums for such coverage were ultimately charged (through SAS) for their fair share of the costs of that insurance to SMF, SAS (which then charges the Company) and SBS. Since August 1, 2018, the new independent vendor providing the Company's Field Administrators also is a member of and provided such insurance through Affinity for itself and on behalf of the Field Specialists that require such insurance coverage (if they do not provide their own), and the Company is obtaining its own such insurance through Affinity (in which the Company is also now a member).

In addition to those required periodic premiums, Affinity also requires payment of cash collateral deposits ("Cash Collateral"), and Cash Collateral amounts are initially determined and from time to time re-determined (upward or downward) by Affinity. From 2013 through August 1, 2018, SAS deposited Cash Collateral with Affinity that now totals approximately \$965,000; approximately \$379,000 of that Cash Collateral was allocable to SBS and approximately \$296,000 of that Cash Collateral was allocable to SMF and the balance of approximately \$290,000 was allocated to other affiliates of the Company. The Cash Collateral deposits allocable to SBS have been paid by SAS on behalf of SBS, SAS received advances to make such payments from SBS, and SBS in turn received advances to make such payments from SMF. \$675,000 of the Cash Collateral deposits allocable to SAS have been paid with advances to make such payments from SMF. The Cash Collateral deposits allocable to SMF have been paid by SAS on behalf of SMF, and SAS received advances to make such payments from SMF. At the time those advances by the Company to SAS and SBS were not specifically disclosed by Mr. Robert G. Brown (then SGRP executive Chairman) or Mr. William H. Bartels (SGRP Vice Chairman then and now) to or approved by the Audit Committee or Board (as a related party transaction or otherwise), and at the time Mr. Brown and Mr. Bartels were the sole owners and executives of SAS and SBS. In addition to funding such Cash Collateral, the Company believes that it has provided (after 1999) all of the funds for all premium payments to and equity investments in Affinity and that the Company may be owed related amounts by SAS, SBS and their affiliates.

The Company also has advanced money to SAS to prepay Affinity insurance premiums (which in the case of workers compensation insurance are a percentage of payroll). The Company had advanced approximately \$225,000 to SAS for the 2019-2020 Affinity plan year based on estimates that assumed SBS and SAS would be providing services to the Company for the full plan year. However, the Company terminated them and they ceased providing SAS' services by August 2018, so that insurance was required for only one month's payroll. Upon completion of the Affinity audit for the Affinity 2019-2020 plan year, the Company anticipates that SAS will receive a premium refund from Affinity of approximately \$150,000 and will be obligated to repay that amount to the Company.

Affinity from time to time may (in the case of a downward adjustment in such periodic premiums or the Cash Collateral) make refunds, rebates or other returns of such periodic premiums and Cash Collateral deposits to SAS for the benefit of itself, SBS and SMF (including any premium refund, as returned or returnable, "Affinity Returns"). The Company believes that SAS is obligated to return to SMF any and all Affinity Returns allocable to SMF in repayment of the corresponding advances from SMF and allocable to SAS in repayment of the corresponding advances from SMF. The Company also believes that SAS is obligated to return to SBS, and SBS is obligated to return to SMF, any and all Affinity Returns allocable to SBS in repayment of the corresponding advances. The Company believes that SBS and SAS have had limited operations since August 1, 2018, that the litigation and likely resulting financial difficulties facing SBS are significant, and that without adequate security, those circumstances puts such repayments to the Company at a material risk.

SMF had been in negotiations with SBS and SAS (respectively represented by Robert G. Brown and William H. Bartels, who together own over 33% of SGRP's common stock) since November 2017 for reimbursement and security agreements to document and secure those advances and repayment obligations, which advances total approximately \$675,000. Although SBS and SAS had orally accepted those agreements in principal, the negotiations have recently broken down over their refusal to allow fully perfected first priority security interests in the Cash Collateral and SAS's policies with and equity interests in Affinity, as well as their demands for post-termination payments and offsets potentially larger than the Cash Collateral. As a result, the Company has recorded a reserve for the full \$900,000 in such receivables in 2018. The Company is exploring its legal options for recovering the Affinity Returns from SAS and SBS. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies*, above. The \$900,000 reserve includes the premium refund for the 2019-2020 Affinity plan year.

**10. Related Party Transactions (continued)**

The Company has filed a claim for \$375,000 respecting the Affinity Cash Collateral loan to SBS in the SBS Chapter 11 Proceeding. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, above.

**Other Related Party Transactions and Arrangements:**

In July 1999, SMF, SBS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and has the right to unilaterally license and exploit certain portions of the Company's proprietary scheduling, tracking, coordination, reporting and expense software (the "Co-Owned Software") are co-owned with SBS and Infotech and each entered into a non-exclusive royalty-free license from the Company to use certain "SPAR" trademarks in the United States (the "Licensed Marks"). As a result of the SBS Chapter 11 Case, SBS' rights in the Co-Owned Software and Licensed Marks are assets of SBS' estate, subject to sale or transfer in any court approved reorganization or liquidation. See Note 6 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters, Related Party Litigation and SBS Bankruptcy*, above.

Through arrangements with the Company, SBS (owned by Mr. Bartels and Mr. Brown), SAS (owned by Mr. Bartels and family members of Mr. Brown), and other companies owned by Mr. Brown participate in various benefit plans, insurance policies and similar group purchases by the Company, for which the Company charges them their allocable shares of the costs of those group items and the actual costs of all items paid specifically for them. All such transactions between the Company and the above affiliates are paid and/or collected by the Company in the normal course of business.

**11. Stock Based Compensation and Other Plans**

SGRP has granted stock option and restricted stock awards to the Company's eligible directors, officers and employees and consultants providing services to the Company to purchase SGRP Shares pursuant to the 2018 Plan and SGRP's 2008 Stock Compensation Plan (as amended, the "2008 Plan"). SGRP's stockholders approved and adopted the 2018 Plan in May 2018 and the 2008 Plan in May 2008, as the successor to various predecessor stock option plans (including the 2018 Plan and 2008 Plan, each a "Prior Plan") with respect to all new Awards granted, and an amendment to the 2008 Plan in May 2009, permitting the discretionary repricing of existing awards. SGRP also has granted stock options that continue to be outstanding under the Prior Plans. Each Prior Plan will continue to be active for the purposes of any remaining outstanding options and other Awards granted under it for so long as such options are outstanding.

At the May 2018 annual meeting of stockholders, the stockholders approved the 2018 Stock Compensation Plan of SPAR Group, Inc. (the "2018 Plan"). No new Awards could be issued under the 2018 Plan after the end of its final term on May 31, 2019. Awards granted prior to the end of the final term of the 2018 Plan shall continue to be governed by the 2018 Plan (which 2018 Plan shall continue in full force and effect for that purpose).



**11. Stock Based Compensation and Other Plans (continued)**

As of December 31, 2019, there were Awards respecting 600,000 shares of SGRP's Common Stock that had been granted under the 2018 Plan (555,000 of which remained outstanding), and Awards respecting 3,044,927 shares of SGRP's Common Stock outstanding under the 2008 Plan. As of December 31, 2019, there were no Awards available for grant under the 2018 Plan.

The employees, officers and directors of the Corporation or any of its subsidiaries (collectively, the "Company") or their consultants providing services to the Company (collectively, the "Participants") under the 2018 Plan have been granted certain Equity Compensation Awards based on SGRP Shares ("Awards"). The Participants providing such consulting services include the employees of and consultants to certain non-subsidiary affiliates and licensees of SGRP providing services to the Company (see Certain Relationships and Related Transactions, below) and other affiliates of and providers to the Corporation ("SPAR Vendors").

The 2018 Plan permitted the granting of Awards consisting of options to purchase shares of SGRP Shares Common Stock ("Options"), stock appreciation rights based on SGRP Shares ("SARs"), restricted SGRP Shares ("Restricted Stock"), and restricted stock units based on SGRP Shares ("RSUs"). The 2018 Plan permitted the granting of both Options that qualify under Section 422 of the United States Internal Revenue Code of 1986 as amended (the "Code") for treatment as incentive stock options ("Incentive Stock Options" or "ISOs") and Options that do not qualify under the Code as Incentive Stock Options ("Nonqualified Stock Options" or "NQSOs"). ISOs may only be granted to employees of the Corporation or its subsidiaries.

The SGRP Shares issued pursuant to the Options, SARs, Restricted Stock and RSUs under the 2018 Plan were all subject to the 2018 Maximum as noted above.

Awards can no longer be granted under the 2018 Plan.

The purpose of the 2018 Plan was to promote the interests of the Corporation and its stockholders by providing stock-based incentives to certain employees, directors, officers and consultants. Under the 2018 Plan, the mutuality of interest between those participants and the Corporation is strengthened because they have a proprietary interest in pursuing the Corporation's long-term growth and financial success. In addition, by allowing participation in the Corporation's success, the Corporation is better able to attract, retain and reward quality employees, directors, officers and consultants. In selecting the participants to whom Awards may be granted, consideration is given to factors such as employment position, duties and responsibilities, ability, productivity, length of service, morale, interest in the Corporation and recommendations of supervisors.

The vesting, duration and other terms of future awards was determined by the Compensation Committee in its discretion subject to any restrictions in the 2018 Plan and the Code. The terms may be different for the same or similar Awards or Participants. No SARs or RSUs were issued under the 2008 Plan or 2018 Plan. Restricted Stock Awards granted under the 2008 Plan and 2018 Plan generally vested over four years (i.e., one fourth per year of service after the grant date). Option Awards granted under the 2008 Plan and 2018 Plan were generally Non-Qualified Options, generally vested over four years (i.e., one fourth per year of service after the grant date), had ten year terms, and had exercise prices set at fair market value on the grant date.

The grant date for an Award is generally the date the Award is approved by the Compensation Committee. Each Award granted under the 2018 Plan was evidenced by a Contract in a form approved by the Compensation Committee and executed by the Corporation and the Participant receiving the Award. Each Contract contained the terms, provisions and conditions pertaining to the applicable Award, including (as applicable) exercise price.

**11. Stock Based Compensation and Other Plans (continued)**

Participants received Awards in return for the past and future rendering of services and were not required to pay the Corporation for such Awards (except for applicable tax withholding when due and any exercise price in the case of Options) or purchase price (if any) established by the Compensation Committee in the applicable Contract.

The 2018 Plan gave SGRP's Compensation Committee the full authority and complete flexibility from time to time to designate and modify (in its discretion) one or more of the outstanding Awards (including their exercise and base prices and other components and terms) to (among other things) restore their intended values and incentives to their holders. However, the exercise price, Base Value (as defined in the 2018 Plan) or similar component (if equal to SGRP's full stock price at issuance) of any Award cannot be lowered to an amount that is less than the Fair Market Value (as defined in the 2018 Plan) on the date of the applicable modification, and no modification can adversely affect an awardee's rights or obligations under an Award without the awardee's consent.

**2008 Plan Summary**

2008 Plan Stock option Award activity for the years ended December 31, 2019 and 2018 is summarized below:

<b>Option Awards</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value (thousands)</b>
Outstanding at January 1, 2018	3,344,177	\$ 0.96	5.17	\$ 1,221
Granted	45,000	1.67	-	-
Exercised/cancelled	306,750	0.40	-	-
Forfeited or expired	37,500	-	-	-
Outstanding at December 31, 2018	3,044,927	\$ 1.01	4.55	\$ 103
Granted	-	-	-	-
Exercised	804,580	0.44	-	-
Forfeited or expired	13,136	-	-	-
Outstanding at December 31, 2019	2,227,211	\$ 1.22	4.83	\$ 452
Exercisable at December 31, 2019	1,723,961	\$ 1.27	4.06	\$ 321

The weighted-average grant-date fair value of stock option Awards granted during the year ended December 31, 2019 was \$0.00. The total intrinsic value of stock option Awards exercised during the year ended December 31, 2019 and 2018 was \$258,000 and \$274,000, respectively.

The Company recognized \$139,000 and \$155,000 in stock-based compensation expense relating to stock option Awards during the years ended December 31, 2019 and 2018, respectively. The recognized tax benefit on stock based compensation expense related to stock options during the years ended December 31, 2019 and 2018, was approximately \$35,000 and \$38,000, respectively.

As of December 31, 2019, total unrecognized stock-based compensation expense related to stock options was \$182,000. This expense is expected to be recognized over a weighted average period of approximately 2.0 years, and will be adjusted for changes in estimated forfeitures.

**11. Stock Based Compensation and Other Plans (continued)**

**2018 Plan Summary**

Following are the specific valuation assumptions used for options granted in 2018 for the 2018 Plan:

	2019	2018
Expected volatility	39.0%	43.0%
Expected dividend yields	0.0%	0.0%
Expected term (in years)	3	5
Risk free interest rate	2.3%	2.5%
Expected forfeiture rate	5.0%	5.0%

2018 Plan Stock option Award activity for the years ended December 31, 2019 and 2018 are summarized below:

Option Awards	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (thousands)
Outstanding at January 1, 2018	-	-	-	-
Granted	245,000	1.23	-	-
Exercised/cancelled	-	-	-	-
Forfeited or expired	10,000	-	-	-
Outstanding at December 31, 2018	235,000	\$ 1.23	9.35	\$ -
Granted	320,000	0.64	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at December 31, 2019	555,000	\$ 0.89	8.88	\$ 6
Exercisable at December 31, 2019	88,750	\$ 1.23	8.35	\$ 6

The weighted-average grant-date fair value of stock option Awards granted during the year ended December 31, 2019 was \$0.27. The total intrinsic value of stock option Awards exercised during the years ended December 31, 2019 and 2018 was \$0.

The Company recognized \$90,000 and \$31,000 in stock-based compensation expense relating to stock option Awards during the years ended December 31, 2019 and 2018, respectively. The recognized tax benefit on stock based compensation expense related to stock options during the years ended December 31, 2019 and 2018, was approximately \$22,000 and \$8,000, respectively.

As of December 31, 2019, total unrecognized stock-based compensation expense related to stock options was \$122,000. This expense is expected to be recognized over a weighted average period of approximately 2.0 years, and will be adjusted for changes in estimated forfeitures.

**Restricted Stock - 2008 Plan**

The restricted stock Awards previously issued under the 2008 Plan vested during the first four years following issuance at the rate of 25% on each anniversary date of their issuance so long as the holder continues to be employed by the Company. Restricted stock granted under the 2008 Plan is measured at fair value on the date of the grant, based on the number of shares granted and the quoted price of the Company's common stock. The shares of stock are issued and value is recognized as compensation expense ratably over the requisite service period which generally is the Award's vesting period. In 2018, the Company did not issue restricted stock Awards to its employees or Directors.

**11. Stock Based Compensation and Other Plans (continued)**

The following table summarizes the activity for restricted stock Awards during the years ended December 31, 2019 and 2018:

	Shares	Weighted-Average Grant Date Fair Value per Share
Unvested at January 1, 2018	68,400	\$ 1.38
Granted	-	-
Vested	(18,900)	1.48
Forfeited	(48,500)	1.35
Unvested at December 31, 2018	1,000	1.36
Granted	-	-
Vested	(1,000)	1.36
Forfeited	-	-
Unvested at December 31, 2019	-	\$ -

During the years ended December 31, 2019 and 2018, the Company recognized approximately \$1,200 and \$15,000, respectively, of stock-based compensation expense related to restricted stock. The recognized tax benefit on stock based compensation expense related to restricted stock during the years ended December 31, 2019 and 2018 was approximately \$0 and \$4,000, respectively.

During the years ended December 31, 2019 and 2018, the total fair value of restricted stock vested was \$1,000 and \$23,000, respectively.

As of December 31, 2019, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was \$0.

**Restricted Stock - 2018 Plan**

The restricted stock Awards previously issued under the 2018 Plan (like those under the 2008 Plan) vested during the first four years following issuance at the rate of 25% on each anniversary date of their issuance so long as the holder continues to be employed by the Company. Restricted stock granted under the 2018 Plan (like those under the 2008 Plan) is measured at fair value on the date of the grant, based on the number of shares granted and the quoted price of the Company's common stock. The shares of stock are issued and value is recognized as compensation expense ratably over the requisite service period which generally is the Award's vesting period. In 2019, there were no restricted stock Awards issued to its Directors.

The following table summarizes the activity for restricted stock Awards during the year ended December 31, 2019 and 2018:

	Shares	Weighted-Average Grant Date Fair Value per Share
Unvested at January 1, 2018	20,000	\$ 1.23
Granted	-	-
Vested	(10,000)	1.23
Forfeited	-	-
Unvested at December 31, 2018	10,000	1.23
Granted	-	-
Vested	(10,000)	1.23
Forfeited	-	-
Unvested at December 31, 2019	-	\$ -

**11. Stock Based Compensation and Other Plans (continued)**

During the years ended December 31, 2019 and 2018, the Company recognized approximately \$4,000 and \$20,000, respectively, of stock-based compensation expense related to restricted stock. The recognized tax benefit on stock based compensation expense related to restricted stock during the years ended December 31, 2019 and 2018 was approximately \$1,000 and \$5,000, respectively.

During the years ended December 31, 2019 and 2018, the total fair value of restricted stock vested was \$7,000 and \$12,000, respectively.

As of December 31, 2019, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was \$0.

**Stock Purchase Plans**

In 2001, SGRP adopted its 2001 Employee Stock Purchase Plan (the "ESP Plan"), which replaced its earlier existing plan, and its 2001 Consultant Stock Purchase Plan (the "CSP Plan"). These plans were each effective as of June 1, 2001. The ESP Plan allows employees of the Company, and the CSP Plan allows employees of the affiliates of the Company to purchase SGRP's Common Stock from SGRP without having to pay any brokerage commissions. On August 8, 2002, the Board approved a 15% discount for employee purchases of Common Stock under the ESP Plan and recommended that its affiliates pay 15% of the value of the stock purchased as a cash bonus for affiliate consultant purchases of Common Stock under the CSP Plan.

**12. Segment Information**

The Company reports net revenues from operating income by reportable segment. Reportable segments are components of the Company for which separate financial information is available that is evaluated on a regular basis by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company provides similar merchandising and marketing services throughout the world, operating within two reportable segments, its Domestic Division and its International Division. The Company uses those divisions to improve its administration and operational and strategic focuses, and it tracks and reports certain financial information separately for each of those divisions. The Company measures the performance of its Domestic and International Divisions and subsidiaries using the same metrics. The primary measurement utilized by management is operating profits, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into its local markets in an effort to improve market share and continued expansion efforts.

**12. Segment Information (continued)**

The accounting policies of each of the reportable segments are the same as those described in the Summary of Significant Accounting Policies. Management evaluates performance as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Revenue, net:		
United States	\$ 90,720	\$ 80,049
International	162,156	149,142
Total revenue	<u>\$ 252,876</u>	<u>\$ 229,191</u>
Operating income (loss):		
United States	\$ 2,818	\$ (2,543)
International	7,373	6,272
Total operating income	<u>\$ 10,191</u>	<u>\$ 3,729</u>
Interest expense:		
United States	\$ 613	\$ 260
International	433	835
Total interest expense	<u>\$ 1,046</u>	<u>\$ 1,095</u>
Other (income), net:		
United States	\$ (2)	\$ (1)
International	(264)	(405)
Total other (income), net	<u>\$ (266)</u>	<u>\$ (406)</u>
Income (loss) before income tax expense:		
United States	\$ 2,207	\$ (2,802)
International	7,204	5,842
Total income before income tax expense	<u>\$ 9,411</u>	<u>\$ 3,040</u>
Income tax expense (benefit):		
United States	\$ 792	\$ (266)
International	2,786	1,668
Total income tax expense	<u>\$ 3,578</u>	<u>\$ 1,402</u>
Net income (loss):		
United States	\$ 1,415	\$ (2,536)
International	4,418	4,174
Total net income	<u>\$ 5,833</u>	<u>\$ 1,638</u>
Net income attributable to non-controlling interest:		
United States	\$ (760)	\$ (544)
International	(2,654)	(2,645)
Total net income attributable to non-controlling interest	<u>\$ (3,414)</u>	<u>\$ (3,189)</u>
Net income (loss) attributable to SPAR Group, Inc.:		
United States	\$ 655	\$ (3,080)
International	1,764	1,529
Total net income (loss) attributable to SPAR Group, Inc.	<u>\$ 2,419</u>	<u>\$ (1,551)</u>
Depreciation and amortization:		
United States	\$ 1,642	\$ 1,431
International	548	678
Total depreciation and amortization	<u>\$ 2,190</u>	<u>\$ 2,109</u>
Capital expenditures:		
United States	\$ 1,140	\$ 1,345
International	238	277
Total capital expenditures	<u>\$ 1,378</u>	<u>\$ 1,622</u>

There were no inter-company sales for 2019 or 2018.

**12. Segment Information (continued)**

	December 31,	
	2019	2018
Assets:		
United States	\$ 24,927	\$ 27,280
International	54,608	41,815
Total assets	<u>\$ 79,535</u>	<u>\$ 69,095</u>

**Geographic Data (in thousands)**

	Year Ended December 31,			
	2019		2018	
		% of consolidated net revenue		% of consolidated net revenue
Net international revenue:				
Brazil	\$ 65,942	26.1%	\$ 54,060	23.6%
South Africa	27,201	10.8	28,566	12.5
Mexico	23,324	9.2	21,233	9.3
China	12,993	5.1	13,181	5.8
Japan	11,469	4.5	10,814	4.7
Canada	9,059	3.6	8,392	3.7
India	8,813	3.5	9,269	4.0
Australia	3,087	1.2	3,405	1.5
Turkey	268	0.1	222	0.1
Total net international revenue	<u>\$ 162,156</u>	<u>64.1%</u>	<u>\$ 149,142</u>	<u>65.2%</u>

	Year Ended December 31,	
	2019	2018
Long lived assets:		
United States	\$ 4,957	\$ 2,560
International	3,954	1,715
Total long lived assets	<u>\$ 8,911</u>	<u>\$ 4,275</u>

**13. Purchase of Interests in Subsidiaries**

**Resource Plus Acquisition**

On January 9, 2018, the Company completed its acquisition of a 51% interest (the "Acquisition") in RPI, a supplier of professional fixture installation and product merchandising services; and a 51% interest in both of its sister companies, Mobex of North Florida, Inc. ("Mobex"), a proprietary retail fixture mobilization system manufacturer, and LeaseX, LLC ("LeaseX"), a company formed to lease Mobex's proprietary equipment. RPI owns a 70% interest in BDA Resource, LLC, a Florida limited liability company ("BDA"), and RPI, LeaseX, Mobex and BDA may be referred to individually and collectively as "Resource Plus".

SGRP's subsidiary, SMF, purchased those equity interests in Resource Plus from Joseph L. Paulk and Richard Justus pursuant to separate Stock Purchase Agreements each dated as of October 13, 2017 (each a "SPA"), which were subject to due diligence and completion of definitive documents. The base purchase prices under the SPAs for those Resource Plus equity interests were \$3,000,000 for Mr. Paulk and \$150,000 for Mr. Justus, subject to adjustment and potential bonuses as provided in their respective SPAs. At the closing on January 9, 2018, Mr. Paulk received the base purchase price in \$400,000 cash and a Promissory Note for \$2,600,000; and Mr. Justus received the base purchase price in \$50,000 cash and a Promissory Note for \$100,000. Those notes were issued by SMF, guaranteed by SGRP pursuant to separate Guaranties, and secured by SMF pursuant to separate Securities Pledge and Escrow Agreements to the sellers of the respective acquired equity interests, with each of those documents dated and effective as of January 1, 2018. Mr. Paulk's note is repayable in installments of \$300,000, plus interest at 1.85% per annum, per year on December 31 of each year (commencing in 2018, which payment was made in 2018), with the balance due on December 31, 2023; and Mr. Justus's note on December 31 of each such year (commencing in 2018, which payment was also made in 2018) is repayable in installments of \$33,333 per year, plus interest at 1.85% per annum, on December 31 of each year, with the balance of \$33,334 due on December 31, 2020.

**13. Purchase of Interests in Subsidiaries (continued)**

In connection with that closing, Mr. Paulk retired, while Mr. Justus continued as President of Resource Plus and received an Executive Officer Employment Terms and Severance Agreement with RPI ("ETSA"), with a base salary of \$200,000 per year (plus an incentive bonus).

This acquisition was accounted for using the purchase method of accounting with the purchase price allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition.

A summary of purchase price consideration to be allocated by SGRP in the acquisition of RPI is provided below:

Cash consideration	\$	456
Notes payable		2,300
Total consideration paid	\$	<u>2,756</u>

The estimated assets acquired and liabilities assumed by SGRP are provided below:

Cash and cash equivalents	\$	1,223
Accounts receivable		2,699
Accounts payable		(255)
Property and equipment		155
Prepaid assets		86
Marketable securities		20
Other assets		50
Accrued expenses		(1,389)
Deferred tax liability		(572)
Revolving line of credit		(865)
Other intangible assets		2,290
Residual goodwill		1,962
Estimated fair value of assets acquired		<u>5,404</u>
Non-controlling interest		(2,648)
Consideration paid for acquisition	\$	<u>2,756</u>



SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**14. Net Income Per Share**

The following table sets forth the computations of basic and diluted net income per share (in thousands, except per share data):

	Year Ended December 31,	
	2019	2018
<b>Numerator:</b>		
Net income (loss) attributable to SPAR Group, Inc.	\$ 2,419	\$ (1,551)
<b>Denominator:</b>		
Shares used in basic net income per share calculation	20,916	20,684
Effect of diluted securities:		
Stock options and unvested restricted shares	241	—
Shares used in diluted net income per share calculations	21,157	20,684
Basic net income (loss) per common share:	\$0.12	\$ (0.07)
Diluted net income (loss) per common share:	\$0.11	\$ (0.07)

**15. Lease Obligations**

The Company is a lessee under certain operating leases for office space and equipment. Prior to adopting ASC 842, SPAR followed the lease accounting guidance as issued in ASC 840. Under ASC 840, SPAR classified its leases as operating or capital leases based on evaluation of certain criteria of the lease agreement. For leases that contained rent escalations or rent holidays, ASC 840 requires that total rent expense during the lease term be recorded on a straight-line basis over the term of the lease and record the difference between the rents paid and the straight-line rent expense as deferred rent on the balance sheet. Any tenant improvement allowances received from the lessor would also be recorded as a reduction to rent expense over the term of the lease.

ASC 842 requires lessees to recognize leases on the balance sheet as a lease liability with a corresponding ROU, subject to certain permitted accounting policy elections.

Under ASC 842, SPAR determines, at the inception of the contract, whether the contract is or contains a lease based on whether the contract provides SPAR the right to control the use of a physically distinct asset or substantially all of the capacity of an asset.

Many of SPAR's equipment leases are short-term or cancellable with notice. SPAR's office space leases have remaining lease terms between one and approximately eleven years, many of which include one or more options to extend the term for periods thereafter. Certain leases contain options to terminate the lease early, which may include a penalty for exercising the option. Many of the termination options require notice within a specified period, after which the option is no longer available to SPAR if not exercised. The extension options and termination options may be exercised at SPAR's sole discretion. SPAR does not consider in the measurement of ROU assets and lease liabilities an option to extend or terminate a lease if SPAR is not reasonably certain to exercise the option. As of December 31, 2019, SPAR has not included any options to extend or terminate a lease in its measurement of ROU assets or lease liabilities.

The reported results for 2019 reflect the application of ASC 842 guidance, whereas comparative periods and their respective disclosures prior to the adoption of ASC 842 are presented using the legacy guidance of ASC 840. As a result of adopting the new standard, SPAR recognized ROU assets and liability of \$5.7 million. There was no adjustment to deferred taxes as a result of SPAR's adoption of ASC 842. The adoption of ASC 842 did not have a material impact on SPAR's results of operations or cash flows, nor did it have an impact on any of SPAR's existing debt covenants.

Certain of SPAR's leases include covenants that oblige SPAR, at its sole expense, to repair and maintain the leased asset periodically during the lease term. SPAR is not a party to any leases that contain residual value guarantees nor is SPAR a party to any leases that provide an option to purchase the underlying asset.

Many of SPAR's office space leases include fixed and variable payments. Variable payments relate to real estate taxes, insurance, operating expenses, and common area maintenance, which are usually billed at actual amounts incurred proportionate to SPAR's rented square feet of the building. Variable payments that do not depend on an index or rate are expensed by SPAR as they are incurred and are not included in the measurement of the lease liability.

Some of SPAR's leases contain both lease and non-lease components. Fixed and variable payments are allocated to each component relative to observable or estimated standalone prices. SPAR measures its variable lease costs as the portion of variable payments that are allocated to lease components.

SPAR measures its lease liability for each leased asset as the present value of lease payments, as defined in ASC 842, allocated to the lease component, discounted using an incremental borrowing rate specific to the underlying asset. SPAR's ROU assets are equal to the lease liability, SPAR estimates its incremental borrowing rate based on the interest rate SPAR would incur to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment.

The components of SPAR's lease expenses for the twelve months ended December 31, 2019, which are included in the consolidated income statement, are as follows (in thousands):

Lease Costs	Classification	Twelve Months Ended December 31, 2019
Operating lease cost	Selling, General and Administrative Expense	\$ 2,030
Short-term lease cost	Selling, General and Administrative Expense	85
Variable costs	Selling, General and Administrative Expense	290
Total lease cost		\$ 2,405

Supplemental cash flow information related to SPAR's leases for twelve months ended December 31, 2019 is as follows (in thousands):

	<b>Twelve Months Ended December 31, 2019</b>	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	1,980
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$	6,928

(a) Amounts for the twelve months ended December 31, 2019 include the transition adjustment for the adoption of ASU 2016-02.

Leases	December 31, 2019
<i>Assets:</i>	
Operating lease right-of-use assets	4,948
<i>Liabilities:</i>	
Current portion of operating lease liabilities	2,828
Non-current portion of operating lease liabilities	2,120
Total operating lease liabilities	4,948
Weighted average remaining lease term - operating leases (in years)	5.9
Weighted average discount rate - operating leases	8.9%

At December 31, 2019, SPAR had the following maturities of lease liabilities related to office space and equipment, all of which are under non-cancellable operating leases (in thousands):

For the Year Ended December 31,	Amount
2020	3,052
2021	1,062
2022	1,106
2023	26
Total future operating lease liability	5,246
Less: amount representing interest	298
Present value of operating lease liabilities	4,948

As Previously disclosed in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2018 and under the previous lease accounting standard, ASC 840, Leases, the following table summarizes the future minimum lease payments due under operating leases as of December 31, 2018 (in thousands):

Year	Amount
2019	\$ 1,946
2020	1,428
2021	945
2022	682
2023	340
Total	\$ 5,341

## 16. Subsequent Events

### **Novel Coronavirus (COVID-19) Outbreak**

In March 2020, the World Health Organization declared the novel strain of Coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. Internationally and in the USA, many of our customers have been affected by business closure and stay at home orders, which has hampered our ability to perform in-store services. Some of our international locations, particularly in China, were impacted very early in 2020, while most other countries, including the USA, have been impacted at varying times generally starting in March 2020. As of the date of this filing, many of our Company subsidiaries globally have been impacted by temporary retail closures or reduced in-store hours, although most of our customer's locations remain open to provide essential products. New store openings and remodels with the Company's assistance are particularly susceptible to such external factors and are being delayed by many of the Company's clients due to the effects of the Novel Coronavirus. In response, the Company has implemented several cost savings measures which include a reduction in the use of contracted workers, furloughing employees, reducing hours and a reduction in other corporate and non-critical expenses. We cannot reasonably estimate the length or severity of this pandemic, but we currently anticipate a material adverse impact on our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide relief as a result of the COVID-19 outbreak. The CARES Act, among other things, includes 1) provisions relating to compensation, benefits and payroll tax relief, 2) the availability of net operating loss carrybacks for periods beginning in 2018 and before 2021 and alternative minimum tax credit refunds, and 3) modifications to the net interest deduction limitations. The Company continues to examine the impacts this CARES Act may have on its business. The governments in which our International subsidiaries are located are offering similar business relief programs and the Company is examining the impacts of these programs on its operations as well.

### **Bartels' Retirement and Director Compensation**

William H. Bartels retired as an employee of the Company as of January 1, 2020. However, he will continue to serve as Vice Chairman and a member of SGRP's Board of Directors (the "Board"), positions he has held since July 8, 1999.

Effective as of January 18, 2020, SGRP's Governance Committee proposed and unanimously approved the following benefits for the five year period commencing January 1, 2020, and ending December 31, 2024 (the "Five Year Period"), for Mr. Bartels in connection with his retirement: (a) retirement payments of \$100,000 per year ("Retirement Compensation"); (b) the then applicable regular non-employee director fees ("Regular Fees"), currently \$55,000 per year, and a supplemental Board fee of \$50,000 per year ("Supplemental Fees"); and (c) the same medical, dental, eye and life insurance benefits he received as of December 31, 2019, under an arrangement whereby Mr. Bartels shared part of the cost of Medicare and supplemental health benefits, currently valued at approximately \$15,588 per year ("Medical Benefits"); in each case paid in accordance with SGRP's payroll schedule and policies, and payable whether or not Mr. Bartels remains a director of SGRP for any reason.

The Retirement Compensation, Regular Fees and Supplemental Fees that remain unpaid during the Five Year Period: (i) shall be accelerated and paid to Mr. Bartels (or his heirs or assigns) in full upon the sale to a third party of a majority of the SGRP Shares or all or substantially all of SGRP's assets; and (ii) shall survive and be payable in full to his heirs and assigns in the event of the death of Mr. Bartels.

Based on current rates and benefits, the aggregate value of such compensation, fees and benefits payable to Mr. Bartels will be approximately \$220,558 per year and a total of \$1,102,940 for the Five Year Period. Such compensation, fees and benefits (in whole or in part) may be extended beyond the Five Year Period in the discretion of the Board.

In the event of any future business transaction involving Mr. Bartels and SGRP for which Bartels may receive additional compensation as mutually agreed at the time of or in connection with such transaction, which under applicable law also will require approval of SGRP's Audit Committee as a related party payment or transaction (as Mr. Bartels will still be a related party if he is then a director or significant stockholder), such retirement compensation, fees or benefits will not offset, replace or limit any such additional approved transactional compensation payable to Mr. Bartels.

Mr. Bartels is one of the founders and a significant stockholder of SGRP (holding approximately 25.1% of the SGRP Shares). He also is part of a control group holding a majority of the SGRP Shares with Robert G. Brown (together with Mr. Bartels and related parties, the "Majority Stockholders"), which group most recently acted to unilaterally select, appoint and elect Panagiotis ("Panos") N. Lazaretos to serve on the board of directors of SGRP (effective on December 10, 2019), and unilaterally select, appoint and elect Robert G. Brown to serve on the board of directors of SGRP (likely to effective as of April 24, 2020).

SPAR Group, Inc. and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

(In thousands)

	<b>Balance at Beginning of Period</b>	<b>(Recovered From)/Charged to Costs and Expenses</b>	<b>Deductions(1)</b>	<b>Balance at End of Period</b>
<b>Year Ended December 31, 2019</b>				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 533	83	178	\$ 438
<b>Year Ended December 31, 2018</b>				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 342	196	5	\$ 533

(1) Uncollectible accounts written off, net of recoveries

**SPAR Group, Inc.  
List of Subsidiaries**

<b><u>100 % Owned Subsidiaries</u></b>	<b><u>State or Country of Incorporation</u></b>
SPAR Acquisition, Inc.	Nevada
SPAR Assembly & Installation, Inc. (f/k/a SPAR National Assembly Services, Inc.)	Nevada
SPAR Canada Company	Nova Scotia, Canada
SPAR Canada, Inc.	Nevada
SPAR Group International, Inc.	Nevada
SPAR, Inc.	Nevada
SPAR International Ltd.	Cayman Islands
SPAR Marketing Force, Inc.	Nevada
SPAR Trademarks, Inc.	Nevada
SPAR Merchandising Romania, Ltd. (inactive)	Romania
SPAR China Ltd.	China
SPAR FM Japan, Inc.	Japan
SPAR (Shanghai) Field Marketing Ltd. (inactive)	China
SGRP Brasil Participações Ltda. ("SPAR Holdings")	Brazil
NMS Holdings, Inc.	Nevada
NMS Retail Services, ULC	Nova Scotia, Canada
<b><u>51% Owned Subsidiaries</u></b>	<b><u>State or Country of Incorporation</u></b>
National Merchandising Services, LLC	Nevada
Resource Plus of North Florida, Inc. (RPI)*	Florida
Owns 70% BDA Resources, LLC	Florida
Leasex, LLC.	Florida
Mobex of North Florida, Inc.	Florida
SGRP Meridian (Pty), Ltd.	South Africa
Owns 51% of CMR-Meridian (Pty) Ltd.	South Africa
SPARFACTS Australia (Pty), Ltd.	Australia
SPAR (Shanghai) Marketing Management Company Ltd.	China
Owns 100% of Unilink	China
Owns 75.5% of SPAR DSI Human Resource Company	China
SPAR TODOPROMO, SAPI, de CV	Mexico
SPAR NDS Tanitim Ve Danismanlik A.S.	Turkey
SPAR KROGNOS Marketing Private Limited	India
Preceptor Marketing Services Private Limited	India
SPAR Brasil Serviços de Merchandising e Tecnologia S.A. ("SPAR Brazil")	Brazil
SPAR Brasil Serviços LTDA. (f/k/a New Momentum Ltda.) **	Brazil
SPAR Brasil Serviços Temporários LTDA. (f/k/a New Momentum Serviços Temporários Ltda.) **	Brazil

\* RPI owns a 70% interest in BDA Resource, LLC, a Florida limited liability company

\*\* The Company effectively owns slightly more than 51% of this subsidiary since SPAR Brazil owns 99% and SPAR Holdings owns 1% of the equity in this subsidiary.

**Consent of Independent Registered Public Accounting Firm**

SPAR Group, Inc. and Subsidiaries  
White Plains, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-162657) and Form S-8 (Nos. 333-07377, 333-53400, 333-73000, 333-73002, 333-152706, 333-72998, 333-189964 and 333-228185) of SPAR Group, Inc. and Subsidiaries of our report dated April 14, 2020, relating to the consolidated financial statements and the financial statement schedule which appears in this Annual Report on Form 10-K.

/s/ BDO USA, LLP.  
Troy, Michigan  
April 14, 2020

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christiaan M. Olivier, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019, of SPAR Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2020

/s/ Christiaan M. Olivier  
Christiaan M. Olivier, Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James R. Segreto, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2019 of SPAR Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 14, 2020

/s/ James R. Segreto  
James R. Segreto, Chief Financial Officer,  
Treasurer and Secretary



**Certification of Chief Executive Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report on Form 10-K for the year ended December 31, 2019 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Christiaan M. Olivier

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Christiaan M. Olivier  
Chief Executive Officer

April 14, 2020

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

**Certification of Chief Financial Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the annual report on Form 10-K for the year ended December 31, 2019 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James R. Segreto

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James R. Segreto  
Chief Financial Officer, Treasurer and Secretary

April 14, 2020

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