

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the second quarterly period ended **June 30, 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

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, 2018, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$7.4 million.

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	SGRP	Nasdaq

The number of shares of the Registrant's Common Stock outstanding as of August 2, 2019, was 20,847,461 shares.

# SPAR Group, Inc.

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**PART I: FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements**

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

	June 30, 2019 <u>(Unaudited)</u>	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,826	\$ 7,111
Accounts receivable, net	57,462	46,142
Prepaid expenses and other current assets	2,461	1,879
Total current assets	<u>67,749</u>	<u>55,132</u>
Property and equipment, net	3,085	2,950
Operating lease right-of-use assets	4,770	–
Goodwill	3,788	3,788
Intangible assets, net	3,067	3,332
Deferred income taxes	2,687	2,568
Other assets	1,734	1,325
Total assets	<u>\$ 86,880</u>	<u>\$ 69,095</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 10,338	\$ 8,668
Accrued expenses and other current liabilities	22,583	18,168
Due to affiliates	4,520	4,645
Customer incentives and deposits	968	620
Lines of credit and short-term loans	13,182	10,414
Current portion of operating lease liabilities	843	–
Total current liabilities	<u>52,434</u>	<u>42,515</u>
Operating lease liabilities, less current portion	3,927	–
Long-term debt and other liabilities	1,634	1,806
Total liabilities	<u>57,995</u>	<u>44,321</u>
Commitments and contingencies – See Note 8		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares– 2,445,598 Issued and outstanding shares– None – June 30, 2019, and December 31, 2018	–	–
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 20,847,461 – June 30, 2019, and 20,776,558 – December 31, 2018	209	208
Treasury stock, at cost 1,697 – June 30, 2019, and 7,895 – December 31, 2018	(15)	(8)
Additional paid-in capital	16,410	16,304
Accumulated other comprehensive loss	(3,556)	(3,638)
Retained earnings	5,553	3,432
Total SPAR Group, Inc. equity	<u>18,601</u>	<u>16,298</u>
Non-controlling interest	10,284	8,476
Total equity	<u>28,885</u>	<u>24,774</u>
Total liabilities and equity	<u>\$ 86,880</u>	<u>\$ 69,095</u>

See accompanying notes.

**SPAR Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**(unaudited)**

*(In thousands, except share and per share data)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues	\$ 68,223	\$ 59,224	\$ 125,383	\$ 113,803
Cost of revenues	54,159	48,759	100,685	93,608
Gross profit	14,064	10,465	24,698	20,195
Selling, general and administrative expense	9,306	9,196	17,699	17,654
Settlement and other charges	–	1,975	–	1,975
Depreciation and amortization	528	531	1,038	1,072
Operating income	4,230	(1,237)	5,961	(506)
Interest expense	187	354	388	553
Other (income), net	(192)	(232)	(257)	(304)
Income (loss) before income tax expense (benefit)	4,235	(1,359)	5,830	(755)
Income tax expense (benefit)	1,428	(262)	1,986	(84)
Net income (loss)	2,807	(1,097)	3,844	(671)
Net income attributable to non-controlling interest	(1,284)	(666)	(1,705)	(967)
Net income (loss) attributable to SPAR Group, Inc.	\$ 1,523	\$ (1,763)	\$ 2,139	\$ (1,638)
Basic and diluted income (loss) per common share:	\$ 0.07	\$ (0.09)	\$ 0.10	\$ (0.08)
Weighted average common shares – basic	20,816	20,649	20,796	20,649
Weighted average common shares – diluted	21,104	20,649	21,080	20,649
Net income (loss)	\$ 2,807	\$ (1,097)	\$ 3,844	\$ (671)
Other comprehensive income (loss):				
Foreign currency translation adjustments	59	(650)	167	(680)
Comprehensive income (loss)	2,866	(1,747)	4,011	(1,351)
Comprehensive income attributable to non-controlling interest	(1,358)	(391)	(1,808)	(662)
Comprehensive income (loss) attributable to SPAR Group, Inc.	\$ 1,508	\$ (2,138)	\$ 2,203	\$ (2,013)

*See accompanying notes.*

**SPAR Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statement of Equity**  
(unaudited)  
(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, 2019	20,785	\$ 208	8	\$ (8)	\$ 16,304	\$ (3,638)	\$ 3,432	\$ 8,476	\$ 24,774
Share-based compensation	–	–	–	–	49	–	–	–	49
Other comprehensive income (loss)	–	–	–	–	–	98	(18)	28	108
Net income	–	–	–	–	–	–	616	421	1,037
<b>Balance at March 31, 2019</b>	<b>20,785</b>	<b>\$ 208</b>	<b>8</b>	<b>\$ (8)</b>	<b>\$ 16,353</b>	<b>\$ (3,540)</b>	<b>\$ 4,030</b>	<b>\$ 8,925</b>	<b>\$ 25,968</b>
Share-based compensation	–	–	–	–	51	–	–	–	51
Exercise of stock options	65	1	(6)	(7)	6	–	–	–	–
Other comprehensive income (loss)	–	–	–	–	–	(16)	–	75	59
Net income	–	–	–	–	–	–	1,523	1,284	2,807
<b>Balance at June 30, 2019</b>	<b>20,850</b>	<b>\$ 209</b>	<b>2</b>	<b>\$ (15)</b>	<b>\$ 16,410</b>	<b>\$ (3,556)</b>	<b>\$ 5,553</b>	<b>\$ 10,284</b>	<b>\$ 28,885</b>

	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	–	–	–	–	49	–	–	–	49
Exercise of stock options	–	–	(71)	79	(79)	–	–	–	–
Distribution to non-controlling investors	–	–	–	–	–	–	–	(463)	(463)
Non-controlling interest related to Resource Plus acquisition	–	–	–	–	–	–	–	3,023	3,023
Other comprehensive income (loss)	–	–	–	–	–	–	–	(30)	(30)
Net income	–	–	–	–	–	–	124	301	425
<b>Balance at March 31, 2018</b>	<b>20,681</b>	<b>\$ 207</b>	<b>33</b>	<b>\$ (36)</b>	<b>\$ 16,241</b>	<b>\$ (1,690)</b>	<b>\$ 5,101</b>	<b>\$ 8,736</b>	<b>\$ 28,559</b>
Share-based compensation	–	–	–	–	15	–	–	–	15
Re-issue treasury shares – RSU's	–	–	(3)	3	(3)	–	–	–	–
Non-controlling interest related to Resource Plus acquisition	–	–	–	–	–	–	–	(375)	(375)
Other changes	–	–	–	–	–	–	(13)	12	(1)
Other comprehensive income (loss)	–	–	–	–	–	(375)	–	(275)	(650)
Net income (loss)	–	–	–	–	–	–	(1,763)	666	(1,097)
<b>Balance at June 30, 2018</b>	<b>20,681</b>	<b>\$ 207</b>	<b>30</b>	<b>\$ (33)</b>	<b>\$ 16,253</b>	<b>\$ (2,065)</b>	<b>\$ 3,325</b>	<b>\$ 8,764</b>	<b>\$ 26,451</b>

See accompanying notes.

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net income (loss)	\$ 3,844	\$ (671)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,038	1,072
Amortization of operating lease assets	1,071	–
Bad debt expense, net of recoveries	(229)	74
Share based compensation	100	64
Changes in operating assets and liabilities:		
Accounts receivable	(11,109)	(8,554)
Prepaid expenses and other assets	(1,112)	(381)
Accounts payable	1,654	1,148
Operating lease liabilities	(1,071)	–
Accrued expenses, other current liabilities and customer incentives and deposits	4,632	(2,352)
Net cash used in operating activities	<u>(1,182)</u>	<u>(9,600)</u>
<b>Investing activities</b>		
Purchases of property and equipment and capitalized software	(935)	(951)
Purchase of Resource Plus subsidiary, net of cash acquired	–	767
Net cash used in investing activities	<u>(935)</u>	<u>(184)</u>
<b>Financing activities</b>		
Net (payments) borrowing on lines of credit	12,338	8,330
Payoff of bank line of credit	(9,598)	–
Payments on term debt	(74)	–
Payments on capital lease obligations	(56)	(37)
Distribution to non-controlling investors	–	(463)
Net cash provided by financing activities	<u>2,610</u>	<u>7,830</u>
Effect of foreign exchange rate changes on cash	222	(1,037)
Net change in cash and cash equivalents	<u>715</u>	<u>(2,991)</u>
Cash and cash equivalents at beginning of year	7,111	8,827
Cash and cash equivalents at end of period	<u>\$ 7,826</u>	<u>\$ 5,836</u>
<b>Supplemental disclosure of cash flows information:</b>		
Interest paid	\$ 375	\$ 549
Income taxes paid	\$ 541	\$ 202

*See accompanying notes.*

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

**1. Basis of Presentation**

The unaudited, interim condensed consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group"), accompanying this Quarterly Report on Form 10-Q for the second quarter ended June 30, 2019 (this "Quarterly Report"), have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The consolidated balance sheet as of December 31, 2018, has been prepared from the Company's audited consolidated balance sheet as of such date. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the SGRP's Annual Report on Form 10-K/A for the year ended December 31, 2018, as filed with the Securities and Exchange Commission (the "SEC") on April 24, 2019 (the "2018 Annual Report"), and SGRP's Proxy Statement for its 2019 Annual Meeting of Stockholders as filed with the SEC on April 29, 2019 (and Additional Definitive Materials filed with the SEC on May 3, 2019, collectively the "2019 Proxy Statement"). Particular attention should be given to Items 1 and 1A of the 2018 Annual Report respecting the Company's Business and Risk Factors, respectively, and the following parts of SGRP's 2019 Proxy Statement: (i) *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*, (ii) *CORPORATE GOVERNANCE*, (iii) *EXECUTIVE COMPENSATION, DIRECTORS AND OTHER INFORMATION* and (iv) *EXECUTIVE COMPENSATION, EQUITY AWARDS AND OPTIONS*. The Company's results of operations for the interim period are not necessarily indicative of its operating results for the entire year. Except for the change noted below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements. The Company adopted ASC 842 on January 1, 2019. As a result, the Company changed its accounting policy for accounting for leases as detailed in Notes 10 and 11.

**2. Business and Organization**

The Company is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company provides merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandiser, office supply, grocery, drug, dollar, independent, convenience, home improvement and electronics stores, as well as providing furniture and other product assembly services, audit services, in-store events, technology services and marketing research.

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 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.

As of June 30, 2019, the Company operates in 10 countries and divides its operations into two reportable segments: its Domestic Division, which has provided 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.

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

**3. Earnings Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income (loss) attributable to SPAR Group, Inc.	\$ 1,523	\$ (1,763)	\$ 2,139	\$ (1,638)
Denominator:				
Weighted average shares used in basic net income per share calculation	20,816	20,649	20,796	20,649
Weighted average shares used in diluted net income per share calculation	21,104	20,649	21,080	20,649
Basic and diluted net income (loss) per common share	\$ 0.07	\$ (0.09)	\$ 0.10	\$ (0.08)

**4. Credit Facilities and Other Debt**

Domestic Credit Facilities

North Mill Capital Credit Facility

On April 10, 2019, the Company repaid and replaced its 2018 credit facility with 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 NM Credit Facility: SGRP and certain of its direct and indirect subsidiaries in the United States and Canada, namely SPAR Marketing Force ("SMF"), Inc., 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 governs the obligations of the NM Loan Parties to NM and secures them 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 Borrower issued its \$10.5 million Revolving Credit Master Promissory Note to NM dated April 10, 2019, and the SCC Borrower issued its \$1.5 million Revolving Credit Master Promissory Note to NM dated April 10, 2019 (the "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 Loan Agreements have an approved maximum borrowing capacity of \$12.5 million for the SMF Borrower and \$2.5 million for the SCC Borrower. As of June 30, 2019, the SMF Borrower requested and was granted an increase in its NM Loan Agreement from \$10.5 million to \$12.5 million.

On April 10, 2019, the Company drew down an initial advance under the NM Credit Facility of approximately \$9.8 million, which was used to repay the Company's existing credit facility with PNC.

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

The NM Note currently requires the NM Borrowers to pay interest on the loans thereunder equal to (A) Prime Rate designated by Wells Fargo Bank, plus (B) one hundred twenty five basis points (1.25%). 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. On June 30, 2019, the aggregate interest rate under that formula was 6.75% per annum, and the outstanding loan balance was \$12.2 million. Outstanding amounts are classified as short-term debt.

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 Loan Parties, including, maintaining a positive trailing EBITDA for each Borrower and limits on capital expenditures and other investments.

***PNC Credit Facility***

In order to obtain, document and govern the PNC Credit Facility: SGRP and certain of its direct and indirect subsidiaries in the United States and Canada, namely SPAR Marketing Force ("SMF"), 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"), entered into a Loan Agreement with PNC dated as of January 16, 2018 (the "PNC Loan Agreement"); the PNC Borrowers issued their \$9 million Committed Line Of Credit Note to PNC dated January 16, 2018 (the "Original PNC Note"), which evidences the PNC Borrowers' loans and other obligations to PNC; the PNC Guarantors entered into a Guaranty and Suretyship Agreement with PNC dated as of January 16, 2018 (the "PNC Guaranty"), which guaranties the PNC Borrowers' loans and other obligations to PNC; and the PNC Borrowers and PNC Guarantors (each, a "PNC Loan Party" and collectively, the "PNC Loan Parties") entered into a Security Agreement with PNC dated as of January 16, 2018 (the "PNC Security Agreement"), which secures the obligations of the PNC Loan Parties to PNC with pledges of substantially all of the assets of the PNC Loan Parties (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

An amendment to the PNC Credit Facility dated as of July 3, 2018, among other things, increased the maximum principal amount of the Revolving Loans to \$9.5 million.

In January 2018, the Company repaid and replaced its credit facility with 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.

***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"). 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. As there are no provisions (other than defaults) requiring the pay down of the loan until April 23, 2020, any amounts outstanding are classified as short-term debt.

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

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 June 30, 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 thereunder equal to (A) the Daily LIBOR Rate (as defined in the agreement) per annum, plus (B) two hundred fifty basis points (2.50%). On June 30, 2019, the aggregate interest rate under that formula was 5.23% per annum.

**Other Debt**

Effective with the closing of the Resource Plus acquisition, 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 for the appropriate amounts. The total balance owed at June 30, 2019 was approximately \$2.0 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 \$562,000 USD (based upon the exchange rate at June 30, 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 June 30, 2019 was \$258,000 (Australian) or \$181,000 USD and is due on demand.

SPAR Todopromo has secured a line of credit facility with BBVA Bancomer Bank for 5.0 million Mexican Pesos or approximately \$261,000 USD (based upon the exchange rate at June 30, 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 April 2020. The variable interest rate is TIIE (Interbank Interest Rate) +4%, which resulted in an annual interest rate of 12.5% as of June 30, 2019. There was no outstanding balance as of June 30, 2019.

On May 29, 2018, SPAR Brazil established a line of credit facility with Banco Bradesco for 1.2 million Brazilian Real or approximately \$312,000 USD (based upon the exchange rate at June 30, 2019). The facility provides for borrowing with no formal guarantees. The agreement expires on November 29, 2019. The outstanding balance at June 30, 2019, was approximately 68,000 Brazilian Real or approximately \$18,000 USD.

On October 5, 2018 SPAR Brazil secured a line of credit facility with Branco Bradesco for approximately 3.5 million Brazilian Real or approximately \$917,000 USD (based upon the exchange rate at June 30, 2019). The outstanding balance as of June 30, 2019 was approximately 1.6 million Brazilian Real or approximately \$419,000 USD. The note is due December 19, 2019, with varying monthly payments.

On October 5, 2018 SPAR Brazil secured a line of credit facility with Branco Santander for approximately 381,000 Brazilian Real or approximately \$99,000 USD (based upon the exchange rate at June 30, 2019). The outstanding balance as of June 30, 2019 was approximately 293,000 Brazilian Real or approximately \$76,000 USD.

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

	Interest Rate as of	2019	2020	2021	2022	2023	2024
	June 30, 2019						
Brazil – Bradesco	16.56%	\$ 437	\$ –	\$ –	\$ –	\$ –	\$ –
Brazil - Santander	4.45 - 10.99%	76	–	–	–	–	–
USA – North Mill Capital	6.75%	12,155	–	–	–	–	–
USA – Fifth Third Bank	5.23%	–	–	–	–	–	–
USA – Resource Plus Seller Notes	1.85%	333	334	300	300	700	–
Australia - National Australia Bank	6.56%	181	–	–	–	–	–
Mexico – BBVA Shareholder	12.5%	–	–	–	–	–	–
Total		<u>\$ 13,182</u>	<u>\$ 334</u>	<u>\$ 300</u>	<u>\$ 300</u>	<u>\$ 700</u>	<u>\$ –</u>

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

	June 30, 2019	December 31, 2018
<u>Unused Availability:</u>		
United States	\$ 4,788	\$ 4,253
Australia	381	238
Brazil	294	304
Mexico	261	102
Total Unused Availability	<u>\$ 5,724</u>	<u>\$ 4,897</u>

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. Related-Party Transactions

SGRP's policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Executives, Officers, Employees, Consultants and other Representatives Amended and Restated (as of) March 15, 2018 (the "Ethics Code"). The Ethics Code is intended to promote and reward honest, ethical, respectful and professional conduct by each director, executive, officer, employee, consultant and other representative of any of SGRP and its subsidiaries (together with SGRP, the "Company") and each other Covered Person (as defined in the Ethics Code) in his or her position with the Company anywhere in the world, including (among other things) serving each customer, dealing with each vendor and treating each other with integrity and respect, and behaving honestly, ethically and professionally with each customer, each vendor, each other and the Company. Article II of the Ethics Code specifically prohibits various forms of self-dealing (including dealing with relatives) and collusion and Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from using or disclosing the Confidential Information of the Company or any of its customers or vendors, seeking or accepting anything of value from any competitor, customer, vendor, or other person relating to doing business with the Company, or engaging in any business activity that conflicts with his or her duties to the Company, and directs each "Covered Person" to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any "Approved Activity" (as such terms are defined in the Ethics Code). Examples of violations include (among other things) having any ownership interest in, acting as a director or officer of or otherwise personally benefiting from business with any competitor, customer or vendor of the Company other than pursuant to any Approved Activity. Approved Activities include (among other things) any contract with an affiliated person (each an "Approved Affiliate Contract") or anything else disclosed to and approved by SGRP's Board of Directors (the "Board"), its Governance Committee or its Audit Committee, as the case may be, as well as the ownership, board, executive and other positions held in and services and other contributions to affiliates of SGRP and its subsidiaries by certain directors, officers or employees of SGRP, any of its subsidiaries or any of their respective family members. The Company's senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including those related to the oversight and approval of conflicting relationships and transactions, subject to the review and oversight of SGRP's Governance Committee as provided in clause IV.11 of the Governance Committee's Charter, and SGRP's Audit Committee as provided in clause I.2(1) of the Audit Committee's Charter. The Governance Committee and Audit Committee each consist solely of independent outside directors (see *Domestic Related Party Services, International Related Party Services, Related Party Transaction Summary, Related Party Transaction Summary, Affinity Insurance, and Other Related Party Transactions and Arrangements*, below).

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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.

The Special Committee also has been involved in the review of the Proposed Amendments to SGRP's By-Laws and the By-Laws Action and 225 Action (see Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Settled Delaware Litigations*, below).

**Domestic Related Party Services:**

SPAR Business 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 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 by Robert G. Brown. Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. 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 and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP. See Note 8, RELATED PARTIES AND RELATED PARTY LITIGATION, 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 six months ended June 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 six months ended June 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 a new agreement 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 Clothier Determination 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 substantially better terms to replace those administrative services formerly provided by SAS, effective August 1, 2018.

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 made payments, on a daily basis, 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.

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The Company has reached a non-exclusive agreement on substantially 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 on substantially better terms 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, and such transition was virtually unnoticeable to the Company's clients.

SAS provided substantially all of the Field Administrators in the U.S.A. to the Company from January 1 through June 30, 2018. The Company paid \$2.3 million to SAS for its provision of its 57 full-time regional and district administrators (which amounted to approximately 91% of the Company's total domestic field administrative service cost for the six month period ended June 30, 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. This was not a restriction on SAS since SAS is not controlled by the Company and could have paid any compensation to any person that SAS desires out of its own funds. Since SAS is a "Subchapter S" corporation, all income from SAS is allocated to its stockholders (see above).

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 Field Administrators used by the Company. The Company transitioned to such new vendor during July 2018, and it was virtually unnoticeable to the Company's clients.

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 June 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. See Note 8 to the Company's 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 expense, including repeated litigation. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

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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 August 6, 2019, with the support of (among others, the Clothier and Rodgers plaintiffs and the Company, the Court approved the Settlement Agreement and the SBS Reorganization pursuant to the SBS Plan (as all such terms are defined below). See Note 8 to the Company's Consolidated Financial Statements, *Commitments and Contingencies - Legal Matters - SBS Bankruptcy and Settlement*, below).

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 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

Current material and potentially material legal proceedings impacting the Company are described in Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters*, below. 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 is currently suing 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 by both management and SGRP's Audit Committee, who had jurisdiction because Infotech is a related party. Infotech also is threatening 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. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters -- Related Party Litigation*, below.

Peter W. Brown was appointed as a Director on the SGRP 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 an 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 (a current significant stockholder of SGRP and SGRP's former Chairman and director), 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.

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.

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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 at local market rates.

***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. These leases are provided to Meridian at local market rates included in the summary table below.

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").

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, 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 at local market rates 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.

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**Summary of Certain Related Party Transactions:**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Services provided by affiliates:</b>				
Field merchandiser and other expenses (SBS)*	\$ -	\$ 6,561	\$ -	\$ 13,290
Field administration and other expenses (SAS)*	-	1,113	-	2,262
National Store Retail Services (NSRS)	260	-	385	-
Office lease expenses (RJ Holdings)	97	143	199	285
Office and vehicle lease expenses (MPT)	16	6	32	25
Vehicle rental expenses (MCPT)	297	118	587	457
Office and vehicle rental expenses (MHT)	68	9	132	62
Consulting and administrative services (CON)	37	56	74	115
Legal Services (KMSA)	21	28	43	54
Warehousing rental (JFMD)	12	12	24	24
<b>Total services provided by affiliates</b>	<b>\$ 808</b>	<b>\$ 8,046</b>	<b>\$ 1,476</b>	<b>\$ 16,574</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):

	June 30, 2019	December 31, 2018
<b>Loans from local investors:(1)</b>		
Australia	\$ 428	\$ 226
Mexico	1,001	1,001
Brazil	139	139
China	1,803	2,130
South Africa	618	618
Resource Plus	531	531
<b>Total due to affiliates</b>	<b>\$ 4,520</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.

**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).

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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 \$379,000 Cash Collateral deposits allocable to SBS were 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. The SGRP Claims for this debt in the SBS Chapter 11 Case were settled at a substantial discount as part of the overall Settlement Agreement. See Note 8 to the Company's Consolidated Financial Statements, *Commitments and Contingencies - Legal Matters - SBS Bankruptcy and Settlement -- Settlement Agreement* below) 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 were requested by Mr. Brown be made by the Company to SAS and SBS, they were not specifically disclosed by Mr. Robert G. Brown (then SGRP executive Chairman), Mr. William H. Bartels (SGRP Vice Chairman then and now) or Mr. James R. Segreto (Chief Financial Officer), 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 \$226,000 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 their services at the end of July 2018 therefore, that insurance was required for only one month's payroll. Upon completion of the Affinity audit for the Affinity 2018-2019 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 will have limited operations after 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 59% 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 \$901,000 (\$675,000 Cash Collateral and \$226,000 for insurance premium advance) . Although SBS and SAS had orally accepted those agreements in principal, the negotiations have recently broken down over their refusal to allow enforceable 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 \$901,000 in such receivables in 2018. The Company is exploring its legal options for recovering the Affinity Returns from SAS and SBS. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies*, below.

The SGRP Claims for this debt in the SBS Chapter 11 Case were settled at a substantial discount as part of the overall Settlement Agreement. See Note 8 to the Company's Consolidated Financial Statements, *Commitments and Contingencies - Legal Matters - SBS Bankruptcy and Settlement -- Settlement Agreement* below).

**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 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters, Related Party Litigation and SBS Bankruptcy*, below.

Through arrangements with the Company, SBS (owned by Mr. Brown and prior to December 2018 was owned by Mr. Bartels), 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.

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**6. 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 June 30, 2019, no shares of SGRP Series A Preferred Stock were issued and outstanding.

**7. Stock-Based Compensation and Other Plans**

At the 2019 Annual Meeting, the Corporation's stockholders were asked to ratify and approve the 2019 Amendment to the 2018 Stock Compensation Plan of SPAR Group, Inc. (the "2019 Plan Amendment") in order to amend and extend the Original 2018 Plan (as so amended and extended, the "2018 Plan") to (i) extend the term of the Original 2018 Plan from the 2019 Plan Amendment Effective Date through May 31, 2020 (the "19-20 Period"), and (ii) provide for a total of 500,000 shares of SGRP's common stock available for future Awards during the 19-20 Period (the "19-20 Maximum") under the 2018 Plan (as amended and extended). The 2019 Plan Amendment would not have otherwise changed the Original 2018 Plan. Under the 2018 Original Plan as amended and extended ("2018 Plan"), the Corporation (through its Compensation Committee) may from time to time grant restricted SGRP Shares, stock options to purchase SGRP Shares (either incentive or nonqualified), and restricted stock units, stock appreciation rights and other awards based on SGRP Shares (collectively, "Awards") to SGRP Directors and the Company's specified executives, employees and consultants providing services to the Company. A copy of the 2019 Plan Amendment was attached to this Proxy Statement and incorporated therein by reference.

The Corporation's Board of Directors (the "Board") on April 22, 2019, authorized and approved the 2019 Plan Amendment to be submitted to the Corporation's stockholders for ratification and approval.

However, the following votes were received at the 2019 Annual Meeting from the stockholders by ballot for the proposal to approve the 2019 Amendment to the 2018 Stock Compensation Plan, and accordingly such amendment (i.e., the 2019 Plan) was not approved:

For	Against	Abstain
315,359	13,987,924	3,712

As of April 22, 2019, there were Awards representing 585,000 shares of SGRP's Common Stock that had been granted under the Original 2018 Plan (565,000 of which remained outstanding), and Awards representing 3,044,927 shares of SGRP's Common Stock outstanding under the 2008 Plan. Awards representing 15,000 shares of SGRP's Common Stock remained available for grant under the Original 2018 Plan prior to the 2019 Plan Amendment Effective Date. After May 31, 2019, the 2018 Plan ended and no further grants can be made under the 2018 Plan respecting such 15,000 shares of SGRP's Common Stock.

The Company recognized \$66,000 and \$36,000 in stock-based compensation expense relating to stock option awards during the three month periods ended June 30, 2019 and 2018, respectively. The tax benefit available from stock based compensation expense related to stock option during both the three months ended June 30, 2019 and 2018 was approximately \$17,000 and \$14,000 respectively. The Company recognized \$96,000 and \$52,000 in stock-based compensation expense relating to stock option awards during the six month periods ended June 30, 2019 and 2018, respectively. The tax benefit available from stock based compensation expense related to stock option during both the six months ended June 30, 2019 and 2018 was approximately \$24,000 and \$30,000 respectively. As of June 30, 2019, total unrecognized stock-based compensation expense related to stock options was \$399,000.

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During the three months ended June 30, 2019 and 2018, the Company recognized approximately \$3,000 and \$6,000, respectively of stock based compensation expense related to restricted stock. The tax benefit available to the Company from stock based compensation expense related to restricted stock during the three months ended June 30, 2019 and 2018 was approximately \$1,000 and \$12,000, respectively. During the six months ended June 30, 2019 and 2018, the Company recognized approximately \$4,000 and \$12,000, respectively of stock based compensation expense related to restricted stock. The tax benefit available to the Company from stock based compensation expense related to restricted stock during the three months ended June 30, 2019 and 2018 was approximately \$1,000 and \$5,000, respectively. As of June 30, 2019, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was \$1,000.

## 8. 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:**

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 Robert G. Brown and 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. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Transactions*, above. Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. 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 and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP.

### **Delaware Litigation Settlement**

On January 18, 2019, SGRP, Robert G. Brown, a substantial stockholder of SGRP and former Executive Chairman and director of SGRP, William H. Bartels, a substantial stockholder of SGRP and current Vice Chairman and director and officer of SGRP (together with Robert G. Brown, the "Majority Stockholders"), and Christiaan Olivier, Chief Executive Officer, President and a Director of SGRP, and all four of the members of the Governance Committee, namely Lorrence T. Kellar, Chairman, and Jack W. Partridge, Arthur B. Drogue and R. Eric McCarthy (together with Mr. Olivier, the "225 Defendants"), reached a settlement (the "Settlement") in the By-Laws Action and the 225 Action as such terms are defined below (collectively, the "Actions") and had the Actions then dismissed.

On September 4, 2018, SGRP filed in the Court of Chancery of the State of Delaware (the "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.

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On September 18, 2018, Robert G Brown (one of the Majority Stockholders) commenced an action in the 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 September 20, 2018, the Court issued a Status Quo Order in the 225 Action (the "Status Quo Order") that (among other things) seated Jeffrey Mayer on the Board, provided for Lorrence T. Kellar to remain seated on the Board, and effectively increased the Board size from seven to eight for the duration of the order.

The By-Laws Action was dismissed upon the filing of the Stipulation of Dismissal. On January 23, 2019, the Court granted the dismissal of the 225 Action and vacated its previously entered Status Quo Order entered in that action.

As part of the Settlement, on January 18, 2019, the Board of Directors of the Corporation (the "Board") appointed Jeffrey Mayer to the Board and accepted Lorrence T. Kellar's retirement from the Board. The Board also appointed Mr. Mayer to the Board's Compensation Committee on the recommendation of its Governance Committee.

Mr. Mayer was first seated on the Board on November 20, 2018, pursuant to the Status Quo Order (see Settled Actions above), which order has now been vacated. Mr. Mayer had previously been determined not to be independent because he was unilaterally chosen by the Majority Stockholders, so as a result of the Status Quo Order and resulting change in Board composition, SGRP received a notification letter from Nasdaq dated December 13, 2018, stating that SGRP no longer satisfies Nasdaq's majority independent director requirement (the "Nasdaq Board Independence Deficiency"), as set forth in Nasdaq Listing Rule 5605(b)(1).

In connection with the Settlement, the Governance Committee re-evaluated the independence of Mr. Mayer, based on (among other things) Mr. Mayer's independent business skills and contribution to the Settlement process, determined that he has the requisite independence from the management of the Corporation except for the Related Party Matters (as defined below), and accordingly Mr. Mayer: (a) will be an independent director for all purposes other than any Related Party Matter; (b) will be a non-independent director respecting any Related Party Matter; and (c) may participate in discussions but will be excluded and shall recuse himself from any and all decisions of the Board and applicable Board Committees respecting any Related Party Matter. "Related Party Matter" shall mean any payment to or for, or any transaction or litigation with, Robert G. Brown, William H. Bartels, any of their respective family members, or any company or other business or entity directly or indirectly owned or controlled by any one or more of Mr. Brown, Mr. Bartels or their respective family members.

The Governance Committee and the Board believe that such re-evaluation and redetermination (together with the 2019 Restated By-Laws described below) will help the Corporation maintain the independent Board desired by the Governance Committee and the Board and required under Nasdaq rules, and correct the Nasdaq Board Independence Deficiency.

In the 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 preserve 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, 2018. 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.

In addition to the compromise provisions described above in Settlement Terms above, the Governance Committee and Board accepted certain of the Proposed Amendments with negotiated changes and clarifications that are now contained in the 2019 Restated By-Laws, including the following:

- Any vacancy that results from the death, retirement or resignation of a director that remains unfilled by the directors for more than 90 days may be filled by the stockholders.
- Certain stockholder proposals may now be made up to the 90th day prior to the first anniversary of the preceding year's Annual Meeting.
- The Board size has been fixed at seven and can only be changed by the stockholders (as provided in the Proposed Amendments).
- The section requiring majority Board independence has been removed (as provided in the Proposed Amendments).
- The By-Laws now require that each candidate for director sign a written irrevocable letter of resignation and retirement effective upon such person failing to be re-elected by the required majority stockholder vote.
- A "super majority" vote of at least 75% of all directors is now required for (and any two directors can block) any of the following (as provided in the Proposed Amendments):
  - Issuance of more than 500,000 shares of stock (other than under the Corporation's stock compensation plans);
  - Issuance of any preferred stock;
  - Declaration of any non-cash dividend on the shares of capital stock of the Corporation;
  - By-Laws modification;
  - Formation or expansion of the authority of any Committee or subcommittee; or
  - Appointment or removal of any Committee director.

The descriptions of the negotiated compromise 2019 Restated By-Laws above are qualified in their entirety by reference to the copy of the 2019 Restated By-Laws.

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As part of the Settlement of the Actions, the parties to the Actions executed a Limited Mutual Release Agreement limited to the Actions and subject to specific exclusions (the "Delaware Releases") and the parties to the 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 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 the following Related Parties (as defined below), including (without limitation), post termination claims by and against SPAR Business Services, Inc. (which is now in a voluntary bankruptcy proceeding in Nevada), and SPAR Administrative Services, Inc., the lawsuit by SPAR InfoTech, Inc., against the Company, and the Bartels Advancement Claim and the claim by Mr. Brown for a similar advancement (see *Advancement Claims*, below).

**POST-SETTLEMENT DISPUTES INVOLVING BOARD INDEPENDENCE.**

***Robert G. Brown Demands Directors Either Support His Positions or Resign***

The co-founders of SPAR Group, Inc. ("SGRP" and, together with its subsidiaries, the "Company"), 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 Mr. Bartels is Vice Chairman and a director and officer of SGRP. Together Mr. Brown and Mr. Bartels (the "Majority Stockholders") beneficially own as a group a total of approximately 57.6% (or 12.0 million shares) of SGRP's common stock (the "SGRP Common Stock").

On July 10, 2019, Mr. Robert G Brown wrote in an email communication to Arthur B. Drogue, an independent director and Chairman of the SGRP 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: (1) initiation of the legal proceedings to maintain the independence of the Board and which lead to the Delaware Settlement (as defined below); (2) opposition to the terms and conditions of the reorganization of SPAR Business Services, Inc., a Nevada corporation formerly known as SPAR Marketing Services, Inc. ("SBS"), that the Board and management of SGRP deemed to be unfavorable to SGRP and its stockholders without appropriate settlement terms and releases (See SGRP's Current Report on Form 8-K as filed with the SEC on August 8, 2019, respecting the negotiated SBS bankruptcy settlement); (3) opposition to the election or appointment of director candidates to the Board whom the independent directors deemed not independent under applicable NASDAQ and SEC rules, including opposing the nomination of Mr. Panos Lazaretos, a long-time associate of the Majority Stockholders and the Majority Stockholders' preferred director candidate (see *Search for a Replacement Independent Director*, below); and (4) 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. Mr. Brown further demanded in the July 10 Email that the directors change their positions and accept the Brown Demands or resign. The Company believes that neither the acquiescence to the Brown Demands nor the resignations of directors who oppose the Brown Demands would be in the best interests of SGRP and all of its stockholders. The foregoing description of the July 10 Email is qualified in its entirety by reference to the July 10 Email filed with this Current Report on Form 8-K (this "Report") as Exhibit 99.1, which is incorporated herein by reference.

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

On June 1, 2018, June 29, 2018, July 5, 2018, August 6, 2018 and January 25, 2019, the Majority Stockholders each filed an amended Schedule 13D with the Securities and Exchange Commission (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 SGRP's Board of Directors (the "Board"), Governance Committee or other stockholders, endeavoring to: approve the selection, appointment and election of Mr. Jeffrey A. Mayer as a director of SGRP; remove Lorrence T. Kellar as an independent director of SGRP; and change SGRP's By-Laws in order to (among other things) remove authority from the Board through new supermajority requirements and stockholder only approvals (the "Proposed Amendments"), which the Governance Committee believed weakened the Board's independence, and which were contested by SGRP and ultimately concluded in a negotiated settlement that included Mayer's appointment, Mr. Kellar's forced retirement, and the adoption of SGRP's Amended and Restated By-Laws on January 18, 2019 (the "Delaware Settlement"). See PART II, Item 1 -*Legal Proceedings - RELATED PARTIES AND RELATED PARTY LITIGATION*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019.

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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 (the "Nomination Process") other than those under a stockholder written consent making a removal and appointment, which is unchanged).

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. Following the departure of Messrs. Kellar and Partridge, SGRP had two fully independent directors, Arthur B. Drogue and R. Eric McCarthy. Jeffery Mayer is also considered independent except for related party matters.

***Threatened Removal of Arthur B. Drogue as a Director***

On July 12, Mr. Brown sent in an email communication to Mr. Drogue, with a copy to Mr. Bartels, a draft Amendment No. 5 to Schedule 13D from Mr. Brown (the "Draft Schedule 13D") that indicated the Majority Stockholders intended to deliver a written consent action to SGRP resolving to remove Mr. Drogue from the Board. The foregoing description of the Draft Schedule 13D is qualified in its entirety by reference to the Draft Schedule 13D filed with this Report as Exhibit 99.2, which is incorporated herein by reference. In addition to the July 10 Email and the Draft Schedule 13D, Mr. Drogue engaged in various telephonic conversations with the Majority Stockholders in connection with the matters described in the July 10 Email and the Draft Schedule 13D where he reiterated his position and the position of the independent directors that the Board was acting, and would continue to act, in the best interests of SGRP and all of its stockholders, including by maintaining a majority independent Board, as required by applicable NASDAQ and SEC rules and by refusing to pay expenses for affiliates of the Majority Stockholders when the payment of those expenses were not approved by management and the Audit Committee and were not in the best interests of SGRP and its stockholders.

During such conversations, the Majority Stockholders said that Mr. Drogue and any other directors of SGRP who have not been complying with the Brown Demands would need to acquiesce to the Brown Demands or resign from the Board.

In response to the July 10 Email, the Brown Demands and the Draft Schedule 13D, Mr. Drogue sent an email, dated July 24, 2019, to Mr. Bartels (the "Response to Brown Demands") outlining the reasons the recent actions taken, and proposed to be taken, by the Majority Stockholders are not in the best interests of all SGRP stockholders, and Mr. Drogue further indicated that he would not comply with the Brown Demands and would not resign. The foregoing description of the Response to Brown Demands is qualified in its entirety by reference to the Response to Brown Demands filed with this Report as Exhibit 99.3, which is incorporated herein by reference.

After Mr. Drogue sent the Response to Brown Demands, he received an email correspondence from Mr. Bartels on August 5, 2019, dated August 3, 2019, in which Mr. Bartels reiterated certain of the Brown Demands and that the Majority Stockholders have the right to remove any director (the "August 3 Email"). The August 3 Email: (1) erroneously indicates that certain NASDAQ independence and director nomination rules do not apply to SGRP (incorrectly citing an exception applicable to underwritings, senior debt and the like); (2) reiterates the view of the Majority Stockholders that Mr. Lazaretos meets NASDAQ and SEC independence requirements and should be immediately appointed to the Board (see *Search for a Replacement Independent Director*, below); and (3) reminds Mr. Drogue of the right of the Majority Stockholders to remove directors at any time and for any reason. The foregoing description of the August 3 Email is qualified in its entirety by reference to the August 3 Email filed with this Report as Exhibit 99.4, which is incorporated herein by reference.

***Failure to Maintain a Majority of Independent Directors on the Board; Failure to Comply with NASDAQ Audit Committee Composition Requirements***

The Board currently has only two independent directors and one director classified as independent on all but related party matters out of six (resulting from Jack W. Partridge's May 2019 forced retirement), which is less than a majority of the current Board. If Mr. Drogue is removed or resigns, the Board would only have one independent director out of five. SGRP's Audit Committee, Compensation Committee, Governance Committee and Special Committee would continue to consist of one independent director until the Governance Committee and the Board secure duly qualified independent director candidates to replace Messrs. Partridge and Drogue. The current composition of the Board and its Audit Committee, Compensation Committee and Governance Committee is in violation of the NASDAQ rules and such committees' respective charters.

Despite the actions of the Majority Stockholders, the Board and the Governance Committee have determined that the Board should always have a majority of independent directors as required by NASDAQ and the SEC. The Board and Governance Committee have continued to follow the Nomination Process and search for an independent director replacement for Mr. Partridge. SGRP's Statement of Policy Regarding Director Qualifications and Nominations dated as of May 18, 2004, requires that (among other things) that 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.

Additionally, 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), and NASDAQ Listing Rule 5605(c)(2) requires the audit committee of a listed company to be composed of at least three members, all of whom must be independent (together, the "Board Independence Rules"). When similar circumstances occurred last year in connection with the forced retirement of Lorrence Kellar, SGRP received a notification letter from NASDAQ dated December 13, 2018, stating that SGRP no longer complied with NASDAQ's Board Independence Rule and had approximately 30 days to regain compliance with the NASDAQ Listing Rules.

On July 24, 2019, SGRP received a phone call from a NASDAQ representative expressing concern with respect to (1) the Board's lack of independence following Mr. Partridge's forced retirement; (2) the number of independent directors serving on the Audit Committee, Compensation Committee and Governance Committee (which, as of July 24, 2019, was two members on each such committee); and (3) the independence of Mr. Lazaretos, who, along with several other director candidates, is currently under review by the Governance Committee.

On July 25, 2019, SGRP received a letter from NASDAQ notifying SGRP that it was not in compliance with the Board Independence Rules and that SGRP has until the earlier of: (1) the next annual stockholders' meeting of SGRP or May 15, 2020, or (2) November 11, 2019, if the next annual stockholders' meeting is held before November 11, 2019 (the "Board Independence Deadline"). Accordingly, the forced retirement of Mr. Partridge and the threatened removal of Mr. Drogue, in each case directly resulting from the actions of the Majority Stockholders, may cause SGRP to be delisted by NASDAQ for failing to adhere to the Board Independence Rules.

The independent directors of the Board and the management of SGRP believe that if Mr. Drogue is ultimately removed from the Board and the directors selected for nomination and election by the Majority Stockholders comprise a majority of the Board, the newly constituted and potentially non-independent Board may cause NASDAQ to reconsider and escalate its deadline for corrective action by the Company and proceed with delisting SGRP for failure to comply with the Board Independence Rules (as defined below).

***Search for a Replacement Independent Director***

Even before Mr. Partridge's forced retirement, the Majority Stockholders lobbied (and have continued to lobby) the Board to add Mr. Lazaretos, a resident of Greece, as a director of SGRP. Mr. Lazaretos has been associated with the Majority Stockholders since 2000 when he first worked for SGRP. He has since provided services to SPAR Infotech, Inc. ("Infotech"), which is owned by Mr. Brown, and the costs of those services were included in Infotech's lawsuit against SGRP respecting "alleged" unreimbursed expenses in the acquisition of a Brazil subsidiary.

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At and since the May Board meeting, SGRP's Governance Committee has insisted on following the Nomination Process agreed to in the Delaware Settlement to fill the vacancy created by Mr. Partridge's forced retirement. Mr. Brown and Mr. Bartels have repeatedly tried to circumvent the agreed upon Nomination Process to immediately put Mr. Lazaretos on the Board. Mr. Bartels unilaterally invited Mr. Lazaretos to the May Board meeting before Mr. Partridge's forced retirement and sought to have Mr. Lazaretos appointed to the Board immediately. Additionally, Mr. Brown generally has been copying Mr. Lazaretos on his emails to the Board and its committees.

Complying with the stockholder approved Nomination Process, SGRP's Governance Committee has recently conducted a search and evaluation for a new independent director to replace Mr. Partridge. Of the four finalists, two candidates were recommended by the Majority Stockholders (including Mr. Lazaretos), and two candidates were identified by an independent, third-party executive search firm (the "Independent Search Firm"). An outside evaluation conducted by the Independent Search Firm found Mr. Lazaretos to be unqualified to be a public company director and that other identified director candidates under consideration by the Governance Committee were better qualified to serve as directors of SGRP. An independent Delaware law firm (the "Delaware Law Firm") has determined that Mr. Lazaretos does not satisfy the NASDAQ, SEC and Delaware independence requirements. Pursuant to its authority under SGRP's governing documents, SGRP's Governance Committee has determined that Mr. Lazaretos does not qualify as an independent director, based on feedback from references, Management, the Delaware Law Firm, and its own evaluations and determinations respecting compliance with applicable SEC and NASDAQ independence and other standards.

However, the Majority Stockholders continue to insist upon the immediate appointment of Mr. Lazaretos as a director. In fact, on August 8, 2019, Mr. Bartels sent an email to Mr. Drogue attaching an unauthorized and unsolicited draft press release announcing the appointment of Mr. Lazaretos as a director, which has not happened (the "Draft Press Release"). The Draft Press Release repeatedly refers to Mr. Lazaretos as an independent director, despite (1) the contrary determinations made by the Delaware Law Firm and the Governance Committee and (2) the initial verbal indications from SGRP's contact person at NASDAQ that Mr. Lazaretos may not be viewed by NASDAQ as independent.

SGRP's Governance Committee believes that if the Majority Stockholders put Mr. Lazaretos on the Board through a written consent action (which is within their rights), the Board size would have to be increased (requiring stockholder approval) and additional independent directors would need to be added to satisfy the Board Independence Rules.

Although the Majority Stockholders can eventually appoint a director on the Board through their right to act by written consent, they cannot determine independence. Only the Governance Committee can determine independence under the NASDAQ rules and SGRP's governing documents. The most recent amendments to SGRP's governing documents were agreed to by the Majority Stockholders in the Delaware Settlement and continued the Nomination Process (including the continuation of the Governance Committee's authority to identify, select and nominate qualified director candidates).

SGRP's Governance Committee currently plans to submit a final nominee to the full Board later this month, and it will be arranging candidate interviews at its upcoming meeting on August 15, 2019. SGRP intends to submit to NASDAQ documentation, including biographies of any new directors, evidencing compliance with the Board Independence Rules no later than the Board Independence Deadline.

In the event SGRP does not regain compliance with the Board Independence Rules by the Board Independence Deadline, or if more independent directors are removed, or if more non-independent directors are added, NASDAQ may delist SGRP's securities before the Board Independence Deadline. Repeated violations or intentional violations by the Majority Stockholders could lead to an accelerated or immediate delisting by NASDAQ.

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

There can be no assurance that SGRP will be able to correct the current or any future NASDAQ rule deficiencies described herein, or that if timely corrected, SGRP will be able to comply in the future with such NASDAQ rules. If SGRP fails to gain compliance with or further breaches such NASDAQ rules, NASDAQ may commence delisting procedures against SGRP (during which SGRP may appeal the delisting determination based on the current breach to a NASDAQ hearings panel). Repeated violations or intentional violations by the Majority Stockholders could lead to an accelerated or immediate delisting. If shares of SGRP Common Stock are ultimately delisted by NASDAQ, the market liquidity of the SGRP Common Stock could be adversely affected and its market price could decrease, even though such shares may continue to be traded over-the-counter, 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.

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 occurs, 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 affect the ability of investors to sell their shares, until the SGRP Common Stock is no longer a penny stock.

### ***Advancement Claims***

In an email to Arthur Drogue, SGRP's Chairman, on October 3, 2018, and in subsequent calls with him, William H. Bartels, a substantial stockholder of SGRP and current Vice Chairman and director and officer of SGRP (and one of the Majority Stockholders), requested indemnification for his legal fees and expenses incurred in his defense of the By-Laws Case brought by SGRP against him and Mr. Brown.

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 Case 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 Case because (among other things) Mr. Bartels was sued predominately as a stockholder in the By-Laws Case and not as a director and the By-Laws Case 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 made in April 2019. If Mr. Bartels is ultimately determined not to 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 Case 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. 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. No such complaint has been filed by Mr. Brown through May 6, 2019, and SGRP continues to deny the Brown Advancement Demand.

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***SBS Bankruptcy and Settlement***

On August 6, 2019, SPAR Group, Inc. ("SGRP", the "Corporation" or the "Registrant"), and its subsidiaries SPAR Marketing Force, Inc., a Nevada corporation ("SMF"), and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation ("SAI", and collectively with SGRP and SMF, the "SGRP Parties"), submitted in the SBS Chapter 11 Case (as defined below) in the U.S. District for Nevada their Compromise and Settlement Agreement with SPAR Business Services, Inc., a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession ("SBS"), and SBS, LLC, a Nevada limited liability company "SBS LLC" and together with SBS, the "SBS Parties"). SGRP and its subsidiaries may be referred to as the "Company" and file reports on a consolidated basis with the Securities and Exchange Commission ("SEC").

On August 6, 2019, with the support of (among others, the Clothier and Rodgers plaintiffs and the Company), the Court approved the Settlement Agreement and the SBS Reorganization pursuant to the SBS Plan (as all such terms are defined below).

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

The co-founders of SGRP, 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 Mr. Bartels is Vice Chairman and a director and officer of SGRP. Together Mr. Brown and Mr. Bartels (the "Majority Stockholders") beneficially own, as a group, a total of approximately 57.6% (or 12.0 million shares) of SGRP's common stock (the "SGRP Common Stock"). On June 1, 2018, June 29, 2018, July 5, 2018, August 6, 2018 and January 25, 2019, the Majority Stockholders each filed an amended Schedule 13D 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. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Related Parties and Related Party Litigation* and *SBS Bankruptcy, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*.

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 employed and supplied by other independent third parties. The Company believes that high quality Field Administrator performances are essential to the effective delivery and performance of their services by the Field Specialists.

SBS provided the services of Field Specialists from time to time to the SMF and SAI, and SBS is an affiliate of and related party to the Company, but SBS is not under the control of or part of the consolidated Company and has not provided services or been a vendor to the Company Parties since August 2018 (when SBS' termination by the Company took effect). SBS is an affiliate of and a related party to the Company because it is owned by an entity owned and controlled by Robert G. Brown and prior to December 2018 was owned by Robert G. Brown and William H. Bartels.

SPAR Administrative Services, Inc. ("SAS"), provided under contract the services of Field Administrators from time to time to SMF and SAI, and SAS is an affiliate of and related party to the Company, but SAS is not under the control or part of the consolidated Company and has not provided services or been a vendor to the SGRP Parties since August 2018 (when SAS' termination by the Company took effect). SAS is an affiliate of and a related party to the Company because it is owned by William H. Bartels and entities owned and controlled by family members of Robert G. Brown and prior to January 1, 2015, was owned by Robert G. Brown and William H. Bartels.

In terminating SBS and SAS and engaging a new independent vendor to provide the same services, the Company has saved approximately \$900,000 per year. For services previously provided by SBS and SAS to SMF and SAI, see Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions -- Domestic Related Party Services, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*.

***SBS Bankruptcy***

The Company received no services from SBS after the Company's termination of SBS' services took effect in August 2018. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, SBS continued to claim that the Company was 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. The Company anticipated that SBS would use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of its post-termination expense and other claims ("SBS Claims").

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"), so the pre-petition claims of SBS' creditors then had to be made in the SBS Chapter 11 Case. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*.

Accordingly, the Company's management ("Management") recommended, and the Audit Committee agreed, that it would be in the best interest of all stockholders of the Company to submit the SGRP and SMF claims against SBS in the SBS Chapter 11 Case in order to preserve their value (including as an offset against the SBS Claims), particularly since those claims against SBS exceed amounts potentially owed to SBS.

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A review of SBS' previous filings in the SBS Chapter 11 Case shows that SBS has listed the Company as a contingent, unliquidated, disputed creditor, but in its most recently filed amended reorganization plan in the SBS Chapter 11 Case, SBS reflected an unspecified receivable in the amount of \$300,000 due from the Company, which alleged claim was to be excluded from the assets available to creditors and retained by SBS to pursue after plan confirmation.

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 the Clothier settlement (see below) and legal costs and an unspecified amount for indemnification of SGRP for the Hogan action (see Note 8 to the Company's Consolidated Financial Statements, *Commitments and Contingencies - Legal Matters - SBS Clothier Litigation*, below) in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019, and other to be discovered and identified claims (the "SGRP Claims").

### **Settlement Agreement**

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 and mutual releases of all other claims. After extensive negotiation between the SBS Parties and the SGRP Parties, the SBS Parties and the SGRP Parties entered into the Compromise and Settlement Agreement dated as of July 26, 2019, and signed and released over the succeeding weekend (the "Settlement Agreement").

The Settlement Agreement provides for a mutual release of claims (including the SBS Claims and the SGRP Claims), except for the following:

- (i) Subject to plan confirmation, SBS will pay to the applicable SGRP Parties the SGRP Claims (before discount, \$2,231,260) 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. \$61,370), starting January 2020 and without any interest (collectively, the "Discounted Claim Payments").
- (ii) SMF will pay to SBS the Proven Unpaid A/R upon its determination (as described below).

The Discounted Claim Payments reflect a substantial discount (92%) over the total SGRP Claims, do not bear interest, are unsecured, and are dependent on the success of the reorganized SBS business (as to which the Company expresses no opinion),

In the Settlement Agreement, the parties agreed to have Rehmann Robison, a financial and accounting services firm, independently determine, based on parameters set forth in the Settlement Agreement: (i) whether SMF paid all amounts for allowable reimbursable expenses (net of all applicable credits) that were properly invoiced to SMF and the amounts of allowable reimbursable expenses that (x) were paid to vendors for expenses by SBS in 2018 for allowable reimbursable expenses (net of all applicable credits) and not paid to SBS by SMF and (y) should have been invoiced but were not invoiced to SMF and (ii) the amount put into the SBS payroll accounts, including the payments for the amounts due to SBS for the independent contractors ("IC's") (which, following the 2017 methodology of the SBS controller, includes both the net amount to be paid by SBS to the IC's and the amount to be withheld by SBS from the payments to the IC's for workman's compensation and liability insurance), plus the mark-up of 2.9638% to SBS for 2018. Rehmann Robison will use the parameters identified in Schedule 3(c) [t]hereto. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019. To the extent Rehmann Robison determines that any such net allowable reimbursable expenses were not paid and are still owed to SBS ("Proven Unpaid AR"), the parties will accept the determination of Rehmann Robison as final and binding.

In the Settlement Agreement, the SGRP Parties agreed to withdraw their opposition to the SBS reorganization and vote in favor of SBS' First Amended Chapter 11 Plan of Reorganization, as amended by the Settlement Agreement (the "SBS Plan").

The Company believes the financial impact of the Settlement Agreement is immaterial since the SGRP Claims already have been all expensed or reserved, and there can be no assurance that the Discounted Claim Payments will ever be received by the Company (particularly if the reorganized SBS business does not succeed). However, the Company believes that the mutual releases in the Settlement Agreement provide valuable relief from potential future claims and litigation by SBS respecting the Company's past involvement with SBS.

### **SBS Reorganization**

The SBS Plan generally does not describe the intended business of how, or manner in which, SBS intends to operate after its reorganization (if approved) (the "SBS Reorganization"). Those descriptions are contained in various disclosure documents, the most recent of which is Robert G. Brown's sworn Declaration of Robert G. Brown In Support of Debtor's Brief In Support Of Confirmation Of First Amended Chapter 11 Plan Of Reorganization And Final Approval Of Accompanying Disclosure Statement; And Omnibus Reply To Objections dated July 29, 2019 (the "Declaration").

On August 6, 2019, with the support of (among others, the Clothier and Rodgers plaintiffs and the Company, the Court approved the Settlement Agreement and the SBS Reorganization pursuant to the SBS Plan.

In paragraphs 4 and 15 of his Declaration cited below, Robert G. Brown, under penalty of perjury, described key elements of his plan for the intended business of how, and manner in which, SBS intends to operate after the SBS Reorganization.

**Potential Competition from and Confusion respecting SBS**

" 4. Business segment. SBS is a business to business company using Independent Contractors ("IC's"). The SBS services are referred to as merchandising and the IC's, merchandisers. SGRP was a customer of SBS obtaining clients (e.g., *Client names omitted by the Company due to SGRP's confidentiality obligations to such Clients*) and then SGRP subcontracted client work to SBS. SGRP as the customer was responsible for administrating the IC's (which they did through SPAR Administrative Services, Inc. ("SAS") instead of hiring their own employees), handling payroll, obtaining clients, providing working capital and recruiting merchandisers. SBS will continue to provide the services SBS offered to SGRP and SBS's customers will be responsible for what SGRP was responsible for."

The Declaration indicates that SBS' clients will provide their own Field Administrators to schedule and administer the SBS' Field Specialists, but does not specify who would provide the Field Administrators to SBS' clients if not internally provided by the client. Internal provision by the ultimate clients of Field Administrators was not SBS' previous model and is not industry practice. The Company believes that SAS has had no Field Administrators since August 2018 and was not named by SBS as a possible supplier. However, SAS is a member of Affinity Insurance Ltd. ("Affinity"), while SBS is not an Affinity member, and the Declaration implies that the necessary workers compensation and liability insurance will be provided by SBS through SAS and Affinity to SBS' Field Specialists, which may put the Affinity security deposit repayments owed to SMF by SAS at further risk. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Affinity Insurance*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019.

Assuming SBS is successful in its reorganized business model (as to which the Company expresses no opinion), SBS will likely be competing (at least in part) with the Company respecting (i) the provision of field merchandising services directly to the Company's clients and (ii) the provision of Field Specialists to competitors of the Company to use in the provision of field merchandising services in competition against the Company.

SBS has the unlimited right to use the SPAR name in the United States under a perpetual royalty free license, whether or not in competition with the Company. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Other Related Party Transactions and Arrangements*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019.

Assuming SBS continues to use the SPAR name in its reorganized business (and the Company believes it will do so), there will be great potential for confusion with the services marketed and provided by the Company's domestic subsidiary "SPAR Marketing Force, Inc." In at least 40 places in the Declaration, Mr. Brown implies a relationship with the SPAR Group (SGRP) or its people, know how or technology. This potential for confusion will be even greater if any of SBS' directors are involved with SBS (see below) after its reorganization.

**Potential Involvement of SGRP Directors in Reorganized SBS**

" 15. Management. In addition to me (who will work without compensation) SBS will work with experienced executives in IT, sales, field operations and administration for a share of profits and/or equity. These include Brown, Pat Franco, Bill Bartels, Peter Brown and the others with similar experience. Franco has over 30 years' experience in technology and merchandising. . . . Bartels is Vice Chairman and most senior sales person at SGRP responsible for over 70% of the current SGRP US revenue from clients and acquisitions. Bartels will help with the initial customer contacts while keeping the SGRP board fully apprised of his work and the work of SBS. Peter Brown worked for SPAR Administrative Service for a number of years and negotiated the acquisition of a subsidiary in Brazil for SGRP which is now SGRP's biggest international subsidiary. He is on the board of SPAR Brazil LLC, SGRP and Affinity insurance company. All management have agreed to work for equity or a share of the profits and PM AM is included in the budget."

In an email to William H. Bartels and Peter Brown, James R. Segreto, the Company's Chief Financial Officer, asked each of them if either would have any involvement with the reorganized SBS, as sworn by Robert G. Brown in the Declaration.

Bartels responded as follows:

- I have no ownership in SBS or any related party.
- I am not receiving and will not receive any salary, sales commission, or finder's fee from or share of sales, revenues or profits of SBS or any related party.
- "I do not consider myself part of SBS "management team". "
- "I don't believe anything above is in conflict with the statements made by [Robert G.] Brown."
- "In my view my potential involvement was supplying a list for initial customer."
- "Being fully aware of my fiduciary responsibilities to SGRP I will always act in the best interest of all SGRP shareholders."

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Peter Brown responded:

- "I am not going to be attempting to represent the accuracy of Bob's statement in any way and will not respond to Jim at this time."
- "I will serve all SGRP shareholders to the best of my ability."

Accordingly, the Company believes that Mr. Bartels does not intend to be directly involved with the reorganized SBS. It is unclear how much involvement his Company, SAS, will have with the reorganized SBS.

Peter Brown has not disclaimed any involvement with the reorganized SBS.

Outside counsel have advised that any involvement with SBS by any SGRP director may be a violation of Delaware law and SGRP's Ethics Code, could put SGRP at substantial risk for liability for future potential SBS litigation, and could possibly make SGRP a liability shield for SBS, which involvement they advised was very unlikely to benefit the Company and all its shareholders.

The order confirming the SBS Plan expressly preserves the Companies rights as follows: "The SGRP Stipulations do not seek Bankruptcy Court's approval of, and the parties thereto have not agreed to, any direct or indirect waiver or violation of any applicable State or Federal Law or the governing documents, codes or policies of any entity party to the SGRP Stipulations."

**In Summary:**

The Company and certain other significant SBS creditors have settled and agreed to vote (and on August 6, 2019, voted) in favor of the SBS Plan to enable SBS to independently operate its reorganized business, but according to the SBS Plan and disclosure documents, none are taking any equity in SBS or providing any financing or credit to SBS. A vote in favor of the SBS Plan was not a vote to support any of the SBS business plan specifics or to change or waive any of the governing documents or policies of SGRP or any other party.

SBS is not and will never be part of the Company, the Company will never in any way use or support (financially or otherwise) SBS' reorganized business, and the Company will caution its clients and others accordingly.

The Company believes SBS will continue to imply a connection either thought use of the SPAR name and or common management or affiliations, potentially leading SBS' customers, Field Specialists, and governmental regulators to wrongly look to the Company to fulfill unsatisfied SBS liabilities. This risk increases as SBS becomes more unsuccessful in its reorganized business (as to which the Company expresses no opinion). The Company had been named in numerous prior proceedings involving SBS because of (among other things) the common use of the name "SPAR". Although defensible on the merits (since there is no legal connection), correcting these matters could consume significant management time, working capital and other Company resources and negatively impact the Company's client relationships and business reputation.

**Non-Settled Matters:**

The Settlement Agreement and its releases are limited to the SBS matters described therein and subject to specific exclusions. Accordingly, there remain a number of unresolved claims and actions (each a "Non-Settled Matter") between the Company and SAS and SPAR Infotech, Inc. (including the lawsuit and other claims against the Company), and the claims, rights and liabilities of Robert G. Brown and William H Bartels respecting the Company. See Part II, Item IA - *Risk Factors - Dependence Upon and Cost of Services Provided by Affiliates and Use of Independent Contractors, Risk Factors - Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, and Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies -- Legal Matters*, in the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019, the Corporation's Current Report on Form 8-K as filed with the SEC on September 28, 2018, the Corporation's Current Report on Form 8-K as filed with the SEC on December 4, 2018.

***Infotech Litigation Against SGRP***

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, a defendant in the By-Laws Action, and the plaintiff in the 225 Action) as plaintiff commencing a case against SGRP entitled SPAR InfoTech, Inc. v. SPAR Group, Inc., et al., Index no. 64452/2018 (Supreme Court, Westchester County) (the "Infotech Action"). The Infotech Action seeks 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 by both management and SGRP's Audit Committee (which had jurisdiction because Infotech is a related party).

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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 ("Mr. Brown"), who retired as Chairman and an officer and director on May 3, 2018, and his nephew, Peter W. Brown, who became a director on May 3, 2018. Mr. Brown used his private company, Infotech and undisclosed Irish companies to structure the acquisition for SGRP.

Mr. Brown also ran his alleged expenses associated with the transaction through Infotech, including large salary allocations for unauthorized personnel and claims for his "lost tax breaks." One of those unauthorized personnel had agreed in her severance agreement with SGRP to never directly or indirectly perform any services for SGRP or any services that could be directly or indirectly billed to SGRP, which restriction was fully disclosed to and known by Mr. Brown and, therefore, Infotech. Mr. Brown submitted his unauthorized and unsubstantiated "expenses" to SGRP, and SGRP's Audit Committee allowed approximately \$50,000 of them and disallowed approximately \$150,000 of them. Mr. Brown has repeatedly sought payment of the disallowed expenses, and on August 4, 2018, counsel for Infotech (also counsel for SBS and Mr. Brown) sent SGRP a draft complaint for a proposed action by Infotech against SGRP to be filed in the Supreme Court, Westchester County, New York seeking to obtain the disallowed expenses.

On September 18, 2018, Infotech commenced the Infotech Action seeking to obtain those previously disallowed unauthorized expenses, now totaling approximately \$190,000, to circumvent the adverse determination and objection of SGRP's Audit Committee (whose approval is required by applicable law for such a related party payment).

The parties are now engaged in pretrial settlement discussions and management has accrued for \$75,000 with estimated total liability between \$75,000-\$90,000.

SGRP will vigorously contest the Infotech Action.

Infotech also is threatening 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. Infotech has given a draft complaint to the Company.

### ***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") 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 does not manage, direct or control SBS, and SGRP does 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 5 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 has been periodically subject to legal challenge (both currently and historically) by various states and others. SBS' expenses of defending those challenges and other proceedings have historically been reimbursed by the Company under SBS' Prior Agreement, and SBS' expenses of defending those challenges and other proceedings were reimbursed by the Company through the termination of the contract in July 2018, in the amount of \$50,000, after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company.

In March 2017, the Company advised SBS that, since there was no currently effective comprehensive written services agreement with SBS, the Company would continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis in its discretion, including the relative costs and benefits to the Company. See *Related Party Transactions - Domestic Related Party Services*, above. SBS has disputed the right of the Company and SGRP's Audit Committee to review and decide the appropriateness of the reimbursement of any of those related party defense and other expense reimbursements. 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 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).

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As a result of the SBS Chapter 11 Case (see above), there can be no assurance that SBS will ever be able to satisfy any such judgment or similar claim or amount resulting from any adverse legal determination See *Commitments and Contingencies -- SBS Bankruptcy*, above.

As the Company had utilized the services of SBS' Field Specialists to support its in-store merchandising needs in California and SBS' independent contractor classifications had been held invalid in the Clothier Determination (see below), management of the Company determined, with the support of SGRP's Audit Committee and Board of Directors, and began in May of 2018 to shift to an all employee servicing model for Field Specialists to support the performance of the Company's services in California for clients in this critical market. As previously noted, management currently estimates that the potential incremental annual cost of this change in California from third party independent contractors to Company employees could be substantial.

Due to (among other things) the Clothier Determination and the ongoing proceedings against SBS, which could have had a material adverse effect on SBS' ability to provide future services needed by the Company, and the Company's identification of an independent third party company 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 third party company to provide the Field Specialist services formerly provided by SBS.

Current material and potentially material proceedings against SBS and, in one instance, the Company are described below. These descriptions are based on an independent review by the Company and do not reflect the views of SBS, its management or its counsel.

***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 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 Determination"). The plaintiffs and SBS have now moved into phase two to determine damages (if any), which has included discovery as to the measure of damages in this case.

The plaintiffs and SBS are still proceeding with the damages phase of the Clothier Case, which trial was scheduled for December of 2018 but was temporarily stayed as a result of the SBS Chapter 11 Case (see above and below).

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, which is subject to court approval and not likely to become final until several months into 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of \$1.3 million, payable in four equal annual installments that commence 30 days after the settlement becomes final, and the Company will be released by plaintiff and the settlement class from all other liability under the Clothier Case (the "Clothier Settlement"). SBS did not participate in the Clothier Settlement and will not be released. The Company has recorded a \$1.3 million charge for the Clothier Settlement during 2018. On March 21, 2019, the court issued a tentative ruling preliminarily approving the Clothier settlement.

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(unaudited) (continued)

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.

As a result of the SBS Chapter 11 Case (see above), the claims of SBS' creditors must now generally be pursued in the SBS Chapter 11 Case. On March 11, 2019, the Bankruptcy Court entered an order modifying the automatic stay in the SBS Chapter 11 Case to permit the plaintiffs in the Clothier Case to proceed with the second part of the case to determine damages against SBS in the same California Court that rendered the Clothier Determination. However, the Bankruptcy Court did not modify the automatic stay to permit collection from SBS of any resulting damage award against it absent further Bankruptcy Court order, and therefore and absent such further order, any such damage award will have to be pursued against SBS in the SBS Chapter 11 Case. Accordingly, the Company believes there can be no assurance that SBS will ever be able to fully pay any such damage award resulting from any determination in the Clothier Case or any other judgment or similar amount resulting from any legal determination adverse to SBS. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies* -- *SBS Bankruptcy*, above.

***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 as independent contractors, 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, the Company 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 both defendants' Motion to Dismiss for failure to state a claim, denied the Motion to Compel Arbitration as to SGRP (because as drafted by SBS, the arbitration clause did not reference or protect SGRP), denied the Motion to Stay as to SGRP, and allowed the Motion to Stay as to SBS pending the outcome of the Supreme Court's decision in *Epic Systems Corp. v. Lewis*. In May 2018, the Supreme Court decided arbitration clauses that include an express waiver of a worker's right to bring or participate in a class action did not violate the National Labor Relations Act, which resulted in all SBS disputes (but not any SGRP disputes) being sent to arbitration. On April 24, 2018, SGRP filed a notice of appeal with the First Circuit of the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP. SGRP and Hogan agreed to stay the District Court litigation pending the First Circuit's decision on SGRP's appeal. Briefing on SGRP's appeal closed on August 8, 2018 and the appeal hearing was heard by the First Circuit on September 11, 2018. 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.

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

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, which is subject to court approval and not likely to become final until later in 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of \$250,000 (in three installments) one hundred eighty (180) days after the settlement becomes final, and the Company will be released by plaintiff and the settlement class from all other liability under the Hogan Case (the "Hogan Settlement"). The Company has recorded \$250,000 liability as a result of the settlement.

***SBS and SGRP Litigation Generally***

As a result of the SBS Chapter 11 Case (see above), the claims of SBS' creditors must now generally be pursued in the SBS Chapter 11 Case. On March 11, 2019, the Bankruptcy Court entered an order modifying the automatic stay in the SBS Chapter 11 Case to permit the plaintiffs in the Clothier Case to proceed with the second part of the case to determine damages against SBS in the same California Court that rendered the Clothier Determination. However, the Bankruptcy Court did not modify the automatic stay to permit collection from SBS of any resulting damage award against it absent further Bankruptcy Court order, and therefore and absent such further order, any such damage award will have to be pursued against SBS in the SBS Chapter 11 Case. Accordingly, the Company believes there can be no assurance that SBS will ever be able to fully pay any such damage award resulting from any determination in the Clothier Case or any other judgment or similar amount resulting from any legal determination adverse to SBS. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, above.

**9. 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, business technology 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenue:</b>				
United States	\$ 28,006	\$ 21,556	\$ 46,662	\$ 39,925
International	40,217	37,668	78,721	73,878
Total revenue	<u>\$ 68,223</u>	<u>\$ 59,224</u>	<u>\$ 125,383</u>	<u>\$ 113,803</u>
<b>Operating income (loss):</b>				
United States	\$ 2,608	\$ (1,900)	\$ 3,360	\$ (2,219)
International	1,622	663	2,601	1,713
Total operating income (loss)	<u>\$ 4,230</u>	<u>\$ (1,237)</u>	<u>\$ 5,961</u>	<u>\$ (506)</u>
<b>Interest expense:</b>				
United States	\$ 185	\$ 48	\$ 246	\$ 62
International	2	306	142	491
Total interest expense	<u>\$ 187</u>	<u>\$ 354</u>	<u>\$ 388</u>	<u>\$ 553</u>
<b>Other (income), net:</b>				
United States	\$ (1)	\$ (29)	\$ (1)	\$ –
International	(191)	(203)	(256)	(304)
Total other (income), net	<u>\$ (192)</u>	<u>\$ (232)</u>	<u>\$ (257)</u>	<u>\$ (304)</u>
<b>Income (loss) before income tax expense:</b>				
United States	\$ 2,424	\$ (1,919)	\$ 3,115	\$ (2,281)
International	1,811	560	2,715	1,526
Total income (loss) before income tax expense	<u>\$ 4,235</u>	<u>\$ (1,359)</u>	<u>\$ 5,830</u>	<u>\$ (755)</u>
<b>Income tax expense (benefit):</b>				
United States	\$ 501	\$ (434)	\$ 702	\$ (446)
International	927	172	1,284	362
Total income tax expense (benefit)	<u>\$ 1,428</u>	<u>\$ (262)</u>	<u>\$ 1,986</u>	<u>\$ (84)</u>
<b>Net income (loss):</b>				
United States	\$ 1,923	\$ (1,485)	\$ 2,413	\$ (1,835)
International	884	388	1,431	1,164
Total net income (loss)	<u>\$ 2,807</u>	<u>\$ (1,097)</u>	<u>\$ 3,844</u>	<u>\$ (671)</u>
<b>Net (loss) attributable to non-controlling interest:</b>				
United States	\$ (679)	\$ (246)	\$ (775)	\$ (158)
International	(605)	(420)	(930)	(809)
Total net (loss) attributable to non-controlling interest	<u>\$ (1,284)</u>	<u>\$ (666)</u>	<u>\$ (1,705)</u>	<u>\$ (967)</u>
<b>Net income (loss) attributable to SPAR:</b>				
United States	\$ 1,244	\$ (1,730)	\$ 1,638	\$ (1,992)
International	279	(33)	501	354
Total net income (loss) attributable to SPAR Group, Inc.	<u>\$ 1,523</u>	<u>\$ (1,763)</u>	<u>\$ 2,139</u>	<u>\$ (1,638)</u>
<b>Depreciation and amortization:</b>				
United States	\$ 382	\$ 339	\$ 754	\$ 720
International	146	192	284	352
Total depreciation and amortization	<u>\$ 528</u>	<u>\$ 531</u>	<u>\$ 1,038</u>	<u>\$ 1,072</u>
<b>Capital expenditures:</b>				
United States	\$ 344	\$ 423	\$ 722	\$ 907
International	127	40	213	44
Total capital expenditures	<u>\$ 471</u>	<u>\$ 463</u>	<u>\$ 935</u>	<u>\$ 951</u>

Note: There were no inter-company sales for the three and six months ended June 30, 2019 or 2018.

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

	June 30, 2019	December 31, 2018
<b>Assets:</b>		
United States	\$ 35,780	\$ 27,280
International	51,100	41,815
Total assets	<u>\$ 86,880</u>	<u>\$ 69,095</u>

	June 30, 2019	December 31, 2018
<b>Long lived assets:</b>		
United States	\$ 4,425	\$ 2,560
International	5,164	1,715
Total long lived assets	<u>\$ 9,589</u>	<u>\$ 4,275</u>

**Geographic Data** (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	\$	% of consolidated net revenue	\$	% of consolidated net revenue
<b>International revenue:</b>				
Brazil	\$ 16,612	24.3%	\$ 13,046	22.1%
South Africa	6,442	9.4	7,400	12.5
Mexico	5,664	8.3	5,236	8.9
China	3,180	4.7	4,090	6.9
Japan	2,865	4.2	2,759	4.7
Canada	2,459	3.6	1,844	3.1
India	2,065	3.0	2,382	4.0
Australia	863	1.3	851	1.4
Turkey	67	0.1	60	0.1
Total international revenue	<u>\$ 40,217</u>	<u>58.9%</u>	<u>\$ 37,668</u>	<u>63.7%</u>
			\$ 78,721	62.7%
			\$ 73,878	65.0%

**10. Recent Accounting Pronouncements**

The Company reviews new accounting pronouncements as they are issued or proposed by the Financial Accounting Standards Board ("FASB").

### **Recently Implemented Pronouncements**

On January 1, 2019, the Company adopted Accounting Standards Codification (“ASC”) 842, Leases. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right of use assets and corresponding lease liabilities on the balance sheet. The new guidance requires the Company to continue to classify leases as either operating or financing, with classification affecting the pattern of expense recognition in the income statement. The Company is also required to disclose qualitative and quantitative information about leasing arrangements to enable financial statement users to assess the amount, timing and uncertainty of cash flows arising from leases. The Company adopted ASC 842 using a modified retrospective method that did not require the prior period information to be restated. ASC 842 also provides a number of optional provisions, known as practical expedients, which companies may elect to adopt to facilitate implementation. The Company elected a package of practical expedients which, among other items, precludes the Company from needing to reassess 1) whether any expired or existing contracts are or contain leases, 2) the lease classification of any expired or existing leases, and 3) initial direct costs for any existing leases. In addition, SPAR Group elected an accounting policy to exclude from the consolidated balance sheets the right-of-use (“ROU”) assets and lease liabilities related to short-term leases, which are those leases with an initial lease term of twelve months or less that do not include an option to purchase the underlying asset that SPAR Group is reasonably certain to exercise.

Due to the implementation of selected practical expedients, there was no cumulative effect adjustment to beginning retained earnings. See Note 11 –Leases for additional disclosures.

On January 1, 2019, the Company also adopted the following Accounting Standards Updates (“ASUs”) which had no material impact on its unaudited condensed consolidated financial statements or disclosures:

- ASU 2018-07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-based payment accounting
- ASU 2018-09, Codification Improvement
- ASU 2018-16, Derivatives and Hedging—Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

During 2018, the Company adopted the following ASU:

- ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers - The adoption of ASC 606 did not have a material impact on the Company’s existing or new contracts as of January 1, 2018; therefore, no cumulative adjustment to beginning retained earnings was required as a result of adoption. The Company adopted using the modified retrospective transition method.

## **11. Leases**

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.

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

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 March 31, 2019, SPAR has not included any options to extend or terminate in its measurement of ROU assets or lease liabilities.

The reported results for Q2 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 three and six months ended June 30, 2019, which are included in the condensed consolidated income statement, are as follows (in thousands):

Lease Costs	Classification	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	Selling, General and Administrative Expense	\$ 534	\$ 1,067
Short-term lease cost	Selling, General and Administrative Expense	28	57
Variable costs	Selling, General and Administrative Expense	290	585
Total lease cost		<u>\$ 852</u>	<u>\$ 1,709</u>

Supplemental cash flow information related to SPAR's leases for three and six months ended June 30, 2019 is as follows (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 562	\$ 1,071
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$ 5,736(a)	\$ 5,736(a)

(a) Amounts for the six months ended June 30, 2019 include the translation adjustment for the adoption of ASU 2016-02 discussed in Note 10.

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

At June 30, 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):

Period Ending June 30,	Amount
2019	\$ 843
2020	1,974
2021	887
2022	988
2023	78
Total lease payments	<u>4,770</u>

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	<u>\$ 5,341</u>

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

Forward-Looking Statements

*This Quarterly Report on Form 10-Q (this "Quarterly 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"), and this Quarterly Report has been filed by SGRP with the Securities and Exchange Commission (the "SEC"). There also are "forward-looking statements" contained in SGRP's Annual Report on Form 10-K/A for its fiscal year ended December 31, 2018 (as filed, the "Annual Report"), as filed with the SEC on April 24, 2019, in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on May 15, 2019, which SGRP filed with the SEC on April 29, 2019, and Additional Definitive Materials filed with the SEC on May 3, 2019 (collectively, the "Proxy Statement"), 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 Quarterly Report, the 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 Quarterly Report or the 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 the 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 Quarterly Report, the 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, 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 Quarterly 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.*

## GENERAL

The Company is a diversified international merchandising, business technology 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, value, grocery, drug, independent, convenience, home improvement and electronics stores. The Company also provides furniture and other product assembly services in stores, homes and offices. 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 of 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 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 product sets 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 to expand its merchandising, assembly and marketing services business throughout the world.

Summaries of our business and domestic and international business are set forth below. Please see Item 1 of the Annual Report for a more detailed description of the Company's Business, and the following parts of the Proxy Statement (which were incorporated by reference into the Annual Report): (i) Security Ownership of Certain Beneficial Owners and Management, (ii) Corporate Governance, (iii) Executive Compensation, Directors and Other Information and (iv) Executive Compensation, Equity Awards and Options. Please also see, review and give particular attention, to the Risk Factors in Item 1A of the Annual Report (including, without limitation, *Dependence Upon and Cost of Services Provided by Affiliates and Use of Independent Contractors*, *Potential Conflicts in Services Provided by Affiliates*, *Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, and *Risks of a Nasdaq Delisting and Penny Stock Trading*), to Note 8 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies - Legal Matters*, above, and to Note 5 to the Company's Condensed Consolidated Financial Statements – *Related Party Transactions – Domestic Related Party Services*, above.

**SPAR Group, Inc. and Subsidiaries**

**RESULTS OF OPERATIONS**

**Three months ended June 30, 2019, compared to three months ended June 30, 2018**

The following table sets forth selected financial data and data as a percentage of net revenues for the periods indicated (in thousands, except percent data).

	<b>Three Months Ended June 30,</b>			
	<b>2019</b>		<b>2018</b>	
	\$	%	\$	%
Net revenues	\$ 68,223	100.0%	\$ 59,224	100.0%
Cost of revenues	54,159	79.4	48,759	82.3
Gross profit	14,064	20.6	10,465	17.7
Selling, general & administrative expense	9,306	13.6	9,196	15.5
Settlement and other charges	-	0.0	1,975	3.3
Depreciation & amortization	528	0.8	531	0.9
Operating income (loss)	4,230	6.2	(1,237)	(2.0)
Interest expense, net	187	0.3	354	0.6
Other (income), net	(192)	(0.3)	(232)	(0.4)
Income (loss) before income taxes	4,235	6.2	(1,359)	(2.2)
Income tax expense (benefit)	1,428	2.1	(262)	(0.4)
Net income (loss)	2,807	4.1	(1,097)	(1.8)
Net income attributable to non-controlling interest	(1,284)	(1.9)	(666)	(1.1)
Net income (loss) attributable to SPAR Group, Inc.	\$ 1,523	2.2%	\$ (1,763)	(2.9)%

**Net Revenues**

Net revenues for the three months ended June 30, 2019, were \$68.2 million, compared to \$59.2 million for the three months ended June 30, 2018, an increase of \$9.0 million or 15.2%. The increase in net revenue is primarily attributable to the domestic operations driven by increase in operational project work and international operations contributed \$2 million of the increase.

Domestic net revenues totaled \$28.0 million in the three months ended June 30, 2019, compared to \$21.6 million for the same period in 2018, an increase of 29.9%.

International net revenues totaled \$40.2 million for the three months ended June 30, 2019, compared to \$37.7 million for the same period in 2018, an increase of \$2.5 million or 6.8%. The increase in international net revenues was primarily due to the Brazilian operation, which added \$3 million.

**Cost of Revenues**

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 79.4% of its net revenues for the three months ended June 30, 2019, and 82.3% of its net revenues for the three months ended June 30, 2018.

Domestic cost of revenues was 74.0% of net revenues for the three months ended June 30, 2019, and 77.0% of net revenues for the three months ended June 30, 2018. The decrease in cost of revenues as a percentage of net revenues of 3 percentage points was due primarily to a shift in our labor platform in the latter part of 2018 and a favorable mix of project work compared to the same period last year. For the three months ended June 30, 2018, approximately 46.5% of the Company's domestic cost of revenues resulted from in-store merchandiser specialist, on-site assembly technician and field administration services, purchased from certain of the Company's affiliates, SBS, and SAS, respectively. (See Note 5 to the Company's Condensed Consolidated Financial Statements - *Related-Party Transactions*.)

Internationally, the cost of revenues decreased to 83.1% of net revenues for the three months ended June 30, 2019, compared to 85.4% of net revenues for the three months ended June 30, 2018. The cost of revenue decrease of 2.3 percentage points was primarily due to margin improvement in Brazil operations.

## SPAR Group, Inc. and Subsidiaries

### **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 \$9.3 million and \$9.2 million for the three months ended June 30, 2019 and 2018, respectively.

Domestic selling, general and administrative expenses totaled \$4.3 million and \$4.5 million for the three month periods ended June 30, 2019 and 2018, respectively.

International selling, general and administrative expenses totaled \$5.0 million and \$4.7 million for the three months ended June 30, 2019 and 2018, respectively.

### **Depreciation and Amortization**

Depreciation and amortization charges totaled \$528,000 and \$531,000 for the three months ended June 30, 2019, and 2018, respectively.

### **Interest Expense**

The Company's net interest expense was \$187,000 for the three months ended June 30, 2019, and \$354,000 for the same period in 2018.

### **Other Income**

Other income totaled \$192,000 and \$232,000 for the three months ended June 30, 2019 and 2018, respectively.

### **Income Taxes**

Income tax expense was \$1.4 million for the three months ended June 30, 2019, compared to an income tax benefit of \$262,000 for the three months ended June 30, 2018.

### **Non-controlling Interest**

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$1.2 million and \$666,000 for the three months ended June 30, 2019 and 2018, respectively.

### **Net Income**

The Company reported net income of \$1.5 million for the three months ended June 30, 2019, or \$0.07 per diluted share, compared to a net loss of \$1.8 million, or \$0.09 per diluted share, for the corresponding period last year. The change is due primarily to increase in international operations.

**SPAR Group, Inc. and Subsidiaries**

**Six months ended June 30, 2019, compared to six months ended June 30, 2018**

The following table sets forth selected financial data and data as a percentage of net revenues for the periods indicated (in thousands, except percent data).

	Six Months Ended June 30,			
	2019		2018	
	\$	%	\$	%
Net revenues	\$ 125,383	100.0%	\$ 113,803	100.0%
Cost of revenues	100,685	80.3	93,608	82.3
Gross profit	24,698	19.7	20,195	17.7
Selling, general & administrative expense	17,699	14.1	17,654	15.5
Settlement and other charges	-	0.0	1,975	1.7
Depreciation & amortization	1,038	0.8	1,072	0.9
Operating income (loss)	5,961	4.8	(506)	(0.4)
Interest expense, net	388	0.3	553	0.5
Other (income), net	(257)	(0.2)	(304)	(0.3)
Income (loss) before income taxes	5,830	4.6	(755)	(0.6)
Income tax expense (benefit)	1,986	1.6	(84)	(0.1)
Net income (loss)	3,844	3.1	(671)	(0.5)
Net income attributable to non-controlling interest	(1,705)	(1.4)	(967)	(0.8)
Net income (loss) attributable to SPAR Group, Inc.	\$ 2,139	1.7%	\$ (1,638)	(1.3)%

**Net Revenues**

Net revenues for the six months ended June 30, 2019, were \$125.4 million, compared to \$113.8 million for the six months ended June 30, 2018, an increase of \$11.6 million or 10.2%. The increase in revenue growth is primarily due to significant project work domestically and the increase in year-to-date growth in Brazil of approximately \$5.1 million.

Domestic net revenues totaled \$46.7 million in the six months ended June 30, 2019, compared to \$39.9 million for the same period in 2018, an increase of 16.9%. Domestic growth is primarily due to significant project work of approximately \$6.7 million.

International net revenues totaled \$78.7 million for the six months ended June 30, 2019, compared to \$73.9 million for the same period in 2018, an increase of \$4.8 million or 6.6%. The increase in international net revenues was primarily due to the Brazilian operation, which added \$5.1 million.

**Cost of Revenues**

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 80.3% of its net revenues for the six months ended June 30, 2019, and 82.3% of its net revenues for the six months ended June 30, 2018.

Domestic cost of revenues was 74.3% of net revenues for the six months ended June 30, 2019, and 76.9% of net revenues for the six months ended June 30, 2018. The decrease in cost of revenues as a percentage of net revenues of 2.6 percentage points was due primarily to a shift in our labor platform in the latter part of 2018 and a favorable mix of project work compared to the same period last year. For the six months ended June 30, 2018, approximately 50.9% of the Company's domestic cost of revenues resulted from in-store merchandiser specialist, on-site assembly technician and field administration services, purchased from certain of the Company's affiliates, SBS, and SAS, respectively. (See Note 5 to the Company's Condensed Consolidated Financial Statements - *Related-Party Transactions*.)

Internationally, the cost of revenues decreased to 83.8% of net revenues for the six months ended June 30, 2019, compared to 85.2% of net revenues for the six months ended June 30, 2018. The cost of revenue decrease of 1.4 percentage points was primarily due to margin improvement in Brazil operations.

## SPAR Group, Inc. and Subsidiaries

### **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 \$17.7 million and \$17.6 million for the six months ended June 30, 2019 and 2018, respectively.

Domestic selling, general and administrative expenses totaled \$7.9 million and \$8.7 million for the six month periods ended June 30, 2019 and 2018, respectively.

International selling, general and administrative expenses totaled \$9.8 million and \$8.9 million for the six months ended June 30, 2019 and 2018, respectively.

### **Depreciation and Amortization**

Depreciation and amortization charges totaled \$1.0 million and \$1.1 million for the six months ended June 30, 2019 and 2018, respectively.

### **Interest Expense**

The Company's net interest expense was \$388,000 for the six months ended June 30, 2019, and \$553,000 for the same period in 2018.

### **Other Income**

Other income totaled \$257,000 for the six month period ended June 30, 2019, compared to \$304,000 for the same period last year.

### **Income Taxes**

Income tax expense was \$2.0 million for the six months ended June 30, 2019, compared to an income tax benefit of \$84,000 for the six months ended June 30, 2018.

### **Non-controlling Interest**

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$1.7 million and \$967,000 for the six months ended June 30, 2019 and 2018, respectively.

### **Net Income**

The Company reported net income of \$2.1 million for the six months ended June 30, 2019, or \$0.10 per diluted share, compared to a net loss of \$1.6 million, or \$0.08 per diluted share, for the corresponding period last year.

## Liquidity and Capital Resources

In the six months ended June 30, 2019, the Company had a net income before non-controlling interest of \$3.8 million.

Net cash used in operating activities was \$1.2 million for the six months ended June 30, 2019, compared to \$9.6 million for the six months ended June 30, 2018, respectively. The net cash used in operating activities during the six months ended June 30, 2019, was primarily due to an increase in accounts payable and accrued expenses and other current liabilities partially offset by increases in accounts receivable and prepaid expenses.

Net cash used in investing activities was \$935,000 for the six months ended June 30, 2019, compared to net cash used in investing activities of \$184,000 for the six months ended June 30, 2018. The net cash used in investing activities during the six months ended June 30, 2019, was due to fixed asset additions, primarily capitalized software.

Net cash provided by financing activities for the six months ended June 30, 2019, was approximately \$2.6 million, compared to \$7.8 million provided by financing activities for the six months ended June 30, 2018. Net cash provided by financing activities during the six months ended June 30, 2019, was primarily due to net borrowings on lines of credit and term debt.

The above activity and the impact of foreign exchange rate changes resulted in an increase in cash and cash equivalents for the six months ended June 30, 2019 of approximately \$715,000.

At June 30, 2019, the Company had net working capital of \$15.3 million, as compared to net working capital of \$12.6 million at December 31, 2018. The Company's current ratio was 1.3 at both June 30, 2019, and December 31, 2018.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

### Item 4. 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 Exchange Act Rules 13a-15(f) and 15d-15(f). 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 generally accepted accounting principles in the United States of America.

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 June 30, 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 the end of the period covered by this report, 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 Commission'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 Over Financial Reporting

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

## PART II: OTHER INFORMATION

### Item 1. 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.

### **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 Robert G. Brown and 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. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Transactions*, above. Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. 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 and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP.

### **Delaware Litigation Settlement**

On January 18, 2019, SGRP, Robert G. Brown, a substantial stockholder of SGRP and former Executive Chairman and director of SGRP, William H. Bartels, a substantial stockholder of SGRP and current Vice Chairman and director and officer of SGRP (together with Robert G. Brown, the "Majority Stockholders"), and Christiaan Olivier, Chief Executive Officer, President and a Director of SGRP, and all four of the members of the Governance Committee, namely Lorrence T. Kellar, Chairman, and Jack W. Partridge, Arthur B. Drogue and R. Eric McCarthy (together with Mr. Olivier, the "225 Defendants"), reached a settlement (the "Settlement") in the By-Laws Action and the 225 Action as such terms are defined below (collectively, the "Actions") and had the Actions then dismissed.

On September 4, 2018, SGRP filed in the Court of Chancery of the State of Delaware (the "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 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.

## SPAR Group, Inc. and Subsidiaries

On September 20, 2018, the Court issued a Status Quo Order in the 225 Action (the "Status Quo Order") that (among other things) seated Jeffrey Mayer on the Board, provided for Lorrence T. Kellar to remain seated on the Board, and effectively increased the Board size from seven to eight for the duration of the order.

The By-Laws Action was dismissed upon the filing of the Stipulation of Dismissal. On January 23, 2019, the Court granted the dismissal of the 225 Action and vacated its previously entered Status Quo Order entered in that action.

As part of the Settlement, on January 18, 2019, the Board of Directors of the Corporation (the "Board") appointed Jeffrey Mayer to the Board and accepted Lorrence T. Kellar's retirement from the Board. The Board also appointed Mr. Mayer to the Board's Compensation Committee on the recommendation of its Governance Committee.

Mr. Mayer was first seated on the Board on November 20, 2018, pursuant to the Status Quo Order (see Settled Actions above), which order has now been vacated. Mr. Mayer had previously been determined not to be independent because he was unilaterally chosen by the Majority Stockholders, so as a result of the Status Quo Order and resulting change in Board composition, SGRP received a notification letter from Nasdaq dated December 13, 2018, stating that SGRP no longer satisfies Nasdaq's majority independent director requirement (the "Nasdaq Board Independence Deficiency"), as set forth in Nasdaq Listing Rule 5605(b)(1).

In connection with the Settlement, the Governance Committee re-evaluated the independence of Mr. Mayer, based on (among other things) Mr. Mayer's independent business skills and contribution to the Settlement process, determined that he has the requisite independence from the management of the Corporation except for the Related Party Matters (as defined below), and accordingly Mr. Mayer: (a) will be an independent director for all purposes other than any Related Party Matter; (b) will be a non-independent director respecting any Related Party Matter; and (c) may participate in discussions but will be excluded and shall recuse himself from any and all decisions of the Board and applicable Board Committees respecting any Related Party Matter. "Related Party Matter" shall mean any payment to or for, or any transaction or litigation with, Robert G. Brown, William H. Bartels, any of their respective family members, or any company or other business or entity directly or indirectly owned or controlled by any one or more of Mr. Brown, Mr. Bartels or their respective family members.

The Governance Committee and the Board believe that such re-evaluation and redetermination (together with the 2019 Restated By-Laws described below) will help the Corporation maintain the independent Board desired by the Governance Committee and the Board and required under Nasdaq rules, and correct the Nasdaq Board Independence Deficiency.

In the 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 preserve 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, 2018. 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.

## SPAR Group, Inc. and Subsidiaries

In addition to the compromise provisions described above in Settlement Terms above, the Governance Committee and Board accepted certain of the Proposed Amendments with negotiated changes and clarifications that are now contained in the 2019 Restated By-Laws, including the following:

- Any vacancy that results from the death, retirement or resignation of a director that remains unfilled by the directors for more than 90 days may be filled by the stockholders.
- Certain stockholder proposals may now be made up to the 90th day prior to the first anniversary of the preceding year's Annual Meeting.
- The Board size has been fixed at seven and can only be changed by the stockholders (as provided in the Proposed Amendments).
- The section requiring majority Board independence has been removed (as provided in the Proposed Amendments).
- The By-Laws now require that each candidate for director sign a written irrevocable letter of resignation and retirement effective upon such person failing to be re-elected by the required majority stockholder vote.
- A "super majority" vote of at least 75% of all directors is now required for (and any two directors can block) any of the following (as provided in the Proposed Amendments):
  - o Issuance of more than 500,000 shares of stock (other than under the Corporation's stock compensation plans);
  - o Issuance of any preferred stock;
  - o Declaration of any non-cash dividend on the shares of capital stock of the Corporation;
  - o By-Laws modification;
  - o Formation or expansion of the authority of any Committee or subcommittee; or
  - o Appointment or removal of any Committee director.

The descriptions of the negotiated compromise 2019 Restated By-Laws above are qualified in their entirety by reference to the copy of the 2019 Restated By-Laws.

As part of the Settlement of the Actions, the parties to the Actions executed a Limited Mutual Release Agreement limited to the Actions and subject to specific exclusions (the "Delaware Releases") and the parties to the 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 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 the following Related Parties (as defined below), including (without limitation), post termination claims by and against SPAR Business Services, Inc. (which is now in a voluntary bankruptcy proceeding in Nevada), and SPAR Administrative Services, Inc., the lawsuit by SPAR InfoTech, Inc., against the Company, and the Bartels Advancement Claim and the claim by Mr. Brown for a similar advancement (see *Advancement Claims*, below).

### **POST-SETTLEMENT DISPUTES INVOLVING BOARD INDEPENDENCE.**

#### ***Robert G. Brown Demands Directors Either Support His Positions or Resign***

The co-founders of SPAR Group, Inc. ("SGRP" and, together with its subsidiaries, the "Company"), 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 Mr. Bartels is Vice Chairman and a director and officer of SGRP. Together Mr. Brown and Mr. Bartels (the "Majority Stockholders") beneficially own as a group a total of approximately 57.6% (or 12.0 million shares) of SGRP's common stock (the "SGRP Common Stock").

On July 10, 2019, Mr. Robert G Brown wrote in an email communication to Arthur B. Drogue, an independent director and Chairman of the SGRP 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: (1) initiation of the legal proceedings to maintain the independence of the Board and which lead to the Delaware Settlement (as defined below); (2) opposition to the terms and conditions of the reorganization of SPAR Business Services, Inc., a Nevada corporation formerly known as SPAR Marketing Services, Inc. ("SBS"), that the Board and management of SGRP deemed to be unfavorable to SGRP and its stockholders without appropriate settlement terms and releases (See SGRP's Current Report on Form 8-K as filed with the SEC on August 8, 2019, respecting the negotiated SBS bankruptcy settlement); (3) opposition to the election or appointment of director candidates to the Board whom the independent directors deemed not independent under applicable NASDAQ and SEC rules, including opposing the nomination of Mr. Panos Lazaretos, a long-time associate of the Majority Stockholders and the Majority Stockholders' preferred director candidate (see *Search for a Replacement Independent Director*, below); and (4) 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. Mr. Brown further demanded in the July 10 Email that the directors change their positions and accept the Brown Demands or resign. The Company believes that neither the acquiescence to the Brown Demands nor the resignations of directors who oppose the Brown Demands would be in the best interests of SGRP and all of its stockholders. The foregoing description of the July 10 Email is qualified in its entirety by reference to the July 10 Email filed with this Current Report on Form 8-K (this "Report") as Exhibit 99.1, which is incorporated herein by reference.

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

On June 1, 2018, June 29, 2018, July 5, 2018, August 6, 2018 and January 25, 2019, the Majority Stockholders each filed an amended Schedule 13D with the Securities and Exchange Commission (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 SGRP's Board of Directors (the "Board"), Governance Committee or other stockholders, endeavoring to: approve the selection, appointment and election of Mr. Jeffrey A. Mayer as a director of SGRP; remove Lorrence T. Kellar as an independent director of SGRP; and change SGRP's By-Laws in order to (among other things) remove authority from the Board through new supermajority requirements and stockholder only approvals (the "Proposed Amendments"), which the Governance Committee believed weakened the Board's independence, and which were contested by SGRP and ultimately concluded in a negotiated settlement that included Mayer's appointment, Mr. Kellar's forced retirement, and the adoption of SGRP's Amended and Restated By-Laws on January 18, 2019 (the "Delaware Settlement"). See PART II, Item 1 -*Legal Proceedings - RELATED PARTIES AND RELATED PARTY LITIGATION*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019.

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 (the "Nomination Process") other than those under a stockholder written consent making a removal and appointment, which is unchanged).

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. Following the departure of Messrs. Kellar and Partridge, SGRP had two fully independent directors, Arthur B. Drogue and R. Eric McCarthy. Jeffery Mayer is also considered independent except for related party matters.

***Threatened Removal of Arthur B. Drogue as a Director***

On July 12, Mr. Brown sent in an email communication to Mr. Drogue, with a copy to Mr. Bartels, a draft Amendment No. 5 to Schedule 13D from Mr. Brown (the "Draft Schedule 13D") that indicated the Majority Stockholders intended to deliver a written consent action to SGRP resolving to remove Mr. Drogue from the Board. The foregoing description of the Draft Schedule 13D is qualified in its entirety by reference to the Draft Schedule 13D filed with this Report as Exhibit 99.2, which is incorporated herein by reference. In addition to the July 10 Email and the Draft Schedule 13D, Mr. Drogue engaged in various telephonic conversations with the Majority Stockholders in connection with the matters described in the July 10 Email and the Draft Schedule 13D where he reiterated his position and the position of the independent directors that the Board was acting, and would continue to act, in the best interests of SGRP and all of its stockholders, including by maintaining a majority independent Board, as required by applicable NASDAQ and SEC rules and by refusing to pay expenses for affiliates of the Majority Stockholders when the payment of those expenses were not approved by management and the Audit Committee and were not in the best interests of SGRP and its stockholders.

## SPAR Group, Inc. and Subsidiaries

During such conversations, the Majority Stockholders said that Mr. Drogue and any other directors of SGRP who have not been complying with the Brown Demands would need to acquiesce to the Brown Demands or resign from the Board.

In response to the July 10 Email, the Brown Demands and the Draft Schedule 13D, Mr. Drogue sent an email, dated July 24, 2019, to Mr. Bartels (the "Response to Brown Demands") outlining the reasons the recent actions taken, and proposed to be taken, by the Majority Stockholders are not in the best interests of all SGRP stockholders, and Mr. Drogue further indicated that he would not comply with the Brown Demands and would not resign. The foregoing description of the Response to Brown Demands is qualified in its entirety by reference to the Response to Brown Demands filed with this Report as Exhibit 99.3, which is incorporated herein by reference.

After Mr. Drogue sent the Response to Brown Demands, he received an email correspondence from Mr. Bartels on August 5, 2019, dated August 3, 2019, in which Mr. Bartels reiterated certain of the Brown Demands and that the Majority Stockholders have the right to remove any director (the "August 3 Email"). The August 3 Email: (1) erroneously indicates that certain NASDAQ independence and director nomination rules do not apply to SGRP (incorrectly citing an exception applicable to underwritings, senior debt and the like); (2) reiterates the view of the Majority Stockholders that Mr. Lazaretos meets NASDAQ and SEC independence requirements and should be immediately appointed to the Board (see *Search for a Replacement Independent Director*, below); and (3) reminds Mr. Drogue of the right of the Majority Stockholders to remove directors at any time and for any reason. The foregoing description of the August 3 Email is qualified in its entirety by reference to the August 3 Email filed with this Report as Exhibit 99.4, which is incorporated herein by reference.

### ***Failure to Maintain a Majority of Independent Directors on the Board; Failure to Comply with NASDAQ Audit Committee Composition Requirements***

The Board currently has only two independent directors and one director classified as independent on all but related party matters out of six (resulting from Jack W. Partridge's May 2019 forced retirement), which is less than a majority of the current Board. If Mr. Drogue is removed or resigns, the Board would only have one independent director out of five. SGRP's Audit Committee, Compensation Committee, Governance Committee and Special Committee would continue to consist of one independent director until the Governance Committee and the Board secure duly qualified independent director candidates to replace Messrs. Partridge and Drogue. The current composition of the Board and its Audit Committee, Compensation Committee and Governance Committee is in violation of the NASDAQ rules and such committees' respective charters.

Despite the actions of the Majority Stockholders, the Board and the Governance Committee have determined that the Board should always have a majority of independent directors as required by NASDAQ and the SEC. The Board and Governance Committee have continued to follow the Nomination Process and search for an independent director replacement for Mr. Partridge. SGRP's Statement of Policy Regarding Director Qualifications and Nominations dated as of May 18, 2004, requires that (among other things) that 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.

Additionally, 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), and NASDAQ Listing Rule 5605(c)(2) requires the audit committee of a listed company to be composed of at least three members, all of whom must be independent (together, the "Board Independence Rules"). When similar circumstances occurred last year in connection with the forced retirement of Lorrence Kellar, SGRP received a notification letter from NASDAQ dated December 13, 2018, stating that SGRP no longer complied with NASDAQ's Board Independence Rule and had approximately 30 days to regain compliance with the NASDAQ Listing Rules.

On July 24, 2019, SGRP received a phone call from a NASDAQ representative expressing concern with respect to (1) the Board's lack of independence following Mr. Partridge's forced retirement; (2) the number of independent directors serving on the Audit Committee, Compensation Committee and Governance Committee (which, as of July 24, 2019, was two members on each such committee); and (3) the independence of Mr. Lazaretos, who, along with several other director candidates, is currently under review by the Governance Committee.

## SPAR Group, Inc. and Subsidiaries

On July 25, 2019, SGRP received a letter from NASDAQ notifying SGRP that it was not in compliance with the Board Independence Rules and that SGRP has until the earlier of: (1) the next annual stockholders' meeting of SGRP or May 15, 2020, or (2) November 11, 2019, if the next annual stockholders' meeting is held before November 11, 2019 (the "Board Independence Deadline"). Accordingly, the forced retirement of Mr. Partridge and the threatened removal of Mr. Drogue, in each case directly resulting from the actions of the Majority Stockholders, may cause SGRP to be delisted by NASDAQ for failing to adhere to the Board Independence Rules.

The independent directors of the Board and the management of SGRP believe that if Mr. Drogue is ultimately removed from the Board and the directors selected for nomination and election by the Majority Stockholders comprise a majority of the Board, the newly constituted and potentially non-independent Board may cause NASDAQ to reconsider and escalate its deadline for corrective action by the Company and proceed with delisting SGRP for failure to comply with the Board Independence Rules (as defined below).

### *Search for a Replacement Independent Director*

Even before Mr. Partridge's forced retirement, the Majority Stockholders lobbied (and have continued to lobby) the Board to add Mr. Lazaretos, a resident of Greece, as a director of SGRP. Mr. Lazaretos has been associated with the Majority Stockholders since 2000 when he first worked for SGRP. He has since provided services to SPAR Infotech, Inc. ("Infotech"), which is owned by Mr. Brown, and the costs of those services were included in Infotech's lawsuit against SGRP respecting "alleged" unreimbursed expenses in the acquisition of a Brazil subsidiary.

At and since the May Board meeting, SGRP's Governance Committee has insisted on following the Nomination Process agreed to in the Delaware Settlement to fill the vacancy created by Mr. Partridge's forced retirement. Mr. Brown and Mr. Bartels have repeatedly tried to circumvent the agreed upon Nomination Process to immediately put Mr. Lazaretos on the Board. Mr. Bartels unilaterally invited Mr. Lazaretos to the May Board meeting before Mr. Partridge's forced retirement and sought to have Mr. Lazaretos appointed to the Board immediately. Additionally, Mr. Brown generally has been copying Mr. Lazaretos on his emails to the Board and its committees.

Complying with the stockholder approved Nomination Process, SGRP's Governance Committee has recently conducted a search and evaluation for a new independent director to replace Mr. Partridge. Of the four finalists, two candidates were recommended by the Majority Stockholders (including Mr. Lazaretos), and two candidates were identified by an independent, third-party executive search firm (the "Independent Search Firm"). An outside evaluation conducted by the Independent Search Firm found Mr. Lazaretos to be unqualified to be a public company director and that other identified director candidates under consideration by the Governance Committee were better qualified to serve as directors of SGRP. An independent Delaware law firm (the "Delaware Law Firm") has determined that Mr. Lazaretos does not satisfy the NASDAQ, SEC and Delaware independence requirements. Pursuant to its authority under SGRP's governing documents, SGRP's Governance Committee has determined that Mr. Lazaretos does not qualify as an independent director, based on feedback from references, Management, the Delaware Law Firm, and its own evaluations and determinations respecting compliance with applicable SEC and NASDAQ independence and other standards.

However, the Majority Stockholders continue to insist upon the immediate appointment of Mr. Lazaretos as a director. In fact, on August 8, 2019, Mr. Bartels sent an email to Mr. Drogue attaching an unauthorized and unsolicited draft press release announcing the appointment of Mr. Lazaretos as a director, which has not happened (the "Draft Press Release"). The Draft Press Release repeatedly refers to Mr. Lazaretos as an independent director, despite (1) the contrary determinations made by the Delaware Law Firm and the Governance Committee and (2) the initial verbal indications from SGRP's contact person at NASDAQ that Mr. Lazaretos may not be viewed by NASDAQ as independent.

SGRP's Governance Committee believes that if the Majority Stockholders put Mr. Lazaretos on the Board through a written consent action (which is within their rights), the Board size would have to be increased (requiring stockholder approval) and additional independent directors would need to be added to satisfy the Board Independence Rules.

## SPAR Group, Inc. and Subsidiaries

Although the Majority Stockholders can eventually appoint a director on the Board through their right to act by written consent, they cannot determine independence. Only the Governance Committee can determine independence under the NASDAQ rules and SGRP's governing documents. The most recent amendments to SGRP's governing documents were agreed to by the Majority Stockholders in the Delaware Settlement and continued the Nomination Process (including the continuation of the Governance Committee's authority to identify, select and nominate qualified director candidates).

SGRP's Governance Committee currently plans to submit a final nominee to the full Board later this month, and it will be arranging candidate interviews at its upcoming meeting on August 15, 2019. SGRP intends to submit to NASDAQ documentation, including biographies of any new directors, evidencing compliance with the Board Independence Rules no later than the Board Independence Deadline.

In the event SGRP does not regain compliance with the Board Independence Rules by the Board Independence Deadline, or if more independent directors are removed, or if more non-independent directors are added, NASDAQ may delist SGRP's securities before the Board Independence Deadline. Repeated violations or intentional violations by the Majority Stockholders could lead to an accelerated or immediate delisting by NASDAQ.

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

There can be no assurance that SGRP will be able to correct the current or any future NASDAQ rule deficiencies described herein, or that if timely corrected, SGRP will be able to comply in the future with such NASDAQ rules. If SGRP fails to gain compliance with or further breaches such NASDAQ rules, NASDAQ may commence delisting procedures against SGRP (during which SGRP may appeal the delisting determination based on the current breach to a NASDAQ hearings panel). Repeated violations or intentional violations by the Majority Stockholders could lead to an accelerated or immediate delisting. If shares of SGRP Common Stock are ultimately delisted by NASDAQ, the market liquidity of the SGRP Common Stock could be adversely affected and its market price could decrease, even though such shares may continue to be traded over-the-counter, 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.

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 occurs, 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 affect the ability of investors to sell their shares, until the SGRP Common Stock is no longer a penny stock.

### ***Advancement Claims***

In an email to Arthur Drogue, SGRP's Chairman, on October 3, 2018, and in subsequent calls with him, William H. Bartels, a substantial stockholder of SGRP and current Vice Chairman and director and officer of SGRP (and one of the Majority Stockholders), requested indemnification for his legal fees and expenses incurred in his defense of the By-Laws Case brought by SGRP against him and Mr. Brown.

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 Case 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 Case because (among other things) Mr. Bartels was sued predominately as a stockholder in the By-Laws Case and not as a director and the By-Laws Case 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.

## SPAR Group, Inc. and Subsidiaries

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 made in April 2019. If Mr. Bartels is ultimately determined not to 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 Case 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. 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. No such complaint has been filed by Mr. Brown through May 6, 2019, and SGRP continues to deny the Brown Advancement Demand.

### ***SBS Bankruptcy and Settlement***

On August 6, 2019, SPAR Group, Inc. ("SGRP", the "Corporation" or the "Registrant"), and its subsidiaries SPAR Marketing Force, Inc., a Nevada corporation ("SMF"), and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation ("SAI", and collectively with SGRP and SMF, the "SGRP Parties"), submitted in the SBS Chapter 11 Case (as defined below) in the U.S. District for Nevada their Compromise and Settlement Agreement with SPAR Business Services, Inc., a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession ("SBS"), and SBS, LLC, a Nevada limited liability company "SBS LLC" and together with SBS, the "SBS Parties"). SGRP and its subsidiaries may be referred to as the "Company" and file reports on a consolidated basis with the Securities and Exchange Commission ("SEC").

On August 6, 2019, with the support of (among others, the Clothier and Rodgers plaintiffs and the Company, the Court approved the Settlement Agreement and the SBS Reorganization pursuant to the SBS Plan (as all such terms are defined below).

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

The co-founders of SGRP, 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 Mr. Bartels is Vice Chairman and a director and officer of SGRP. Together Mr. Brown and Mr. Bartels (the "Majority Stockholders") beneficially own, as a group, a total of approximately 57.6% (or 12.0 million shares) of SGRP's common stock (the "SGRP Common Stock"). On June 1, 2018, June 29, 2018, July 5, 2018, August 6, 2018 and January 25, 2019, the Majority Stockholders each filed an amended Schedule 13D 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. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Related Parties and Related Party Litigation* and *SBS Bankruptcy*, in *SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*.

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 employed and supplied by other independent third parties. The Company believes that high quality Field Administrator performances are essential to the effective delivery and performance of their services by the Field Specialists.

SBS provided the services of Field Specialists from time to time to the SMF and SAI, and SBS is an affiliate of and related party to the Company, but SBS is not under the control of or part of the consolidated Company and has not provided services or been a vendor to the Company Parties since August 2018 (when SBS' termination by the Company took effect). SBS is an affiliate of and a related party to the Company because it is owned by an entity owned and controlled by Robert G. Brown and prior to December 2018 was owned by Robert G. Brown and William H. Bartels.

SPAR Administrative Services, Inc. ("SAS"), provided under contract the services of Field Administrators from time to time to SMF and SAI, and SAS is an affiliate of and related party to the Company, but SAS is not under the control or part of the consolidated Company and has not provided services or been a vendor to the SGRP Parties since August 2018 (when SAS' termination by the Company took effect). SAS is an affiliate of and a related party to the Company because it is owned by William H. Bartels and entities owned and controlled by family members of Robert G. Brown and prior to January 1, 2015, was owned by Robert G. Brown and William H. Bartels.

In terminating SBS and SAS and engaging a new independent vendor to provide the same services, the Company has saved approximately \$900,000 per year. For services previously provided by SBS and SAS to SMF and SAI, see Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Related Party Services*, in *SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*.

### **SBS Bankruptcy**

The Company received no services from SBS after the Company's termination of SBS' services took effect in August 2018. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, SBS continued to claim that the Company was 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. The Company anticipated that SBS would use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of its post-termination expense and other claims ("SBS Claims").

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"), so the pre-petition claims of SBS' creditors then had to be made in the SBS Chapter 11 Case. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, in *SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*.

Accordingly, the Company's management ("Management") recommended, and the Audit Committee agreed, that it would be in the best interest of all stockholders of the Company to submit the SGRP and SMF claims against SBS in the SBS Chapter 11 Case in order to preserve their value (including as an offset against the SBS Claims), particularly since those claims against SBS exceed amounts potentially owed to SBS.

A review of SBS' previous filings in the SBS Chapter 11 Case shows that SBS has listed the Company as a contingent, unliquidated, disputed creditor, but in its most recently filed amended reorganization plan in the SBS Chapter 11 Case, SBS reflected an unspecified receivable in the amount of \$300,000 due from the Company, which alleged claim was to be excluded from the assets available to creditors and retained by SBS to pursue after plan confirmation.

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 the Clothier settlement (see below) and legal costs and an unspecified amount for indemnification of SGRP for the Hogan action (see Note 8 to the Company's Consolidated Financial Statements, *Commitments and Contingencies - Legal Matters - SBS Clothier Litigation*, below) in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019, and other to be discovered and identified claims (the "SGRP Claims").

### **Settlement Agreement**

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 and mutual releases of all other claims. After extensive negotiation between the SBS Parties and the SGRP Parties, the SBS Parties and the SGRP Parties entered into the Compromise and Settlement Agreement dated as of July 26, 2019, and signed and released over the succeeding weekend (the "Settlement Agreement").

The Settlement Agreement provides for a mutual release of claims (including the SBS Claims and the SGRP Claims), except for the following:

- (i) Subject to plan confirmation, SBS will pay to the applicable SGRP Parties the SGRP Claims (before discount, \$2,231,260) 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. \$61,370), starting January 2020 and without any interest (collectively, the "Discounted Claim Payments").
- (ii) SMF will pay to SBS the Proven Unpaid A/R upon its determination (as described below).

The Discounted Claim Payments reflect a substantial discount (92%) over the total SGRP Claims, do not bear interest, are unsecured, and are dependent on the success of the reorganized SBS business (as to which the Company expresses no opinion),

In the Settlement Agreement, the parties agreed to have Rehmann Robison, a financial and accounting services firm, independently determine, based on parameters set forth in the Settlement Agreement: (i) whether SMF paid all amounts for allowable reimbursable expenses (net of all applicable credits) that were properly invoiced to SMF and the amounts of allowable reimbursable expenses that (x) were paid to vendors for expenses by SBS in 2018 for allowable reimbursable expenses (net of all applicable credits) and not paid to SBS by SMF and (y) should have been invoiced but were not invoiced to SMF and (ii) the amount put into the SBS payroll accounts, including the payments for the amounts due to SBS for the independent contractors ("IC's") (which, following the 2017 methodology of the SBS controller, includes both the net amount to be paid by SBS to the IC's and the amount to be withheld by SBS from the payments to the IC's for workman's compensation and liability insurance), plus the mark-up of 2.9638% to SBS for 2018. Rehmann Robison will use the parameters identified in Schedule 3(c) [t]hereto. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Related Party Services*, in *SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019*. To the extent Rehmann Robison determines that any such net allowable reimbursable expenses were not paid and are still owed to SBS ("Proven Unpaid AR"), the parties will accept the determination of Rehmann Robison as final and binding.

In the Settlement Agreement, the SGRP Parties agreed to withdraw their opposition to the SBS reorganization and vote in favor of SBS' First Amended Chapter 11 Plan of Reorganization, as amended by the Settlement Agreement (the "SBS Plan").

The Company believes the financial impact of the Settlement Agreement is immaterial since the SGRP Claims already have been all expensed or reserved, and there can be no assurance that the Discounted Claim Payments will ever be received by the Company (particularly if the reorganized SBS business does not succeed). However, the Company believes that the mutual releases in the Settlement Agreement provide valuable relief from potential future claims and litigation by SBS respecting the Company's past involvement with SBS.

### ***SBS Reorganization***

The SBS Plan generally does not describe the intended business of how, or manner in which, SBS intends to operate after its reorganization (if approved) (the "SBS Reorganization"). Those descriptions are contained in various disclosure documents, the most recent of which is Robert G. Brown's sworn Declaration of Robert G. Brown In Support of Debtor's Brief In Support Of Confirmation Of First Amended Chapter 11 Plan Of Reorganization And Final Approval Of Accompanying Disclosure Statement; And Omnibus Reply To Objections dated July 29, 2019 (the "Declaration").

On August 6, 2019, with the support of (among others, the Clothier and Rodgers plaintiffs and the Company, the Court approved the Settlement Agreement and the SBS Reorganization pursuant to the SBS Plan.

In paragraphs 4 and 15 of his Declaration cited below, Robert G. Brown, under penalty of perjury, described key elements of his plan for the intended business of how, and manner in which, SBS intends to operate after the SBS Reorganization.

### ***Potential Competition from and Confusion respecting SBS***

" 4. Business segment. SBS is a business to business company using Independent Contractors ("IC's"). The SBS services are referred to as merchandising and the IC's, merchandisers. SGRP was a customer of SBS obtaining clients (e.g., *Client names omitted by the Company due to SGRP's confidentiality obligations to such Clients*) and then SGRP subcontracted client work to SBS. SGRP as the customer was responsible for administrating the IC's (which they did through SPAR Administrative Services, Inc. ("SAS")) instead of hiring their own employees), handling payroll, obtaining clients, providing working capital and recruiting merchandisers. SBS will continue to provide the services SBS offered to SGRP and SBS's customers will be responsible for what SGRP was responsible for."

The Declaration indicates that SBS' clients will provide their own Field Administrators to schedule and administer the SBS' Field Specialists, but does not specify who would provide the Field Administrators to SBS' clients if not internally provided by the client. Internal provision by the ultimate clients of Field Administrators was not SBS' previous model and is not industry practice. The Company believes that SAS has had no Field Administrators since August 2018 and was not named by SBS as a possible supplier. However, SAS is a member of Affinity Insurance Ltd. ("Affinity"), while SBS is not an Affinity member, and the Declaration implies that the necessary workers compensation and liability insurance will be provided by SBS through SAS and Affinity to SBS' Field Specialists, which may put the Affinity security deposit repayments owed to SMF by SAS at further risk. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Affinity Insurance*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019.

Assuming SBS is successful in its reorganized business model (as to which the Company expresses no opinion), SBS will likely be competing (at least in part) with the Company respecting (i) the provision of field merchandising services directly to the Company's clients and (ii) the provision of Field Specialists to competitors of the Company to use in the provision of field merchandising services in competition against the Company.

SBS has the unlimited right to use the SPAR name in the United States under a perpetual royalty free license, whether or not in competition with the Company. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Other Related Party Transactions and Arrangements*, in SGRP's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019.

Assuming SBS continues to use the SPAR name in its reorganized business (and the Company believes it will do so), there will be great potential for confusion with the services marketed and provided by the Company's domestic subsidiary "SPAR Marketing Force, Inc." In at least 40 places in the Declaration, Mr. Brown implies a relationship with the SPAR Group (SGRP) or its people, know how or technology. This potential for confusion will be even greater if any of SBS' directors are involved with SBS (see below) after its reorganization.

### ***Potential Involvement of SGRP Directors in Reorganized SBS***

" 15. Management. In addition to me (who will work without compensation) SBS will work with experienced executives in IT, sales, field operations and administration for a share of profits and/or equity. These include Brown, Pat Franco, Bill Bartels, Peter Brown and the others with similar experience. Franco has over 30 years' experience in technology and merchandising. . . . Bartels is Vice Chairman and most senior sales person at SGRP responsible for over 70% of the current SGRP US revenue from clients and acquisitions. Bartels will help with the initial customer contacts while keeping the SGRP board fully apprised of his work and the work of SBS. Peter Brown worked for SPAR Administrative Service for a number of years and negotiated the acquisition of a subsidiary in Brazil for SGRP which is now SGRP's biggest international subsidiary. He is on the board of SPAR Brazil LLC, SGRP and Affinity insurance company. All management have agreed to work for equity or a share of the profits and PM AM is included in the budget."

## SPAR Group, Inc. and Subsidiaries

In an email to William H. Bartels and Peter Brown, James R. Segreto, the Company's Chief Financial Officer, asked each of them if either would have any involvement with the reorganized SBS, as sworn by Robert G. Brown in the Declaration.

Bartels responded as follows:

- I have no ownership in SBS or any related party.
- I am not receiving and will not receive any salary, sales commission, or finder's fee from or share of sales, revenues or profits of SBS or any related party.
- "I do not consider myself part of SBS "management team". "
- "I don't believe anything above is in conflict with the statements made by [Robert G.] Brown."
- "In my view my potential involvement was supplying a list for initial customer."
- "Being fully aware of my fiduciary responsibilities to SGRP I will always act in the best interest of all SGRP shareholders."

Peter Brown responded:

- "I am not going to be attempting to represent the accuracy of Bob's statement in any way and will not respond to Jim at this time."
- "I will serve all SGRP shareholders to the best of my ability."

Accordingly, the Company believes that Mr. Bartels does not intend to be directly involved with the reorganized SBS. It is unclear how much involvement his Company, SAS, will have with the reorganized SBS.

Peter Brown has not disclaimed any involvement with the reorganized SBS.

Outside counsel have advised that any involvement with SBS by any SGRP director may be a violation of Delaware law and SGRP's Ethics Code, could put SGRP at substantial risk for liability for future potential SBS litigation, and could possibly make SGRP a liability shield for SBS, which involvement they advised was very unlikely to benefit the Company and all its shareholders.

The order confirming the SBS Plan expressly preserves the Companies rights as follows: "The SGRP Stipulations do not seek Bankruptcy Court's approval of, and the parties thereto have not agreed to, any direct or indirect waiver or violation of any applicable State or Federal Law or the governing documents, codes or policies of any entity party to the SGRP Stipulations."

### **In Summary:**

The Company and certain other significant SBS creditors have settled and agreed to vote (and on August 6, 2019, voted) in favor of the SBS Plan to enable SBS to independently operate its reorganized business, but according to the SBS Plan and disclosure documents, none are taking any equity in SBS or providing any financing or credit to SBS. A vote in favor of the SBS Plan was not a vote to support any of the SBS business plan specifics or to change or waive any of the governing documents or policies of SGRP or any other party.

SBS is not and will never be part of the Company, the Company will never in any way use or support (financially or otherwise) SBS' reorganized business, and the Company will caution its clients and others accordingly.

The Company believes SBS will continue to imply a connection either through use of the SPAR name and or common management or affiliations, potentially leading SBS' customers, Field Specialists, and governmental regulators to wrongly look to the Company to fulfill unsatisfied SBS liabilities. This risk increases as SBS becomes more unsuccessful in its reorganized business (as to which the Company expresses no opinion). The Company had been named in numerous prior proceedings involving SBS because of (among other things) the common use of the name "SPAR". Although defensible on the merits (since there is no legal connection), correcting these matters could consume significant management time, working capital and other Company resources and negatively impact the Company's client relationships and business reputation.

**Non-Settled Matters:**

The Settlement Agreement and its releases are limited to the SBS matters described therein and subject to specific exclusions. Accordingly, there remain a number of unresolved claims and actions (each a "Non-Settled Matter") between the Company and SAS and SPAR Infotech, Inc. (including the lawsuit and other claims against the Company), and the claims, rights and liabilities of Robert G. Brown and William H Bartels respecting the Company. Please see Part II, Item IA - *Risk Factors - Dependence Upon and Cost of Services Provided by Affiliates and Use of Independent Contractors*, *Risk Factors - Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, and Note 9 to the Company's Condensed Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, in the Corporation's Quarterly Report on Form 10-Q as filed with the SEC on May 15, 2019, the Corporation's Current Report on Form 8-K as filed with the SEC on September 28, 2018, the Corporation's Current Report on Form 8-K as filed with the SEC on December 4, 2018.

***SBS and SGRP Litigation Generally***

As a result of the SBS Chapter 11 Case (see above), the claims of SBS' creditors must now generally be pursued in the SBS Chapter 11 Case. On March 11, 2019, the Bankruptcy Court entered an order modifying the automatic stay in the SBS Chapter 11 Case to permit the plaintiffs in the Clothier Case to proceed with the second part of the case to determine damages against SBS in the same California Court that rendered the Clothier Determination. However, the Bankruptcy Court did not modify the automatic stay to permit collection from SBS of any resulting damage award against it absent further Bankruptcy Court order, and therefore and absent such further order, any such damage award will have to be pursued against SBS in the SBS Chapter 11 Case. Accordingly, the Company believes there can be no assurance that SBS will ever be able to fully pay any such damage award resulting from any determination in the Clothier Case or any other judgment or similar amount resulting from any legal determination adverse to SBS. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, above.

**Item 1A. Risk Factors**

***Existing Risk Factors***

Various risk factors applicable to the Company and its businesses are described in Item 1A under the caption "Risk Factors" in the 2018 Annual Report, which Risk Factors are incorporated by reference into this Quarterly Report. There have been no material changes in the Company's risk factors since the 2018 Annual Report. You should review and give attention to all of those Risk Factors, including (without limitation) *Dependence Upon and Cost of Services Provided by Affiliates and Use of Independent Contractors*, *Potential Conflicts in Services Provided by Affiliates*, *Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts*, and *Risks of a Nasdaq Delisting and Penny Stock Trading*.

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

Not applicable.

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

SPAR Group, Inc. and Subsidiaries

Item 6. Exhibits

- 31.1 [Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 31.2 [Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 32.1 [Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 32.2 [Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
  
- 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

**SPAR Group, Inc. and Subsidiaries**

**SIGNATURES**

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

Date: August 14, 2019

SPAR Group, Inc., Registrant

By: /s/ James R. Segreto

James R. Segreto

Chief Financial Officer, Treasurer and Secretary

**CERTIFICATION OF THE 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 quarterly report on Form 10-Q for the three-month period ended June 30, 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: August 14, 2019

/s/ Christiaan M. Olivier  
Christiaan M. Olivier  
President and Chief Executive Officer

**CERTIFICATION OF THE 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 quarterly report on Form 10-Q for the three-month period ended June 30, 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: August 14, 2019

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

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

In connection with the quarterly report on Form 10-Q for the three-month period ended June 30, 2019 of SPAR Group, Inc., 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

Christiaan M. Olivier  
President and Chief Executive Officer

August 14, 2019

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

In connection with the quarterly report on Form 10-Q for the three-month period ended June 30, 2019 of SPAR Group, Inc., 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  
James R. Segreto  
Chief Financial Officer, Treasurer and  
Secretary

August 14, 2019

**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.**