

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

**FORM 10-K**

**(Mark One)**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended **December 31, 2012**

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 0-27824

**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: (914) 332-4100

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$.01 per share

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2012, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$6,888,000.

The number of shares of the Registrant's Common Stock outstanding as of December 31, 2012, was 20,456,453 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, for our Annual Meeting of Stockholders, presently scheduled to be held on May 7, 2013, are incorporated by reference into Part III of this Form 10-K.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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## PART I

*Statements contained in this Annual Report on Form 10-K (this "Annual Report") of SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), and in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 7, 2013 (as filed, the "2013 Proxy Statement", which SGRP plans to file with the SEC pursuant to Regulation 14 A in April of 2013, but not later than 120 days after the end of the Company's 2012 fiscal year), include "forward-looking statements" within the meaning of 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 together with the Securities Act, the "Securities Laws"), including (without limitation) the statements contained in the discussions under the headings "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar words or variations or negatives of those words. You should carefully consider all such information and the other risks and cautions noted in this Annual Report and the Company's other filings under applicable Securities Laws (including this Annual Report and the 2013 Proxy Statement, each a "SEC Report") that could cause the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition to differ materially from those anticipated by the Company and described in the information in the Company's forward-looking statements, whether express or implied, as the Company's anticipations are based upon the Company's plans, intentions, expectations and estimates and (although the Company believe them to be reasonable) involve known and unknown risks, uncertainties and other factors that could cause them to fail to occur or be realized or to be materially and adversely different from those the Company anticipated.*

*Although the Company believes that its plans, intentions, expectations and estimates reflected or implied in such forward-looking statements are reasonable, the Company cannot assure you that such plans, intentions, expectations or estimates will be achieved in whole or in part, that the Company has identified all potential risks, or that the Company can successfully avoid or mitigate such risks in whole or in part. You should carefully review the risk factors described below (See Item 1A – Risk Factors) and any other cautionary statements contained or incorporated by reference in this Annual Report. All forward-looking and other statements attributable to the Company or persons acting on its behalf are expressly subject to and qualified by all such risk factors and other cautionary statements.*

*You should not place undue reliance on the Company's forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond its control. The Company's forward-looking statements, risk factors and other cautionary statements (whether contained in this Annual Report, the 2013 Proxy Statement or any other applicable SEC Report) are based on the information currently available to the Company and speak only as of the date specifically referenced, or if no date is referenced, then as of December 31, 2012, in the case of this Annual Report or the 2013 Proxy Statement or the last day of the period covered by any other applicable SEC Report. New risks and uncertainties 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. Over time, the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievements, results, risks or condition will likely differ from those expressed or implied by the Company's forward-looking statements, and such difference could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.*

*The Company does not intend or promise, and the Company expressly disclaims any obligation, to publicly update or revise any forward-looking statements, risk factors or other cautionary statements (in whole or in part), whether as a result of new information, future events or recognition or otherwise, except as and to the extent required by applicable law.*

### Item 1. Business

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

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides its merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug store, independent, convenience, toy and electronics stores. The Company also provides furniture and other product assembly services in stores, homes and offices. The Company has supplied these project and product 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, Canada, Japan, South Africa, India, Romania, China, Australia, Mexico 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, 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, 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.

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

According to industry estimates over two billion dollars are spent annually in the United States alone on retail merchandising and marketing services. The merchandising and marketing services industry includes manufacturers, retailers, food brokers, and professional service merchandising companies. The Company believes that merchandising and marketing services add value to retailers, manufacturers and other businesses and enhance sales by making a product more visible and more available to consumers. These services primarily involve placing orders, shelf maintenance, display placement, reconfiguring products on store shelves and replenishing product inventory.

Historically, retailers staffed their stores as needed to provide these services to ensure, that manufacturers' inventory levels, the advantageous display of new items on shelves, and the maintenance of shelf schematics and product placement were properly merchandised. However retailers, in an effort to improve their margins, have decreased their own store personnel and increased their reliance on manufacturers to perform such services. Initially, manufacturers attempted to satisfy the need for merchandising and marketing services in retail stores by utilizing their own sales representatives. Additionally, retailers also used their own employees to merchandise their stores to satisfy their own merchandising needs. However, both the manufacturers and the retailers discovered that using their own sales representatives and employees for this purpose was expensive and inefficient.

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

Another significant trend impacting the merchandising and marketing services business is the tendency of consumers to make product purchase decisions once inside the store. Accordingly, merchandising and marketing services and in-store product promotions have proliferated and diversified. Retailers are continually re-merchandising and re-modeling entire stores in an effort to respond to new product developments and changes in consumer preferences. We estimate that these activities have increased in frequency over the last five years. Both retailers and manufacturers are seeking third parties to help them meet the increased demand for these labor-intensive services.

In addition, the consolidation of many retailers has created opportunities for third party merchandisers when an acquired retailer's stores are converted to the look and format of the acquiring retailer. In many cases, stores are completely remodeled and re-merchandised after a consolidation.

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

**The Company's Domestic and International Geographic Divisions:**

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

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

SPAR Group has provided merchandising and other marketing services in the United States since the formation of its predecessor in 1979 and outside the United States since it acquired its first international subsidiary in Japan in May of 2001. The Company currently conducts its business through its domestic and international divisions in 10 territories around the world (listed in the table below) that encompass approximately 50% of the total world population.

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

Primary Territory	Date Established	SGRP Percentage Ownership	Principal Office Location
United States of America	1979	100%	White Plains, New York, United States of America <sup>6</sup>
Japan	May 2001	100%	Tokyo, Japan
Canada	June 2003	100%	Toronto, Canada
South Africa	April 2004	51% <sup>1</sup>	Durban, South Africa
India	April 2004	51% <sup>2</sup>	New Delhi, India
Australia	April 2006	51%	Melbourne, Australia
Romania	July 2009	51% <sup>3</sup>	Bucharest, Romania
China	March 2010	51% <sup>4</sup>	Shanghai, China
Mexico	August 2011	51%	Mexico City, Mexico
Turkey	August 2011	51% <sup>5</sup>	Istanbul, Turkey

1 In September 2012 the Company, through its subsidiary in South Africa (SGRP Meridian), entered into a joint venture agreement to expand its operations in South Africa. SGRP Meridian owns a 51% ownership interest in the new company; CMR Meridian (Pty) Ltd. ("CMR-Meridian"). (See *Acquisition Strategies and Strategic Acquisitions*, below, Note 12 to the Consolidated Financial Statements – *Geographic Data*, and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below).

2 In June 2011, the Company sold 49% of its interest in its Indian subsidiary to KROGNOS Integrated Marketing Services Private Limited. In March 2013, the company purchased a 51% interest in a new subsidiary in India, Preceptor Marketing Services Private Limited, which began operations in March 2013 (See *Acquisition Strategies and Strategic Acquisitions*, below, Note 12 to the Consolidated Financial Statements – *Geographic Data*, Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, and Note 17 to the Consolidated Financial Statements – *Subsequent Events*, below).

3 Currently the Company owns two subsidiaries in Romania. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in May 2012, is 51% owned. Also in May of 2012, the Company sold its 51% ownership in one of its other Romania subsidiaries, SPAR City S.R.L., to its original Local Investor (as defined below). (See Note 12 to the Consolidated Financial Statements – *Geographic Data* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.)

4 Currently the Company owns two subsidiaries in China. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned. In July 2011, the Company, through its active subsidiary in China (SPAR Shanghai), entered into a joint venture agreement to expand its operations in China. SPAR Shanghai has a 51% ownership interest in the new company; SPAR DSI Human Resource Company. (See Note 12 to the Consolidated Financial Statements – *Geographic Data* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.)

5 In August 2011, the Company sold its 51% ownership in its original subsidiary in Turkey to its original Local Investor, and in November 2011 the Company started a new 51% owned subsidiary to compete in this important market. (See Note 12 to the Consolidated Financial Statements – *Geographic Data* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.)

6 In September 2012, the Company established a new subsidiary, National Merchandising Services, LLC, ("NMS") 51% owned by the Company, with its principal office in Georgia. (See *Acquisition Strategies and Strategic Acquisitions*, below, Note 10 to the Consolidated Financial Statements – *Related Party Transactions* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below).

### ***Financial Information about the Company's Domestic and International Geographic Divisions***

The Company operates in the same single business segment (e.g., merchandising and marketing services) in both its domestic and international divisions (as described above), and the Company tracks and reports certain financial information separately for its subsidiaries in each of those divisions using the same metrics. The primary measurement utilized by management is operating profit level, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two geographic divisions, which includes their respective net revenues and operating income for each of the years ended December 31, 2012, and December 31, 2011, and their respective long-lived assets as of December 31, 2012, and December 31, 2011, is provided in Note 12 to the Company's Consolidated Financial Statements – *Geographic Data*, below.

### **The Company's Business Strategies**

As the marketing services industry continues to expand both in the United States and internationally, many large retailers and manufacturers are outsourcing their merchandising and marketing service needs to third-party providers. The Company believes that offering marketing services on a national and global basis will provide it with a competitive advantage. Moreover, the Company believes that successful use of and continuous improvements to a sophisticated technology infrastructure, including the Company's proprietary Internet-based software, is key to providing clients with a high level of client service while maintaining efficient, low cost operations. The Company's objective is to become an international retail merchandising and marketing service provider by pursuing its operating and growth strategy, as described below.

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

The Company is seeking to increase revenues by increasing sales to its current clients, as well as establishing long-term relationships with new clients, many of which currently use other merchandising companies for various reasons. The Company believes its technology, field implementation and other competitive advantages will allow it to capture a larger share of this market over time. However, there can be no assurance that any increased sales will be achieved.

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

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

#### ***Developing New Products:***

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

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

The Company believes that providing merchandising and marketing services in a timely, accurate and efficient manner, as well as delivering timely, accurate and useful reports to its clients, are key components that are and will continue to be critical to the Company's success. The Company has developed proprietary Internet-based technological systems (which include its logistical, communication, scheduling, tracking, reporting and accounting programs) that improve the productivity of its merchandising specialists and assembly technicians, and provide timely data to its clients. The Company's merchandising specialists and assembly technicians use hand-held, smart phones, tablets, laptop, personal computers and Interactive Voice Response ("IVR") technology to report the status of each store or client product they service. Merchandising specialists and technicians report on a variety of issues such as store conditions, status of client products (e.g. out of stocks, inventory, display placement) or they may scan and process new orders for certain products.

The Company has developed a proprietary automated labor tracking system for its merchandising specialists and assembly technicians to communicate work assignment completion information via the Internet or other telecommunication infrastructure by using, among other things, hand-helds, smart phones, laptop and personal computers, cellular telephones, landlines or IVRs. This tracking system enables the Company to report hours and other completion information for each work assignment on a daily basis and provides the Company with daily, detailed tracking of work completion. This information is analyzed and displayed in a variety of reports that can be accessed by both the Company and its clients via a secure website. These reports can depict the status of merchandising projects in real time. This tracking technology also allows the Company to schedule its merchandising specialists and technicians more efficiently, quickly quantify the benefits of its services to clients, rapidly respond to clients' needs and rapidly implement programs.

The Company intends to continue to utilize computer (including hand-held computers), Internet, smart phones, tablets and other technologies to enhance its efficiency and ability to provide real-time data to its clients, as well as, maximize the speed of communication, and logistical deployment of its merchandising specialists and assembly technicians. Industry sources indicate that clients are increasingly relying on merchandising and marketing service providers to supply rapid, value-added information regarding the results of merchandising and marketing expenditures on sales and profits. The Company (together with certain of its affiliates) has developed and owns proprietary Internet-based, hand-held, smart phone and tablet software technology that allows it to utilize the Internet to communicate with its field management, schedule its store-specific field operations more efficiently, receive information and incorporate the data immediately, quantify the benefits of its services to clients faster, respond to clients' needs quickly and implement client programs rapidly. The Company has successfully modified and is currently utilizing certain of its software applications in the operation of its international subsidiaries.

The Company believes that it can continue to improve, modify and adapt its technology to support merchandising and other marketing services for additional clients and projects in the United States and in foreign markets. The Company also believes that its proprietary Internet-based, wireless and other software technology gives it a competitive advantage in the marketplace. The Company's technology systems are developed, operated, managed, maintained and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A.

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

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

One key to the Company's domestic and international expansion strategy is its emphasis on developing, maintaining, improving, deploying and marketing its proprietary Internet-based technological systems (which include its logistical, communication, scheduling, tracking, reporting and accounting programs) that run on and are developed, managed, maintained and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A. (the Company's "Global Technology Systems"). The Company's Global Technology Systems enhance local operations, are an important marketing distinction (such as real time reporting), and provide the Company with a technological means to exercise its supervision and control over its subsidiaries, both domestic and international. The Company provides access to its Global Technology Systems real time for its worldwide operations through that control center on a real time basis 24/7/365. In addition, this strategy is strengthened internationally by the Company's internally developed translation software which allows its current and future programs included in its Global Technology Systems to be available in any language for any market in which it currently operates or desires to enter in the future with no limitation. See *Leveraging and Improving on the Company's Technological Strengths*, above.

Another key to the Company's international and (more recently) domestic expansion is its strategy of seeking a minority (*i.e.*, non-controlling) investor for the Company's new consolidated subsidiary in a location that is an experienced person or company in the local area who is not otherwise affiliated with the Company (each a "Local Investor"). The Company exercises supervision and control over each consolidated subsidiary through its Global Technology Systems, which are generally phased in over time. The Company's supervision and control is further strengthened by its company-wide executive management, administrative support, accounting oversight, procedures and controls (financial and reporting) and codes and policies that apply to each such subsidiary (the Company's "Global Administration", and together with its Global Technology Systems, the Company's "Global Contributions"). The Company also seeks to own a majority (at least 51%) of such a subsidiary's equity while the Local Investor purchases a minority equity interest in it (49% or less). In addition to that equity, a Local Investor provides credit support, certain services and the useful local attention, perspective and relationships of a substantial (although non-controlling) equity owner with a strong financial stake in such subsidiary's success (the "Local Contributions"). The Local Investor also often contributes an existing customer base to the subsidiary in which it invests. As of the date of this Annual Report, NMS in the U.S.A. (see below) and each of the Company's international operating subsidiaries (other than those in Canada and Japan) has a Local Investor. See Item 1A - *Risks Associated with International and Domestic Joint Venture Subsidiaries, Risks of Having Material Local Investors in International and Domestic Joint Venture Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, below.

The Company also has expanded its acquisition strategy to on occasion purchase a local international consolidated subsidiary through another local international consolidated subsidiary in the same country, which most recently occurred in September 2012 as the Company expanded its merchandising service business in South Africa through its acquisition of a majority of the equity interests in CMR Meridian (Pty) Ltd. (see below).

In July 2011, the Company's subsidiary in China, SPAR (Shanghai) Marketing Management Company Ltd ("SPAR Shanghai") entered into an agreement with Beijing DSI Management Consulting Company Ltd. ("DSI"), creating a new consolidated subsidiary for the Company called SPAR DSI Human Resource Company ("SPAR DSI") in order to expand the Company's operations throughout the People's Republic of China. SPAR Shanghai purchased a majority (51%) of the equity interests in SPAR DSI and the Company provided and provides its usual Global Contributions, while DSI as the Local Investor purchased the remaining minority (49%) non-controlling interest in SPAR DSI and provided and provides the usual Local Contributions. The new company started operations in November 2011.

In August 2011, the Company expanded its operations in North America by entering into an agreement with various companies and persons operating as Grupo TODOPROMO ("Grupo Todopromo") to create a new consolidated subsidiary of the Company in Mexico called SPAR TODOPROMO, SAPI, de CV. ("SPAR Todopromo"), which began operations in September 2011. The Company purchased a majority (51%) of the equity interests in SPAR Todopromo and provided and provides its usual Global Contributions, while Grupo Todopromo as the Local Investor purchased the remaining minority (49%) non-controlling interest in SPAR Todopromo and provided and provides the usual Local Contributions.

In August 2011, the Company entered into an agreement with two companies in Turkey, NDS TANITIM DANIŞMANLIK HİZMETLERİ and GIDA TEKSTİL TURİZM PAZARLAMA TİCARET LİMİTED ŞİRKETİ (together, the "Turkish Investors"), to reestablish operations in this market. The agreement created a new consolidated subsidiary for the Company called SPAR NDS ("SPAR NDS"). The new subsidiary started operations in November 2011. The Company purchased a majority (51%) of the equity interests in SPAR NDS and provided and provides its usual Global Contributions, while the Turkish Investors as the Local Investor together purchased the remaining minority (49%) non-controlling interest in SPAR NDS and provided and provides the usual Local Contributions.

In May 2012, the Company finalized the purchase of 51% ownership in Business Ideas Provider GRUP SRL ("BIP"), a Romanian limited liability company in Bucharest, Romania, which became a consolidated subsidiary of the Company. The Company purchased a majority (51%) of the equity interests in BIP and provided and provides its usual Global Contributions, while Business Ideas Provider SRL as the Local Investor owes the remaining minority (49%) non-controlling interest in BIP and provided and provides the usual Local Contributions.



In September 2012, the Company made a domestic acquisition that also used its international strategy of seeking a minority (*i.e.*, non-controlling) non-affiliated Local Investor for the Company's new consolidated subsidiary in Georgia, U.S.A. As with most of its international counterparts, the Company acquired a 51% interest in National Merchandising Services, LLC, a newly formed Nevada limited liability company ("NMS"), and provided and provides its usual Global Contributions, and since then NMS has been a part of the Company's consolidated financial reports. NMS provides merchandising services in the U.S.A. to multiple Fortune 500 companies previously supplied by its Local Investor. The Local Investor in this case is National Merchandising of America, Inc., a Georgia corporation ("NMA"), which owns a 49% interest in NMS and will provide field merchandising services to NMS pursuant to a Field Services Agreement with NMS. In addition, NMA contributed substantially all of its customers to NMS and provided and provides the usual Local Contributions.

In September 2012, the Company's existing local consolidated subsidiary, SGRP Meridian (Pty) Ltd. ("SGRP Meridian"), acquired a majority (51%) of the equity interests in CMR Meridian (Pty) Ltd. ("CMR-Meridian"), while the Company provided and provides its usual Global Contributions. Combined Manufacturers National (Pty) Ltd ("CMR") acquired the remaining minority (49%) non-controlling interest in CMR-Meridian as its Local Investor, contributed substantially all of its customers to CMR-Meridian and provided the usual Local Contributions. SGRP Meridian and CMR-Meridian are both are part of the Company's consolidated financial reports. CMR-Meridian initiated operations on October 1, 2012.

In March of 2013 (and subsequent to the end of the Company's 2012 fiscal year), the Company purchased a majority (51%) of the equity interests in Preceptor Marketing Services Private Limited ("Preceptor"), a recently formed Indian corporation, from Krognos Integrated Marketing Services Private Limited ("Krognos"), and Preceptor became a new consolidated subsidiary of the Company. The Company also provided and provides the usual Global Contributions to Preceptor, while Krognos as the Local Investor retained the remaining minority (49%) non-controlling interest in Preceptor and provided and provides the usual Local Contributions. Krognos also is the Local Investor in the Company's existing subsidiary in India, SPAR Krognos Marketing Private Limited. Preceptor will enable the Company to service clients not serviced by its existing Indian subsidiary.

In March of 2013 (and subsequent to the end of the Company's 2012 fiscal year), the Company also purchased general merchandising service and certain in-store audit service businesses from Market Force Information, Inc. ("MFI"), a leading customer intelligence solution provider. The acquired in-store audit services include the price, point of sale, out of stock, intercept and planogram audits managed by MFI's New York office. With this acquisition, the Company has entered the growing in-store audit service business and expanded its existing general merchandising service and client base domestically.

For each of the above, see generally Item 1 - *The Company's Domestic and International Geographic Divisions*, above, Item 1A - *Dependence Upon and Cost of Services Provided by Affiliates, Potential Conflicts in Services Provided by Affiliates, Risks Associated with International and Domestic Joint Venture Subsidiaries, Risks of Having Material Local Investors in International and Domestic Joint Venture Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, below, Item 13 - *Certain Relationships and Related Transactions, and Director Independence*, below, and Note 10 to the Consolidated Financial Statements - *Related Party Transactions*, below, and Note 12 to the Consolidated Financial Statements - *Geographic Data*, below.

#### **Descriptions Of The Company's Services**

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

The Company's operations are currently divided into two divisions: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Company's domestic division provides merchandising and marketing services, furniture and other product assembly services, technology services and marketing research to manufacturers, distributors and retailers in the United States. Those services are primarily performed in mass merchandisers, office supply, grocery, drug store, independent, convenience and electronics stores. The Company's international division, established in May 2001, currently provides similar merchandising, marketing services and in-store event staffing through subsidiaries in Japan, Canada, South Africa, India, Romania, China, Australia, Mexico and Turkey. Today the Company operates in 10 countries that encompass approximately 50% of the total world population.

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

***Syndicated Services:***

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

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

***Dedicated Services:***

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

***Project Services:***

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

***Assembly Services:***

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

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

The Company provides in-store product samplings and in-store product demonstrations to national chains in target markets worldwide. The Company has also developed additional product offerings in an effort to expand this aspect of its business.

### ***Other Marketing Services:***

Other marketing services performed by the Company include:

*Test Market Research* - Testing promotion alternatives, new products and advertising campaigns, as well as packaging, pricing, and location changes, at the store level.

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

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

### **The Company's Sales and Marketing**

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

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

The Company's marketing and sales efforts within its International Merchandising Services Division are structured to develop new national, regional and local businesses in both new and existing international territories by acquiring existing businesses (or establishing new joint ventures) and within the Company's existing international territories through targeted sales efforts. The Company has an international acquisition team whose primary focus is to seek out and develop acquisitions throughout the world and consists of personnel located in the United States and Greece and other support from the Company's information technology, field operation, client services and finance specialists. Marketing and sales targets and strategies are developed within an international subsidiary, in consultation with the Company's U.S. headquarters, with assistance from the applicable Local Investor, and are communicated to the Company's applicable international sales force for execution. The Company's international sales force for a particular territory is located throughout that territory and work from the Company's office in that territory and their home offices. In addition, the Company's international corporate account executives play an important role in the Company's new business development efforts within the Company's existing manufacturer, distributor and retailer client base within their respective territories.

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

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

### **The Company's Customer Base**

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

- Mass Merchandisers
- Drug
- Grocery
- Office Supply
- Dollar Stores
- Toy or Specialty
- Other retail outlets (such as discount and electronic stores, in-home and in-office, etc.)

One customer accounted for 8% and 10% of the Company's net revenue for the years ended December 31, 2012, and 2011, resulting from merchandising and assembly services performed for a major office supply chain and for manufacturers within this chain. These customers accounted for approximately 13% and 5% of the Company's accounts receivable at December 31, 2012, and 2011, respectively.

In addition, approximately 7% and 10% of the Company's net revenues for the years ended December 31, 2012, and 2011, respectively, resulted from merchandising services performed for a large pharmaceutical distributor. This customer accounted for approximately 3% and 7% of the Company's accounts receivable at December 31, 2012, and 2011, respectively.

### **The Company's Competition**

The marketing services industry is highly competitive. The Company's competition in the Domestic Merchandising Services Division and International Merchandising Services Divisions arises from a number of large enterprises, many of which are national or international in scope. The Company also competes with a large number of relatively small enterprises with specific client, channel or geographic coverage, as well as with the internal marketing and merchandising operations of its existing and prospective clients. The Company believes that the principal competitive factors within its industry include development and deployment of technology, breadth and quality of client services, cost, and the ability to execute specific client priorities rapidly and consistently over a wide geographic area. The Company believes that its current structure favorably addresses these factors and establishes it as a leader in the mass merchandiser, office supply and drug store channels of trade. The Company also believes it has the ability to execute major national and international in-store initiatives and develop and administer national and international retailer programs. Finally, the Company believes that, through the use and continuing improvement of its proprietary Internet software, other technological efficiencies and various cost controls, the Company will remain competitive in its pricing and services.

### **The Company's Trademarks**

The Company has numerous registered trademarks. Although the Company believes its trademarks may have value, the Company believes its services are sold primarily based on breadth and quality of service, cost, and the ability to execute specific client priorities rapidly, efficiently and consistently over a wide geographic area. (See *An Overview of the Merchandising and Marketing Services Industry and Competition*, above).

### **The Company's Labor Force**

Worldwide the Company utilized a labor force of approximately 18,300 people in 2012. Today the Company operates in 10 countries that encompass approximately 50% of the total world population.

During 2012, the Company's Domestic Merchandising Services Division utilized a labor force of approximately 10,700 people. As of December 31, 2012 there were 150 full-time employees and 130 part-time employees engaged in domestic operations. The Company's Domestic Merchandising Services Division utilized the services of its affiliate, SPAR Management Services, Inc. ("SMSI"), to schedule and deploy the field force of merchandising specialists and assembly technicians, which consists of field merchandising specialist furnished by SPAR Marketing Services, Inc. ("SMS"), and National Merchandising of America ("NMA"), as well as the Company's domestic field employees. (See Item 13 – *Certain Relationships and Related Transactions and Director Independence*, below, and Note 10 to the Consolidated Financial Statements – *Related Party Transactions*, below.) SMS, SMSI and NMA furnished approximately 10,400 merchandising specialists and assembly technicians (all of whom are independent contractors of SMS and NMA) and 54 field managers (all of whom were full-time employees of SMSI), respectively. The Company, SMS, SMSI and NMA consider their relations with their respective employees and field merchandising specialists to be good.

As of December 31, 2012, the Company's International Merchandising Services Division's labor force consisted of approximately 7,600 people. There were 490 full-time and 40 part-time employees engaged in international operations. The International Merchandising Services Division's field force consisted of approximately 7,100 merchandising specialists.

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

There are various risks associated with investing in any common stock issued by SGRP ("SGRP Common Stock") that are more fully described below. You should carefully consider each of those risk factors before you purchase or trade any SGRP Common Stock. If any of the described risks develops into actual events, or any other risks arise and develop into actual events, the Company's present or future assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition could be materially and adversely affected (in whole or in part), the market price of the SGRP Common Stock could decline, and you could lose all or part of your investment in your SGRP Common Stock.

The Company has described the risk factors that it currently consider material based on its best estimates respecting those risk factors, the Company's current and future assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition, the likelihood of those risks developing into actual events and the likely impact of those events on them, which all involve and include "forward-looking statements" within the meaning of applicable Securities Law (as discussed above). The Company also may be facing additional risks individually, and the Company's industry or the economy may be facing additional risks, whether domestically or internationally, that are currently unknown to the Company, that are more material or otherwise different than the Company currently believes, or that the Company may have incorrectly analyzed (whether as to the nature or likelihood of such risks or their potential effect). There also may be risks that you (as a potential investor or trader) would recognize or consider more likely or material than the Company does.

Any of the risk factors or other cautionary statements described in this Annual Report or any other SEC Report, or any other event or circumstance bearing risk or harm, could at any time arise, become applicable, change or worsen (as the case may be) and materially and adversely affect the Company or any of its assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition.

Accordingly, the Company's risk factors and forward-looking statements each involve known and unknown risks, uncertainties, potential errors and misjudgments and other factors that could materially and adversely affect, and could contribute to the Company's failure to achieve or realize, in whole or in part, the Company's estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition, whether as expressed or implied by such forward-looking statements.

The Company does not intend or promise, and the Company expressly disclaims any obligation, to publicly update or revise any forward-looking statements, any of those risk factors or any other cautionary statements (in whole or in part), whether as a result of new information, future events or recognition or otherwise, except as and to the extent required by applicable law.

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

As discussed above in *Customer Base*, the Company has a significant amount of business with certain customers. The loss of any of these customers, the loss of the ability to provide merchandising and marketing services in those chains, or the failure to attract new large clients could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

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

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

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

If certain competitors were to combine into integrated merchandising and marketing services companies, or additional merchandising and marketing service companies were to enter into this market, or existing participants in this industry were to become more competitive, it could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

In the past, the Company occasionally suffered operating losses. As a result of those losses and related effects, the Company had repeated technical violations of certain covenants in the Company's prior domestic credit facility, which its lender periodically waived for fees rather than permanently resetting them to realistically achievable levels. However, the Company changed its domestic lenders in July of 2010 and entered into a new credit facility with financial covenants that the Company believe are more realistic and thus less likely to require waivers. The Company was in compliance of all its new domestic lender's bank covenants in 2012 and 2011. See Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, below.

There can be no assurances that in the future the Company will be profitable, will not violate covenants of its current or future Credit Facilities, its lenders would waive any violations of such covenants, the Company will continue to have adequate lines of credit, or will continue to have sufficient availability under its lines of credit. Accordingly, continued losses or marginal profitability by the Company, as well as any failure to maintain sufficient availability or lines of credit from the Company's lenders, could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

The Company has experienced and, in the future, may experience fluctuations in quarterly operating results. Factors that may cause the Company's quarterly operating results to vary from time to time and may result in reduced revenue and profits include: (i) the number of active client projects; (ii) seasonality of client products; (iii) client delays, changes and cancellations in projects; (iv) the timing requirements of client projects; (v) the completion of major client projects; (vi) the timing of new engagements; (vii) the timing of personnel cost increases; and (viii) the loss of major clients. In addition, the Company is subject to revenue or profit uncertainties resulting from factors such as unprofitable client work (see below) and the failure of clients to pay. The Company attempts to mitigate these risks by dealing primarily with large credit-worthy clients, by entering into written or oral agreements with its clients and by using project budgeting systems. These revenue fluctuations could materially and adversely affect the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

The Company has agreed, and in the future may agree, from time to time to perform services for its client that become or turn out to be unprofitable even though the Company expected to make a profit when agreeing to perform them. The Company's services for a particular client or project may be or become unprofitable due to mistakes or changes in circumstance, including (without limitation) any (i) mistake or omission made in investigating, evaluating or understanding any relevant circumstance, requirement or request of the Company's client or any aspect of the prospective services or their inherent problems, (ii) mistake made in pricing, planning or performing the prospective service, (iii) service non-performance, or free re-performance, or (iv) change in cost, personnel, regulation or other performance circumstance. Unprofitable services could reduce the Company's net revenues and, if material in gross amount or degree of unprofitability, could materially and adversely affect the Company or its actual, expected, estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

### ***Failure to Develop New Products***

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

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

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

The successful integration of these acquisitions also may involve a number of additional risks, including: (i) the inability to retain the clients of the acquired business; (ii) the lingering effects of poor client relations or service performance by the acquired business, which also may taint the Company's existing businesses; (iii) the inability to retain the desirable management, key personnel and other employees of the acquired business; (iv) the inability to fully realize the desired efficiencies and economies of scale; (v) the inability to establish, implement or police the Company's existing standards, controls, procedures and policies on the acquired business; (vi) diversion of management attention; and (vii) exposure to client, employee and other legal claims for activities of the acquired business prior to acquisition. In addition, any acquired business could perform significantly worse than expected.

The inability to identify, acquire, finance and successfully integrate such merchandising or marketing services business could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

The timing, size and success of acquisition efforts and any associated capital commitments cannot be readily predicted. Future acquisitions may be financed by issuing shares of the SGRP Common Stock, cash, or a combination of Common Stock and cash. If the SGRP Common Stock does not maintain a sufficient market value, or if potential acquisition candidates are otherwise unwilling to accept the SGRP Common Stock as part of the consideration for the sale of their businesses, the Company may be required to obtain additional capital through debt or equity financings. To the extent the SGRP Common Stock is used for all or a portion of the consideration to be paid for future acquisitions, dilution may be experienced by existing stockholders. In addition, there can be no assurance that the Company will be able to obtain the additional financing it may need for its acquisitions on terms that the Company deems acceptable. Failure to obtain such capital would materially and adversely affect the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

### ***Reliance on the Internet and Third Party Vendors***

The Company relies on the Internet for the scheduling, tracking, coordination and reporting of its merchandising and marketing services. The Internet has experienced, and is expected to continue to experience, significant growth in the numbers of users and amount of traffic as well as increased attacks by hackers and other saboteurs. To the extent that the Internet continues to experience increased numbers of users, frequency of use or increased bandwidth requirements of users, there can be no assurance that the Internet infrastructure will continue to be able to support the demands placed on the Internet by this continued growth or that the performance or reliability of the Internet will not be adversely affected. Furthermore, the Internet has experienced a variety of outages and other delays as a result of accidental and intentional damage to portions of its infrastructure, and could face such outages and delays in the future of similar or greater effect. The Company relies on third-party vendors to provide its Internet access and other services used in its business, and the Company has no control over such third-party providers. Any protracted disruption or material slowdown in Internet or other services could increase the Company's costs of operation and reduce efficiency and performance, which could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

The markets in which the Company operates are cyclical and subject to the effects of economic downturns. The current political, social and economic conditions, including the impact of terrorism on consumer and business behavior, make it difficult for the Company, its vendors and its clients to accurately forecast and plan future business activities. Substantially all of the Company's key clients are either retailers or those seeking to do product merchandising at retailers. Should the retail industry experience a significant economic downturn, the resultant reduction in product sales could significantly decrease the Company's revenues. The Company also has risks associated with its clients changing their business plans and/or reducing their marketing budgets in response to economic conditions, which could also significantly decrease the Company's revenues. Such revenue decreases could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

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

### ***Dependence Upon and Cost of Services Provided by Affiliates***

The success of the Company's domestic business is dependent upon the successful execution of its field merchandising, assembly and management services by SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI"), and National Merchandising of America, Inc. ("NMA"), each of which is an affiliate, but not a subsidiary, of the Company, and none of which is consolidated in the Company's consolidated financial statements. NMA provides substantially all of the field merchandising and management services used by National Merchandising Services, LLC ("NMS"), which is a subsidiary of SGRP and part of the Company, while SMS provides substantially all of the other domestic field merchandising and assembly services used by the Company other than NMS (84% of the domestic field merchandising and assembly expenses in 2012, excluding NMS field expenses), and SMSI provides substantially all of the other domestic field management services used by the Company (94% of the domestic field management expense in 2012, excluding NMS field expenses). Services are provided to the Company (other than NMS) by SMS and SMSI at rates equal to their net total cost plus four percent pursuant to contracts that are cancelable on 60 days' notice prior to December 31 of each year or with 180 days' notice at any other time. Services are provided to NMS by NMA at rates equal to their total cost (with certain exclusions) plus two percent pursuant to a contract that is cancelable on 60 days prior notice at any time after December 31, 2013. See *Potential Conflicts in Services Provided by Affiliates*, below, Item 13 – *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 10 to the Consolidated Financial Statements – *Related Party Transactions*, below.



The Company has determined that the rates charged by SMS, SMSI and NMA for their services are slightly favorable to the Company (when compared to other possible providers). SMS and NMA have independently advised the Company that those favorable rates are dependent (at least in part) on the ability of each of them to continue to use independent contractors as its field merchandising specialists, that such merchandising specialists generally provide greater flexibility and performance quality at lower total costs as a result of their independence, that it complies with applicable independent contractor requirements for the individuals and companies it retains as field merchandising specialists, and that the appropriateness of its treatment of its field merchandising specialists as independent contractors has been routinely subject to challenge (both currently and historically) by various states. The expenses of defending those challenges are part of the total costs of SMS borne by the Company but are excluded from the total costs of NMA borne by the Company. There can be no assurance that either SMS or NMA will succeed in defending any such challenge, and an adverse determination could increase its costs of doing business. Any material increase in the costs of SMS, SMSI or NMA (and thus the costs it charges to the Company), or any decrease in such performance quality, could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

#### ***Potential Conflicts in Services Provided by Affiliates***

SMS and SMSI are affiliates (but not subsidiaries) of SGRP and are owned solely by Mr. Robert G. Brown, founder, director, Chairman and a significant stockholder of the Company, and Mr. William H. Bartels, founder, director, Vice Chairman and a significant stockholder of the Company. Mr. Brown and Mr. Bartels are also stockholders, directors and executive officers of various other affiliates of SGRP. NMA is an affiliate (but not a subsidiary) of NMS, and NMS is a consolidated subsidiary of SGRP. Mr. Edward Burdekin is the Chief Executive Officer and President and a director of both NMA and NMS, NMA is owned by Andrea H. Burdekin (Mr. Burdekin's wife), and NMA owns 49% of the membership units in NMS. SGRP owns the other 51% of the membership units in NMS. In the event of any dispute in the business relationships between the Company and one or more of SMS, SMSI or NMA, it is possible that Messrs. Brown, Bartels or Burdekin may have one or more conflicts of interest with respect to those relationships and could cause one or more of SMS, SMSI or NMA to renegotiate or cancel their approved affiliate contracts with the Company or otherwise act in a way that is not in the Company's best interests. See *Dependence Upon and Cost of Services Provided by Affiliates*, above, Item 13 – *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 10 to the Consolidated Financial Statements – *Related Party Transactions*, below.

While the Company's relationships with SMS, SMSI and NMA are excellent, there can be no assurance that the Company could (if necessary under the circumstances) replace the field merchandising specialists and management currently provided by SMS and SMSI, respectively, or those provided by NMA, in sufficient time to perform its client obligations or at such favorable rates in the event one or more of SMS, SMSI or NMA no longer performed those services. Any cancellation, other nonperformance or material pricing increase under those approved affiliate contracts could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

Dividends on SGRP Common Stock are discretionary, have never been paid, are subject to restrictions in the Company's credit facilities and applicable law and can only be paid to the holders of SGRP Common Stock if the accrued and unpaid dividends and potential dividends are first paid to the holders of the Series A Preferred Stock. In the event of the Company's liquidation, dissolution, or winding-up, the holders of Common Stock are only entitled to share in the Company's assets, if any, that remain after the Company make payment of and provision for all of the Company's debts and liabilities and the liquidation preferences of all of the Company's outstanding Preferred Stock. There can be no assurance that sufficient funds will remain in any such case for dividends or distributions to the holders of SGRP Common Stock.

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

The Company's ability to issue or redeem Preferred Stock, or any rights to purchase such shares, could discourage an unsolicited acquisition proposal. For example, the Company could impede a business combination by issuing a series of preferred stock containing class voting rights that would enable the holders of such preferred stock to block a business combination transaction. Alternatively, the Company could facilitate a business combination transaction by issuing a series of preferred stock having sufficient voting rights to provide a required percentage vote of the stockholders. Additionally, under certain circumstances, the Company's issuance of preferred stock could adversely affect the voting power of the holders of the Company's common stock. Although the Company's board of directors is required to make any determination to issue any preferred stock based on its judgment as to the best interests of the Company's stockholders, the Company's board of directors could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of the Company's stockholders may believe to be in their best interests or in which stockholders may receive a premium for their stock over prevailing market prices of such stock. The Company's board of directors does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange requirements.

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

The market price of the Company's common stock has historically experienced and may continue to experience significant volatility. During the year ended December 31, 2012, the sale price of SGRP Common Stock fluctuated from \$0.89 to \$2.30 per share. The Company believes that its Common Stock is subject to wide price fluctuations due to (among other things) the following:

- the relatively small public float and corresponding thin trading market for SGRP Common Stock, attributable to (among other things) the large block of voting shares beneficially owned by the Company's co-founders (as noted below) and generally low trading volumes, and that thin trading market may cause small trades to have significant impacts on SGRP Common Stock price;
- the substantial beneficial ownership of 59.2% of the Company's voting stock and potential control by the Company's co-founders (who also are directors and executive officers of the Company), Mr. Robert G. Brown, who beneficially owns 34.4% (or 7,466,176 shares) of SGRP Common Stock, and Mr. William H. Bartels, who beneficially owns 24.8% (or 5,394,698 shares) of SGRP Stock, which amounts were calculated using total beneficial ownership (21,712,916 shares) and their individual beneficial ownerships at December 31, 2012 (including all shares then beneficially owned under currently exercisable warrants and vested options), as more fully described above and below; the periodic potential risk of the delisting of SGRP Common Stock from trading on Nasdaq (as described below);
- any announcement, estimate or disclosure by the Company, or any projection or other claim or pronouncement by any of the Company's competitors or any financial analyst, commentator, blogger or other person, respecting (i) any new product created, product improvement, significant contract, business acquisition or relationship, or other publicized development by the Company or any of its competitors, or (ii) any change, fluctuation or other development in the Company's actual, estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition or in those of any of the Company's competitors, in each case irrespective of accuracy or validity and whether or not adverse or material; and
- the general volatility of stock markets, consumer and investor confidence and the economy generally (which often affect the prices of stock issued by the Company and many others without regard to financial results or condition).

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

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

In addition, the volatility in the market price of SGRP Common Stock could lead to class action securities litigation that (however unjustified) could in turn impose substantial costs on the Company, divert management's attention and resources and harm the Company's stock price, business, prospects, results of operations and financial condition.

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

The Company's co-founders, Mr. Robert G. Brown and Mr. William H. Bartels are directors, executive officers (Chairman and Vice-Chairman, respectively) and significant stockholders of the Company. Mr. Brown beneficially owns approximately 34.4%, Mr. Bartels beneficially owns approximately 24.8%, and they own approximately 59.2% in the aggregate of the SGRP Common Stock, which amounts were calculated using total beneficial ownership (21,712,916 shares) and their individual beneficial ownerships (7,466,176 shares and 5,394,698 shares, respectively) at December 31, 2012, which ownerships included all shares beneficially owned under currently exercisable warrants and vested options. Mr. Brown and Mr. Bartels have, should they choose to act together, and under certain circumstances Mr. Brown acting alone may have, the ability to control the election of directors, the approval of mergers and all other matters that must or may be approved by the Company's stockholders. In any event, Mr. Brown and Mr. Bartels continue to have significant influence over the Company's business and operations and the outcome of the Company's corporate actions, including those involving stockholder approvals. The interests of any significant stockholder may be different from time to time from, and potentially in conflict with, the interests of other stockholders, and ownership concentration could delay or prevent a change in the Company's control or otherwise discourage the Company's potential acquisition by another person, any of which could cause the market price of the SGRP Common Stock to decline and that decline could be significant.

### ***Risks of Dilution***

The Company may issue stock options and award restricted stock to directors, officers, employees and consultants in the future at Common Stock per-share exercise prices below the price you may have paid. In addition, the Company may issue shares of SGRP Common Stock in the future in furtherance of the Company's acquisitions or development of businesses or assets. Each of those and other issuances of SGRP Common Stock could have a dilutive effect on the value of your shares, depending on the price the Company are paid (or the value of the assets or business acquired) for such shares, market conditions at the time and other factors.

### ***Risks of a Nasdaq Delisting:***

There can be no assurance that the Company will be able to comply in the future with the Bid Price Rule or Nasdaq's continued listing requirements. If the Company fails to satisfy the Bid Price Rule and continues to be in non-compliance after notice and the applicable six month grace period ends, Nasdaq may commence delisting procedures against the Company (during which the Company will have additional time of up to six months to appeal and correct its non-compliance). If the SGRP Common Stock shares were ultimately delisted by Nasdaq, 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.

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

The Company's international model is to join forces with Local Investors having merchandising service expertise and combine their knowledge of the local market with the Company's proprietary software and expertise in the merchandising business. The Company also has begun to use this model in the United States (see Item 1 – *The Company's Domestic and International Geographic Division*, above). As a result, each of the Company's international subsidiaries (other than Canada and Japan) and NMS domestically is owned in material part by an entity in the local country where the international or domestic subsidiary resides and that entity is not otherwise affiliated with the Company (e.g., the "Local Investor"). The joint venture agreements between the Company and the Local Investor in the respective international or domestic subsidiaries specify, among other things, the equity, programming and support services the Company is required to provide and the equity, credit support, certain services and management support that the Local Investor is required to provide to the international or domestic subsidiary. Certain of those subsidiaries also may be procuring field merchandising execution through affiliates of the applicable Local Investors. In the event of any disagreement or other dispute in the business relationships between the Company and Local Investor, it is possible that the Local Investor may have one or more conflicts of interest with respect to the relationship and could cause the applicable international or domestic subsidiary to operate or otherwise act in a way that is not in the Company's best interests.

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

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

There can be no assurance that the Company could (if necessary under the circumstances) replace equity, credit support, management, field merchandiser and other services currently provided by any Local Investor in sufficient time to perform its client obligations or that the Company could provide these services and or equity in the event the Local Stockholder was to sell its stock or reduce any support to the Company's subsidiary in the applicable country. Any cancellation, other nonperformance or material change under the joint venture agreements with Local Investors could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

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

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

The Company also has foreign currency exposure associated with its international subsidiaries. In 2012, these foreign currency exposures are primarily concentrated in the Australian Dollar, Canadian Dollar, Mexican Peso, South African Rand and Japanese Yen.

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

The Company's expansion strategy includes expansion into various countries around the world. While the Company endeavors to limit its exposure by entering only countries where the political, social and economic environments are conducive to doing business, there can be no assurances that the respective business environments will remain favorable. In the future, the Company's international operations and sales may be affected by the following risks, which may adversely affect United States companies doing business in foreign countries:

- Political and economic risks, including terrorist attacks and political instability;
- Various forms of protectionist trade legislation that currently exist, or have been proposed;
- Expenses associated with customizing products;
- Local laws and business practices that favor local competition;
- Dependence on local vendors;
- Multiple, conflicting and changing governmental laws and regulations;
- Potentially adverse tax consequences;
- Local accounting principles, practices and procedures and limited familiarity with US GAAP;
- Foreign currency exchange rate fluctuations;
- Communication barriers, including those arising from language, culture, custom and times zones; and
- Supervisory challenges arising from distance, physical absences and such communication barriers.

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

None.

### **Item 2. Properties**

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

The Company maintains its corporate headquarters in approximately 4,000 square feet of leased office space located in White Plains, New York, under an operating lease with a term expiring November 30, 2022, and maintains its data processing center and warehouse at its regional office in Auburn Hills, Michigan, under an operating lease expiring October 31, 2015. The Company believes that its existing facilities are adequate for its current business. However, new facilities may be added should the need arise in the future.

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

#### **DOMESTIC:**

White Plains, NY (Corporate Headquarters)

Auburn Hills, MI (Regional Office, Warehouse and Central Computer Operations)

#### **INTERNATIONAL:**

Toronto, Ontario, Canada

Tokyo, Japan

Bucharest, Romania

Durban, South Africa

New Delhi, India

Melbourne, Australia

Mexico City, Mexico

Shanghai, China

Istanbul, Turkey

### **Item 3. Legal Proceedings**

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

### **Item 4. Submission of Matters to a Vote of Security Holders**

None.

## PART II

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

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

SGRP's certificate of incorporation authorizes it to issue 47,000,000 shares of common stock with a par value of \$0.01 per share (the "SGRP Common Stock"), which all have the same voting, dividend and liquidation rights. SGRP Common Stock is traded on the Nasdaq Capital Market ("Nasdaq") under the symbol "SGRP". On December 31, 2012, the SGRP Common Stock closing price was \$1.74 per share; there were 20,456,453 shares of SGRP Common Stock issued and outstanding in the aggregate, which had an aggregate market value of \$35,600,000; there were 21,712,916 shares of SGRP Common Stock beneficially owned in the aggregate, which beneficial ownership included all shares then beneficially owned under currently exercisable vested options; there were 14,334,881 shares (or approximately 66.0%) of SGRP Common Stock beneficially owned by the officers, directors and affiliates of SGRP in the aggregate, which affiliated ownership included shares then beneficially owned under currently exercisable vested options and had an aggregate market value of \$24,912,693; and there were 1,209,922 shares (or approximately 5.6%) of SGRP Common Stock beneficially owned by non-affiliates of the Company in the aggregate (*i.e.*, SGRP's public float), which float included shares then beneficially owned under currently exercisable warrants and vested options and had an aggregate market value of \$2,105,264. See Item 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, below.

SGRP's certificate of incorporation also authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as 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 number of shares authorized by such certificate of incorporation and designation was, however, reduced to 2,445,598 shares of remaining authorized and available preferred stock by the conversions described in the next paragraph and could be further reduced by amendment or redemption to facilitate the creation of any other SGRP Preferred Series. At December 31, 2012, no shares of SGRP Series A Preferred Stock were issued and outstanding.

During 2008, 338,801 shares of such Series A Preferred Stock were purchased by a non-SGRP retirement plan whose trustee is and beneficiaries include Robert G. Brown (who is a co-founder, director, executive officer and significant stockholder of SGRP), and 215,601 shares of such Series A Preferred Stock were purchased by a non-SGRP retirement plan whose trustee and beneficiaries include William H. Bartels (who also is a co-founder, director, executive officer and significant stockholder of SGRP), which shares collectively constituted all of the outstanding shares of Series A Preferred Stock. On or before March 10, 2011, Mr. Brown and Mr. Bartels, as trustees of those plans, each had requested that their plan's preferred shares be converted into SGRP's Common Stock in accordance with its terms, and in order to facilitate conversion of those shares by payment of all accrued and unpaid dividends, on March 10, 2011, SGRP's Board of Directors (i) fixed March 10, 2011, as the applicable record date for determination of the holders of the SGRP's Series A Preferred Stock eligible to receive such dividends, (ii) declared a dividend on such SGRP's Series A Preferred Stock equal to the accrued and unpaid dividends thereon, payable in shares of SGRP's Common Stock valued at their market value (\$2.34 per share) on such record date, and (iii) authorized the issuance of the shares of SGRP's Common Stock necessary to effect such conversion (554,402 shares) and accrued dividend payment (54,584 shares) in consideration of the preferred shares surrendered and the accrued dividends thereby satisfied. As a result of such conversions and stock dividends, on March 11, 2011, Mr. Brown's plans received 372,158 shares of SGRP's Common Stock (33,357 shares of which were for accrued dividends) and Mr. Bartels' plan received 236,828 shares of SGRP's Common Stock (21,227 shares of which were for accrued dividends). See Item 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, and Item 13 – *Certain Relationships and Related Transactions, and Director Independence*, below.

The holders of SGRP Common Stock and Series A Preferred Stock vote together for directors and other matters, other than matters pertaining only to the Series A Preferred Stock (such as amending SGRP's Certificate of Designation of Series "A" Preferred Stock) where only the holders of the Series A Preferred Stock are entitled to vote. For a more complete description of the SGRP Common Stock and SGRP Preferred Stock, director and officer exculpation and indemnification, absence of cumulative voting rights and certain other governance matters, please see "Our Capital Stock" on pages 8 through 12 of SGRP's Amendment No. 1 to its Registration Statement on Form S-3 as filed with the SEC on April 8, 2011.

### Price Range of Common Stock

The following table sets forth the reported high and low sales prices of the Common Stock for the quarters indicated as reported on the Nasdaq Capital Market.

	2012		2011	
	High	Low	High	Low
First Quarter	\$ 1.38	\$ 0.89	\$ 2.38	\$ 0.88
Second Quarter	1.40	1.10	1.90	1.05
Third Quarter	2.30	1.09	1.58	0.87
Fourth Quarter	2.30	1.65	1.25	0.88

### Dividends

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

### Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of share purchased	(d) Maximum number of shares that may yet be purchased
August, 2012	2,500	\$ 1.82	2,500	497,500
September, 2012	9,689	2.01	9,689	487,811
November, 2012	<u>5,500</u>	1.99	<u>5,500</u>	482,311
Total Purchased	17,689	1.98	17,689	

There were no such affiliated purchasers during that period.

The repurchases described above were made pursuant to the SPAR Group, Inc., 2012 Stock Repurchase Program (the "Repurchase Program"), as approved by SGRP's Audit Committee and adopted by its Board of Directors on August 8, 2012, and ratified on November 8, 2012. Under the Repurchase Program, SGRP may repurchase shares of its common stock through August 8, 2015, but not more than 500,000 shares in total, and those repurchases would be made from time to time in the open market and through privately-negotiated transactions, subject to general market and other conditions. SGRP does not intend to repurchase any shares in the market during any blackout period applicable to its officers and directors under the SPAR Group, Inc. Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information As Adopted, Restated, Effective and Dated as of May 1, 2004, and As Further Amended Through March 10, 2011 (other than purchases that would otherwise be permitted under the circumstances for anyone covered by such policy). The Company anticipates continuing its Repurchase Program throughout 2013.

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

SGRP did not issue any SGRP Common Stock during 2011 or 2012 other than (i) pursuant to its existing registered stock compensation and stock purchase plans (See Note 11 – Stock Based Compensation), (ii) SGRP's issuance on March 26, 2011, of 75,000 shares of SGRP Common Stock to Michael Anthony Holdings, Inc., pursuant to SGRP's agreement with it on March 26, 2010, to privately issue warrants to it, in consideration of its term loan to the Company (as that loan is more fully described in Note 4 to the Consolidated Financial Statements in SGRP's Quarterly Report respecting the quarter ended September 30, 2010), for total consideration and exercise price of \$0.85 per share (the fair market value at the time of such agreement), (iii) SGRP's issuance on March 11, 2011, of 608,986 shares SGRP Common Stock to Mr. Robert G. Brown and Mr. William H. Bartels, as trustees of certain benefit plans, in the conversion of and payment of accrued interest on SGRP's outstanding Series A Preferred Stock (See *The Company's Capital Stock Generally*, above), and (iv) SGRP's issuance on September 1, 2012, of 99,789 shares of Common Stock, par value \$0.01 per share, having a fair market value of \$165,000 to Ms. Andrea Burdekin as part of the purchase of NMA (See Note 13 to the Consolidated Financial Statements - *Purchase of Interest in Subsidiaries*, below). The warrants and shares referenced in clause (ii), the issuance of the shares described in clause (iii) and (iv) of this paragraph have not been registered under the Securities Act or other securities laws, as they were made in a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act.

### ***SGRP Common Stock Offering and S-3 Registration Statement***

The Company has filed with the SEC has approved a registration statement on Form S-3 (as amended, the "2011 S-3 Registration Statement") for the sale of SGRP Common Stock to the public, which became effective on April 8, 2011. Upon amendment of the 2011 S-3 Registration Statement to reflect the terms of particular sales, the Company will be permitted to sell a maximum of 2,000,000 shares for its benefit and the selling stockholders, Mr. Brown and Mr. Bartels, will be permitted to sell a maximum of 500,000 shares each for their respective benefit under the 2011 S-3 Registration Statement (which maximums could be increased by amendment and payment of the requisite fees). Based on the SGRP Common Stock beneficially owned by the Company's non-affiliates (*i.e.*, its public float) and the SGRP Common Stock Price of \$1.74 per share on December 31, 2012, the Company will be permitted under the applicable S-3 rules to sales of approximately \$3,577,470 in proceeds (or 2,056,017 shares) at that price, and the maximum sales by Mr. Brown and Mr. Bartels will be proportionally increased accordingly. An increase in its public float or a discounted offering sale price would permit the Company to sell more of its Common Stock under the 2011 S-3 Registration Statement. Certain updates to the 2011 S-3 Registration Statement may be required in order to sell shares thereunder.

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

Not applicable.



## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources

*Statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" include "forward-looking statements" within the meaning of the Securities Laws and are based on the Company's best estimates and determinations. You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar words or variations or negatives of those words. You should carefully consider all such information and the other risks and cautions noted in this Annual Report (including those incorporated by reference from the 2013 Proxy Statement) and the Company's other filings under applicable Securities Laws (including this Annual Report and the 2013 Proxy Statement, each a "SEC Report") that could cause the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition to differ materially from those anticipated by the Company and described in the information in the Company's forward-looking statements, whether express or implied, as the Company's anticipations are based upon the Company's plans, intentions, expectations and estimates and (although the Company believe them to be reasonable) involve known and unknown risks, uncertainties and other factors that could cause them to fail to occur or be realized or to be materially and adversely different from those the Company anticipated.*

*Although the Company believes that its plans, intentions, expectations and estimates reflected or implied in such forward-looking statements are reasonable, the Company cannot assure you that such plans, intentions, expectations or estimates will be achieved in whole or in part, that the Company has identified all potential risks, or that the Company can successfully avoid or mitigate such risks in whole or in part. You should carefully review the risk factors described above (See Item 1A – Risk Factors, above) and any other cautionary statements contained or incorporated by reference in this Annual Report. All forward-looking and other statements attributable to the Company or persons acting on its behalf are expressly subject to and qualified by all such risk factors and other cautionary statements.*

*You should not place undue reliance on the Company's forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond its control. The Company's forward-looking statements, risk factors and other cautionary statements (whether contained in this Annual Report, the 2013 Proxy Statement or any other applicable SEC Report) are based on the information currently available to the Company and speak only as of the date specifically referenced, or if no date is referenced, then as of December 31, 2012, in the case of this Annual Report or the 2013 Proxy Statement or the last day of the period covered by any other applicable SEC Report. New risks and uncertainties 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. Over time, the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievements, results, risks or condition will likely differ from those expressed or implied by the Company's forward-looking statements, and such difference could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.*

*The Company does not intend or promise, and the Company expressly disclaims any obligation, to publicly update or revise any forward-looking statements, risk factors or other cautionary statements (in whole or in part), whether as a result of new information, future events or recognition or otherwise, except as and to the extent required by applicable law.*

### Overview

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug store, independent, convenience and electronics stores, as well as providing furniture and other product assembly services in stores, homes and offices. The Company has supplied these project and product 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. Today the Company operates in 10 countries that encompass approximately 50% of the total world population through operations in the United States, Canada, Japan, South Africa, India, Romania, China, Australia, Mexico and Turkey.

## **Critical Accounting Policies & Estimates**

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

### ***Consolidation of Subsidiaries***

The Company consolidates its 100% owned subsidiaries. The Company also consolidates all of its 51% owned subsidiaries as the Company believes it is the primary beneficiary and controls the economic activities in accordance with *Accounting Standards Codification (ASC) 810-10, Consolidation of Variable Interest Entity*.

### ***Revenue Recognition***

The Company's services are provided to its clients under contracts or agreements. The Company bills its clients based upon service fee and per unit fee billing arrangements. Revenues under service fee billing arrangements are recognized when the service is performed. The Company's per unit fee arrangements provide for fees to be earned based on the retail sales of a client's products to consumers. The Company recognizes per unit fees in the period such amounts become determinable and are reported to the Company.

### ***Allowance for Doubtful Accounts***

The Company continually monitors the validity of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$216,000 and \$57,000 at December 31, 2012, and 2011, respectively. Bad debt expense was \$72,000, for the year ended December 31, 2012. In 2011, the Company had minimal write offs of accounts receivable resulting in recovery of \$55,000 for the year ended December 31, 2011.

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

In accordance with *ASC-350-10-720, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalized software development costs are amortized over three years on a straight-line basis.

The Company capitalized \$824,000 and \$722,000 of costs related to software developed for internal use in 2012, and 2011, respectively, and recognized approximately \$638,000 and \$595,000 of amortization of capitalized software for the years ended December 31, 2012, and 2011, respectively.

## Results of Operations

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

	Year Ended December 31,			
	2012	%	2011	%
Net revenues	\$ 102.8	100.0%	\$ 73.5	100.0%
Cost of revenues	75.5	73.5	51.0	69.4
Selling, general & administrative expense	22.1	21.5	18.5	25.1
Depreciation & amortization	1.2	1.1	1.1	1.5
Interest expense, net	0.1	0.1	0.2	0.3
Other income	(0.1)	(0.1)	—	—
Income before income tax provision and non-controlling interest	4.0	3.9	2.7	3.7
Provision for income taxes	0.6	0.5	0.4	0.5
Net income	3.4	3.4	2.3	3.2
Net income attributable to non-controlling interest	(0.5)	(0.5)	(0.1)	(0.2)
Net income attributable to SPAR Group, Inc.	\$ 2.9	2.9%	\$ 2.2	3.0%

### Results of operations for the year ended December 31, 2012, when compared to the same period in 2011

#### Net Revenues

Net revenues for the year ended December 31, 2012, were \$102.8 million, compared to \$73.5 million for the year ended December 31, 2011, an increase of \$29.3 million or 39.7%.

Domestic net revenues totaled \$43.1 million in the year ended December 31, 2012, compared to \$37.8 million for the same period in 2011. Domestic net revenues increased by \$5.3 million or 14% primarily attributable to continued growth from the Company's syndicated services and assembly businesses, increased project work and the acquisition of a competitive company in the later part of the year.

International net revenues totaled \$59.7 million for the year ended December 31, 2012, compared to \$35.7 million for the same period in 2011, an increase of \$24.0 million or 67%. The increase in 2012 international net revenues was primarily due to additional revenue from the newly integrated acquisitions acquired in the fourth quarter of 2011 in Mexico of \$10 million and Turkey of \$3.5, and 2012 acquisitions in Romania of \$4.1 million, and South Africa of \$2.4 million, as well as, continued organic growth in South Africa of \$3.1 and Japan of \$2 million.

#### Cost of Revenues

The Company's cost of revenues consists of its in-store labor and field management wages, related benefits, travel and other direct labor-related expenses and was 73.5% of net revenues for the year ended December 31, 2012, compared to 69.4% of net revenues for the year ended December 31, 2011.

Domestic cost of revenues was 67.6% of domestic net revenues for the year ended December 31, 2012, and 66.7% of domestic net revenues for the year ended December 31, 2011. The minor increase in domestic cost of revenues as a percentage of domestic net revenues of 1% was due primarily to an unfavorable mix within both syndicated and project work compared to the prior year. Approximately 86% and 88% of the Company's domestic cost of revenues in the year ended December 31, 2012 and 2011, respectively, resulted from in-store merchandiser specialist and field management services purchased from certain of the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), (See Item 13 - *Certain Relationships and Related Transactions, and Director Independence and Note 10 to the Consolidated Financial Statements - Related-Party Transactions*, below).

Internationally, cost of revenue as a percent of net revenue increased to 77.7% of international net revenues for the year ended December 31, 2012, compared to 72.3% of international net revenues for the year ended December 31, 2011. The international cost of revenue percentage increase of 8.3% was primarily due to higher cost margin business in the new markets in Mexico, Turkey and Romania and the mix of business in Canada, China and Japan.

## 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 \$22.1 million and \$18.5 million for the years ended December 31, 2012 and 2011, respectively.

	Year Ended December 31,			
	2012	%	2011	%
Selling, general & administrative	\$ 22.1	21.5%	\$ 18.5	25.1%
Depreciation and amortization	1.2	1.0	1.1	1.5
Total operating expenses	<u>\$ 23.3</u>	<u>22.5%</u>	<u>\$ 19.6</u>	<u>26.6%</u>

Domestic selling, general and administrative expenses totaled \$9.8 million for the year ended December 31, 2012, compared to \$8.9 million for the same period in 2011. The increase of approximately \$900,000 was due primarily to payroll related expenses, legal and accounting services, as well as expenses from the newly acquired merchandising company.

International selling, general and administrative expenses totaled \$12.3 million for the year ended December 31, 2012, compared to \$9.6 million for the same period in 2011. The increase of approximately \$2.7 million was primarily attributable to the new subsidiaries in Romania and South Africa, and a full year impact from fourth quarter 2011 acquisitions in Mexico and Turkey, partially offset by lower expenses in Australia and India.

## Depreciation and Amortization

Depreciation and amortization expenses totaled \$1.2 million for the year ended December 31, 2012, compared to \$1.1 million for the same period in 2011. The increase was primarily due to higher capital expenditures related to software development compared to prior year.

## Interest Expense, net

The Company's net interest expense was \$129,000 and \$197,000 for the years ended December 31, 2012 and 2011, respectively. The decrease in interest expense was directly attributable to reduced borrowings and lower interest rates.

## Income Taxes

The income tax provision for the years ended December 31, 2012 and 2011 was \$550,000 and \$362,000, respectively. The tax provision resulted primarily from domestic state taxes and for tax provisions related to certain international profits. The Company recognizes minimum federal tax provisions as the Company anticipates utilizing operating loss carry forwards in 2012.

The Company has established over time and currently has a valuation allowance reserve of approximately \$4.2 million against its deferred tax asset balance at December 31, 2012. The reduction of that reserve and the corresponding realization of these deferred tax assets is contingent upon the realization of future taxable profits over several years. The Company does not believe such future profits are certain, and thus the requirements of ASC 740-10 for reducing that reserve are not currently met, due to the subjective nature of forecasting profits and the risks the Company faces on a daily basis as noted in Item 1A of this report, including (without limitation) the risks related to dependence on the trend of both clients and retailers towards outsourcing merchandising and marketing services, the competitive nature of the this industry, economic and retail uncertainty, reliance on the Internet and dependence upon cost of services provided by affiliates.

## Non-controlling Interest

Net operating profits from the non-controlling interests, respecting the Company's 51% owned subsidiaries, resulted in a reduction of the Company's net income of \$521,000 and \$123,000 for the years ended December 31, 2012 and 2011, respectively.

## Net Income

The Company reported a net income of \$2.9 million for the year ended December 31, 2012, or \$0.14 per diluted share, compared to a net income of \$2.2 million, or \$0.10 per diluted share, for the corresponding period last year, based on diluted shares outstanding of 21.6 million and 21.3 million at December 31, 2012, and 2011, respectively.

## Off Balance Sheet Arrangements

None.

## **Liquidity and Capital Resources**

The Company had net income before non-controlling interest of \$3.5 million and \$2.3 million for the years ended December 31, 2012, and December 31, 2011, respectively.

The Company's cash provided by operating activities for the year ended December 31, 2012, was \$3.4 million, compared to net cash provided by operating activities of \$3.5 million in 2011. The net cash provided by operating activities was primarily due to a reported net income, depreciation and an increase in accounts payable, accrued expenses and other liabilities, partially offset by an increase in accounts receivable.

Net cash used by the Company in investing activities was \$1.8 million for the year ended December 31, 2012, and \$1.3 million for the year ended December 31, 2011, respectively. The net cash used in investing activities was a result of capitalization of software development costs, the purchase of computer equipment, the purchase of non-controlling interest in new subsidiaries and the final payment for the purchase of the Mexican subsidiary.

Net cash used by the Company in financing activities for the year ended December 31, 2012, was \$1.4 million compared with net cash used in financing activities of \$1.5 million for the year ended December 31, 2011. The cash used in financing activities was primarily a result of the Company's net payments on its lines of credit.

The above activities resulted in an increase of \$87,000 in the Company's cash and cash equivalents for the year ended December 31, 2012.

The Company had positive working capital of \$9.7 million at December 31, 2012, compared to positive working capital of \$7.2 million at December 31, 2011. The Company's current ratio was 1.7 at both December 31, 2012 and 2011. The increase in working capital was primarily due to increases in cash and accounts receivable and decreases in borrowings against lines of credit, partially offset by increased accounts payable and accrued expenses.

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

#### **Domestic Credit Facility**

SGRP and certain of its domestic subsidiaries, namely SPAR Marketing Force, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Trademarks, Inc., and SPAR Acquisition, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "Borrowers"), entered into a Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Loan Agreement"), with Sterling National Bank and Comerstone Bank as the lenders (the "Lenders"), and issued their Secured Revolving Loan Notes in the original maximum principal amounts of \$5.0 million to Sterling National Bank and \$1.5 million to Comerstone Bank (the "Notes"), to document and govern its new credit facility with them (the "Sterling Credit Facility"). In June 2011, the Lenders agreed to: (1) reduce the personal guarantee limits to the amounts noted below, and (2) extend the maturity of the Sterling Credit Facility until July 2013. The Sterling Credit Facility was amended effective as of July 1, 2012 (the "Second Sterling Amendment"), to: (1) increase the maximum available revolving loan amount to \$6.5 million from Sterling National Bank and remove Comerstone Bank as a lender, (2) reduce the interest rate to prime plus three quarters of one percent (3/4%) per annum, and (3) release and discharge each Guarantor as noted below.

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, provided personal guarantees of the Sterling Credit Facility totaling \$1,250,000 pursuant to their Limited Continuing Guaranty in favor of the Lenders dated as of July 6, 2010, as amended in June 2011 (the "Limited Sterling Guaranty"). In the Second Sterling Amendment, Mr. Robert G. Brown and Mr. William H. Bartels were released and discharged by Sterling from their Limited Sterling Guaranty.

Revolving Loans of up to \$6.5 million are available to the Borrowers under the Sterling Credit Facility based upon the borrowing base formula defined in the Loan Agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Sterling Credit Facility is secured by substantially all of the assets of the Borrowers (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

As of the effective date of the Second Sterling Amendment, the basic interest rate under the Sterling Credit Facility was reduced by three quarters of one percent (3/4%) per annum to the sum of the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time plus three quarters of one percent (3/4%) percent per annum, which automatically changes with each change in such rate.

Effective January 1, 2013 the Sterling Credit Facility was amended (the "Third Sterling Amendment") to reduce the interest rate to the Prime Rate (as that term is defined in the Loan Agreement) plus one quarter of one percent (1/4%) per annum.

Due to the requirement to maintain a lock box arrangement with the Agent and the Lenders' ability to invoke a subjective acceleration clause at its discretion, borrowings under the Sterling Credit Facility will be classified as current.

The Sterling Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments. At December 31, 2012, the Company was in compliance with such covenants.

**International Credit Facilities:**

In October 2011, SPARFACTS Australia Pty. Ltd., replaced the Commonwealth Bank line of credit with a new receivables based secured line of credit facility with Oxford Funding Pty Ltd. for \$1.2 million (Australian) or approximately \$1.2 million (based upon the exchange rate at December 31, 2012). The facility provides for borrowing based upon a formula as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The agreement expired on October 31, 2012. SPARFACTS is in the process of renegotiating a new agreement.

SPAR Canada Company, a wholly owned subsidiary, has a secured credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$750,000 (Canadian) or approximately \$753,000 (based upon the exchange rate at December 31, 2012). The Demand Operating Loan provides for borrowing based upon a formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions) and a minimum total debt to tangible net worth covenant. The Company was in compliance with the minimum total debt to tangible net worth covenant under this line of credit at December 31, 2012.

On March 7, 2011, the Japanese subsidiary, SPAR FM Japan, Inc., a wholly owned subsidiary, secured a loan with Mizuho Bank in the amount of 20.0 million Yen (Japanese), or approximately \$232,000. The loan is payable in monthly installments of 238,000 Yen or \$2,800 at an interest rate of 0.1% per annum with a maturity date of February 28, 2018. The outstanding balance at December 31, 2012, was approximately 14.8 million Yen or \$171,000 (based upon the exchange rate at December 31, 2012).

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

	<u>December 31, 2012</u>	<u>Average Interest Rate</u>	<u>December 31, 2011</u>	<u>Average Interest Rate</u>
<b><u>Credit Facilities Loan Balance:</u></b>				
United States	\$ 1,762	4.3%	\$ 2,621	4.8%
Australia	210	9.4%	402	10.4%
Canada	421	4.0%	618	4.0%
	<u>\$ 2,393</u>		<u>\$ 3,641</u>	
<b><u>Other Debt Facility:</u></b>				
Japan Term Loan	\$ 171	0.1%	\$ 227	0.1%
	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
<b><u>Unused Availability:</u></b>				
United States	\$ 4,248		\$ 2,671	
Australia	1,035		818	
Canada	331		118	
	<u>\$ 5,614</u>		<u>\$ 3,607</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.

#### Certain Contractual Obligations

The following table contains a summary of certain of the Company's contractual obligations by category as of December 31, 2012 (in thousands).

Contractual Obligations	Period in which payments are due				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 2,564	\$ 2,426	\$ 66	\$ 66	\$ 6
Contingent Liabilities	689	242	447	–	–
Capital Lease Obligations	314	201	113	–	–
Note to NMA	200	200	–	–	–
Operating Lease Obligations	3,181	1,144	1,087	609	341
Total	\$ 6,948	\$ 4,213	\$ 1,713	\$ 675	\$ 347

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

Not applicable.

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

See Item 15 of this Annual Report on Form 10-K.

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

None.

#### Item 9A.(T) 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 (1992)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2012.

Under applicable Securities Law, the Company is not required to obtain an attestation report from the Company's independent registered public accounting firm regarding internal control over financial reporting, and accordingly such an attestation has not been obtained or included in this Annual Report.

#### **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 insure 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**

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's fourth quarter of its 2012 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

None.



## PART III

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 7, 2013, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14 A in April of 2013, but not later than 120 days after the end of the Company's 2012 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

### **Item 11. Executive Compensation**

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 7, 2013, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14 A in April of 2013, but not later than 120 days after the end of the Company's 2012 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 7, 2013, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14 A in April of 2013, but not later than 120 days after the end of the Company's 2012 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 7, 2013, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14 A in April of 2013, but not later than 120 days after the end of the Company's 2012 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 7, 2013, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14 A in April of 2013, but not later than 120 days after the end of the Company's 2012 fiscal year), the Company's definitive proxy statement, which the Company plans to file pursuant to Regulation 14 A with SEC in April of 2013 (but not later than 120 days after the end of the Company's fiscal year), respecting SGRP's Annual Meeting of Stockholders, presently scheduled to be held on May 7, 2013, which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

## PART IV

### Item 15. Exhibits and Financial Statement Schedule

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

Reports of Independent Registered Public Accounting Firms	
• Rehmann Robson	F-1
• Gossler, Sociedad Civil, Member Crowe Horwath International	F-2
• BDO South Africa Inc.	F-3
Reports of Nitin Mittal & Co., Independent Public Accounting Firm	F-4
Consolidated Balance Sheets as of December 31, 2012, and December 31, 2011	F-5
Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2012, and December 31, 2011	F-6
Consolidated Statements of Equity for the years ended December 31, 2012, and December 31, 2011	F-7
Consolidated Statements of Cash Flows for the years ended December 31, 2012, and December 31, 2011	F-8
Notes to Consolidated Financial Statements	F-9

#### 2. Financial Statement Schedule.

Schedule II - Valuation and Qualifying Accounts for the two years ended December 31, 2012	F-34
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#### 3. Exhibits.

<b>Exhibit Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name of PIA Merchandising Services, Inc.), as amended ("SGRP"), incorporated by reference to SGRP's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1"), and the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes SGRP's name to SPAR Group, Inc.), (incorporated by reference to Exhibit 3.1 to SGRP's Quarterly Report on Form 10-Q for the 3rd Quarter ended September 30, 1999).
3.2	Amended and Restated By-Laws of SPAR Group, Inc., as adopted on May 18, 2004, as amended through November 10, 2011 (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 21, 2012).
3.3	Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
3.4	Charter of the Compensation Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).

- 3.5 Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.6 SPAR Group, Inc. Statement of Policy Respecting Stockholder Communications with Directors, adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.7 SPAR Group, Inc. Statement of Policy Regarding Director Qualifications and Nominations, adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.8 Certificate of Designation of Series "A" Preferred Stock of SPAR Group, Inc., As of March 28, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC on March 31, 2008).
- 4.1 Registration Rights Agreement entered into as of January 21, 1992, by and between SGRP (as successor to, by merger in 1996 with, PIA Holding Corporation, f/k/a RVM Holding Corporation, the California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverine (incorporated by reference to the Form S-1).
- 4.2 Amended and Restated Series A Preferred Stock Subscription Agreement by and among SGRP, Robert G. Brown, William H. Bartels and SPAR Management Services, Inc., a Nevada corporation ("SMSI"), dated September 30, 2008, and effective as of March 31, 2008 (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 4.3 Series A Preferred Stock Subscription Agreement by and among SGRP, SP/R Inc. Defined Benefit Pension Plan, acting through Robert G. Brown, its Trustee, WHB Services, Inc. Defined Benefit Trust, acting through William H. Bartels, its Trustee, and WHB Services, Inc. Investment Savings Trust, acting through William H. Bartels, its Trustee, affiliates of Mr. Robert G. Brown and Mr. William H. Bartels, dated September 30, 2008, and effective as of September 24, 2008 (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 4.4 SGRP's Offer to Exchange Certain Outstanding Stock Options for New Stock Options dated August 24, 2009 (incorporated by reference to Exhibits 99(a)(1)(A) through (G) of SGRP's Schedule TO dated August 24, 2009, as filed with the SEC on August 25, 2009 ("SGRP's SC TO-I")).
- 4.5 SGRP's Common Stock Prospectus Dated April 8, 2011 (incorporated by reference to SGRP's Pre-Effective Amendment No. 4 to its Registration Statement on Form S-3 (Registration No. 333-162657) as filed with the SEC on April 7, 2011).
- 4.6 Form of SGRP's Common Stock Certificate (incorporated by reference to SGRP's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-3 (Registration No. 333-162657) as filed with the SEC on February 7, 2011).
- 4.7 Form of SGRP's Preferred Stock Certificate (incorporated by reference to SGRP's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-3 (Registration No. 333-162657) as filed with the SEC on February 7, 2011).
- 10.1 SPAR Group, Inc. 2008 Stock Compensation Plan, effective as of May 29, 2008, and as amended through May 28, 2009 (the "SGRP 2008 Plan") (incorporated by reference to SGRP's Current Report on Form 8-K dated June 4, 2009, as filed with the SEC on June 4, 2009).
- 10.2 Summary Description and Prospectus dated August 24, 2009, respecting the SPAR Group, Inc. 2008 Stock Compensation Plan, as amended (incorporated by reference to Exhibit 99(a)(1)(G) to SGRP's SC TO-I).
- 10.3 Form of Nonqualified Stock Option Contract for new awards under the SGRP 2008 Plan (incorporated by reference to SGRP's first and final amendment to its SC TO-I on Schedule TO I/A dated October 20, 2009, as filed with the SEC on October 22, 2009).
- 10.4 2000 Stock Option Plan, as amended through May 16, 2006 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the SEC on November 14, 2006).

- 10.5 2001 Employee Stock Purchase Plan (incorporated by reference to SGRP's Proxy Statement for SGRP's annual stockholders meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.6 2001 Consultant Stock Purchase Plan (incorporated by reference to SGRP's Proxy Statement for SGRP's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.7 Amended and Restated Change in Control Severance Agreement between William H. Bartels and SGRP, dated as of December 22, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.8 Amended and Restated Change in Control Severance Agreement between Gary S. Raymond and SGRP, dated as of December 30, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.9 Amended and Restated Change in Control Severance Agreement between Kori G. Belzer and SGRP, dated as of December 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.10 Amended and Restated Change in Control Severance Agreement between Patricia Franco and SGRP, dated as of December 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.11 Amended and Restated Change in Control Severance Agreement between James R. Segreto and SGRP, dated as of December 20, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.12 Amended and Restated Field Service Agreement dated and effective as of January 1, 2004, by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
- 10.13 First Amendment to Amended and Restated Field Service Agreement between SPAR Marketing Services, Inc., a Nevada corporation ("SMS"), and SPAR Marketing Force, Inc., a Nevada corporation ("SME"), dated September 30, 2008, and effective as of September 24, 2008 (the "First Amendment") (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 10.14 Amended and Restated Field Management Agreement dated and effective as of January 1, 2004, by and between SPAR Management Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
- 10.15 Amended and Restated Programming and Support Agreement by and between SPAR Marketing Force, Inc. and SPAR Infotech, Inc., dated and effective as of September 15, 2007 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on November 14, 2007).
- 10.16 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).
- 10.17 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).
- 10.18 Joint Venture Agreement dated as of March 29, 2006, by and between FACE AND COSMETIC TRADING SERVICES PTY LIMITED and SPAR International, Ltd., respecting the Corporation's subsidiary in Australia (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.19 Joint Venture Shareholders Agreement between Friedshelf 401 (Proprietary) Limited, SPAR Group International, Inc., Derek O'Brien, Brian Mason, SMD Meridian CC, Meridian Sales & Mnrehandisign (Western Cape) CC, Retail Consumer Marketing CC, Merhold Holding Trust in respect of SGRP Meridian (Proprietary) Limited, dated as of June 25, 2004, respecting SGRP's consolidated subsidiary in South Africa (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).

- 10.20 Joint Venture Agreement dated as of September 3, 2012, by and between Combined Manufacturers National (Pty) Ltd and SGRP Meridian (Pty) Ltd, respecting SGRP's additional consolidated subsidiary in South Africa (as filed herewith).
- 10.21 Joint Venture Agreement dated as of August 2, 2011, by and among Todopromo, S.A. de C.V., Sepeme, S.A. de C.V., Top Promoservicios, S.A. de C.V., Conapad, S.C., Mr. Juan Francisco Medina Domenzain, Mr. Juan Francisco Medina Staines, Mr. Jorge Carlos Medina Staines, Mr. Julio Cesar Hernandez Vanegas, and SPAR Group International, Inc., respecting SGRP's consolidated subsidiary in Mexico (as filed herewith).
- 10.22 Joint Venture Agreement dated as of August 30, 2012, by and between National Merchandising of America, Inc., a Georgia corporation, SPAR NMS Holdings, Inc., a Nevada corporation and consolidated subsidiary of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 10.23 Field Services Agreement dated as of September 1, 2012, between National Merchandising of America, Inc., a Georgia corporation, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 10.24 Asset Purchase Agreement dated as of March 15, 2013, between Market Force Information, Inc., a Delaware corporation, and SPAR Marketing Force, Inc., a Nevada corporation and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on March 20, 2013).
- 10.25 Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Sterling Loan Agreement"), by and among SGRP, and certain of its direct and indirect subsidiaries, namely SPAR Incentive Marketing, Inc., PIA Merchandising Co., Inc., Pivotal Sales Company, National Assembly Services, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc. and SPAR, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "SPAR Sterling Borrowers"), and Sterling National Bank, as Agent (the "Sterling Agent"), and Sterling National Bank and Cornerstone Bank, as lenders (collectively, the "Sterling Lenders") (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.26 Secured Revolving Loan Note in the original maximum principal amount of \$5,000,000 issued by the SPAR Sterling Borrowers to Sterling National Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.27 Secured Revolving Loan Note in the original maximum principal amount of \$1,500,000 issued by the SPAR Sterling Borrowers to Cornerstone Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.28 Limited Continuing Guaranty of the obligations of the SPAR Sterling Borrowers under the Sterling Loan Agreement from Robert G. Brown and William H. Bartels in favor of the Sterling Lenders dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.29 Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of September 1, 2011, and effective as of June 1, 2011, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent and confirmed by Robert G. Brown and William H. Bartels as guarantors (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 21, 2012).
- 10.30 Second Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated and effective as of July 1, 2012, among the SPAR Sterling Borrowers, the Sterling Lenders (including Cornerstone as a departing Lender), and the Sterling Agent (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on August 10, 2012).
- 10.31 Third Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of February 8, 2013, and effective as of January 1, 2013, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent (as filed herewith).

- 10.32 Confirmation of Credit Facilities Letter by Royal Bank of Canada in favor of SPAR Canada Company dated as of October 17, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.33 General Security Agreement by SPAR Canada Company in favor of Royal Bank of Canada dated as of October 20, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.34 Waiver Letter and Amendment by and between Royal Bank of Canada Company, dated as of March 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 31, 2008).
- 10.35 Letter of Offer dated September 29, 2011, and General Business Factoring Agreement (undated) between Oxford Funding Pty Ltd and SPARfacts Pty Ltd (as filed herewith).
- 14.1 Code of Ethical Conduct for the Directors, Senior Executives and Employees, of SPAR Group, Inc., Amended and Restated (as of) August 1, 2012 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 14.2 Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information, as amended and restated on May 1, 2004, and as further amended through March 10, 2011 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 15, 2011).
- 21.1 List of Subsidiaries (as filed herewith).
- 23.1 Consent of Rehmann Robson (as filed herewith).
- 23.2 Consent of Gossler, Sociedad Civil, Member Crowe Horwath International (as filed herewith).
- 23.3 Consent of BDO South Africa Inc. (as filed herewith)
- 23.4 Consent of Nitin Mittal and Co. (as filed herewith)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 32.2 Certification of Chief Financial Officer 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

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

## SIGNATURES

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

SPAR Group, Inc.

By: /s/ Gary S. Raymond

Gary S. Raymond  
Chief Executive Officer

Date: April 1, 2013

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

SIGNATURE	TITLE
<u>/s/ Gary S. Raymond</u> Gary S. Raymond Date: April 1, 2013	Chief Executive Officer and Director
<u>/s/ Robert G. Brown</u> Robert G. Brown Date: April 1, 2013	Chairman of the Board and Director
<u>/s/ William H. Bartels</u> William H. Bartels Date: April 1, 2013	Vice Chairman and Director
<u>/s/ Jack W. Partridge</u> Jack W. Partridge Date: April 1, 2013	Director
<u>/s/ Lorrence T. Kellar</u> Lorrence T. Kellar Date: April 1, 2013	Director
<u>/s/ C. Manly Molpus</u> C. Manly Molpus Date: April 1, 2013	Director
<u>/s/ Arthur B. Drogue</u> Arthur B. Drogue Date: April 1, 2013	Director
<u>/s/ James R. Segreto</u> James R. Segreto Date: April 1, 2013	Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of SPAR Group, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, equity, and cash flows for each of the years in the two-year period ended December 31, 2012. Our audits also included the financial statement schedule for these years as listed in the index at Item 15. SPAR Group, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of SPAR TODOPROMO, SAPI, de CV, a subsidiary, or SGRP Meridian (Pty) Ltd., a subsidiary, as of and for the year ended December 31, 2012 or SPAR KROGNOS Marketing Private Limited (Formerly Known as SPAR Solutions Merchandising Private Limited), a subsidiary, as of and for the year ended December 31, 2011. These statements reflect total assets constituting 24% and 2% of consolidated total assets as of December 31, 2012 and 2011, respectively, and total revenues constituting 24% and 3% of total consolidated revenue for the years then ended, respectively. Such financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SPAR TODOPROMO, SAPI, de CV and SGRP Meridian (Pty) Ltd. for 2012 and SPAR KROGNOS Marketing Private Limited for 2011 is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors for 2012 and 2011, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPAR Group, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial schedule for those years, when considered in relation to the consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

/s/ Rehmann Robson

Troy, Michigan  
April 1, 2013



Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SPAR TODOPROMO, SAPI, de CV

We have audited the accompanying balance sheet of SPAR TODOPROMO, SAPI, de CV, as of December 31, 2012 and the related statements of income, equity, and cash flows for the year then ended. SPAR TODOPROMO, SAPI, de CV's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPAR TODOPROMO, SAPI, de CV, as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in United States of America.

/s/ Gossler, Sociedad Civil, Member Crowe Horwath International

Mexico City, Mexico  
March 1, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SGRP Meridian (Pty) Ltd.

We have audited the accompanying consolidated balance sheet of SGRP Meridian (Pty) Ltd., as of December 31, 2012 and the related consolidated statements of income and comprehensive income, equity, and cash flows for the year then ended. SGRP Meridian (Pty) Ltd.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SGRP Meridian (Pty) Ltd., as of December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in United States of America.

/s/ BDO South Africa, Inc.

Umhlanga, South Africa  
March 4, 2013

Report of Independent Public Accounting Firm

The Board of Directors and Stockholders  
SPAR KROGNOS Marketing Private Limited  
(Formerly Known as SPAR Solutions Merchandising Private Limited)  
New Delhi, India

We have audited the accompanying balance sheet of SPAR KROGNOS Marketing Private Limited (Formerly Known as SPAR Solutions Merchandising Private Limited), a company incorporated under the laws of India, as of December 31, 2011 and the related statements of income, equity, and cash flows for the year then ended. SPAR KROGNOS Marketing Private Limited's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPAR KROGNOS Marketing Private Limited (Formerly Known as SPAR Solutions Merchandising Private Limited), as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in United States of America.

/s/ Nitin Mittal & Co.  
Chartered Accountants

New Delhi, India  
March 28, 2013

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

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,792	\$ 1,705
Accounts receivable, net	21,414	15,461
Deferred tax	194	–
Prepaid expenses and other current assets	596	801
<b>Total current assets</b>	<b>23,996</b>	<b>17,967</b>
Property and equipment, net	1,777	1,523
Goodwill	1,792	1,148
Intangibles	1,468	705
Other assets	237	178
<b>Total assets</b>	<b>\$ 29,270</b>	<b>\$ 21,521</b>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 4,177	\$ 1,819
Accrued expenses and other current liabilities	6,729	4,039
Accrued expenses due to affiliates	705	1,092
Customer deposits	263	183
Lines of credit	2,393	3,641
<b>Total current liabilities</b>	<b>14,267</b>	<b>10,774</b>
Long-term debt and other liabilities	268	334
<b>Total liabilities</b>	<b>14,535</b>	<b>11,108</b>
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares – 2,445,598 Issued and outstanding shares – none – December 31, 2012 none – December 31, 2011	–	–
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued and outstanding shares – 20,456,453 – December 31, 2012 20,103,043 – December 31, 2011	205	201
Treasury stock	(26)	–
Additional paid-in capital	14,738	13,940
Accumulated other comprehensive loss	(382)	(172)
Accumulated deficit	(1,696)	(4,626)
<b>Total SPAR Group, Inc. equity</b>	<b>12,839</b>	<b>9,343</b>
Non-controlling interest	1,896	1,070
<b>Total liabilities and equity</b>	<b>\$ 29,270</b>	<b>\$ 21,521</b>

*See accompanying notes.*

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

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Net revenues	\$ 102,766	\$ 73,524
Cost of revenues	75,531	51,028
Gross profit	27,235	22,496
Selling, general and administrative expense	22,061	18,542
Depreciation and amortization	1,167	1,069
Operating income	4,007	2,885
Interest expense, net	129	197
Other income	(123)	(11)
Income before provision for income taxes	4,001	2,699
Provision for income taxes	550	362
Net income	3,451	2,337
Net income attributable to non-controlling interest	(521)	(123)
Net income attributable to SPAR Group, Inc.	\$ 2,930	\$ 2,214
Net income per basic and diluted common share:		
Net income – basic	\$ 0.14	\$ 0.11
Net income – diluted	\$ 0.14	\$ 0.10
Weighted average common shares – basic	20,240	19,958
Weighted average common shares – diluted	21,606	21,327
Net income	3,451	2,337
Other comprehensive income:		
Foreign currency translation adjustments	(210)	(30)
Comprehensive income	\$ 3,241	\$ 2,307

*See accompanying notes.*

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

	Preferred Stock		Common Stock			Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount	Treasury Stock					
Balance at January 1, 2011	554	\$ 6	19,314	\$ 193	\$ (1)	\$ 13,549	\$ (6,808)	\$ (142)	\$ 450	\$ 7,247
Preferred Stock and accrued dividends converted to common stock	(554)	(6)	609	6	—	—	—	—	—	—
Exercise of warrants			75	1	—	63	—	—	—	64
Issuance of stock options and restricted shares to employees & non-employees for services			—	—	—	420	—	—	—	420
Exercise of options			105	1	—	36	—	—	—	37
Sale of non-controlling interest of subsidiary in India			—	—	—	(127)	—	—	217	90
Establishment of new subsidiaries with non-controlling interest			—	—	—	—	—	—	158	158
Distribution of subsidiary's equity			—	—	—	—	(32)	—	122	90
Reissued treasury stock			—	—	1	(1)	—	—	—	—
Other comprehensive loss			—	—	—	—	—	(30)	—	(30)
Net income			—	—	—	—	2,214	—	123	2,337
<b>Balance at December 31, 2011</b>	<b>—</b>	<b>\$ —</b>	<b>20,103</b>	<b>\$ 201</b>	<b>\$ —</b>	<b>\$ 13,940</b>	<b>\$ (4,626)</b>	<b>\$ (172)</b>	<b>\$ 1,070</b>	<b>\$ 10,413</b>
Issuance of stock options and restricted shares to employees & non-employees for services			20	—	—	517	—	—	—	517
Issuance of shares for purchase of joint venture			100	1	—	164	—	—	—	165
Exercise of options			247	3	—	134	—	—	—	137
Purchase of non-controlling interest in joint ventures			—	—	—	—	—	—	368	368
Other changes to non-controlling interest			—	—	—	—	—	—	(63)	(63)
Other changes to paid-in capital			—	—	—	(17)	—	—	—	(17)
Purchase of treasury shares			(18)	—	(35)	—	—	—	—	(35)
Reissued treasury stock			4	—	9	—	—	—	—	9
Other comprehensive loss			—	—	—	—	—	(210)	—	(210)
Net income			—	—	—	—	2,930	—	521	3,451
<b>Balance at December 31, 2012</b>	<b>—</b>	<b>\$ —</b>	<b>20,456</b>	<b>\$ 205</b>	<b>\$ (26)</b>	<b>\$ 14,738</b>	<b>\$ (1,696)</b>	<b>\$ (382)</b>	<b>\$ 1,896</b>	<b>\$ 14,735</b>

See accompanying notes.



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

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Net income	\$ 3,451	\$ 2,337
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,167	1,069
Bad debt (recoveries), net	72	(55)
Deferred tax	(194)	–
Share based compensation	517	420
Changes in non-controlling interest	305	497
Changes in operating assets and liabilities:		
Accounts receivable	(6,030)	(1,438)
Prepaid expenses and other current assets	146	530
Accounts payable	2,358	15
Accrued expenses, other current liabilities and customer deposits	1,653	160
Net cash provided by operating activities	<u>3,445</u>	<u>3,535</u>
<b>Investing activities</b>		
Purchases of property and equipment and capitalized software	(998)	(810)
Purchase of NMS, LLC subsidiary	(400)	–
Purchase of Romanian subsidiary	(60)	–
Purchase of Mexican subsidiary	(300)	(400)
Purchase of Turkish subsidiary	–	(42)
Net cash used in investing activities	<u>(1,758)</u>	<u>(1,252)</u>
<b>Financing activities</b>		
Net payments on lines of credit	(1,224)	(1,101)
Proceeds from options exercised	137	36
Proceeds from term debt	–	244
Payment on term debt	(33)	(557)
Payments on capital lease obligations	(218)	(107)
Purchase of treasury shares	(35)	–
Net cash used in financing activities	<u>(1,373)</u>	<u>(1,485)</u>
Effect of foreign exchange rate changes on cash	<u>(227)</u>	<u>(16)</u>
Net change in cash and cash equivalents	87	782
Cash and cash equivalents at beginning of year	1,705	923
Cash and cash equivalents at end of year	<u>\$ 1,792</u>	<u>\$ 1,705</u>
<b>Supplemental disclosure of cash flows information</b>		
Interest paid	\$ 151	\$ 205
Taxes paid	\$ 472	\$ 219
<b>Supplemental disclosure of non-cash financing activities</b>		
Liability related to acquisition of Mexican subsidiary	\$ 235	\$ 300
Liability related to acquisition of Turkish subsidiary	\$ 206	\$ –
Liability related to acquisition of NMS, LLC subsidiary	\$ 94	\$ –
Liability related to South African subsidiary	\$ 154	\$ –
Preferred stock converted to common stock at par	\$ –	\$ 6
Acquisition of equipment through capital lease	\$ 253	\$ 140
Liability related to acquisition of NMS, LLC	\$ 200	\$ –
Stock issuance related to acquisition of NMS, LLC	\$ 165	\$ –
Conversion of working capital loan to equity	\$ 232	\$ –

See accompanying notes.



**1. Business and Organization**

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

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

Today the Company operates in 10 countries that encompass approximately 50% of the total world population. Although it operates in a single business segment (merchandising and marketing services), the Company currently divides its operations for marketing, administrative and other purposes into two geographic divisions: its Domestic Merchandising Services Division, which provides those services in the United States of America since certain of its predecessors were formed in 1979; and its International Merchandising Services Division, which began operations in May of 2001 and provides similar merchandising, marketing services and in-store event staffing services in Japan, Canada, South Africa, India, Romania, China, Australia, Mexico and Turkey.

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

***Domestic Merchandising Services Division***

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Business and Organization (continued)**

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

Primary Territory	Date Established	SGRP Percentage Ownership	Principal Office Location
United States of America	1979	100%	White Plains, New York, United States of America <sup>6</sup>
Japan	May 2001	100%	Osaka, Japan
Canada	June 2003	100%	Toronto, Canada
South Africa	April 2004	51% <sup>1</sup>	Durban, South Africa
India	April 2004	51% <sup>2</sup>	New Delhi, India
Australia	April 2006	51%	Melbourne, Australia
Romania	July 2009	51% <sup>3</sup>	Bucharest, Romania
China	March 2010	51% <sup>4</sup>	Shanghai, China
Mexico	August 2011	51%	Mexico City, Mexico
Turkey	August 2011	51% <sup>5</sup>	Istanbul, Turkey

1 In September 2012 the Company, through its subsidiary in South Africa (SGRP Meridian), entered into a joint venture agreement to expand its operations in South Africa. SGRP Meridian owns a 51% ownership interest in the new company; CMR Meridian (Pty) Ltd. ("CMR-Meridian"). (See *Acquisition Strategies and Strategic Acquisitions*, above, Note 12 to the Consolidated Financial Statements – *Geographic Data*, and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below).

2 In June 2011, the Company sold 49% of its interest in its Indian subsidiary to KROGNOS Integrated Marketing Services Private Limited. In March 2013, the company purchased a 51% interest in a new subsidiary in India, Preceptor Marketing Services Private Limited, which began operations in March 2013 (See *Acquisition Strategies and Strategic Acquisitions*, above, Note 12 to the Consolidated Financial Statements – *Geographic Data*, Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, and Note 17 to the Consolidated Financial Statements – *Subsequent Events*, below).

3 Currently the Company owns two subsidiaries in Romania. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in May 2012, is 51% owned. Also in May of 2012, the Company sold its 51% ownership in one of its other Romania subsidiaries, SPAR City S.R.L, to its original Local Investor (as defined below). (See Note 12 to the Consolidated Financial Statements – *Geographic Data* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.)

4 Currently the Company owns two subsidiaries in China. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned. In July 2011, the Company, through its active subsidiary in China (SPAR Shanghai), entered into a joint venture agreement to expand its operations in China. SPAR Shanghai has a 51% ownership interest in the new company; SPAR DSI Human Resource Company. (See Note 12 to the Consolidated Financial Statements – *Geographic Data* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.)

5 In August 2011, the Company sold its 51% ownership in its original subsidiary in Turkey to its original Local Investor, and in November 2011 the Company started a new 51% owned subsidiary to compete in this important market. (See Note 12 to the Consolidated Financial Statements – *Geographic Data* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.)

6 In September 2012, the Company established a new subsidiary, National Merchandising Services, LLC, ("NMS") 51% owned by the Company, with its principal office in Georgia. (See *Acquisition Strategies and Strategic Acquisitions*, above, Note 10 to the Consolidated Financial Statements – *Related Party Transactions* and Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below).

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The Company consolidates its 100% owned subsidiaries. The Company also consolidates all of its 51% owned subsidiaries as the Company believes it is the primary beneficiary and controls the economic activities in accordance with *Accounting Standards Codification (ASC) 810-10, Consolidation of Variable Interest Entities*.

All significant intercompany accounts and transactions have been eliminated.

***Cash Equivalents***

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

**Excess Cash**

The Company's domestic cash balances are generally utilized to pay its bank line of credit. International cash balances, when not utilized to pay bank debt, are generally maintained in liquid cash accounts and are utilized to fund daily operations

**Revenue Recognition**

The Company's services are provided to its clients under contracts or agreements. The Company bills its clients based upon service fee or per unit fee arrangements. Revenues under service fee arrangements are recognized when the service is performed. The Company's per unit fee arrangements provide for fees to be earned based on the retail sales of a client's products to consumers. The Company recognizes per unit fees in the period such amounts become determinable and are reported to the Company.

**Unbilled Accounts Receivable**

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

**Doubtful Accounts and Credit Risks**

The Company continually monitors the validity of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$216,000 and \$57,000 at December 31, 2012, and 2011, respectively. Bad debt expense was \$72,000, for the year ended December 31, 2012. In 2011, the Company had minimal write offs of accounts receivable resulting in recovery of \$55,000 for the year ended December 31, 2011.

**Major Customers - Domestic**

One customer accounted for 8% and 10% of the Company's net revenue for the years ended December 31, 2012, and 2011, resulting from merchandising and assembly services performed for a major office supply chain and for manufacturers within this chain. These customers accounted for approximately 13% and 5% of the Company's accounts receivable at December 31, 2012, and 2011, respectively.

In addition, approximately 7% and 10% of the Company's net revenues for the years ended December 31, 2012, and 2011, respectively, resulted from merchandising services performed for a large pharmaceutical distributor. This customer accounted for approximately 3% and 7% of the Company's accounts receivable at December 31, 2012, and 2011, respectively.

**Property and Equipment and Depreciation**

Property and equipment, including leasehold improvements, are stated at cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease term, using the straight-line method.

**Capital Lease Obligations**

The Company has five outstanding capital lease obligations with interest rates ranging from 4.5% to 13.2%. The related capital lease assets balances are detailed below (in thousands):

Start Date:	Original Cost	Accumulated Amortization	Net Book Value at December 31, 2012
July, 2010	\$ 215	\$ 173	\$ 42
November, 2010	48	34	14
June, 2011	140	70	70
January, 2012	224	72	152
January, 2012	29	10	19
	<u>\$ 656</u>	<u>\$ 359</u>	<u>\$ 297</u>

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Annual future minimum lease payments required under the leases, together with the present value as of December 31, 2012, are as follows (in thousands):

Year Ending December 31,	Amount
2013	\$ 201
2014	113
	<u>314</u>
Less amount representing interest	17
Present value of net minimum lease payments included with other liabilities	<u>\$ 297</u>

**Internal Use Software Development Costs**

In accordance with *ASC-350-10-720, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalized software development costs are amortized over three years on a straight-line basis.

The Company capitalized \$824,000 and \$722,000 of costs related to software developed for internal use in 2012, and 2011, respectively, and recognized approximately \$638,000 and \$595,000 of amortization of capitalized software for the years ended December 31, 2012, and 2011, respectively.

**Impairment of Long-Lived Assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may be higher than its fair value. If an asset is considered to be impaired, the impairment charge that would be recognized is the excess of the asset's carrying value over the asset's fair value.

**Fair Value Disclosure**

The carrying value of financial instruments approximates fair value.

The Company defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. To increase consistency and comparability in fair value measurements, the Company uses a three-level hierarchy that prioritizes the use of observable inputs. The three levels are:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable inputs other than quoted market prices in active markets for identical assets and liabilities

Level 3 – Unobservable inputs

The determination of where an asset or liability falls in the hierarchy requires significant judgment.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses and the valuation of acquired intangible liabilities and are considered level 3 in the hierarchy. The Company has valued and recorded a contingent liability related to incentive consulting fees from recent acquisitions totaling \$689,000 for the year ended December 31, 2012. As of the last day of December of each fiscal year, the Company tests goodwill for impairment, by comparing the fair value of the reported goodwill to its carrying amount. The Company also calculates and tests the fair value of intangible assets and liabilities annually to insure accuracy of its carrying values as well.

**Foreign Currency Rate Fluctuations**

The Company has foreign currency exposure with its international subsidiaries. In both 2012 and 2011, these exposures are primarily concentrated in the Australian Dollar, Canadian Dollar, Mexican Peso, South African Rand, and Japanese Yen. Total International assets were \$14.0 million and total liabilities were \$11.1 million based on exchange rates at December 31, 2012. International revenues for the years ended December 31, 2012 and 2011 were \$59.7 million and \$35.7 million, respectively. The international division reported net income of approximately \$82,000 for the year ended December 31, 2012, and a net loss of \$119,000 for the year ended December 31, 2011.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

**Interest Rate Fluctuations**

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At December 31, 2012, the Company's outstanding debt totaled \$2.6 million, as noted in the table below (in thousands):

Location	Variable Interest Rate <sup>(1)</sup>	US Dollars <sup>(2)</sup>
United States	4.0%	\$ 1,762
International	0.1% - 9.4%	802
		\$ 2,564

(1) Per annum interest at December 31, 2012

(2) Based on exchange rate at December 31, 2012

Based on 2012 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact annual pre-tax earnings and cash flows by approximately \$14,000.

**Income Taxes**

Deferred tax assets and liabilities represent the future tax return consequences of certain temporary differences that will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. In the event the future consequences of differences between the financial reporting basis and the tax basis of the Company's assets and liabilities result in a net deferred tax asset, an evaluation is required of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

**Stock-Based Compensation**

As of January 1, 2006, ASC-718-10 ("Compensation – *Stock Compensation*") became effective and applicable to the Company's accounting for its employee options. Under ASC-718-10, compensation expense is recognized in the Company's consolidated financial statements when employee stock options are granted. Share-based compensation cost is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the employee's requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

The fair value of each option grant is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; volatility factor of expected market price of common stock of 128% and 166% for 2012, and 2011, respectively; risk-free interest rate of 0.84% and 1.89% for 2012, and 2011, respectively; and a forfeiture rate of 5% and expected lives of ten years.

**Net Income Per Share**

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

**Use of Estimates**

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

**Goodwill and Other Intangible Assets**

The Company follows *ASC-805-10, Goodwill and Other Intangible Assets*, as such; goodwill is no longer amortized. At December 31, 2011, the Company adopted ASU No. 2011-08 "Intangibles – Goodwill and Other: *Testing Goodwill for Impairment*" which allows for a qualitative review to be performed before a quantitative impairment analysis is undertaken. If the qualitative analysis indicates that the goodwill is more likely than not impaired then the Company calculates the fair value of each business unit for which goodwill was recorded to determine if there was impairment. There were no qualitative factors that gave rise to impairment in 2012 or 2011. As a result, it was determined that there was no impairment to the goodwill.

Intangible assets consist of customer contracts and lists and are amortized over periods ranging from 3 to 10 years.

**Translation of Foreign Currencies**

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

**Recently Issued Accounting Standards**

In 2012 the Company adopted the provisions of ASU No. 2011-05, "Comprehensive Income." This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in equity. The provisions of this ASU were applied retrospectively.

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Accounts receivable, net, consists of the following:		
Trade	\$ 18,011	\$ 11,806
Unbilled	3,577	3,309
Non-trade	42	403
	<b>21,630</b>	<b>15,518</b>
Less allowance for doubtful accounts	216	57
	<b>\$ 21,414</b>	<b>\$ 15,461</b>

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Property and equipment consists of the following:	December 31,	
	2012	2011
Equipment	\$ 8,366	\$ 7,866
Furniture and fixtures	570	543
Leasehold improvements	250	250
Capitalized software development costs	5,044	4,261
	<u>14,230</u>	<u>12,920</u>
Less accumulated depreciation and amortization	12,453	11,397
	<u>\$ 1,777</u>	<u>\$ 1,523</u>

Intangible assets consist of the following:	December 31,	
	2012	2011
Customer contracts and lists	\$ 1,804	\$ 869
Less accumulated amortization	336	164
	<u>\$ 1,468</u>	<u>\$ 705</u>

The Company is amortizing the customer contracts and lists of \$1.8 million on a straight line basis over lives ranging from 3 to 10 years. Amortization expense for the year ended December 31, 2012, and December 31, 2011 was approximately \$172,000 and \$100,000, respectively. The annual amortization for each of the following years succeeding December 31, 2012, are summarized as follows:

Year	Amount
2013	\$ 266
2014	266
2015	203
2016	118
2017	118
Thereafter	497
Total	<u>\$ 1,468</u>

Accrued expenses and other current liabilities:	December 31,	
	2012	2011
Accrued salaries	\$ 799	\$ 1,005
Taxes payable	1,460	572
Loans from domestic and international partners	1,559	456
Accrued accounting and legal expenses	358	285
Final payment for purchase of Mexico subsidiary	-	300
Final payment for purchase of NMS, LLC	200	-
Contingent liabilities, incentive for consulting fees	689	-
Short term portion of capital lease obligations	178	125
Other	1,486	1,296
Accrued expenses and other current liabilities	<u>\$ 6,729</u>	<u>\$ 4,039</u>

4. *Credit Facilities*

Domestic Credit Facility:

SGRP and certain of its domestic subsidiaries, namely SPAR Marketing Force, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Trademarks, Inc., and SPAR Acquisition, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "Borrowers"), entered into a Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Loan Agreement"), with Sterling National Bank and Comerstone Bank as the lenders (the "Lenders"), and issued their Secured Revolving Loan Notes in the original maximum principal amounts of \$5.0 million to Sterling National Bank and \$1.5 million to Comerstone Bank (the "Notes"), to document and govern its new credit facility with them (the "Sterling Credit Facility"). In June 2011, the Lenders agreed to: (1) reduce the personal guarantee limits to the amounts noted below, and (2) extend the maturity of the Sterling Credit Facility until July 2013. The Sterling Credit Facility was amended effective as of July 1, 2012 (the "Second Sterling Amendment"), to: (1) increase the maximum available revolving loan amount to \$6.5 million from Sterling National Bank and remove Comerstone Bank as a lender, (2) reduce the interest rate to prime plus three quarters of one percent (3/4%) per annum, and (3) release and discharge each Guarantor as noted below.





SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Credit Facilities (continued)**

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, provided personal guarantees of the Sterling Credit Facility totaling \$1,250,000 pursuant to their Limited Continuing Guaranty in favor of the Lenders dated as of July 6, 2010, as amended in June 2011 (the "Limited Sterling Guaranty"). In the Second Sterling Amendment, Mr. Robert G. Brown and Mr. William H. Bartels were released and discharged by Sterling from their Limited Sterling Guaranty.

Revolving Loans of up to \$6.5 million are available to the Borrowers under the Sterling Credit Facility based upon the borrowing base formula defined in the Loan Agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Sterling Credit Facility is secured by substantially all of the assets of the Borrowers (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

As of the effective date of the Second Sterling Amendment, the basic interest rate under the Sterling Credit Facility was reduced by three quarters of one percent (3/4%) per annum to the sum of the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time plus three quarters of one percent (3/4%) percent per annum, which automatically changes with each change in such rate.

Effective January 1, 2013 the Sterling Credit Facility was amended (the "Third Sterling Amendment") to reduce the interest rate to the Prime Rate (as that term is defined in the Loan Agreement) plus one quarter of one percent (1/4%) per annum.

Due to the requirement to maintain a lock box arrangement with the Agent and the Lenders' ability to invoke a subjective acceleration clause at its discretion, borrowings under the Sterling Credit Facility will be classified as current.

The Sterling Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments. At December 31, 2012, the Company was in compliance with such covenants.

**International Credit Facilities:**

In October 2011, SPARFACTS Australia Pty. Ltd., replaced the Commonwealth Bank line of credit with a new receivables based secured line of credit facility with Oxford Funding Pty Ltd. for \$1.2 million (Australian) or approximately \$1.2 million (based upon the exchange rate at December 31, 2012). The facility provides for borrowing based upon a formula as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The agreement expired on October 31, 2012. SPARFACTS is in the process of renegotiating a new agreement.

SPAR Canada Company, a wholly owned subsidiary, has a secured credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$750,000 (Canadian) or approximately \$753,000 (based upon the exchange rate at December 31, 2012). The Demand Operating Loan provides for borrowing based upon a formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions) and a minimum total debt to tangible net worth covenant. The Company was in compliance with the minimum total debt to tangible net worth covenant under this line of credit at December 31, 2012.

On March 7, 2011, the Japanese subsidiary, SPAR FM Japan, Inc., a wholly owned subsidiary, secured a loan with Mizuho Bank in the amount of 20.0 million Yen (Japanese), or approximately \$232,000. The loan is payable in monthly installments of 238,000 Yen or \$2,800 at an interest rate of 0.1% per annum with a maturity date of February 28, 2018. The outstanding balance at December 31, 2012, was approximately 14.8 million Yen or \$171,000 (based upon the exchange rate at December 31, 2012).

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Credit Facilities (continued)

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

	December 31, 2012	Average Interest Rate	December 31, 2011	Average Interest Rate
<b><u>Credit Facilities Loan Balance:</u></b>				
United States	\$ 1,762	4.3%	\$ 2,621	4.8%
Australia	210	9.4%	402	10.4%
Canada	421	4.0%	618	4.0%
	<u>\$ 2,393</u>		<u>\$ 3,641</u>	
<b><u>Other Debt Facility:</u></b>				
Japan Term Loan	\$ 171	0.1%	\$ 227	0.1%
	December 31, 2012		December 31, 2011	
<b><u>Unused Availability:</u></b>				
United States	\$ 4,248		\$ 2,671	
Australia	1,035		818	
Canada	331		118	
	<u>\$ 5,614</u>		<u>\$ 3,607</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, continued international losses, delays in collection of receivables due from any of the Company's major clients, or a significant reduction in business from such clients could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

5. Income Taxes

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

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Current	\$ 744	\$ 362
Deferred	(194)	-
	<u>\$ 550</u>	<u>\$ 362</u>

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. *Income Taxes (continued)*

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

	Year Ended December 31,	
	2012	2011
Provision for income taxes at federal statutory rate, net of foreign tax	\$ 1,232	\$ 883
State income taxes, net of federal benefit	134	102
Permanent differences	(31)	(26)
Change in valuation allowance	(1,247)	(780)
International tax provisions	333	112
Federal Alternative Minimum Tax	61	35
Change in Tax Reserve	28	22
Other	40	14
Provision for income taxes	<u>\$ 550</u>	<u>\$ 362</u>

Deferred taxes consist of the following (in thousands):

	December 31,	
	2012	2011
Deferred tax assets:		
Net operating loss carry forwards	\$ 3,671	\$ 4,989
Deferred revenue	93	128
Allowance for doubtful accounts and other receivable	33	15
Share-based compensation expense	659	573
Foreign subsidiaries	201	-
Depreciation	171	66
Acquisition costs	51	50
Other	175	174
Valuation allowance	(4,248)	(5,495)
Total deferred tax assets	<u>806</u>	<u>500</u>
Deferred tax liabilities:		
Goodwill	134	117
Foreign subsidiaries	7	-
Capitalized software development costs	471	383
Total deferred tax liabilities	<u>612</u>	<u>500</u>
Net deferred taxes	<u>\$ 194</u>	<u>\$ -</u>

At December 31, 2012, the Company has net operating loss carry-forwards (NOLs) of \$3.6 million, related to the PIA Acquisition available to reduce future federal taxable income. Section 382 of the Internal Revenue Code restricts the annual utilization of the NOLs incurred prior to a change in ownership. Such a change in ownership had occurred in 1999. The Company may utilize \$657,500 of the PIA NOLs per year through the year 2018.

In addition, the Company incurred NOLs related to its prior year losses totaling \$6.0 million of which:

- \$2.5 expires in 2026,
- \$2.9 expires in 2027,
- \$0.3 expires in 2028, and
- \$0.2 expires in 2029.

The Company has established over time and currently has a valuation allowance reserve of approximately \$4.2 million against its deferred tax asset balance at December 31, 2012. The reduction of that reserve and the corresponding realization of these deferred tax assets is contingent upon the realization of future taxable profits over several years. The Company does not believe such future profits are certain, and thus the requirements of ASC 740-10 for reducing that reserve are not currently met, due to the subjective nature of forecasting profits and the risks the Company faces on a daily basis as noted in Item 1A of this report, including (without limitation) the risks related to dependence on the trend of both clients and retailers towards outsourcing merchandising and marketing services, the competitive nature of the this industry, economic and retail uncertainty, reliance on the Internet and dependence upon cost of services provided by affiliates.

The Company does not provide currently for U.S. income taxes on the undistributed earnings of its profitable foreign subsidiaries since, at the present time, management expects any earnings to be reinvested in the foreign subsidiaries and not distributed. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes, which could potentially be offset by foreign tax credits. Distribution of those earnings can also subject the Company to related withholding taxes payable to various non-U.S. jurisdictions. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculations.



SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. *Income Taxes (continued)*

ASC-740-10 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with ASC-740-10. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC-740-10 and in subsequent periods. ASC-740-10 is effective for fiscal years beginning after December 15, 2006 and the provisions of ASC-740-10 will be applied to all tax positions upon initial adoption of the Interpretation.

The Company adopted provisions of ASC-740-10, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2012	2011
Beginning Balance	\$ 65	\$ 43
Additions for tax positions of prior years	28	22
Ending Balance	\$ 93	\$ 65

ASC-740-10 requires that interest and penalties that the tax law requires to be paid on the underpayment of taxes should be accrued on the difference between the amount claimed or expected to be claimed on the return and the tax benefit recognized in the financial statements. The Company's policy is to record this interest and penalties as additional tax expense.

SPAR and its subsidiaries file numerous consolidated, combined and separate company income tax returns in the U.S. Federal jurisdiction and in many U.S. state and foreign jurisdictions. With few exceptions, SPAR is subject to U.S. Federal, state and local income tax examinations for the years 2008 through the present. However, tax authorities have the ability to review years prior to the position taken by the Company to the extent that SPAR utilized tax attributes carried forward from those prior years.

In management's view, the Company's tax reserves at December 31, 2012, totaling \$93,000 for potential domestic state tax liabilities were sufficient to meet the requirements of ASC-740-10. The Company has evaluated the tax liabilities of its international subsidiaries and does not believe a reserve is necessary at this time.

Details of the Company's tax reserves at December 31, 2012, are outlined in the table below (in thousands):

	Taxes	Interest	Penalty	Total Tax Liability
Domestic				
State	\$ 73	\$ 15	\$ 6	\$ 93
Federal	-	-	-	-
International	-	-	-	-
Total reserve	\$ 73	\$ 15	\$ 6	\$ 93

## Notes to Consolidated Financial Statements (continued)

**6. Commitments and Contingencies****Lease Commitments**

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately \$829,000 and \$602,000 for 2012, and 2011, respectively. Equipment lease expense was approximately \$219,000 and \$143,000 for 2012, and 2011, respectively. At December 31, 2012, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

Year	Amount
2013	\$ 1,144
2014	578
2015	509
2016	370
2017	239
Thereafter	341
<b>Total</b>	<b>\$ 3,181</b>

**Legal Matters**

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

**7. Treasury Stock**

Pursuant to the SPAR Group, Inc., 2012 Stock Repurchase Program (the "Repurchase Program"), as approved by SGRP's Audit Committee and adopted by its Board of Directors on August 8, 2012, and ratified on November 8, 2012, under the Repurchase Program, SGRP may repurchase shares of its common stock through August 8, 2015, but not more than 500,000 shares in total, and those repurchases would be made from time to time in the open market and through privately-negotiated transactions, subject to general market and other conditions. SGRP does not intend to repurchase any shares in the market during any blackout period applicable to its officers and directors under the SPAR Group, Inc. Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information As Adopted, Restated, Effective and Dated as of May 1, 2004, and As Further Amended Through March 10, 2011 (other than purchases that would otherwise be permitted under the circumstances for anyone covered by such policy). As of December 31, 2012, 17,689 shares have been repurchased under this program. It should be noted that 4,671 shares were utilized for the Employee Stock Purchase Plan, leaving a total of 13,018 shares of Treasury Stock at December 31, 2012. The Company anticipates continuing its Repurchase Program throughout 2013. (See Item 5 – *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* above).

**8. Preferred Stock**

SGRP's certificate of incorporation also authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as 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 number of shares authorized by such certificate of incorporation and designation was, however, reduced to 2,445,598 shares of remaining authorized preferred stock by the conversions described in the next paragraph and could be further reduced by amendment or redemption to facilitate the creation of any other SGRP Preferred Series. At December 31, 2012, no shares of SGRP Series A Preferred Stock were issued and outstanding.

## Notes to Consolidated Financial Statements (continued)

**8. Preferred Stock (continued)**

On December 31, 2010, there were 338,801 shares of such Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include Robert G. Brown (who is a co-founder, director, executive officer and significant stockholder of SGRP), and 215,601 shares of such Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include William H. Bartels (who also is a co-founder, director, executive officer and significant stockholder of SGRP), which shares collectively constituted all of the outstanding shares of Series A Preferred Stock. Those shares were originally purchased pursuant to subscription agreements on March 31, 2008, and September 24, 2008, at the closing Nasdaq bid price of SGRP Common Stock for the preceding trading day, which was \$1.12 per share for the March purchases and \$0.86 per share for the September purchases. The offer and sale of such Preferred Stock was not registered under the Securities Act or other securities laws, as they were a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act. For more information respecting these purchases, see Item 13 - *Certain Relationships and Related Transactions, and Director Independence*, above, and Note 10 to the Consolidated Financial Statements – *Related Party Transactions*, below.

On or before March 10, 2011, Mr. Brown and Mr. Bartels, as trustees of those plans, each had requested that their plan's preferred shares be converted into SGRP Common Stock in accordance with its terms, and in order to facilitate conversion of those shares by payment of all accrued and unpaid dividends, on March 10, 2011, SGRP's Board of Directors (i) fixed March 10, 2011, as the applicable record date for determination of the holders of the SGRP Series A Preferred Stock eligible to receive such dividends, (ii) declared a dividend on such SGRP Series A Preferred Stock equal to the accrued and unpaid dividends thereon, payable in shares of SGRP Common Stock valued at their market value (\$2.34 per share) on such record date, and (iii) authorized the issuance of the shares of SGRP Common Stock necessary to effect such conversion (554,402 shares) and accrued dividend payment (54,584 shares) in consideration of the preferred shares surrendered and the accrued dividends thereby satisfied. As a result of such conversions and stock dividends, on March 11, 2011, Mr. Brown's plans received 372,158 shares of SGRP Common Stock (33,357 shares of which were for accrued dividends) and Mr. Bartels' plan received 236,828 shares of SGRP Common Stock (21,227 shares of which were for accrued dividends).

**9. Employee Benefits****Stock Purchase Plans**

The Company has Employee and Consultant Stock Purchase Plans (the "SP Plans"). The SP Plans allow employees and consultants of the Company to purchase common stock without having to pay any commissions on the purchases. On August 8, 2002, the Company's Board of Directors approved a 15% discount for employee purchases and recommended that its affiliates (See Note 10 – Related-Party Transactions) approve a 15% cash bonus for affiliate consultant purchases. The maximum amount that any employee or consultant can contribute to the SP Plans per quarter is \$6,250, and the total number of shares reserved by the Company for purchase under the SP Plans is 500,000.

Shares purchased by employees and consultants under the SP Plans were 22,270 and 26,172 for 2012, and 2011, respectively. As of December 31, 2012, 93,465 shares remain outstanding under the SP Plan.

The Company's expense resulting from the 15% discount offered to employees and consultants was immaterial for all years presented.

**Retirement/Pension Plans**

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. The Company made a contribution of \$76,000 in the fourth quarter of 2012. The Company made a contribution of \$57,000 in the fourth quarter of 2011.

**10. 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, Senior Executives and Employees Amended and Restated (as of) August 1, 2012 (the "Ethics Code"). Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from 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).



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

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 in SMS, SMSI, SIT, NMA and others (as defined and described below) held by certain directors, officers or employees of SGRP or their family members. The Company's senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including 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 1.2(l) of the Audit Committee's Charter. The Governance Committee and Audit Committee each consist solely of independent outside directors.

SGRP's Audit Committee has the specific duty and responsibility to review and approve the overall fairness of all material related-party transactions. The Audit Committee receives every affiliate contract and amendment thereto for its review and approval (to the extent approval is given), and each contract is periodically (often annually) again reviewed, in accordance with the Audit Charter, the Ethics Code, the rules of the Nasdaq Stock Market, Inc. ("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). The Audit Committee periodically reviews and has approved all of the related party relationships and transactions described below.

Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director and the Vice Chairman of the Company and a major stockholder of SGRP, are the sole stockholders of SPAR Marketing Services, Inc. ("SMS") and SPAR Management Services, Inc. ("SMSI"). Mr. Brown is the sole stockholder of SPAR InfoTech, Inc. ("SIT"). Mr. Brown is a director and officer of SMS and SIT. Mr. Bartels is a director and officer of SMSI.

SMS and SMSI provided approximately 98% of the domestic merchandising specialist field force used by the Company for both the years ended December 31, 2012 and 2011, respectively, and approximately 93% of the domestic field management used by the Company at a total cost of approximately \$24 million and \$22 million for the years ended December 31, 2012 and 2011, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, as amended in 2011, the Company received merchandising services from SMS through the use of approximately 7,300 field merchandising specialists. SMS also furnishes (without charge) approximately 200 handheld computers used by field merchandising specialists in the performance of various merchandising and marketing services in the United States, which the Company estimates has an aggregate value of approximately \$2,000 to \$3,000 per month. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, in 2011, the Company received management services from SMSI through the use of 55 full-time national, regional and district managers. For those services, the Company has agreed to reimburse SMS and SMSI for their total costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective total costs (the "Plus 4 % Compensation"). Those costs include all field expenses of SMS, all payroll and employment tax expenses of SMSI and all legal and other administrative expenses paid by either of them. The net total Plus 4% Compensation earned by SMS and SMSI for services rendered was approximately \$914,000 and \$836,000 for the years ended December 31, 2012 and 2011, respectively. The Company also provides certain administrative services directly to SMS and SMSI, without charge, for accounting, human resource and legal services, which the Company believes is more efficient if paid directly, and would otherwise have been subject to cost plus reimbursement. The value of these services was approximately \$416,000 and \$390,000 for the years ended December 31, 2012 and 2011, respectively.

No salary reimbursements for Mr. Brown or Mr. Bartels are included in such reimbursable costs or Plus 4% Compensation. However, since SMS and SMSI are "Subchapter S" corporations and are owned by Messrs. Brown and Bartels, all income from SMS and SMSI is allocated to them.

Notes to Consolidated Financial Statements (continued)

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

National Marketing 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. (See Note 13 to the Consolidated Financial Statements - *Purchase of Interests in Subsidiaries*, below.) 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 expected to provide substantially all of the domestic merchandising specialist field force used by NMS. Pursuant to the terms of the Field Services Agreement dated as of July 31, 2012, as amended (the "NMA Services Agreement"), NMS will receive merchandising services from NMA through the use of approximately 1,100 field merchandising specialists. For those services, the Company has agreed to reimburse NMA for its total costs of providing those services and to pay NMA a premium equal to 2% of its total costs (the "Plus 2% Compensation"). Those costs include all field expenses, payroll and employment tax expenses of NMA but exclude certain field merchandiser taxes and legal and other administrative expenses. Accordingly, no salary reimbursement for Mr. Burdekin or Ms. Burdekin are included in such reimbursable costs or Plus 2% Compensation.

NMS commenced operations as of September 1, 2012. NMA provided all of the domestic merchandising specialist field force used by NMS and 5% of the total domestic merchandising specialist field force used by the Company (including NMS) for the four month period ended December 31, 2012. The total Plus 2% Compensation earned by NMA for services rendered was approximately \$31,000 for the four month period ended December 31, 2012.

In connection with the approval of those related party agreements with NMA, the Board approved, based (in part) on the recommendation and approval of its Governance Committee (which is comprised solely of independent directors), the restated Ethics Code. As a result, the newly approved NMA Field Services Agreement is, and the previously approved affiliate contracts (See "Transactions with Related Persons, Promoters and Certain Control Persons" in SGRP's 2012 Proxy Statement) continue to be, exempted from various conflict prohibitions in the Ethics Code. The Ethics Code changes were not intended to substantively alter the code's existing prohibitions and exceptions applicable to the directors and executive officers of SGRP.

The Company continues to purchase services from SMS, SMSI and NMA because it believes the terms it receives from them are at least as favorable to the Company as it could obtain from non-affiliated providers of similar services. The Company believes it is the largest and most important customer of SMS, SMSI and NMA (and from time to time may be their only customer), and accordingly the Company is able to negotiate better terms, receives more personal and responsive service and is more likely to receive credits and other financial accommodations from SMS, SMSI and NMA than the Company could reasonably expect to receive from an unrelated service provider who has significant other customers and business. The Company periodically evaluates these fees and rates charged by comparable national labor sourcing firms to serve as a comparison to the rates charged by SMS, SMSI and NMA. The most recent such survey showed that the rates negotiated with SMS, SMSI and NMA are in fact slightly less than those charged by unrelated vendors providing similar services. Based on an analysis performed by management, the Company believes that its cost of revenue would have increased by at least \$800,000 and \$650,000 for the years ended December 31, 2012 and 2011, respectively, if the Company would have instead used an unaffiliated entity to provide comparable services. All affiliate contracts are reviewed and approved by SGRP's Audit Committee, as described above. See also Item 1A - *Dependence Upon and Cost of Services Provided by Affiliates and Potential Conflicts in Services Provided by Affiliates*, above.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The following transactions occurred between the Company and the above affiliates (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Services provided by affiliates:</b>		
Field merchandiser services (SMS)	\$ 19,236	\$ 17,555
Field management services (SMSI)	\$ 4,538	\$ 4,283
Field merchandiser services (NMA)	\$ 1,601	\$ -
Handheld computer leases (SMS)	\$ -	\$ 77
<b>Total services provided by affiliates</b>	<b>\$ 25,375</b>	<b>\$ 21,915</b>

Accrued expenses due to affiliates (in thousands):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Total accrued expenses due to affiliates</b>	<b>\$ 705</b>	<b>\$ 1,092</b>

In July 1999, SMF, SMS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and had the right to unilaterally license and exploit their "Business Manager" Internet job scheduling software (which had been jointly developed by such parties), and all related improvements, revisions, developments and documentation from time to time voluntarily made or procured by any of them at its own expense. In addition, SPAR Trademarks, Inc. ("STM"), SMS and SIT entered into separate perpetual trademark licensing agreements whereby STM has granted non-exclusive royalty-free licenses to SIT and SMS (and through them to their commonly controlled subsidiaries and affiliates by sublicenses, including SMSI) for their continued use of the name "SPAR" and certain other trademarks and related rights of STM, a wholly owned subsidiary of SGRP. SMS and SMSI provide services to the Company, as described above, and SIT no longer provides services to the Company and does not compete with the Company.

Through arrangements with the Company, SMS, SMSI and other companies owned by Mr. Brown or Mr. Bartels 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. As an accommodation, the Company also provides certain accounting, human resource and similar administrative services to SIT and certain other affiliates of Robert G. Brown and William H. Bartels, at a nominal cost.

In addition to the above, SMSI purchases insurance coverage for worker compensation, casualty and property insurance risk for itself, SMS (and through SMS under contracts with its field merchandising specialists) and the Company from Affinity Insurance, Ltd. ("Affinity"). SMSI owns minority (less than 1%) equity interest in Affinity, and Mr. Robert G. Brown is a director of Affinity. The Affinity insurance premiums for such coverage are ultimately charged to SMSI, SMS (and through SMS to its covered field merchandising specialists) and the Company based on the contractual arrangements of the parties.

On December 31, 2010, there were 338,801 shares of SGRP's Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include Robert G. Brown (who is a co-founder, director, executive officer and significant stockholder of SGRP), and there were 215,601 shares of SGRP's Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include William H. Bartels (who also is a co-founder, director, executive officer and significant stockholder of SGRP), which shares collectively constituted all of the outstanding shares of Series A Preferred Stock issued by SGRP. Those shares were originally purchased pursuant to subscription agreements on March 31, 2008, and September 24, 2008, at the closing Nasdaq bid price of SGRP's Common Stock for the preceding trading day, which was \$1.12 per share for the March purchases and \$0.86 per share for the September purchases. Each share of SGRP's Series A Preferred Stock could be converted into one share of SGRP's Common Stock (at the rate of one to one), at the option of the holder and without further consideration, and accumulated dividends at the rate of ten percent per annum. SGRP's Audit Committee and Board of Directors each reviewed and unanimously approved this transaction, including the pricing, conversion and other terms of the Preferred Stock and the affiliated relationship of the parties. The offer, sale and conversion of such Preferred Stock were not registered under the Securities Act or other securities laws, as they were a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act.

## Notes to Consolidated Financial Statements (continued)

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

On or before March 10, 2011, Mr. Brown and Mr. Bartels, as trustees of those plans, each had requested that their plan's preferred shares be converted into SGRP's Common Stock in accordance with its terms, and in order to facilitate conversion of those shares by payment of all accrued and unpaid dividends, on March 10, 2011, SGRP's Board of Directors (i) fixed March 10, 2011, as the applicable record date for determination of the holders of the SGRP's Series A Preferred Stock eligible to receive such dividends, (ii) declared a dividend on such SGRP's Series A Preferred Stock equal to the accrued and unpaid dividends thereon, payable in shares of SGRP's Common Stock valued at their market value (\$2.34 per share) on such record date, and (iii) authorized the issuance of the shares of SGRP's Common Stock necessary to effect such conversion (554,402 shares) and accrued dividend payment (54,584 shares) in consideration of the preferred shares surrendered and the accrued dividends thereby satisfied. As a result of such conversions and stock dividends, on March 11, 2011, Mr. Brown's plans received 372,158 shares of SGRP's Common Stock (33,357 shares of which were for accrued dividends) and Mr. Bartels' plan received 236,828 shares of SGRP's Common Stock (21,227 shares of which were for accrued dividends).

In the event of any material dispute in the business relationships between the Company and SMS, SMSI, SIT or NMA it is possible that Mr. Brown, Mr. Bartels or Mr. Burdekin may have one or more conflicts of interest with respect to these relationships and such dispute could have a material adverse effect on the Company.

**11. Stock Based Compensation**

SGRP currently grants options to its eligible directors, officers and employees and certain employees of its affiliates to purchase shares of Common Stock issued by SGRP ("SGRP Shares") pursuant to the 2008 Stock Compensation Plan (as amended, the "2008 Plan"). SGRP also has granted stock options that continue to be outstanding under various predecessor stock option plans (each a "Prior Plan"). The Prior Plans consist of the following: the Amended and Restated 1995 Stock Option Plan (the "1995 Plan"); and the 2000 Stock Option Plan ("2000 Plan"), which succeeded the 1995 Plan. Each Prior Plan will continue to be outstanding for the purposes of any remaining outstanding options issued under it for so long as such options are outstanding. As described below, SGRP also has the authority to issue other types of stock-based awards under the 2008 Plan, but to date has only issued restricted stock in addition to such options.

The Company believes that it is desirable to align the interests of SGRP's directors, executives, employees and consultants with those of its stockholders through their ownership of SGRP Shares. Although the Company does not require its directors, executives, employees or consultants to own SGRP Shares, the Corporation believes that it can help achieve this objective by providing long term equity incentives through the issuance to its directors, executives, employees or consultants of options to purchase SGRP Shares and other stock-based awards pursuant to the 2008 Plan (as defined below) and facilitating the purchase of SGRP Shares at a modest discount by all of its executives, employees and consultants who elect to participate in its Employee Stock Purchase Plan (as defined below). In particular, the Company believes that the award of options to purchase SGRP Shares to such directors, executives, employees and consultants encourages growth in their ownership of SGRP Shares, which in turn leads to the expansion of their stake in the long-term performance and success of the Company.

SGRP's stockholders approved and adopted the 2008 Plan in May of 2008, as the successor to the Prior Plans with respect to all new options issued, and an amendment to the 2008 Plan in May of 2009, permitting the discretionary repricing described below. The 2008 Plan provides for the granting of either incentive or nonqualified stock options to purchase SGRP Shares, restricted SGRP Shares, and restricted stock units, stock appreciation rights and other awards based on SGRP Shares ("Awards") to SGRP Directors and the Company's specified executives, employees and consultants (which are employees of certain of its affiliates), although to date SGRP has not issued any permissible form of award other than stock options. Unless terminated sooner as provided therein, the 2008 Plan will terminate on May 28, 2018, which is ten years from the 2008 Plan Effective Date, and no further Awards may be made under it. However, any existing Awards made prior to such termination will continue in accordance with their respective terms and will continue to be governed by the 2008 Plan. Stock options granted under the 2008 Plan have a maximum term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders (whose terms are limited to a maximum of five years), and SGRP has generally issued options having maximum terms.

The 2008 Plan limits the number of SGRP Shares that may be covered by Awards ("Outstanding Covered Shares") to 5,600,000 SGRP Shares in the aggregate (the "Maximum Covered Shares"), which Outstanding Covered Shares for this purpose consist of the sum of (i) the SGRP Shares covered by all Awards issued under the 2008 Plan on or after May 29, 2008 ("New Awards"), plus (ii) and the SGRP Shares covered by all stock options issued at any time under the 2000 Plan or 1995 Plan to the extent they were still outstanding on May 29, 2008 ("Continuing Awards"). SGRP Shares covered by New Awards or Continuing Awards that expire, lapse, terminate, are forfeited, become void or otherwise cease to exist (other than as a result of exercise) are no longer Outstanding Covered Shares, are added back to remaining availability under the Maximum Covered Shares and thus become available for new Award grants, while those SGRP Shares covered by exercised New Awards or Continuing Awards continue to be Outstanding Covered Shares and are not added back to, and thus continue to reduce, the remaining availability under the Maximum Covered Shares under the 2008 Plan. The Outstanding Covered Shares and Maximum Covered Shares (as well as the SGRP Shares covered by a particular Award) are all subject to certain adjustments that may be made by the Compensation Committee upon the occurrence of certain changes in the Corporation's capitalization or structure as provided in the 2008 Plan. Except for the adjustments described above, an increase in the Maximum Covered Shares requires the consent of the SGRP stockholders under the terms of the 2008 Plan and Exchange Rules.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**11. Stock Based Compensation (continued)**

The 2008 Plan (as amended in 2009) gives SGRP's Compensation Committee the full authority and complete flexibility from time to time to designate and modify (in its discretion) one or more of the outstanding awards (including their exercise and base prices and other components and terms) to (among other things) restore their intended values and incentives to their holders. However, the exercise price, base value or similar component (if equal to SGRP's full stock price at issuance) of any award cannot be lowered to an amount that is less than the Fair Market Value (as defined in the 2008 Plan) on the date of the applicable modification, and no modification can adversely affect an awardee's rights or obligations under an award without the awardee's consent. No further consent of SGRP's stockholders is required for any repricing or other modification of any outstanding or other award under the 2008 Plan, including those previously issued under predecessor plans. Awards have only been repriced once (in 2009) to date pursuant to this authority.

Stock options and other stock based awards under the 2008 Plan may be issued from time to time by SGRP in its discretion to the Company's executives and other employees and generally are included in the annual incentive plans of SGRP's executives. The Company's management may present recommendations for such awards to the Compensation Committee at any of its regular quarterly meetings, although recently most recommendations have been made at the August meeting other than those for new employees. The Chairman of the Board or the Compensation Committee may make those recommendations respecting Mr. Raymond, Mr. Raymond as Chief Executive Officer makes those recommendations respecting Mr. Segreto, Ms. Belzer and Ms. Franco, as well as for any new officer, and each of those executives in turn are allocated potential option shares for their departments and make recommendations respecting those under their supervision (subject to review and approval by Mr. Raymond). In recommending to the Compensation Committee the actual number of options (and options shares covered) or other stock based award to be granted to each individual, the person making the recommendation makes an assessment of the individual's contribution to the Company's overall performance, the individual's successful completion of a special project, and any significant increase or decrease in the participant's abilities, responsibilities and performance of his or her duties. The Compensation Committee reviews and discusses management's recommendations at its meeting and determines whether and to what extent to approve and grant the proposed stock option or other stock based awards to executives and employees of the Company pursuant to the 2008 Plan.

The stock options issued under the 2008 Plan are typically "nonqualified" (as a tax matter), have a ten (10) year maximum life (term) and vest during the first four years following issuance at the rate of 25% on each anniversary date of their issuance. SGRP has the authority to issue other types of stock-based awards under the 2008 Plan, but to date has only issued restricted stock in addition to stock options. The Company accounts for its employee and affiliate employee stock option expense as compensation expense in the Company's consolidated financial statements when the stock options are granted, as now required by applicable accounting principles. Share-based compensation cost is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model.

**Summary of Stock Compensation Plan Activities During 2012:**

Plan	Outstanding Options				December 31, 2012 Balance
	Beginning Balance	Granted	Exercised	Cancelled	
2008 Plan	2,734,624	430,000	(229,765)	(38,700)	2,896,159
2000 Plan	184,608	-	(10,874)	(8,500)	165,234
Total	2,919,232	430,000	(240,639)	(47,200)	3,061,393

  

Plan:	Restricted Stock				Unvested Restricted Stock shares outstanding at 12/31/2012
	Beginning Balance at 1/1/2012	Shares Granted during 2012	Shares Vested during 2012	Shares Cancelled during 2012	
2008 Plan	100,000	-	20,000	-	80,000
2000 Plan	-	25,000	-	-	25,000

Based upon the Black-Scholes calculation, share-based compensation expense related to employee and non-employee stock option grants totaled \$434,000 and \$418,000 for the years ended December 31, 2012 and 2011, respectively. The unamortized expense as of December 31, 2012, was approximately \$860,000 for outstanding stock option grants. The impact of the total share-based compensation expense on basic/diluted earnings per share was \$0.02 for both years ended December 31, 2012 and 2011.

On May 18, 2012, 40,000 new stock option grants were issued to non-employee directors at an exercise price of \$1.23, which represents the fair market value of a share of the Company's common stock on May 18, 2012, as determined in accordance with the Company's 2008 Stock Compensation Plan. The estimated stock compensation expense is \$41,400, which will be recognized ratably over the four-year vesting period.

During 2012, 390,000 new stock option grants were issued to employees, officers, and certain employees of its affiliate at an average exercise price of \$1.10, which represents the fair market value of a share of the Company's common stock on August 1, 2012, as determined in accordance with the Company's 2008 Stock Compensation Plan. The estimated stock compensation expense is \$336,700, which will be recognized ratably over the four-year vesting period.

Pursuant to the 2008 Plan, SGRP's Compensation Committee authorized a restricted SGRP common stock award of 100,000 shares on March 10, 2011 (the "2011 RS Award"), and 25,000 shares on August 1, 2012 (the "2012 RS Award"), as additional compensation to Gary S. Raymond, the Company's Chief

Executive Officer and President. The restricted shares vest in five equal parts on each of the five anniversaries following the award date (20,000 shares a year in the case of the 2011 RS Award, which started to vest on March 10, 2012, and 5,000 shares a year in the case of the 2012 RS Award, which starts to vest on August 1, 2013), so long as Mr. Raymond continues to be so employed by the Company on the applicable vesting date. If Mr. Raymond leaves such employment, he will lose his right to receive any unvested shares. The compensation expense related to each such award will be amortized by the Company over the five (5) year vesting period, starting on the issuance date of each award (March 10, 2011, and August 1, 2012, respectively). The Company recorded compensation expenses for the period ended December 31, 2012, of \$46,844 for the 2011 RS Award and \$1,961 for the 2012 RS Award.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**11. Stock Based Compensation (continued)**

The following table summarizes stock option activity under SGRP's plans:

	Shares	Weighted Average Exercise Price
Options outstanding, January 1, 2011	2,681,639	\$ 0.64
<u>2011</u>		
Granted	395,750	\$ 1.24
Exercised	(112,626)	0.44
Canceled or expired	(45,531)	0.89
Options outstanding, December 31, 2011	2,919,232	\$ 0.64
<u>2012</u>		
Granted	430,000	\$ 1.12
Exercised	(240,639)	0.54
Canceled or expired	(47,200)	1.14
Options outstanding, December 31, 2012	<u>3,061,393</u>	\$ 0.71
Option price range at December 31, 2012	<b>\$0.40 to \$4.65</b>	
	<u>2012</u>	<u>2011</u>
Grant date weighted average fair value of options granted during the year	\$ 1.12	\$ 1.24

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Stock Based Compensation (continued)

The following table summarizes information about stock options outstanding at December 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2012	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2012	Weighted Average Exercise Price
Less than \$1.01	2,226,185	6.60	\$ 0.51	1,672,435	\$ 0.51
\$1.01 - \$2.00	827,208	8.74	1.24	165,216	1.24
\$2.01 - \$4.00	7,750	6.46	3.23	2,750	3.23
Greater than \$4.00	250	.60	4.65	250	4.65
<b>Total</b>	<b>3,061,393</b>			<b>1,840,651</b>	

12. Geographic Data

The Company operates in the same single business segment (e.g., merchandising and marketing services) in both its Domestic Merchandising Services Division and its International Merchandising Services 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, as described in Item 1 – Business in our Annual Report, above. 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. Set forth below are summaries (in thousands) of the Company's net revenues from its United States subsidiaries (i.e., the Domestic Merchandising Services Division) and from its international (non-U.S.) subsidiaries (i.e., the International Merchandising Services Division), net revenue from certain international subsidiaries as a percent of consolidated net revenue, operating income for the years ended December 31, 2012 and 2011, respectively, and long lived assets by geographic area at December, 2012 and 2011, respectively (in thousands):

	Year Ended December 31,		% increase
	2012	2011	
<u>Net revenues:</u>			
United States	\$ 43,096	\$ 37,809	14.0%
International	59,670	35,715	67.0%
Total net revenues	\$ 102,766	\$ 73,524	39.7%

	Year Ended December 31,			
	2012	2011		
<u>Net international revenues:</u>			% of consolidated net revenue	% of consolidated net revenue
Mexico	\$ 14,602	14.2%	\$ 4,649	6.3%
South Africa	9,893	9.7	4,454	6.1
Australia	7,205	7.0	8,232	11.2
Canada	6,949	6.8	6,467	8.8
Japan	6,267	6.1	4,280	5.8
Romania	4,421	4.3	1,049	1.4
China	4,210	4.1	3,890	5.3
All Others	6,123	5.9	2,694	3.7
Total international revenue	\$ 59,670	58.1%	\$ 35,715	48.6%



SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Geographic Data (continued)

	Year Ended December 31,	
	2012	2011
<b>Operating income:</b>		
United States	\$ 3,299	\$ 2,774
International	708	111
Total operating income	\$ 4,007	\$ 2,885

	Years Ended December 31	
	2012	2011
<b>Long lived assets:</b>		
United States	\$ 3,145	\$ 2,169
International	2,129	1,385
Total long lived assets	\$ 5,274	\$ 3,554

13. Purchase of Interests in Subsidiaries

The following contains descriptions of the Company's purchases of interests in its operating subsidiaries during the years ended December 31, 2012 and 2011. In each of the subsidiaries noted below the Company, through its various agreements with the applicable Local Investor, has provided for appropriate exit strategies that are fair and equitable for each partner. The terms "Global Contributions", "Local Investor" and "Local Contributions" are used in those purchase descriptions as such terms are described and defined in Item 1 - *Acquisition Strategies and Strategic Acquisitions*, above.

For each of the above, see generally Item 1 - *The Company's Domestic and International Geographic Divisions and Acquisition Strategies and Strategic Acquisitions*, above, and Item 1A - *Risks Associated with International and Domestic Joint Venture Subsidiaries, Risks of Having Material Local Investors in International and Domestic Joint Venture Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, above.

SPAR DSI (China)

In July 2011, the Company's subsidiary in China, SPAR (Shanghai) Marketing Management Company Ltd ("SPAR Shanghai") entered into an agreement with Beijing DSI Management Consulting Company Ltd. ("DSI"), creating a new consolidated subsidiary for the Company called SPAR DSI Human Resource Company ("SPAR DSI") in order to expand the Company's operations throughout the People's Republic of China. SPAR Shanghai purchased a majority (51%) of the equity interests in SPAR DSI and the Company provided and provides its usual Global Contributions, while DSI as the Local Investor purchased the remaining minority (49%) non-controlling interest in SPAR DSI and provided and provides the usual Local Contributions. The new company started operations in November 2011.

SPAR Todopromo (Mexico)

In August 2011, the Company expanded its operations in North America by entering into an agreement with various companies and persons operating as Grupo TODOPROMO ("Grupo Todopromo") to create a new consolidated subsidiary of the Company in Mexico called SPAR TODOPROMO, SAPI, de CV. ("SPAR Todopromo"), which began operations in September 2011. The Company purchased a majority (51%) of the equity interests in SPAR Todopromo and provided and provides its usual Global Contributions, while Grupo Todopromo as the Local Investor purchased the remaining minority (49%) non-controlling interest in SPAR Todopromo. Grupo Todopromo also provides and continues to provide the usual Local Contributions. The Company's initial investment in Mexico was \$702,000 which consists of \$2,000 in capital and \$700,000 paid to Grupo for intangible assets. \$400,000 was paid in September 2011 and the balance of \$300,000 was paid in August 2012. The Company has recorded \$400,000 as an intangible asset and \$300,000 as goodwill in respect of this subsidiary.

In January 2012, the Company and Grupo Todopromo agreed to convert a portion of their respective initial working capital loans into equity. As a result of this decision, the Company's equity position increased from \$2,000 to \$233,694.

In September 2012, the Company recorded additional goodwill and a contingent liability of \$200,000 related to incentive consulting fee payments to Grupo Todopromo, resulting in total goodwill of \$500,000. Approximately \$188,000 of that incentive consulting fee was earned in 2012.

The following is a *pro forma* calculation of the amounts of Grupo Todopromo's revenue and earnings that would have been included in the Company's consolidated income statement for the year ended December 31, 2011 and the revenue and net income of the combined entity, had the Todopromo acquisition date been January 1, 2011, instead of September 2011 (in thousands):

	Revenue	Net Income
Actual from September 1 to December 31, 2011	\$ 4,649	\$ (65)
2011 Supplemental pro forma from January 1 to December 31, 2011	\$ 83,900	\$ 2,400
2011 Adjusted supplemental pro forma from January 1 to December 31, 2011	\$ 83,900	\$ 2,500

The adjusted supplemental pro forma earnings for 2011 excluded \$118,000 of acquisition-related costs incurred in 2011.

SPAR NDS (Turkey)

In August 2011, the Company entered into an agreement with two companies in Turkey, NDS TANITIM DANIŞMANLIK HİZMETLERİ and GIDA TEKSTİL TURİZM PAZARLAMA TİCARET LİMİTED ŞİRKETİ (together, the "Turkish Investors"), to reestablish operations in this market. The agreement created a new consolidated subsidiary for the Company called SPAR NDS ("SPAR NDS"). The new subsidiary started operations in November 2011. The Company purchased a majority (51%) of the equity interests in SPAR NDS and provided and provides its usual Global Contributions, while the Turkish Investors as the Local Investor together purchased the remaining minority (49%) non-controlling interest in SPAR NDS and provided and provides the usual Local Contributions. The Company's total investment in Turkey is approximately \$344,232, which includes \$206,497 recorded as a contingent liability for future incentive consulting fees, described below.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

During the first three years of operations, SPAR NDS may be required to pay NDS owners an Incentive Consulting Fee ("Consulting Fee") calculated at 25% of EBITDA in excess of base earnings of approximately \$148,000 per year. The maximum Consulting Fee for the three year period is not to exceed \$424,000. A projected consulting fee of \$206,497 was calculated and recorded as a contingent liability at December 31, 2012. The Company has completed its purchase price valuation, including the impact of the potential Consulting Fee, at their related fair market values and as a result has recorded the following allocation of these costs between identifiable intangibles and goodwill in 2012:

Intangible asset	\$	258,060
Goodwill		86,172
	\$	344,232

BIP (Romania)

In May 2012, the Company finalized the purchase (effective as of April 1, 2012), for \$60,000, of 51% ownership in Business Ideas Provider GRUP SRL ("BIP"), a Romanian limited liability company in Bucharest, Romania, which became a consolidated subsidiary of the Company. The Company purchased a majority (51%) of the equity interests in BIP and provided and provides its usual Global Contributions, while Business Ideas Provider SRL as the Local Investor owes the remaining minority (49%) non-controlling interest in BIP and provided and provides the usual Local Contributions. The fair market value of the stock purchased by the Company was approximately \$79,000, therefore the Company recorded a gain of \$19,000 on the acquisition.

The following is a *pro forma* calculation of the amounts of BIP's revenue and earnings that would have been included in the Company's consolidated income statement for the years ended December 31, 2012 and 2011, and the revenue and net income for the combined entity, had the BIP acquisition date been January 1, 2011, instead of as of April 1, 2012 (in thousands):

	Revenue	Net Income
Actual from April 1 to December 31, 2012	\$ 4,140	\$ 172
2012 Supplemental pro forma from January 1 to December 31, 2012	\$ 108,175	\$ 3,077
2011 Supplemental pro forma from January 1 to December 31, 2011	\$ 78,413	\$ 2,257

NMS (USA)

In September 2012, the Company made a domestic acquisition that also used its international strategy of seeking a minority (*i.e.*, non-controlling) non-affiliated Local Investor for the Company's new consolidated subsidiary in Georgia, U.S.A. As with most of its international counterparts, the Company acquired a 51% interest in National Merchandising Services, LLC, a newly formed Nevada limited liability company ("NMS"), and provided and provides its usual Global Contributions, and since then NMS has been a part of the Company's consolidated financial reports. NMS provides merchandising services in the U.S.A. to multiple Fortune 500 companies previously supplied by its Local Investor. The Local Investor in this case is National Merchandising of America, Inc., a Georgia corporation ("NMA"), which owns a 49% interest in NMS and will provide field merchandising services to NMS pursuant to a Field Services Agreement with NMS. In addition, NMA contributed substantially all of its customers to NMS and provided and provides the usual Local Contributions.

NMS is part of the Company's consolidated financial reports and the business acquired by NMS is currently generating approximately \$3 million in annual revenue, specializing primarily on in-store merchandising and new store opening and remodeling projects. In its first four months of operations, NMS generated \$1,922,000 in revenue and \$138,000 in net income attributable to the Company. The Company's total investment in NMS is \$859,050, which consists of the following (1) \$510 in capital, (2) a cash payment of \$400,000 to NMA and a \$200,000 non-interest bearing promissory note paid on January 2, 2013, (3) issuance of SPAR common stock worth \$165,000 to NMA, and (4) a contingent liability of \$93,540 described below.

NMS agreed to pay an incentive consulting fee ("Consulting Fee") to NMA based on NMS achieving certain earnings goals in each of the next three 12 month periods. The Consulting Fee is calculated based on 50% of NMS earnings in excess of an annual base earnings of \$500,000. The maximum consideration for the Consulting Fee could be as much as \$600,000. The projected consulting fee is approximately \$93,540 and has been recorded as a contingent liability at December 31, 2012. The Company has completed its valuation of the fair value and related allocation between identifiable intangibles and goodwill, and recorded the following in 2012:

Intangible asset	\$	526,320
Goodwill		332,730
	\$	859,050

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The following is a *pro forma* calculation of the amounts of NMS's revenue and earnings that would have been included in the Company's consolidated income statement for the years ended December 31, 2012 and 2011, and the revenue and net income for the combined entity, had the NMS acquisition date been January 1, 2011, instead of as of April 1, 2012 (in thousands):

	Revenue	Net Income
Actual from September 1 to December 31, 2012	\$ 1,922	\$ 138
2012 Supplemental pro forma from January 1 to December 31, 2012	\$ 106,396	\$ 3,190
2011 Supplemental pro forma from January 1 to December 31, 2011	\$ 76,839	\$ 1,326

CMR-Meridian (South Africa)

In September 2012, the Company's existing local consolidated subsidiary, SGRP Meridian (Pty) Ltd. ("SGRP Meridian"), acquired a majority (51%) of the equity interests in CMR Meridian (Pty) Ltd. ("CMR-Meridian"), while the Company provided and provides its usual Global Contributions. Combined Manufacturers National (Pty) Ltd ("CMR") acquired the remaining minority (49%) non-controlling interest in CMR-Meridian as its Local Investor, contributed substantially all of its customers to CMR-Meridian and provided the usual Local Contributions. SGRP Meridian and CMR-Meridian are both are part of the Company's consolidated financial reports.

CMR-Meridian initiated operations on October 1, 2012 and the Company provided approximately \$380,000 in a working capital loan to assist SGRP Meridian in this new joint venture. SGRP Meridian, through the joint venture agreement with CMR, paid approximately \$73,000 at closing and recorded a contingent liability in the amount of \$154,000 respecting the fair value of potential future payments required to be made by SGRP Meridian to CMR provided certain financial conditions are achieved by CMR-Meridian in 2013 and 2014. The required payments based on an exchange rate of Rand to US Dollars at December 31, 2012, are as follows: (a) \$66,000 if CMR-Meridian achieves \$247,000 of earnings before interest and taxes for the twelve month period ending December 31, 2013; and (b) \$88,000 if CMR-Meridian achieves \$435,000 of earnings before interest and taxes for the twelve month period ending December 31, 2014. If during these two periods the earnings before interest and taxes is lower than \$435,000 the payment in each year will be reduced proportionately.

In addition to the above payments, CMR-Meridian may be required to pay CMR an Incentive Consulting Fee provided CMR-Meridian meets the following financial criteria. Should CMR-Meridian's earnings before interest and taxes exceed \$435,000 in each of the following twelve month periods ending December 31, CMR-Meridian will pay to CMR:

- For 2013, the payment will be 50% of the excess earnings up to a maximum of \$304,000,
- For 2014,– the payment will be 25% of the excess earnings up to a maximum of \$176,000, and
- For 2015, the payment will be 10% of the excess earnings up to a maximum of \$84,000.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

At the end of the first three full years of operations, an additional bonus of \$108,000 will be paid by CMR-Meridian to CMR if the combined cumulative earnings before interest and taxes exceed \$1.3 million provided that in each year, a minimum \$435,000 in earnings is achieved. Based on current projections, the Company does not believe at this time that CMR-Meridian will meet the criteria to earn the Incentive Consulting Fee, therefore no contingent liability has been recorded as of December 31, 2012. However, the Company will continue to evaluate the potential for the Incentive Consulting Fee through 2013.

The following is a *pro forma* calculation of the amounts of CMR's revenue and earnings that would have been included in the Company's consolidated income statement for the years ended December 31, 2012 and 2011, and the revenue and net income for the combined entity, had the acquisition date for CMR been January 1, 2011, instead of as of October 1, 2012 (in thousands):

	Revenue	Net Income
Actual from October 1 to December 31, 2012	\$ 2,364	\$ 36
2012 Supplemental pro forma from January 1 to December 31, 2012	\$ 113,067	\$ 2,963
2011 Supplemental pro forma from January 1 to December 31, 2011	\$ 87,326	\$ 2,574

Aggregate Effects of Purchases of Subsidiary Interests

The aggregate effects of the above described purchases of subsidiary interests and related transactions on the net income attributed to the Company and transfers from the non-controlling interest are as follows (in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011
Net income attributed to SPAR Group, Inc.	\$ 2,930	\$ 2,214
Increase/(Decrease) in SPAR Group, Inc. paid in capital for sale/purchase of subsidiaries common stock	164	(159)
Change from net income attributed to SPAR Group, Inc. and transfer from/to non-controlling interest	\$ 3,094	\$ 2,055

The purpose of the above schedule is to disclose the effects of changes in the Company's ownership interest in its subsidiaries on the Company's equity.

For each of the above, see generally Item 1 - *The Company's Domestic and International Geographic Divisions and Acquisition Strategies and Strategic Acquisitions*, above, Item 1A - *Risks Associated with International and Domestic Joint Venture Subsidiaries, Risks of Having Material Local Investors in International and Domestic Joint Venture Subsidiaries*, above.

**14. Net Income Per Share**

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

	Year Ended December 31,	
	2012	2011
Numerator:		
Net income	\$ 2,930	\$ 2,214
Denominator:		
Shares used in basic net income per share calculation	20,240	19,958
Effect of diluted securities:		
Stock options	1,366	1,369
Shares used in diluted net income per share calculations	21,606	21,327
Basic net income per common share:		
	\$ 0.14	\$ 0.11
Diluted net income per common share:		
	\$ 0.14	\$ 0.10

**15. Mergers**

In 2011, the Company entered into merger agreements between several of its inactive subsidiaries in an effort to simplify the Company's reporting structure. The following inactive subsidiaries were merged into SPAR Acquisition, Inc. (as the survivor):

- SPAR Marketing, Inc.
- PIA Merchandising Co., Inc.
- SPAR Incentive Marketing, Inc.

The following inactive subsidiary was merged into SPAR Group International, Inc. (as the survivor):

- SPAR All Store Marketing Services, Inc.

There is no expected tax or reporting impact expected from the above mergers, as all such subsidiaries were inactive.

**16. Customer Deposits**

Customer deposits at December 31, 2012, were \$263,000 (\$176,000 from domestic operations and \$87,000 from international operations) compared to \$183,000 at December 31, 2011 (\$188,000 from domestic operations and (\$5,000) from international operations). The increase in customer deposits is primarily due to the increase in such business in Australia and Mexico.

**17. Subsequent Events**

Effective January 1, 2013 the Sterling Credit Facility was amended (the "Third Sterling Amendment") to reduce the interest rate to the Prime Rate (as that term is defined in the Loan Agreement) plus one quarter of one percent (1/4%) per annum (instead of the higher Prime Rate plus three quarters of one percent (3/4%) per annum, as previously charged).

The following contains descriptions of the Company's purchases of interests in or assets for its operating subsidiaries that occurred after December 31, 2012. The terms "Global Contributions", "Local Investor" and "Local Contributions" are used in those purchase descriptions as such terms are described and defined in Item 1 - *Acquisition Strategies and Strategic Acquisitions*, above.

For each of the following, see generally Item 1 - *The Company's Domestic and International Geographic Divisions and Acquisition Strategies and Strategic Acquisitions*, above.

Preceptor (India)

In March of 2013, the Company purchased a majority (51%) of the equity interests in Preceptor Marketing Services Private Limited ("Preceptor"), a recently formed Indian corporation, from Krognos Integrated Marketing Services Private Limited ("Krognos"), and Preceptor became a new consolidated subsidiary of the Company. The Company paid also provided and provides the usual Global Contributions to Preceptor, while Krognos as the Local Investor retained the remaining minority (49%) non-controlling interest in Preceptor and provided and provides the usual Local Contributions. Krognos also is the Local Investor in the Company's existing subsidiary in India, SPAR Krognos Marketing Private Limited. Preceptor will enable the Company to service clients not serviced by its existing Indian subsidiary. The Company paid \$20,000 for its interest in Preceptor, and Preceptor became a consolidated subsidiary of the Company on March 1, 2013. See Item 1A - *Risks Associated with International and Domestic Joint Venture Subsidiaries, Risks of Having Material Local Investors in International and Domestic Joint Venture Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, above.

Certain MFI Assets (USA)

In March of 2013, the Company also purchased general merchandising service and certain in-store audit service businesses from Market Force Information, Inc. ("MFI"), a leading customer intelligence solution provider. The acquired in-store audit services include the price, point of sale, out of stock, intercept and planogram audits managed by MFI's New York office. With this acquisition, the Company has entered the growing in-store audit service business and expanded its existing general merchandising service and client base domestically.

The purchase was made pursuant to the Asset Purchase Agreement dated as of March 15, 2013 (the "Purchase Agreement") between MFI, as the seller, and SPAR Marketing Force, Inc. ("SMF"), a consolidated subsidiary of SGRP and its principal domestic operating company. The purchase was completed at the end of the day on March 15, 2015. The Purchase Price under the Purchase Agreement consisted of a cash purchase price of \$1,300,000 and the assumption of certain specified liabilities (principally those arising after the closing under the assumed contracts). The Company plans to complete its purchase price valuation analysis during 2013 and record an appropriate intangible asset based on its analysis. In addition, SMF entered into a Consulting Services Agreement and a Transition Services Agreement with MFI, under which MFI will provide certain services, equipment and facilities for up to one year, and various assignments and other transfer documents.

SPAR Group, Inc. and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

(In thousands)

	Balance at Beginning of Period	(Recovered From)/Charged to Costs and Expenses	Deductions <sup>(1)</sup>	Balance at End of Period
Year ended December 31, 2012:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 162 <sup>(2)</sup>	72	18	\$ 216
Year ended December 31, 2011:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 143	(55)	31	\$ 57

(1) Uncollectible accounts written off, net of recoveries

(2) Includes \$105,000 of allowance for doubtful accounts related to acquisition of BIP (see Note 13 to the consolidated financial statements – *Purchase of Interests in Subsidiaries*)



JOINT VENTURE AGREEMENT

This Agreement is made as of this 3<sup>rd</sup> day of September , 2012 by and between Combined Manufacturers National (Pty) Ltd, a company organized and existing under the law of South Africa and having their principal place of business at 2<sup>nd</sup> Floor Bedford Center, Smith Street, Bedford View, South Africa, 2008 (hereinafter called “**CMR**”), and SGRP Meridian (Pty) Ltd, its subsidiaries and affiliates, a company organized and existing under the laws of South Africa, with a registered office in No.16 Ennisdale Drive, Durban North, South Africa, 4051 (hereinafter called “**SGRP**”).

**WITNESSETH THAT:**

**WHEREAS**, CMR is engaged in the retail solution businesses in South Africa, having a wide range of clients and also having various knowledge and human resources with respect to the retailing businesses in South Africa;

**WHEREAS**, SGRP is engaged in the retail solution businesses in South Africa, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software; and

**WHEREAS**, CMR and SGRP are desirous of organizing a corporation to jointly conduct retail solution businesses in South Africa (hereinafter called “**Territory**”).

**NOW, THEREFORE**, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:

**CHAPTER I: ORGANIZATION OF THE NEW COMPANY**

**Article 1. Establishment**

Promptly after the effective date of this Agreement, the parties hereto shall cause a new company to be organized under the laws of Territory (hereinafter called “**New Company**”). Upon formation, New Company shall become a party to this Agreement.

**Article 2. Business Purposes**

The business purposes of the New Company shall consist of the following:

1. Provide retail merchandising and product demonstration services;

2. Agency, assistance, instruction and report of storefront sales activities;
3. Implementation of market research and analysis of results thereof;
4. Assembly of setups used for sales promotion;
5. Consulting regarding store management;
6. Development and sale of management system regarding retailing;
7. Designing and sale of database; and
8. Any and all businesses incidental or relating to any of the foregoing.

**Article 3. Trade Name**

The New Company shall be named in Territory as CMR Meridian (Pty) Ltd.

**Article 4. Location**

The New Company shall have its main office at 2<sup>nd</sup> Floor Bedford Center, Smith Street, Bedford View, South Africa, 2008

**Article 5. Memorandum of Association**

The Memorandum of Association of the New Company shall be in the form attached hereto as Exhibit A.

**Article 6. Capital**

The total number of shares which New Company authorized to issue shall be one thousand shares. Each share shall be ten (10) Rand. At the time of establishment of New Company, shares shall be issued and fully subscribed by the parties hereto as follow:

- \* 510 Shares or 51%, SGRP;
- \* 490 Shares or 49%, Adrian Wingfield.

All the shares to be issued by New Company shall be nominal and ordinary shares.

**Article 7. Increase of Capital**

In case of capital increase of the New Company after its establishment, CMR and SGRP shall have the preemptive right to new shares to be issued for such capital increase in proportion to their respective shareholdings in the New Company.

**Article 8. Payment**

Each of the parties hereto shall pay in Rand and in cash the amount equivalent to its subscribed shares at par value upon issuance of the shares of New Company.

**CHAPTER II: PREPARATION OF ESTABLISHMENT OF THE NEW COMPANY**

**Article 9. Preparation of Establishment of the New Company**

Each party shall take its role as described below for the preparation of the commencement of New Company's business. Any expenses and costs necessary for such preparation shall be borne by each party.

**A. SGRP shall,**

Enter into with New Company a software license agreement in the form attached hereto as Exhibit B (the "License Agreement").

For reference, the License Agreement includes the obligations of SGRP to:

1. Localize and set up software provided by SGRP to work in Territory;
2. Consult on the organization of merchandising services;
3. Train the New Company's personnel in how to operate the merchandising software; and
4. Give advice on budgeting and development of each business plan.

**B. CMR shall,**

1. Arrange to transfer all client contracts to New Company as of this Agreement;
2. Transfer over all appropriate staff and merchandisers/demonstrators inclusive of all Government/employee claims for benefits (including but not limited to accrued but not paid severance expense) except as provided for under Article 24 below; and
3. Set up fast Internet connections for accessing reports and systems.

**CHAPTER III: GENERAL MEETING OF SHAREHOLDERS**

**Article 10. Annual and Extraordinary General Meeting**

The Annual Meeting of Shareholders shall be convened by resolution of the Board of Directors and held in Territory or any other vicinal place within 3 months from the last day of each accounting period of New Company.

An Extraordinary General Meeting of the Shareholders may be convened by a resolution of the Board of Directors whenever deemed necessary.

**Article 11. Quorum**

A quorum of the Annual Meeting of Shareholders shall be the shareholders present either in person or by proxy representing at least 51% of all the paid share capital of New Company.

**Article 12. Resolution**

Except as expressly otherwise provided in the Memorandum of Association of New Company, this Agreement and all resolutions of the Annual Meeting of Shareholders shall be adopted by the affirmative vote of Shareholders holding at least 51% of the shares present or represented at meeting for which there is quorum.

**Article 13. Important Matters**

In addition to such matters as required by the Memorandum of Association of New Company or Company Act 2008, any resolutions of the following matters by the Annual Meeting of Shareholders require the affirmative vote of at least two-thirds of the votes of the shareholders present:

1. Any amendment or modification of the Memorandum of Association;
2. Increase or decrease in the authorized capital or paid-in capital;
3. Issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined on Article 32 below);
4. Issuance of debentures;
5. Transfer of any part or whole of business;
6. Dissolution or amalgamation; and
7. Change in number or length of tenure of Directors.

**CHAPTER IV: BOARD OF DIRECTORS, OFFICERS AND ORDINARY MEETINGS OF THE BOARD OF DIRECTORS**

**Article 14. Election of Directors**

The Board of Directors of the New Company shall comprise of four Directors, two of whom shall be appointed (not nominated) to the Board by CMR and two of whom shall be appointed (not nominated) by SPAR. Each of SPAR and CMR shall be entitled to remove and replace any Director so appointed or removed by it. A director appointed by a Shareholder shall be deemed to have resigned with effect from the date on which that Shareholder disposes of its shares in the New Company or the date on which the New Company receives notice from a Shareholder of the removal of a Director appointed by that shareholder. The appointment, removal and replacement of a Director shall be by notice to the New Company and binding on the Shareholders and the New Company regardless of whether the formalities required for the appointment of Directors under the Companies Act have been met. A Director need not hold a qualifying share.

The Chairman of the Board of Directors shall be appointed by the Board of Directors from amongst the Directors. The Chairman shall be the Chairman both of the Board of Directors and meetings of Shareholders. Should the Chairman not be present at any meeting of Directors of Shareholders then the Directors or Shareholders present at that meeting shall elect a Chairman for the purpose of that meeting.

In case of any decrease or increase of the number of Directors, the representations stipulated above shall be unchanged and *pro rata* as between SPAR and CMR at all times unless otherwise provided in this Agreement under Article 23 below.

Each Director shall be entitled to appoint (and thereafter remove) on notice to the New Company an Alternate Director to act in his place. An alternate, when acting as such, shall have all the powers and obligations of a Director, including the right to attend, speak and vote at meetings of the Board. The appointment of an alternate Director shall cease on the happening of any event which, if he were a Director, would cause him to cease to hold office as a Director, or, if the Director who appointed him ceases to be a Director, or removes the alternate Director

**Article 15. Election of Officers**

Chief Executive Officer (CEO), Chief Operating Officer (COO), and Chief Financial Officer (CFO) shall be appointed by the Board of directors.

**Article 16. Office of Director**

The term of office of each Director shall notwithstanding the provisions of Article 14 above expire at the close of the Annual Meeting of Shareholders which relates to the closing of accounts last to occur within two (2) years from his appointment to the Board of Directors.

**Article 17. Quorum**

Each Director shall have one (1) voting right in the Board of Directors. Except as otherwise required in the Memorandum of Association of New Company, this Agreement or a majority of the Directors shall constitute a quorum at any meeting of the Board of Directors, and all resolutions shall be adopted by the affirmative vote of more than two-thirds of the votes of the Directors present or by proxy.

**Article 18. Ordinary Meeting of the Board of Directors**

The Ordinary Meeting of the Board of Directors shall be held at least quarterly and a special meeting of the Board of Directors may be held when necessary, both of which shall be convened in accordance with the provisions of the Memorandum of Association. To the extent then permitted, any meeting of the Board of Directors may be held by interactive video conference or other similar electronic or telephonic means, and any action that may be taken by the Board of Directors at a meeting thereof (whether in person, video conference or by telephonic means) may be effected in lieu of such meeting by unanimous written consent resolution executed by each member of the Board of Directors. The parties hereto confirm that the prevailing interpretation in Territory is that meetings of boards of directors may be held by interactive video conference or telephonic means. For any proposed meeting of the Board of Directors for which SGRP requests, CMR and SGRP shall cooperate to arrange for such meetings to be held by video conference.

**Article 19. Important Matters**

In addition to such matter as required by Memorandum of Association of New Company, the following matters of the Board of Directors meeting shall require the affirmative vote of at least two-thirds of the votes of the Directors:

1. Any proposal to the Annual Meeting of Shareholders or action by the Board of Directors for the matters as provided in Article 12 above;
2. Any investment or commitment of New Company;
3. Any loan or credit taken by New Company in amounts individually
4. Execution, amendment or termination of agreements or commitments with CMR, SGRP or their subsidiaries or affiliates;

5. Adoption or amendment of the annual budgets and business plan;
6. Adoption or any material modification of major regulations or procedures, including any employee rules or handbook;
7. Change of the auditing firm as provided in Article 21;
8. Initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed to the New Company;
9. Approval of annual closing of the books of New Company and the New Company's annual financial statements, and changing of accounting policies and practices or the New Company's accounting periods;
10. Establishment or amendment to the condition of employment of New Company officers;
11. Sale or disposition of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions of New Company or with respect to any asset of New Company that is crucial to New Company' business;
12. Formation of any subsidiary of New Company, entry into (or subsequent termination of) any joint venture, partnership or similar agreements;
13. Entering into, amending or terminating any contract with/or commitment to any Director or shareholder; and
14. Entering into any agreement or commitment to provide goods or services outside Territory.
15. Purchase, lease or rent any asset, open an account, incur credit or appoint a service provider or contractor.

#### **CHAPTER V: AUDIT**

##### **Article 20. Accounting Period**

The accounting periods of New Company shall end on the 31<sup>st</sup> day of December of each year.

##### **Article 21. Inspection of Accounting Records and Books**

The New Company shall yearly arrange an audit on the accounting records and books and shall submit a report of such audit to each of the parties hereto within thirty (30) days from the completion of the audit.

A mutually agreed upon certified public accounting firm shall be engaged by New Company. Such accounting firm shall audit the accounting records and books of New Company and any other matters relating, directly or indirectly, to the financial condition of New Company. Any fee for the certified public accounting firm for inspection and audit mentioned above shall be borne by New Company. New Company shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principles consistently applied ("GAAP") in Territory and as required for each Fiscal year end reporting period. New Company will provide assistance to its certified public accounting firm in the preparation of its annual audit report in both Territory and U.S. GAAP. All accounting records and books shall be kept ready for inspection by the parties hereto or by their authorized representative. New Company shall cooperate with respect to each financial period to provide such information in a timely manner as required by SGRP for financial statement consolidation.

## **CHAPTER VI: TRANSFER OF SHARES**

### **Article 22. Restrictions on Transfer of Shares**

Except as provided in Article 23 below, neither party hereto shall, without the prior written consent of the other party, assign, sell, transfer, pledge, mortgage, or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) of the New Company to any third parties.

### **Article 23. Transfer of Shares**

After three (3) years from the effective date of each New Company:

- a. If neither party wishes to sell, the provisions of the Agreement shall be extended annually.
- b. If CMR or SGRP wishes to sell (all but not less than all of its shares) and SGRP or CMR does not want to buy, then CMR is free to sell its 49% ownership or SGRP is free to sell its 51% ownership in New Company to a third party (price calculated at 2 times the Net income before provision for income tax plus interest expense ("EBIT") of the preceding year).
- c. Either CMR or SGRP may, at its discretion and for in each of the next five (5) years, put 20% of its original ownership in New Company to the other Party at a price calculated at 2 times the EBIT of the preceding year. Should a Party exercise this option resulting in a reduction in its ownership, then the allotment of Director positions will also be reduced as follows:
  - i. If ownership falls below 30%, then Party will be allocated one Director position;
  - ii. If ownership falls below 15%, then Party will not have right to any Director positions.
- d. If CMR or SPAR wishes to sell shares under Article 23 above then:



- d.1 If a shareholder intends to sell all of its shares to a third party, the shareholder may not do so without first having offered its shares to the other shareholder, unless the other shareholder has expressly and in writing waived the rights conferred on it in terms hereof.
- d.2 The offer in 23 shall:
- d.2.1 be in writing and stipulate an effective date for the sale;
  - d.2.2 be delivered by the selling party to the other shareholder at the other shareholder's domicile;
  - d.2.3 be irrevocable and open for acceptance in writing by the other shareholder for a period of 30 business days following the date of delivery of the offer to the other shareholder;
  - d.2.4 if applicable, be accompanied by a true and complete copy of the offer made by a third party to the selling party, which shall clearly identify the third party;
  - d.2.5 stipulate payment terms payable for the shares and also the loan account of the selling party;
  - d.2.6 stipulate whether the other shareholder must accept the offer in respect of all (and not part only) of the shares concerned;
  - d.2.7 include a warranty to the other shareholder that upon transfer of the shares concerned to the other shareholder that:
    - d.2.7.1 the selling party is the sole beneficial owner and registered holder of the shares concerned;
    - d.2.7.2 the selling party is entitled and able to give free and unencumbered title to the shares concerned to the other shareholder;
    - d.2.7.3 no person will have any existing or future right (including an option or right of first refusal) to acquire any of the shares concerned.
- d.3 The other shareholder shall not be obliged to purchase the selling shareholder's shares.
- d.4 If the other shareholder purchases all or some of the shares concerned pursuant to the offer in 23.d, then the purchase price payable in respect thereof shall be paid by the other shareholder under the same payment terms as the original third party offer to the selling party starting within 10 business days after the date of acceptance of the offer under d.2.3, in cash and free of set off or other deduction, against delivery of:
- d.4.1 the share certificates representing the shares concerned;
  - d.4.2 duly executed share transfer forms in respect of the shares concerned; and
  - d.4.3 a written, irrevocable cession of the selling party's loan account to the other shareholder.
- d.5 If the other shareholder does not accept the offer in 23.d in respect of all or part of the selling party's shares timeously (or declines to accept that offer), the selling party shall have the right to sell and transfer all of its shares to the third party identified in 23.d.2.4 (or to any other third party if the selling party does not have an outside offer for the shares concerned) on terms and conditions not less favourable to the third party than those of the offer to the other shareholder.

d.6 In the event that the selling party does not sell its shares in terms of 23.d.5 within 60 business days, then the provisions of this article 23(d) shall apply again *de novo*.

## **CHAPTER VII: ROLE OF CONTRACTING PARTIES**

### **Article 24. Parties Contribution to the New Company**

#### **A. Contribution of CMR:**

1. CMR shall contribute to the New Company the Assets in Exhibit C1 and its current client contracts (“Contracts”) as specified in Exhibit C2 (the CMR Assets”) in the result that the CMR Assets shall fall under the control and be owned by the New Company. Parties shall agree on a transition plan with regard to the assignment of the CMR Assets to the New Company, such transition plan is also documented in Exhibit C. As of the Closing and during such transition period CMR agrees and undertakes to transfer the revenue of the CMR assets that are not yet transferred to New Company by way of a legally acceptable invoicing.
2. CMR shall contribute to the New Company its current employees involved with both the In-Store Merchandising and Demonstration business as specified in Exhibit D (“CMR Employees”). These CMR Employees will be transferred to New Company inclusive of any Government/employee claims for benefits (including but not limited to accrued but not paid severance expense). However, In the event that any liabilities relating to retrenchment costs arise within the first 6 months of the JVA as a result of the loss of customer accounts, for whatever reason whatsoever, these costs will be borne by CMR or Adrian Wiengfield in his personal capacity.
3. CMR shall arrange to supply offices and facilities, staff service for general affairs and finance, and intra company network services, which are determined, at CMR’s sole discretion, necessary for the operation of New Company.

#### **B. Contribution of SGRP:**

1. In the first three (3) years of this agreement, SGRP will provide (in total) up to one thousand five hundred (1,500) hours of business support. This support may be in the form of general business, consultation or programming support to modify or enhance its merchandising software. SGRP will maintain ownership of all software. If during the first three years of operations of New Company, support provided by SGRP exceeds one thousand five hundred (1,500) hours in total, then any additional hours will be billed by SGRP to New Company at the rate of fifty five dollars USD (\$55.00) per hour. This rate may be modified annually based on published inflation rate. New Company will be able to hire its own IT staff as appropriate.

2. SGRP will also contribute a license to use the SGRP Software and SGRP Name for as long as SGRP holds at least 51% of the share capital of the New Company. SGRP Software will be contributed on “as is” basis.
3. If SGRP sells its interest in New Company to a third party or to CMR, the License Agreement will be automatically terminated and the New Company shall immediately cease using the name “SGRP”.
4. SGRP will pay either to CMR or its shareholders in exchange for the assignment of CMR Assets as per the Exhibit E.

**Article 25. Indemnification**

CMR shall indemnify the New Company against and hold it harmless from any liabilities in connection with any transfer of the CMR Assets.

**Article 26. Actions after Completion**

**A.** As soon as possible after execution of this Agreement, CMR shall join with the New Company in sending out notices, in a form to be agreed upon, to persons who have had dealings with CMR in connection with their merchandising and demonstration businesses, informing them of the incorporation of the New Company and the transfer of CMR Assets to the New Company.

**B.** CMR shall, where the approval, consent or agreement of a third party is not required to either (i) assign the benefit of any Contract to the New Company or (ii) transfer the whole of any Contract to the New Company, will assign to the New Company their rights, title, interest and benefit in or under each such Contract;

**C.** CMR, shall, where the approval, consent or agreement of a third party is required to either (i) assign the benefit of any Contract to the New Company or (ii) transfer the whole of any Contract to the New Company, at its own expense, use all reasonable endeavors to obtain that approval, consent or agreement.

**Article 27. Cooperation in Financing**

The New Company may borrow ZAR 1,000,000 when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 18 above.

It is estimated that New Company will require ZAR 11,908,927 in initial working capital and that both CMR and SGRP will contribute these funds in the form of loans to New Company based in their % ownership in New Company. CMR and SGRP will work to arrange for a bank loan to New Company or an alternative method of financing for working capital over time.

In the event that either SGRP or CMR fails to contribute funds in terms of this Article within 21 days of notice from the New Company to do so then either SGRP or CMR, as the case may be, shall have the right to contribute to the New Company so much of the loan as the other shareholder fails to contribute. If a shareholder exercises this right, then it shall do so on 48 hours' notice to the other shareholder and then it shall be entitled to require the shareholder who failed to contribute the loan finance required by the New Company to sell to it so many of the shares in the New Company at the market value thereof as determined by the New Company's auditor so as to equal the amount of the New Company's loan finance obligation requirement from the defaulting shareholder.

This agreement together with the notice shall constitute an irrevocable power of attorney by the defaulting shareholder in favour of the other shareholder to attend a general meeting of the shareholders of the New Company, to consent to the notice of that meeting being waived and to vote in favour of and to sign any document on behalf of the New Company to perform any act and pass any resolution on behalf of the New Company and to give effect to the sale and transfer by that shareholder of its shares in the other shareholder.

**Article 28. Approved Related Party Transactions**

Notwithstanding the provisions in Article 19.4 above the Shareholders record their agreement to the appointment of SPAR by the New Company to provide administration, management, financial management, bookkeeping, payroll services to the New Company and that SPAR shall be entitled to recover from the New Company their reasonable cost of doing so.

**Article 29. Incentive Fee**

The New Company will pay the following incentive to CMR, [under a consultancy agreement or other type of arrangement], for the benefit of both the owners of CMR and the New Company as per the Exhibit F.

**Article 30. Personnel**

CMR shall provide all personnel required for the operations of New Company. In principal, New Company shall be responsible for the payment of salaries and benefits (on a go forward basis) for such personnel and all other matters concerning their employment except that New Company is not liable for any liabilities for prior benefits earned by employees as noted in Article 24, A, 2 above.

**Article 31. Training**

Each party hereto shall provide the appropriate training to the employees for New Company's operation at SGRP and its own site. The said training shall be made upon New Company's request and any necessary expenses for the training shall be borne by New Company, except as otherwise provided in License Agreement.

**Article 32. Non-Competition**

- 31.1 CMR or SPAR, as the case may be, acknowledge that:
  - 31.1.1 the restraints hereby assumed by them are properly commensurate with the benefits which will directly and indirectly accrue to it pursuant to this agreement and arising here from;
  - 31.1.2 they have intimate knowledge of the specialised management, operating and marketing techniques and the customers of the business;
  - 31.2.3 the profitability of the business is dependant upon the business' specialised management, operating and marketing know-how and techniques and the business' relationships with its customers; and,
  - 31.2.4 the business will suffer material prejudice if either one of them were to sell their shareholding in the New Company and compete with it.
  
- 31.2 In the light of the foregoing acknowledgements, CMR or SPAR as the case may be binds itself to observe the following restraints: namely, it shall not without the other's prior written consent:
  - 31.2.1 directly or indirectly be involved or solicit or cause the customers of the New Company to terminate their arrangement with the New Company and/or provide similar services to that of the New Company to any customer or former customer of the New Company; or,
  - 31.2.2 solicit or cause the employees contractors and suppliers of the New Company to terminate their employment with the New Company or their appointment by the New Company and to be employed or appointed directly or indirectly by CMR or SPAR.

- 31.2 The foregoing restraints shall:
- 31.3.1 Apply in respect of each of the nine provinces of the Republic of South Africa;
  - 31.3.2 apply for a period of two years from the effective date;

#### **CHAPTER VIII: AMENDMENT FOR PUBLIC OFFERING**

### **32 Public Offering**

Both parties acknowledge that the New Company may attempt to become a listed company or over-the-counter company on the Territory Stock Exchange or any other stock exchange or public market in Territory (Public Offering). Both parties acknowledge that the number of issued shares, the number of shareholders, the paid-up capital and profit transaction with each party, the seconded employees of New Company will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities in accordance with those bodies' rules or guidelines for Public Offering. If both parties agree to undertake a Public Offering pursuant to Article 13 above, both parties shall discuss and reasonably cooperate with each other to amend the Articles of Agreement and/or the License Agreement in order to complete the Public Offering of New Company. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before), and subject to the approval of the Boards of Directors of the New Company, CMR and SGRP.

#### **CHAPTER IX: CONFIDENTIALITY**

### **33 Confidential Information**

CMR and SGRP shall keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this Agreement and shall not disclose it to a third party without the prior written consent of the other party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party.

#### **CHAPTER X: GENERAL PROVISIONS**

### **34 Effective Date**

This Agreement shall become effective at the time of execution hereof and continue until its Termination as defined in Article 35 below.

### **35 Termination**

- 35.1 If either party transfers its shares in the New Company to the other party hereto in accordance with Article 24 above, this Agreement shall terminate. If either party transfers its shares in the New Company to another party, unless expressly agreed by the non-transferring party in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or the New Company occurred before the Effective Date of such assignment.
- 35.2 Either party not in breach of this Agreement may terminate this Agreement by written notice to the other party if any breach shall not have been corrected by the other party in breach within sixty (60) days after written notice is given by such party not in breach complaining of such breach.
- 35.3 Either party may terminate this Agreement by giving notice in the event of one or more of the following:
1. Appointment of a trustee or receiver for all or any part of the assets of the other party;
  2. Insolvency or bankruptcy of the other party;
  3. Assignment of the other party for the benefit of creditor;
  4. Attachment of the assets of the other party;
  5. Expropriation of the business or assets of the other party; and
  6. Dissolution or liquidation of the other party.

If either party is involved in any of the events enumerated in (1) through (6) above, it shall immediately notify the other party of the occurrence of such event.

- 35.4 In case of the termination of this Agreement pursuant to Article 35, B or Article 35, C, the party terminating in accordance with this Agreement shall have an option to purchase the shares of the other party at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either party, if either party so requests, or to have the New Company dissolved.

35.5 Upon termination of this Agreement or SGRP's ceasing to hold at least 51% of the shares in New Company, the License Agreement shall terminate immediately if still in effect, unless otherwise agreed by the parties.

**36 Force Majeure**

Neither party shall be liable to the other party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the respective parties.

**37 Notices**

All notices, reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given either by (i) personal delivery, (ii) overnight delivery or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective parties at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any notice, etc by personal delivery or overnight delivery or facsimile transmission shall be deemed to have been given (7) days after the dispatch. In any event, if any notice, etc. is received other than the regular business hours of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

To: CMR ATT Adrian Wingfield, Managing Director  
2<sup>nd</sup> Floor Bedford Center, Smith Street, Bedford View, South Africa, 2008  
  
SGRP ATT Brian Mason, CEO  
No.16, Ennisdale Drive, Durban North, South Africa, 4051

**38 Assignment**

This Agreement and the rights and obligations hereunder are personal to the parties hereto, and shall not be assigned by either of the parties to any third.



### **39 Arbitration**

All dispute, controversies, or differences which may arise between the parties hereto, out of or in relation to or in connections with this Agreement, shall be finally settled by arbitration in Territory in accordance with the rules of the Territory Commercial Arbitration . The arbitration shall be conducted by three (3) arbitrators in English). The arbitration shall be final and legally binding upon both parties.

### **40 Implementation**

The Shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at Shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Memorandum of Association of New Company, New Company work rules and other rules and Commercial registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

### **41 Governing Law**

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of Territory.

### **42 Waiver**

Any failure of either party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

### **43 Entire Agreement**

This Agreement constitutes the entire and only agreement between the parties hereto with respect to the subject matter of this Agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto.

### **44 Headings**

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this Agreement.

**45 Language**

This Agreement has been executed in English. .

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed in two (2) copies by their respective duly authorized officer or representative as of the day first above written.

**CMR**

Signature: /s/ Adrian Wingfield

Name: Adrian Wingfield

Title: Director

**SGRP**

Signature: /s/ Brian Mason

Name: Brian Mason

Title: Director

**JOINT VENTURE AGREEMENT**

This Agreement is made as of this 2 day of August, 2011 by and among:

- a. TODOPROMO, S.A. DE C.V., herein represented by Mr. Juan Francisco Medina Domenzain;
- b. SEPEME, S.A. DE C.V., herein represented by Mr. Julio César Hernández Vanegas;
- c. TOP PROMOSERVICIOS, S.A. DE C.V., herein represented by Mr. Juan Francisco Medina Domenzain;
- d. CONAPAD, S.C., herein represented by Mr. Julio César Hernández Vanegas (with TODOPROMO, S.A. DE C.V., SEPEME, S.A. DE C.V., and TOP PROMOSERVICIOS, S.A. DE C.V., hereinafter collectively referred to as "**TODOPROMO**");
- e. Mr. Juan Francisco Medina Domenzain, on his own behalf;
- f. Mr. Juan Francisco Medina Staines, on his own behalf;
- g. Mr. Jorge Carlos Medina Staines, on his own behalf;
- h. Mr. Julio César Hernández Vanegas, on his own behalf (with Messrs. Juan Francisco Medina Domenzain, Juan Francisco Medina Staines and Jorge Carlos Medina Staines, hereinafter collectively referred to as the "**TODOPROMO's Shareholders**"); and
- i. SPAR Group International, Inc., its subsidiaries and affiliates, herein represented by Mr. James Richard Segreto (hereinafter "**SPAR**").

**WITNESSETH THAT:**

**WHEREAS**, TODOPROMO, S.A. DE C.V. is a corporation duly incorporated and existing pursuant to the laws of the Mexican United States as evidenced in notarial deed number 29,056 dated June 28, 2001, issued by Notary Public number 64 for Naucalpan de Juarez, Mr. Alvaro Villalba Valdes and registered at the Public Registry of Commerce under number GDF 0221243 and its representative has sufficient authority to enter into this Agreement as evidenced in notarial deed number 32,400 dated December 8, 2003, issued by the aforementioned Notary Public; and that his authority has neither been revoked nor modified in any way whatsoever;

**WHEREAS**, SEPEME, S.A. DE C.V. is a corporation duly incorporated and existing pursuant to the laws of the Mexican United States as evidenced in notarial deed number 29,967 dated April 16, 2002, issued by the same Notary Public as mentioned above and registered at the Public Registry of Commerce under number GDF 0137447 and its representative has sufficient authority to enter into this Agreement as evidenced in notarial deed number 31,801 dated July 4, 2003, issued by the same Notary Public; and that his authority has neither been revoked nor modified in any way whatsoever;

**WHEREAS**, TOP PROMOSERVICIOS, S.A. DE C.V. is a corporation duly incorporated and existing pursuant to the laws of the Mexican United States as evidenced in notarial deed number 50,789 dated September 27, 2005, issued by Notary Public number 133 for the Federal District, Mr. Hector Guillermo Galeano Inclán and registered at the Public Registry of Commerce of under number 386103 and its representative has sufficient authority to enter into this Agreement as evidenced in the same notarial deed; and that his authority has neither been revoked nor modified in any way whatsoever;

**WHEREAS**, CONAPAD, S.C. is a corporation duly incorporated and existing pursuant to the laws of the Mexican United States as evidenced in notarial deed number 33,018 dated June 8, 2004, issued by the Notary Public mentioned in the first recital and registered at the Public Registry of Commerce under number 229444 and its representative has sufficient authority to enter into this Agreement as evidenced in the same notarial deed; and that his authority has neither been revoked nor modified in any way whatsoever;

**WHEREAS**, TODOPROMO is engaged in the retail solution businesses in Mexico, having a wide range of clients and also having various knowledge and human resources with respect to the retailing businesses in Mexico;

**WHEREAS**, SPAR is a company organized and existing under the laws of the State of Nevada, United States of America;

**WHEREAS**, SPAR is engaged in the retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software; and

**WHEREAS**, TODOPROMO and SPAR are desirous of organizing a corporation to jointly conduct retail solution businesses in Mexico (hereinafter called “Territory”).

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:

**CHAPTER I: ORGANIZATION OF THE NEW COMPANY**

**Article 1. Establishment**

Promptly after the effective date of this Agreement, the parties hereto shall cause a new company to be organized under the laws of Territory (hereinafter called "**New Company**"). Upon formation, New Company shall become a party to this Agreement.

**Article 2. Business Purposes**

The business purposes of the New Company shall consist of the following:

1. Provide retail merchandising and product demonstration services;
2. Agency, assistance, instruction and report of storefront sales activities;
3. Implementation of market research and analysis of results thereof;
4. Assembly of setups used for sales promotion;
5. Consulting regarding store management;
6. Development and sale of management system regarding retailing;
7. Designing and sale of database; and
8. Any and all businesses incidental or relating to any of the foregoing.

**Article 3. Trade Name**

The New Company shall be named in Territory as "SPAR TODOPROMO, SAPI, de CV." or a similar mutually agreed upon name.

**Article 4. Location**

The New Company shall have its main office Miguel Noreña 39, San Jose Insurgentes, Mexico 03900.

**Article 5. Articles of Incorporation**

The Articles of Incorporation of the New Company shall be substantially in the form attached hereto as Exhibit A.

**Article 6. Capital**

The total number of shares which New Company authorized to issue shall be Five thousand shares without par value resulting in a total Capital contribution at closing of \$50,000 Pesos. At the time of establishment of New Company, shares shall be issued and fully subscribed by the parties hereto as follow:

- \* 2,550- Shares or 51%, SPAR;
- \* 2,450- Shares or 49%, TODOPROMO's Shareholders, as follows:
  - \* 950 Shares or 19% Juan Francisco Medina Domenzain
  - \* 500 Shares or 10% Juan Francisco Medina Staines
  - \* 500 Shares or 10% Jorge Carlos Medina Staines
  - \* 500 Shares or 10% Julio César Hernández Vanegas

All the shares to be issued by New Company shall be without par value and ordinary shares.

**Article 7. Increase of Capital**

In case of capital increase of the New Company after its establishment, TODOPROMO and SPAR shall have the preemptive right to new shares to be issued for such capital increase in proportion to their respective shareholdings in the New Company.

**Article 8. Payment**

Each of the parties hereto shall pay in Pesos and in cash the amount equivalent to its subscribed shares at par value upon issuance of the shares of New Company.

## **CHAPTER II: PREPARATION OF ESTABLISHMENT OF THE NEW COMPANY**

### **Article 9. Preparation of Establishment of the New Company**

Each party shall take its role as described below for the preparation of the commencement of New Company's business. Any expenses and costs necessary for such preparation shall be borne by each party.

#### **A. SPAR shall,**

Enter into with New Company a software license agreement in the form attached hereto as Exhibit B (the "License Agreement").

For reference, the License Agreement includes the obligations of SPAR to:

1. Localize and set up software provided by SPAR to work in Territory;
2. Consult on the organization of merchandising services;
3. Train the New Company's personnel in how to operate the merchandising software; and
4. Give advice on budgeting and development of each business plan.

#### **B. TODOPROMO shall,**

1. Arrange to transfer all client contracts to New Company as of this Agreement;
2. Transfer over all appropriate staff and merchandisers/demonstrators free and clear of any Government/employee claims for benefits (including but not limited to accrued but not paid severance expense); and
3. Set up confirm fast Internet connections for accessing reports and systems.

## **CHAPTER III: GENERAL MEETING OF SHAREHOLDERS**

### **Article 10. Annual and Extraordinary General Meeting**

The Annual Meeting of Shareholders shall be convened by resolution of the Board of Directors and held in Territory or any other vicinal place within 3 months from the last day of each accounting period of New Company.

An Extraordinary General Meeting of the Shareholders may be convened by a resolution of the Board of Directors whenever deemed necessary.

**Article 11. Quorum**

Except as expressly otherwise provided in the Articles of Incorporation of New Company a quorum of the Annual Meeting of Shareholders shall be the shareholders present either in person or by proxy representing at least 51% of all the paid share capital of New Company.

**Article 12. Resolution**

Except as expressly otherwise provided in the Articles of Incorporation of New Company, this Agreement and all resolutions of the Annual Meeting of Shareholders shall be adopted by the affirmative vote of Shareholders holding at least 51% of the shares present or represented at meeting for which there is quorum.

**Article 13. Important Matters**

In addition to such matters as required by the Articles of Incorporation of New Company or the General Law of Business Organizations or the Stock Exchange Law, any resolutions of the following matters by the Annual Meeting of Shareholders require the affirmative vote of at least two-thirds of the votes of the shareholders present:

1. Any amendment or modification of the Articles of Incorporation;
2. Increase or decrease in the authorized capital or paid-in capital;
3. Issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined on Article 32 below);
4. Issuance of debentures;
5. Transfer of any part or whole of business;
6. Any and all matters relating to dividends of New Company;
7. Dissolution or amalgamation; and
8. Change in number or length of tenure of Directors.



## **CHAPTER IV: BOARD OF DIRECTORS, OFFICERS AND ORDINARY MEETINGS OF THE BOARD OF DIRECTORS**

### **Article 14. Election of Directors**

The Board of Directors of the New Company shall consist of four (4) Directors; two (2) of whom shall be elected from among those appointed by TODOPROMO and two (2) of whom shall be elected from among those appointed by SPAR. The Chairman of the Board of Directors shall be elected from the Directors by the mutual consultation of both parties. In case of any increase or decrease in the number of Directors, the representation stipulated above shall be unchanged and pro-rata at all times.

### **Article 15. Election of Officers**

President & Chief Executive Officer (CEO), Vice President & Chief Operating Officer (COO), and Vice President & Chief Financial Officer (CFO) shall be nominated by TODOPROMO and appointed by the Board of directors.

### **Article 16. Office of Director**

The term of office of each Director shall expire at the close of the Annual Meeting of Shareholders, which relates to the closing of accounts last to occur within two (2) years from his assumption of office, provided that the Shareholders' Meeting may approve their reelection.

### **Article 17. Quorum**

Each Director shall have one (1) voting right in the Board of Directors. Except as otherwise required in the Articles of Incorporation of New Company, this Agreement or a majority of the Directors shall constitute a quorum at any meeting of the Board of Directors, and all resolutions shall be adopted by the affirmative vote of more than two-thirds of the votes of the Directors present or by proxy.

### **Article 18. Ordinary Meeting of the Board of Directors**

The Ordinary Meeting of the Board of Directors shall be held at least quarterly and a special meeting of the Board of Directors may be held when necessary, both of which shall be convened in accordance with the provisions of the Articles of Incorporation. To the extent then permitted, any meeting of the Board of Directors may be held by interactive video conference or other similar electronic or telephonic means, and any action that may be taken by the Board of Directors at a meeting thereof (whether in person, video conference or by telephonic means) may be effected in lieu of such meeting by unanimous written consent resolution executed by each member of the Board of Directors. The parties hereto confirm that the prevailing interpretation in Territory is that meetings of boards of directors may be held by interactive video conference or telephonic means. For any proposed meeting of the Board of Directors for which SPAR requests, TODOPROMO and SPAR shall cooperate to arrange for such meetings to be held by video conference. A written record in Spanish of all meetings of the Board of Directors and all decisions together with English translation thereof shall be made as promptly as practicable after each meeting of the Board of Directors, signed or sealed by each of the Directors and kept in the records of the Company.

**Article 19. Important Matters**

In addition to such matter as required by Articles of Incorporation of New Company, the following matters of the Board of Directors meeting shall require the affirmative vote of at least two-thirds of the votes of the Directors:

1. Any proposal to the Annual Meeting of Shareholders or action by the Board of Directors for the matters as provided in Article 12 above;
2. Any investment or commitment of New Company in amounts individually in excess of \$50,000.00 USD or in the aggregate in excess of \$150,000.00USD;
3. Any loan or credit taken by New Company in amounts individually in excess of \$100,000.00 USD or in the aggregate in excess of \$250,000.00 USD;
4. Execution, amendment or termination of agreements or commitments with TODOPROMO, SPAR or their subsidiaries or affiliates;
5. Adoption or amendment of the annual budgets and business plan;
6. Adoption or any material modification of major regulations or procedures, including any employee rules or handbook;
7. Change of the auditing firm as provided in Article 21;
8. Initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed to the New Company in excess of \$20,000.00 USD;

9. Approval of annual closing of the books of New Company and the New Company's annual financial statements, and changing of accounting policies and practices or the New Company's accounting periods;
10. Establishment or amendment to the condition of employment of New Company officers;
11. Sale or disposition of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions of New Company or with respect to any major strategic asset of New Company that is crucial to New Company's business;
12. Formation of any subsidiary of New Company, entry into (or subsequent termination of) any joint venture, partnership or similar agreements;
13. Entering into, amending or terminating any contract with/or commitment to any Director or shareholder; and
14. Entering into any agreement or commitment to provide goods or services outside Territory.

#### **CHAPTER V: AUDIT**

##### **Article 20. Accounting Period**

The accounting periods of New Company shall end on the 31<sup>st</sup> day of December of each year.

##### **Article 21. Inspection of Accounting Records and Books**

The New Company shall yearly arrange an audit on the accounting records and books and shall submit a report of such audit to each of the parties hereto within thirty (30) days from the completion of the audit.

A mutually agreed upon certified public accounting firm shall be engaged by New Company. Such accounting firm shall audit the accounting records and books of New Company and any other matters relating, directly or indirectly, to the financial condition of New Company. Any fee for the certified public accounting firm for inspection and audit mentioned above shall be borne by New Company. New Company shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principles consistently applied ("GAAP") in Territory and as required for each Fiscal year end reporting period. New Company will provide assistance to its certified public accounting firm in the preparation of its annual audit report in both Territory and U.S. GAAP. All accounting records and books shall be kept ready for inspection by the parties hereto or by their authorized representative. New Company shall cooperate with respect to each financial period to provide such information in a timely manner as required by SPAR for financial statement consolidation.

**CHAPTER VI: TRANSFER OF SHARES**

**Article 22. Restrictions on Transfer of Shares**

Except as provided in Article 23 below and except if SPAR sells to a SPAR subsidiary or SPAR affiliate **or if TODOPROMO's Shareholders incorporate a corporation only for the purpose of holding their ownership in the New Company and transfer said shares to the new holding company owned solely by TODOPROMO or TODOPROMO's Shareholders**, neither party hereto shall, without the prior written consent of the other party, assign, sell, transfer, pledge, mortgage, or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) of the New Company to any third parties, within the first three (3) years as of the effective Date of this Agreement.

**Article 23. Preemptive Right and Options**

**Once the term of three (3) years as of the effective date of this Agreement has elapsed, the parties hereto can only transfer the total amount, but not less of shares owned.**

**A.** After three (3) years from the effective date of this Agreement, if either party hereto (hereinafter called "**Selling Party**") wishes to transfer and sell all but not less than all of its shares, the Selling Party shall furnish to the other party (hereinafter called "**Other Party**") a written notice of a proposed purchaser, the offered purchase price and other major terms and conditions of such proposed sale.

The Other Party shall have a right to purchase such shares by giving Selling Party a written notice of its intention to purchase the same within sixty (60) days from the receipt of Selling Party's notice, upon the same terms and conditions as described in the Selling Party's notice. The Selling Party may sell such shares upon the terms and conditions as described in its notice after sixty (60) days from the date of Other Party's receipt of such notice unless Other Party gives a notice for its purchase of the shares to Selling Party. Unless agreed by the Other Party in writing, any transferee party shall be subject to this Agreement.

**B.** After three (3) years from the effective date of this Agreement, either party may at any time make a written offer to buy all of the other Party's shares in the New Company. The Other Party shall then, either accept the offer and sell all of its shares under the terms and conditions offered, or purchase the offering party's shares at the same terms and conditions. If the party receiving the initial offer does not respond to the initial offer within sixty (60) days, the party receiving the offer shall be deemed to have accepted the offer to sell its shares. The parties shall cooperate to effect the closing of such purchase and sale of all of the shares of the New Company held by the Selling Party within ninety (90) days of the decision or deemed decision of the second party. At such closing, the purchasing party shall pay to the Selling Party the purchase price in cash, and the Selling Party shall deliver to the purchasing party share certificates representing all of the Selling Party's shares held in the New Company, free and clear of any liens.

## **CHAPTER VII: ROLE OF CONTRACTING PARTIES**

### **Article 24. Parties Contribution to the New Company**

#### **A. Contribution of TODOPROMO:**

1. TODOPROMO shall contribute to the New Company its current client contracts (Contracts") as specified in Exhibit C ("TODOPROMO Assets"). Parties shall agree on a transition plan with regard to the assignment of the TODOPROMO Assets to the New Company, such transition plan is also documented in Exhibit C. As of the Closing and during such transition period TODOPROMO agrees and undertakes to transfer the revenue of the TODOPROMO assets that are not yet transferred to New Company by way of a legally acceptable invoicing.
2. TODOPROMO shall contribute to the New Company its current employees involved with both the In-Store Merchandising and Demonstration business as specified in Exhibit D ("TODOPROMO Employees"). These TODOPROMO Employees will be transferred to New Company free and clear of any Government/employee claims for benefits (including but not limited to accrued but not paid severance expense).
3. TODOPROMO shall arrange to supply offices and facilities, staff service for general affairs and finance, and intra company network services, which are determined, at TODOPROMO's sole discretion, necessary for the operation of New Company.

#### **B. Contribution of SPAR:**

1. In the first three (3) years of this agreement, SPAR will provide (in total) up to one thousand five hundred (1,500) hours of business support. This support may be in the form of general business, consultation or programming support to modify or enhance its merchandising software. SPAR will maintain ownership of all software. If during the first three years of operations of New Company, support provided by SPAR exceeds one thousand five hundred (1,500) hours in total, then any additional hours will be billed by SPAR to New Company at the rate of fifty five dollars USD (\$55.00) per hour. This rate may be modified annually based on published inflation rate. New Company will be able to hire its own IT staff as appropriate.

2. SPAR will also contribute a license to use the SPAR Software and SPAR Name for as long as SPAR holds at least 51% of the share capital of the New Company. SPAR Software will be contributed on “as is” basis.
3. If SPAR sells its interest in New Company to a third party or to TODOPROMO, the License Agreement will be automatically terminated and the New Company shall immediately cease using the name “SPAR”.
4. SPAR will pay either to TODOPROMO or its shareholders, by cheque or via wire transfer to the bank account specified to that effect by TODOPROMO, in exchange for the assignment of TODOPROMO Assets the following:
  - a. \$400,000USD on the date of signature of the Incorporation Deed of the New Company;
  - b. \$300,000USD twelve months after New Company is incorporated.
5. 1. BONUS PAYMENTS FOR 2011. a.- Assuming that the New Company is incorporated and starting operations by September 1, 2011, it is agreed that the executives identified in Exhibit E will only be paid the 2011 bonus of \$1'300,000.00 Mexican Pesos if the reported Net EBITDA (after recording the bonus expense of the mentioned \$1'300,000.00 Mexican Pesos) for the four months ended December 31, 2011 equals or exceeds \$1'724,553.00 Mexican Pesos.  
b.- If the EBITDA goal mentioned in (a) above is not met by December 31, 2011, it is further agreed that the 2011 Bonus Payment of \$1'300,000.00 Mexican Pesos could be earned and paid if the reported Net EBITDA (after recording the bonus expense of the mentioned \$1'300,000.00 Mexican Pesos) for the twelve months ended as of August 31, 2012 equals or exceeds \$2'660,000.00 Mexican Pesos.
5. 2. BONUS PAYMENTS FOR 2012. a. It is agreed that the 2012 bonus payment of \$1'300,000.00 Mexican Pesos will only be paid if the reported Net EBITDA (after recording the bonus expense of the mentioned \$1'300,000.00 Mexican Pesos) for the twelve months ended December 31, 2012 equals or exceeds \$2'660,000.00 Mexican Pesos.

**Article 25. Indemnification**

TODOPROMO shall indemnify the New Company against and hold it harmless from any liabilities in connection with any transfer of the TODOPROMO Assets.

**Article 26. Actions after Completion**

**A.** As soon as possible after Completion, TODOPROMO shall join with the New Company in sending out notices, in a form to be agreed upon, to persons who have had dealings with TODOPROMO in connection with their merchandising and demonstration businesses, informing them of the incorporation of the New Company and the transfer of TODOPROMO Assets to the New Company.

**B.** TODOPROMO, shall, where the approval, consent or agreement of a third party is not required to either (i) assign the benefit of any Contract to the New Company or (ii) transfer the whole of any Contract to the New Company, will assign to the New Company their rights, title, interest and benefit in or under each such Contract;

**C.** TODOPROMO, shall, where the approval, consent or agreement of a third party is required to either (i) assign the benefit of any Contract to the New Company or (ii) transfer the whole of any Contract to the New Company, at its own expense, use all reasonable endeavors to obtain that approval, consent or agreement.

**D.** It is estimated that New Company will require \$1,000,000.00 USD in initial working capital and that both TODOPROMO and SPAR will contribute these funds in the form of loans to New Company based in their % ownership in New Company. TODOPROMO may fund part of their working capital requirements with the furniture and equipment with a book value estimated at \$35,000 USD. TODOPROMO and SPAR will work to arrange for a bank loan to New Company or an alternative method of financing for working capital over time.

**Article 27. Cooperation in Financing**

The New Company may borrow (\$ 250,000.00 USD) when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 18 above.

**Article 28. Incentive Fee**

The New Company will pay the following incentive to TODOPROMO, [under a consultancy agreement or other type of arrangement]:

1. Starting in 2011 and for the thirty six (36) months after closing, an Incentive Consulting Fee (“Cumulative Earn-out”) calculated at 50% of New Company’s EBITDA that is in excess of the Base annual EBITDA (\$212,800 USD). The maximum value of the Cumulative Earn-out will be \$600,000 USD. The Cumulative Earn-out will be calculated by New Company’s outside Audit Firm based on the yearend audit reports (except in year 2014, where it will be based on an Audit Review of the financial statements as of August 31, 2014 the expected pro-rata period).
2. Assuming New Company is operational September 1, 2011, the expected Cumulative payout will be as follows [2011 and 2014 are pro-rata calculations]:
  - a. 2011- 4 month (pro-rata) max Cumulative Earn-out shall be \$100,000 USD
  - b. 2012- max Cumulative Earn-out shall be \$300,000 USD
  - c. 2013- max Cumulative Earn-out shall be \$500,000 USD
  - d. 2014- 8 month (pro-rata) max Cumulative Earn-out Shall be USD \$600,000 USD

The Earn-out will be paid within 45 days after the issuance of the audit report by the independent auditing firm. It is considered that New Company will have a December 31 year-end. It is expected that the cash flow of the New Company will be adequate to make these payments as well as pay any taxes due. If the cash flow is not adequate in any year to make these payments and pay taxes due, then the incentive consulting fee payments will be decreased until the New Company cash flow is adequate to pay any taxes due and also pay the incentive consulting fee payment. Any amounts unpaid due to this limitation will be accrued by the New Company and paid when the cash flow is adequate.

**Article 29. Personnel**

TODOPROMO shall provide all personnel required for the operations of New Company. In principle, New Company shall be responsible for the payment of salaries and benefits (on a go forward basis) for such personnel and all other matters concerning their employment except that New Company is not liable for any liabilities for prior benefits earned by employees as noted in Article 8, B, 2 above.



**Article 30. Training**

Each party hereto shall provide the appropriate training to the employees for New Company's operation at SPAR and its own site. The said training shall be made upon New Company's request and any necessary expenses for the training shall be borne by New Company, except as otherwise provided in License Agreement.

**Article 31. Non-Competition**

During the term of this Agreement and for two (2) years from the Termination Date (as defined in Article 35 below) of this Agreement, neither SPAR its subsidiaries and affiliates nor TODOPROMO its shareholders, officers, subsidiaries and affiliates shall without the prior consent of the other, engage in, whether directly or indirectly, Merchandising and Demonstration Services (as defined in the License Agreement) in Territory or any other business then competitive with New Company in Territory. However, in the event that SPAR enters into a contract with a customer that covers more than one country and the scope of such agreement includes services in Territory and New Company is prohibited from completing such contracts, then SPAR shall not be prohibited from entering into or performing such agreement, provided, however, that any gross income directly or indirectly received by SPAR in connection therewith shall account as if received by the New Company, so that TODOPROMO's Shareholders may benefit from any profits arising therefrom to be distributed as a dividend, if proper.

**CHAPTER VIII: AMENDMENT FOR PUBLIC OFFERING**

**Article 32. Public Offering**

Both parties acknowledge that the New Company may attempt to become a listed company or over-the-counter company on the Territory Stock Exchange or any other stock exchange or public market in Territory (Public Offering). Both parties acknowledge that the number of issued shares, the number of shareholders, the paid-up capital and profit transaction with each party, the seconded employees of New Company will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities in accordance with those bodies' rules or guidelines for Public Offering. If both parties agree to undertake a Public Offering pursuant to Article 13 above, both parties shall discuss and reasonably cooperate with each other to amend the Articles of Agreement and/or the License Agreement in order to complete the Public Offering of New Company. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before), and subject to the approval of the Boards of Directors of the New Company, TODOPROMO and SPAR.

## **CHAPTER IX: CONFIDENTIALITY**

### **Article 33. Confidential Information**

TODOPROMO and SPAR shall keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this Agreement and shall not disclose it to a third party without the prior written consent of the other party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party.

## **CHAPTER X: GENERAL PROVISIONS**

### **Article 34. Effective Date**

This Agreement shall become effective at the time of execution hereof and continue until its Termination as defined in Article 35 below.

### **Article 35. Termination**

**A.** If either party transfers its shares in the New Company to the other party hereto in accordance with Article 24 above, this Agreement shall terminate. If either party transfers its shares in the New Company to another party, unless expressly agreed by the non-transferring party in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or the New Company occurred before the Effective Date of such assignment.

**B.** Either party not in breach of this Agreement may terminate this Agreement by written notice to the other party if any breach shall not have been corrected by the other party in breach within sixty (60) days after written notice is given by such party not in breach complaining of such breach.

C. Either party may terminate this Agreement by giving notice in the event of one or more of the following:

1. Appointment of a trustee or receiver for all or any part of the assets of the other party;
2. Insolvency or bankruptcy of the other party;
3. Assignment of the other party for the benefit of creditor;
4. Attachment of the assets of the other party;
5. Expropriation of the business or assets of the other party; and
6. Dissolution or liquidation of the other party.

If either party is involved in any of the events enumerated in (1) through (6) above, it shall immediately notify the other party of the occurrence of such event.

D. In case of the termination of this Agreement pursuant to Article 35, B or Article 35, C, the party terminating in accordance with this Agreement shall have an option to purchase the shares of the other party at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either party, if either party so requests, or to have the New Company dissolved.

E. Upon termination of this Agreement or SPAR's ceasing to hold at least 51% of the shares in New Company, the License Agreement shall terminate immediately if still in effect, unless otherwise agreed by the parties.

**Article 36. Force Majeure**

Neither party shall be liable to the other party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the respective parties.

**Article 37. Notices**

All notices, reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given either by (i) personal delivery, (ii) overnight delivery or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective parties at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any notice, etc by personal delivery or overnight delivery or facsimile transmission shall be deemed to have been given (7) days after the dispatch. In any event, if any notice, etc. is received other than the regular business hours of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

To: TODOPROMO Todo Promo

Miguel Noreña 39, San Jose Insurgentes, Mexico 03900

SPAR SPAR International Ltd, ATT Gary Raymond, CEO

560 White Plains Road, Tarrytown, NY 10591, USA

**Article 38. Assignment**

This Agreement and the rights and obligations hereunder are personal to the parties hereto, and shall not be assigned by either of the parties to any third.

**Article 39. Arbitration**

All dispute, controversies, or differences which may arise between the parties hereto, out of or in relation to or in connections with this Agreement, shall be finally settled by arbitration in accordance with the Rules of Arbitration of the Arbitration Center of Mexico (CAM) by one or more arbitrators appointed in accordance with said Rules, if initiated by SPAR; or in accordance with the International Arbitration Rules of the American Arbitration Association (AAA) by one or more arbitrators appointed in accordance with said Rules, if initiated by TODOPROMO. The arbitration shall be final and legally binding upon both parties.

**Article 40. Implementation**

The Shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at Shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Articles of Incorporation of New Company, New Company work rules and other rules and Commercial registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

**Article 41. Governing Law**

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of Territory.

**Article 42. Waiver**

Any failure of either party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

**Article 43. Entire Agreement**

This Agreement constitutes the entire and only agreement between the parties hereto with respect to the subject matter of this Agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto.

**Article 44. Headings**

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this Agreement.

**Article 45. Language**

This Agreement has been executed in the English and Spanish. If there is any discrepancy or inconsistency between the English and the Spanish versions, the English version shall prevail.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed in two (2) copies by their respective duly authorized officer or representative as of the day first above written.

**TODOPROMO**

/s/ TODOPROMO, S.A. DE C.V.

TODOPROMO, S.A. DE C.V.,

Represented by Mr. Juan Francisco Medina Domenzain

/s/ SEPEME, S.A. DE C.V.

SEPEME, S.A. DE C.V.

Represented by Mr. Julio César Hernández Vanegas

/s/ TOP PROMOSERVICIOS, S.A. DE C.V.

TOP PROMOSERVICIOS, S.A. DE C.V.,

Represented by Mr. Juan Francisco Medina Domenzain

/s/CONAPAD, S.A. DE C.V.

CONAPAD, S.A. DE C.V.,

Represented by Mr. Julio César Hernández Vanegas

/s/ Mr. Juan Francisco Medina Domenzain

Mr. Juan Francisco Medina Domenzain

On his own behalf

/s/ Mr. Juan Francisco Medina Staines

Mr. Juan Francisco Medina Staines

On his own behalf

/s/ Mr. Jorge Carlos Medina Staines

Mr. Jorge Carlos Medina Staines

On his own behalf

/s/ Mr. Julio César Hernández Vanegas

Mr. Julio César Hernández Vanegas

On his own behalf

**Spar Group International, Inc.**

Signature: /s/ James Richard Segreto

Name: James Richard Segreto

Title: CFO and Secretary

Exhibit A  
Articles of Incorporation



Exhibit B  
Software License Agreement

Exhibit C

List of Client Contracts & Transition Plan

Exhibit D

List of Employees Transferring to New Company

Exhibit E

List of Executives

**THIRD AGREEMENT OF AMENDMENT  
TO  
REVOLVING LOAN AND SECURITY AGREEMENT  
AND OTHER DOCUMENTS**

This Third Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents ("Third Agreement of Amendment") shall be effective as of January 1, 2013, and is by and among **STERLING NATIONAL BANK**, having offices at 500 Seventh Avenue, New York NY 10018-4502 ("**Sterling**"), and any other entity becoming a Lender pursuant to the Loan Agreement (defined below) are collectively referred to as the "**Lenders**" and individually as a "**Lender**;" and Sterling as the Agent for the Lenders as well as acting for the benefit of Lenders ("**Agent**"); **SPAR Group, Inc.**, a Delaware corporation ("**SGRP**"), **National Assembly Services, Inc.**, a New Jersey corporation, **SPAR Group International, Inc.**, **SPAR Acquisition, Inc.**, **SPAR Trademarks, Inc.**, and **SPAR Marketing Force, Inc.**, each a Nevada corporation (together with SGRP, either separately, jointly, or jointly and severally, "**Borrower**"); all currently having an address at 333 Westchester Avenue, South Building, Suite 204, White Plains NY 10604.

**RECITALS**

A. Borrower has executed and delivered (i) a certain Secured Revolving Loan Note dated July 6, 2010 in the original maximum principal sum of Five Million Dollars (\$5,000,000.00), as subsequently amended to Six Million Five Hundred Thousand Dollars (\$6,500,000.00), as amended (the "Note"), payable to the order of Agent.

B. In connection with the execution and delivery of the Note and to secure payment and performance of the Note and other obligations of Borrower to Agent, the Agent and Borrower have executed, among other things, a Revolving Loan and Security Agreement effective July 6, 2010, as amended ("Loan Agreement").

C. In addition to the foregoing documents, the Borrower and Agent have executed or delivered other collateral agreements, certificates and instruments perfecting or otherwise relating to the security interests created. For purposes of convenience, the Note, Loan Agreement and related collateral agreements, certificates and instruments (as amended) are collectively referred to as the "Loan Documents."

D. Borrower has requested and Agent has agreed to a modification of the loan evidenced by the Note subject to the Loan Documents.

E. In addition, Agent and Borrower wish to clarify certain of their rights and duties to one another as set forth in the Loan Documents.

***NOW, THEREFORE***, in consideration of the promises, covenants and understandings set forth in this Third Agreement of Amendment and the benefits to be received from the performance of such promises, covenants and understandings, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

---

**AGREEMENTS**

1. Agent and Borrower reaffirm, consent and agree to all of the terms and conditions of the Loan Documents as binding, effective and enforceable according to their stated terms, except to the extent that such Loan Documents are hereby expressly modified by this Third Agreement of Amendment.

2. In the case of any ambiguity or inconsistency between the Loan Documents and this Third Agreement of Amendment, the language and interpretation of this Third Agreement of Amendment is to be deemed binding and paramount.

3. The Loan Agreement is hereby amended as follows:

(i) **Subsection 1.3(a)** is hereby amended and restated to read as follows, effective as of January 1, 2013:

**1.3(a)** Interest accrues on the Revolving Loan at Agent's floating Prime Rate (as that term is defined in the Loan Agreement) plus one quarter of one percent (1/4%) per annum.

(ii) The chief executive office of Borrower referred to in Schedule 2 is hereby changed to:  
333 Westchester Avenue, South Building, Suite 204, White Plains, NY 10604.

4. Borrower represents and warrants that there are no Defaults or events of Default pursuant to or defined in any of the Loan Documents, and that all warranties and covenants which have been made or performed by Borrower in connection with the Loan Documents were true and complete in all material respects when made or performed.

5. All representations, warranties and covenants made by Borrower to Agent in the Loan Documents are true and complete in all material respects as if hereby repeated and (except as and to the extent limited to reference dates) first made expressly in this Third Agreement of Amendment.

6. Except as otherwise provided herein, the Loan Documents shall continue in full force and effect, in accordance with their respective terms. The parties hereto hereby expressly confirm and reaffirm all of their respective liabilities, obligations, duties and responsibilities under and pursuant to said Loan Documents as amended hereby and consent to the terms of this Third Agreement of Amendment. Capitalized terms used in this Third Agreement of Amendment which are not otherwise defined or amended herein have the meaning ascribed thereto in the Loan Documents.

7. The parties agree to sign, deliver and file any additional documents and take any other actions that may reasonably be required by Agent including, but not limited to, affidavits, resolutions, or certificates for a full and complete consummation of the matters covered by this Third Agreement of Amendment.

8. This Third Agreement of Amendment is binding upon, inures to the benefit of, and is enforceable by the heirs, personal representatives, successors and assigns of the parties. This Third Agreement of Amendment is not assignable by Borrower without the prior written consent of Agent; provided, however, that this Agreement shall be deemed to be assigned with any assignment of the Loan Agreement consented to by Agent.

9. To the extent that any provision of this Third Agreement of Amendment is determined by any court or legislature to be invalid or unenforceable in whole or part either in a particular case or in all cases, such provision or part thereof is to be deemed surplusage. If that occurs, it does not have the effect of rendering any other provision of this Third Agreement of Amendment invalid or unenforceable. This Third Agreement of Amendment is to be construed and enforced as if such invalid or unenforceable provision or part thereof were omitted.

10. This Third Agreement of Amendment may only be changed or amended by a written agreement signed by all of the parties. By the execution of this Third Agreement of Amendment, Agent is not to be deemed to consent to any future renewal or extension of the Revolving Loan or Loan Documents.

11. This Third Agreement of Amendment is governed by and is to be construed and enforced in accordance with the laws of New York as though made and to be fully performed in New York (without regard to the conflicts of law rules of New York that would defer to the substantive laws of any other jurisdiction).

12. The parties to this Third Agreement of Amendment acknowledge that each has had the opportunity to consult independent counsel of their own choice, and that each has relied upon such counsel's advice concerning this Third Agreement of Amendment, the enforceability and interpretation of the terms contained in this Third Agreement of Amendment and the consummation of the transactions and matters covered by this Third Agreement of Amendment.

13. The Borrower agrees to pay all reasonable attorneys' fees incurred by Agent in connection with this Third Agreement of Amendment (in addition to those otherwise payable pursuant to the Loan Agreement), which fees are to be paid as of the execution hereof.

**THE BORROWER, FOR ITSELF, ITS SUBSIDIARIES (IF ANY) AND AGENT HEREBY WAIVE ALL RIGHTS TO A TRIAL BY JURY IN ANY LITIGATION RELATING TO THIS THIRD AGREEMENT OF AMENDMENT OR THE DEBT AS AN INDUCEMENT TO THE EXECUTION OF THIS THIRD AGREEMENT OF AMENDMENT.**

-Remainder of this page intentionally left blank-

*[signatures appear on the following page]*





**ACKNOWLEDGMENT**

**STATE OF** New York  
**SS.:**  
**COUNTY OF** Westchester,

**BE IT REMEMBERED**, that on this 11 day of February, 2013, before me, the subscriber, personally appeared **JAMES R. SEGRETO** who, I am satisfied, is the person who signed the within document as Chief Financial Officer, Treasurer and Secretary of **SPAR GROUP, INC., NATIONAL ASSEMBLY SERVICES, INC., SPAR GROUP INTERNATIONAL, INC., SPAR ACQUISITION, INC., SPAR TRADEMARKS, INC.,** and **SPAR MARKETING FORCE, INC.**, the corporations ("Corporations") named therein and this person thereupon acknowledged that he is authorized to sign the within document on behalf of the Corporations and that the said document made by the Corporations was signed, sealed and delivered by this person as such officer and is the voluntary act and deed of the Corporations, made by virtue of authority from their Board(s) of Directors.

/s/Marc J. Pedalino  
Marc J. Pedalino  
Notary Public State of New York  
No. 01PE6228743  
Qualified in Putnam County & Westchester  
County  
Term Expires September 27, 2014



29<sup>th</sup> September 2011

The Directors  
Sparfacts Pty Ltd  
150 Dynon Road  
West Melbourne 3003

Dear Gavin & Lynda

**LETTER OF OFFER – CONFIDENTIAL INVOICE DISCOUNTING**

We are pleased to advise that Oxford Funding Pty Ltd ABN 72 065 663 176 (herein referred to as "Oxford") has approved a **Confidential Invoice Discounting** facility for Sparfacts Pty Ltd ABN 95 119 057 653 on the following terms and conditions:

**FACILITY DETAILS:**

- Type:** We provide a confidential **Invoice Discounting** facility. Your clients are unaware of the facility, and remit payments directly to a bank account held in your name but in trust for Oxford.
- Limit:** Maximum funds drawn limit of \$1,200,000. **PF-011-a**
- Term:** The initial term of the facility will be **12 months**. Oxford will require **60 days** notice if you wish to terminate the facility.
- Purchase Amounts:** We initially advance up to **80%** of the face value of each accepted invoice upon receipt of a copy of all invoices and supporting documentation (*supporting files from Spar Tools*), where necessary. These are to be lodged with each funding request.
- Payment of the purchase amount will be effected by overnight electronic funds transfer (i.e.: cleared funds) subject to receipt of the invoices by 12pm Eastern Standard Time, and the satisfactory verification of these invoices. Funding within two hours is also available in particular cases.
- Invoices and credit notes must be sent to Oxford by the end of the month in which they are raised.
- Retention & Adjustment Payout:** Retention funds (20%) are paid one day following the receipt of cleared funds at Oxford.
- Recourse:** Invoices outstanding beyond **90 days** from date of invoice, or earlier if sought by Oxford, are to be recoured from retentions. Where such retention amount is insufficient to meet a required recourse, sufficient funds must be provided to clear any residual balance.

**Melbourne (head office)**  
Level 3, 120 Harbour Esplanade  
Docklands VIC 3008

**Sydney**  
158 Church Street  
Parramatta NSW 2150  
T: 1800 850 509  
F: 1800 850 510

**Brisbane**  
Level 3, 172 Edward Street  
Brisbane QLD 4000

**Perth**  
225 St Georges Terrace  
Perth WA 6000  
E: [oxford@oxfordfunding.com.au](mailto:oxford@oxfordfunding.com.au)  
W: [www.oxfordfunding.com.au](http://www.oxfordfunding.com.au)



Oxford Funding Pty. Ltd. ABN 72 065 663 176. Oxford Funding is a subsidiary of Bendigo and Adelaide Bank Limited, The Bridge Centre, Bendigo, VIC 3550, ABN 11 068 049 176, AFSL 297379.

**FEES & CHARGES:**

- Administration Fee:** An Administration Fee of **0.25%** + GST will be calculated on the face value of each accepted invoice and credit note, and charged on the date they are purchased by Oxford. A minimum monthly administration fee of \$1,250 plus GST will apply.
- Activity Fee:** An Activity Fee is levied only on funds drawn under the facility at the Bendigo Bank's Debtor Finance Indicator Rate, (currently 8.79% pa) plus a margin of **1.7%**. This Indicator Rate is currently advertised on our website [www.oxfordfunding.com.au](http://www.oxfordfunding.com.au)
- Field Review:** We usually only conduct up to three Field Reviews per annum, unless an Event of Default has occurred.
- Other Fees:** Includes all credit reference fees, legal costs, bank and government charges relating to your facility. The foregoing fees are based on a minimum discounted turnover of **\$8,000,000** per annum.

**SECURITY:**

The documents required for Oxford's facility to be executed are listed below. This letter confers no rights on Oxford to enforce the giving of the documents, and there is no obligation to make all or any part of the facility available until the documents are signed and delivered in a form satisfactory to Oxford.

1. **Confidential Debtor Finance Agreement** with Sparfacts Pty Ltd.
2. **First Registered Fixed and Floating Charge** over the assets and undertakings of Sparfacts Pty Ltd.
3. **Joint and Several Guarantee and Indemnity** from
  - a. Lynda Cathryn Chapman
  - b. Gavin James Brown
  - c. GBA Contribution Pty Ltd
  - d. Browcha Pty Ltd
  - e. Gavin Brown & Associates Pty Ltd
  - f. Chapown Pty Ltd

**APPROVAL CONDITIONS:**

This offer is subject to the following **pre-settlement** conditions to be to our satisfaction:

1. Oxford to approve and receive confirmation from the debtors of Sparfacts Pty Ltd. Ineligible debts may include invoices that are:
  - Greater than 90 days old
  - Subject to any set-off or counter claim (eg: common debtor/creditor)
  - For customers that may have a poor credit history
  - Consignment and sale or return accounts
  - Associated or related party transactions
2. Certified personal identification of Lynda Cathryn Chapman and Gavin James Brown.

3. Debtors will generally be funded up to a concentration of 20% of the approved debtors ledger. Your facility has been approved with flexible concentration limits, which means Oxford can approve funding above this concentration, subject to satisfactory review. The following debtors have been reviewed and approved already with higher concentration limits:
  - i. Artwrap Pty Ltd (25%) or \$250,000
  - ii. Universal Pictures (25%) or \$400,000
4. On site Field Review to be conducted to Oxford's satisfaction
5. CBA to release charge number 1710467 over Sparfacts Pty Ltd in full via ASIC FORM 312 prior to or at settlement.
6. Standard letter from CBA acknowledging our position and confirming that all future receipts will be forwarded to Oxford.
7. Sparfacts Pty Ltd to provide Oxford with 'view only' access to Spar Tools.
8. Walt Disney service agreement, clause 10 to be amended to ensure assignment of invoices can be perfected.

This offer is subject to the following **post-settlement** conditions:

1. The monthly provision of:
  - a. Aged Debtors and Aged Creditors Listings
  - b. Creditors Position Report and Overdue Debt Report (templates provided)
  - c. Management Accounts – to include a Balance Sheet and Profit & Loss Account.
2. Daily bank statements to be provided to Oxford for the first three months, thereafter monthly.
3. Oxford will require sight and satisfaction of any new contracts entered into with debtors, if they are not executed on Sparfact Pty Ltd's standard trading agreement.

**ACCEPTANCE:**

In order to proceed, please sign the duplicate of this letter and return to my office. If you prefer, the signed letter may be faxed to me on 1800 850 510.

We are pleased to leave this offer open for acceptance for a period of seven (7) days from the date of this letter. We trust this offer is acceptable and look forward to a long and mutually beneficial relationship. If you have any queries, please do not hesitate to contact me direct on 0400 819 519.

The information in this letter is confidential to Oxford. The customer shall keep this letter and the information contained in it confidential and shall not disclose it to any other person without Oxford's express consent (unless compelled by law).

Yours sincerely



**Julie Comar**  
**National Sales & Marketing Manager**

Acknowledgement of the terms and conditions of this offer:

.....*From*..... Director 4/12/2011  
Signed for and on behalf of Sparfacts Pty Ltd

**OXFORD FUNDING PTY LTD**

ACN 065 663 176  
ABN 72 065 663 176

-- and --

**Sparfacts Pty Ltd**

ACN 119 057 653  
ABN 95 119 057 653

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**GENERAL BUSINESS  
FACTORING AGREEMENT  
CONFIDENTIAL**

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**DATE OF THIS AGREEMENT :** Do not date  
 -----  
 Day Month Year

**BETWEEN:** OXFORD FUNDING PTY LTD ACN 065 663 176 ABN 72 065 663 176  
 of Level 3, 120 Harbour Esplanade, Docklands Vic 3008 of the one part ("us")

**AND** THE COMPANY set out in Part 1 of the *Details* of the other part ("you").

**1. MEANING OF KEY WORDS AND EXPRESSIONS**

**1.1 Key Words and Expressions**

There are words and expressions in this *Agreement* and the *Terms and Conditions* which are printed in italics because they have a special meaning and are explained in clause 29 of the *Terms and Conditions* to this *Agreement*.

**2. BACKGROUND TO THIS FACTORING AGREEMENT**

- 2.1 In the course of *your business* you sell goods and/or provide services to *your customers* on credit.
- 2.2 *You* have requested *us* from time to time to purchase from *you* all *your* right title and interest in and to some or all of the *Debts* owed by *your customers*.
- 2.3 *We* have agreed to purchase *your* existing *Debts* and/or *your* future *Debts* on the terms set out in this *Agreement*.
- 2.4 It is a condition of this *Agreement* that during its term *you* may not offer to sell any of *your Debts* or future *Debts* to any other person, firm or corporation.

**3. SALE OF DEBTS**

- 3.1 If *you* wish to sell any of *your Debts* to *us* you must submit to *us* a *Schedule* for those *Debts* together with originals and/or all copies of *your* invoices issued to *your customers* in respect of the *Debts* and any other information in respect of the *Debts* we may request. *You* must offer to sell *us*, no less than once each calendar month all *Debts* in respect of all of those of *your customers* whose *Debts* you have previously offered to sell to *us* under this *Agreement*.
- 3.2 The offer must be submitted to *us* in writing and must include the *Schedule* relating to the *Debts* offered together with originals and/or all copies of *your* invoices issued to *your customers* in respect of the *Debts* together with all further information in respect of the *Debts* we may request.
- 3.3 *We* have absolute discretion to accept or refuse all the *Debts* included in any of *your* offers or to accept some *Debts* in any particular offer and refuse others.
- 3.4 If *we* decide to accept an offer made by *you* we will accept *your* offer by making an entry to that effect in the account in *your* name in *our* records.
- 3.5 Title to each *Debt* passes to *us* on *our* acceptance of *your* offer in relation to it, and remains with *us*.

**4. PROCEDURE FOR PAYMENT – THE DRAWDOWN ACCOUNT**



- 4.1 Each *Debt* to be purchased from you will be purchased at the *Full Face Value* of the *Debt*. The purchase price will be paid in accordance with clauses 4 and 6.
- 4.2 We will pay you the *Advance* for each *Debt* purchased by us by crediting that amount in the *Drawdown Account*.
- 4.3 You may request drawdowns from the *Drawdown Account* in writing at any time. Subject to clause 4.4 and 4.5, we will pay a drawdown requested by you, by debiting the amount to your *Drawdown Account*, and crediting the amount to your bank account specified in Part 3 of the *Details*.
- 4.4 You may only request a drawdown in respect of *Eligible Factored Debts*. The *current drawings* from the *Drawdown Account* must not exceed the *Facility Limit* at any time. You must repay us the amount of any excess on demand by us.
- 4.5 You irrevocably authorize us to apply any credit balance in the *Drawdown Account* to pay any money owing by you to us under the *Transaction Documents*.
- 4.6 Each payment we receive in respect of a *Factored Debt* will be credited to the *Drawdown Account*.

## 5. FEES AND CHARGES

- 5.1 You must pay us the *Activity Fee* which will be calculated and will accrue daily and is payable on the earliest of:
- (a) collection by us of the *Debt* to which it relates;
  - (b) on demand at any time after the *Recourse Date* for that *Debt*; or
  - (c) on demand at any time after an *Event of Default* has occurred.
- 5.2 You must pay us the *Administration Fee* which will be calculated by us and is payable on purchase by us of a *Debt* subject to a *monthly minimum* as set out in part 14 of the *details*.
- 5.3 If any *Factored Debt* remains unpaid on and from the *Recourse Date*, you agree to pay to us the *Service Fee* which will be calculated by us daily and is payable monthly or on notice from us to you. Upon notification, the *Service Fee* is immediately due and payable by you to us.
- 5.4 If any *Factored Debt* remains unpaid on and from the *Recourse Date* you agree to pay to us the *Recourse Fee* which will be calculated by us and is payable on the *Recourse Date*.
- 5.5 If you offer for sale a ledger of existing *Debts* upon commencement of this *Agreement* you must pay us a *Settlement Fee* in consideration of the initial purchase, on the date of the purchase.
- 5.6 If you request an electronic funds transfer of moneys payable by us to you under this *Agreement*, the fee specified in Part 7 of the *Details* shall be immediately payable by you to us.
- 5.7 If you deposit into your bank account other than one nominated by us any funds being payment by your customer for a *Factored Debt* then you must immediately pay us the *Misbanking Fee*.
- 5.8 If this *Agreement* is terminated during the periods specified in Part 8 of the *Details* whether by you or by us; or  
you offer any of your *Debts* for sale to a purchaser other than us;  
then the fees specified in Part 8 of the *Details* are immediately due and payable by you to us.

- 5.9 You must pay us the *Batch Fee* which will be calculated by us and is payable on purchase by us of a *Debt*.
- 5.10 You must pay us the *Drawdown Fee* which will be calculated by us and is payable on drawdown of the *Advance*.
- 5.11 You must pay us the *Minimum Fee* which will be calculated by us on each anniversary of this *Agreement* and is payable on demand by us.
- 5.12 You must pay us the *Field Review Fee* which will be notified by us to you and is payable on demand.
- 5.13 You must also pay to us all other fees, charges, expenses, taxes and costs otherwise set out in the *Terms and Conditions (Version 6)*.

## 6. RESERVE AMOUNT

- 6.1 We will pay the *Reserve Amount* for each *Debt* purchased by us by crediting that amount in the *Reserve Account*.
- 6.2 We will debit the *Reserve Account* with all fees charges and other moneys payable by you to us under this *Agreement*.
- 6.3 The total amount credited to the *Reserve Account* must not be less than the *Reserve Amount* for *current drawings* at all times. You must repay us the amount of any deficiency on demand by us.
- 6.4 Subject to clause 6.5, we will calculate and pay to you the *Cash Reserve/Reserve Release* on the date specified in Part 10 of the *Details*.
- 6.5 The *Cash Reserve/Reserve Release* may at our absolute discretion be applied at any time and without notice to you in accordance with the *Terms and Conditions*. We are not obliged to pay you the *Cash Reserve/Reserve Release* if any *Event of Default* has occurred.
- 6.6 Upon termination of this *Agreement* we will pay you the *Cash Reserve/Reserve Release* provided all monies payable or to become payable in the future by you to us under any *Transaction Document* have been paid in full.

## 7. WHAT HAPPENS IF A CUSTOMER FAILS TO PAY A FACTORED DEBT

- 7.1 Without limiting your other obligations under the *Terms and Conditions* you agree that you will pay to us the *Full Face Value* of any *Factored Debt* less any money received by us in respect of it without the need for any demand from us if
  - 7.1.1 any *Factored Debt* remains unpaid or has not been paid to us wholly or partly on the *Recourse Date*;
  - 7.1.2 Any *Factored Debt* is uncollectible, or contains any mistake or error on the face of its invoice at any time; or
  - 7.1.3 any warranty or undertaking given in respect of any *Factored Debts* is or becomes untrue or misleading.
- 7.2 If any money is payable under clause 7.1, we may deduct the *Chargeback* from the *Reserve Account* or the *Drawdown Account* at our option.

8. **WHAT SECURITIES MUST YOU GIVE US**

*You* agree that for the purpose of securing *your* obligations to us under this Agreement *you* will ensure that the *Securities* are granted to us.

9. **GENERAL: WHAT IF YOU ARE A TRUSTEE**

9.1 If *you* enter into this Agreement as the trustee of a trust including any trust referred to in Part 1 of the *Details* (whether or not that fact is known to us) *you* are liable both personally and in *your* capacity as trustee; and

9.2 warrant to us that *you* enter into this Agreement and the transactions contemplated by it both in *your* own right and in *your* capacity as trustee of that trust pursuant to the deed creating that trust as amended from time to time and with the intention of binding any successor to *you* as such trustee.

10. **OUR STANDARD TERMS AND CONDITIONS APPLY**

10.1 *You* acknowledge that our agreement to purchase *your Debts* shall be subject to our *Terms and Conditions* and *you* acknowledge that a copy of such *Terms and Conditions (Version 6)* has been provided to *you* and read by *you* prior to the entering into of this Agreement.

10.2 This Agreement, incorporating the *Details* and the *Terms and Conditions (Version 6)*, constitutes the entire agreement between *you* and us with respect to the subject matter of this Agreement and supersedes any and all promises, representations and agreements whether written or oral made by *us* to *you* or *your* agents or representatives.

10.3 Sub clauses 2.1 and 2.2 of the *Terms and Conditions* will only apply as follows:

10.3.1 We may serve a notice on *you* under this clause ("Notification Notice") in relation to all or some of *your Factored Debts* as set out in the Notification Notice.

10.3.2 We will not serve a Notification Notice on *you* until:

- (a) an event of default occurs; or
- (b) we form the view in our absolute discretion, that *you* are not diligently pursuing the collection of *Factored Debts* set out in the Notification Notice, or collection of the *Factored Debts* is at risk.

10.3.3 Sub clauses 2.1 and 2.2 of the *Terms and Conditions* will apply to:

- (a) the *Factored Debts* set out in the Notification Notice immediately on and from service on *you* of the Notification Notice; and
- (b) all *Factored Debts* immediately upon the appointment of a liquidator, provisional liquidator, voluntary administrator, deed administrator or controller (as defined in the Corporations Act), or the misbanking of any *Factored Debts*, whether or not a Notification Notice has been served.

10.4 Until sub clauses 2.1 and 2.2 of the *Terms and Conditions* apply, *you* may collect *Factored Debts* in *your* own name provided that *you* must bank the collections in accordance with *our* direction at all times.

## DETAILS

## 1. "YOU"

1.1	Name:	Sparfacts Pty Ltd
1.2	ACN	119 057 653
1.3	ABN	95 119 057 653
1.4	Address	35 Gordon Avenue
		GEELONG WEST 3218
1.5	State of Incorporation:	VIC
1.6	Trust Details (if relevant)	
	Name of Trust:	
	Settlor:	
	Date of Trust:	

## 2. SCHEDULE OF DEBTS

As provided to us by you from time to time.

## 3. BANK ACCOUNT

*Please complete*

3.1	Account Name	
3.2	BSB No.	
3.3	Account No.	
3.4	Bank Name	

## 4. ACTIVITY FEE – See clause 5.1

The *Activity Fee* on the Daily Drawdown Balance shall be calculated by using the Bendigo Bank's Debtor Finance Indicator Rate, plus a margin of 1.7%p.a., plus a further 6% on the amount the Daily Drawn Down Balance exceeds the available funds in the Drawdown Account.

## 5. SERVICE FEE – See clause 5.3

Nil

## 6. SETTLEMENT FEE

0% plus GST of the total sum of all *Debts* purchased by us prior to the first payment of moneys pursuant to this Agreement.

## 7. ELECTRONIC FUNDS TRANSFER FEE

\$75 plus GST per each same day electronic funds transfer.

**8. TERMINATION FEE**

- 8.1 If such event occurs before the expiration of 6 months from the date of this Agreement the sum of **\$30,000**.
- 8.2 If such event occurs after 6 months but before the expiration of 12 months from the date of this Agreement the sum of **\$30,000**.
- 8.3 If such event occurs after 12 months but before the expiration of 18 months from the date of this Agreement the sum of **\$0**.

**9. RESERVE AMOUNT**

- (a) 20% of the *Full Face Value* of all *Debts* purchased by *us* under this *Agreement*, unless specified otherwise for *Debts* or classes of *Debts* below.
- (b) in respect of *Debts* owing by [customer] [N/A]% of the *Full Face Value* of *Debts* owed by that *customer* which are purchased by *us* under this *Agreement*.
- (c) after a Notice has issued under clause 14 of the *Terms and Conditions*, the amount *we* determine in *our* absolute discretion to adequately secure the amount *you owe us* under this *Agreement*, reflecting among other things, the additional risk following an *Event of Default*.
- (d) in respect of any particular *Debts*, the amount *we* determine in *our* absolute discretion to adequately reflect the credit risk of that *Debt*.

**10. PAYMENTS FROM RESERVE ACCOUNT – see clause 6.4**

Subject to our rights under clause 6.5 of this *Agreement*, retention funds will be available for drawdown one business day following the receipt of cleared funds by *us*.

**11. RECOURSE DATE**

In respect of each *Debt*, **90** days following the date *we* purchase the *Debt* from *you*, or such earlier date that *we* are required to recourse all or part of the Factored *Debt*.

**12. SECURITIES**

- 12.1 Confidential Factoring agreement between Oxford Funding Pty Ltd and:
  - Sparfacts Pty Ltd ACN 119 057 653 ABN 95 119 057 653 of 35 Gordon Avenue, Geelong West VIC 3218
- 12.2 First ranking Deed of Charge over *your* entire assets and undertaking.
  - Sparfacts Pty Ltd ACN 119 057 653 ABN 95 119 057 653 of 35 Gordon Avenue, Geelong West VIC 3218
- 12.2 Deed of Guarantee executed by:
  - Gavin James Brown of 3/380 Toorak Road, South Yarra, VIC 3141
  - Lynda Cathryn Chapman of 3/380 Toorak Road, South Yarra, VIC 3141

**GBFA-G**

- GBA Contribution Pty Ltd ACN 118 377 914 ABN 57 118 377 914 of 35 Gordon Avenue, Geelong West VIC 3218
- Browcha Pty Ltd ACN 121 137 737 ABN 13 121 137 737 of 35 Gordon Avenue, Geelong West VIC 3218
- Gavin Brown & Associates Pty Ltd ACN 076 076 858 of 35 Gordon Avenue, Geelong West VIC 3218
- Chapown Pty Ltd ACN 151 837 642 of 35 Gordon Avenue, Geelong West VIC 3218

**13. MISBANKING FEE**

10% plus GST of the *Full Face Value* of the *Factored Debt*.

**14. ADMINISTRATION FEE – see clause 5.2**

0.25% plus GST of the *Full Face Value* of the *Debts and Credit Notes* purchased by *us* under this Agreement subject to a monthly minimum of **\$1,250**.

**15. BATCH FEE – see clause 5.90**

0% plus GST for each Schedule of Debts offered to *us* for purchase [in excess of 0 per calendar month.]

**16. DRAWDOWN FEE – see clause 5.10**

1% plus GST for each drawdown of the *Advance* [in excess of 8 per calendar month.]

**17. MINIMUM FEE – see clause 5.11**

The difference between:

- (a) \$0 and
- (b) the total of the *Activity Fee, Administration Fee, Service Fee and Recourse Fee* payable during each year ending on each anniversary of this Agreement.]

**18. FIELD REVIEW FEE – see clause 5.12**

\$0 plus GST for each field review *we* conduct on *your* books.

**19. FACILITY LIMIT – see clause 4.4**

**\$1,200,000.**

**20. RECOURSE FEE – see clause 5.4**

0% plus GST of the *Full Face Value* of the amount outstanding of any *Factored Debt* on the *Recourse Date* for that *Factored Debt*.

**21. ADVANCE**

- (a) 80% of the *Full Face Value* of all *Debts* purchased by *us* under this Agreement, unless specified otherwise for *Debts* or classes of *Debts* below.

- (b) in respect of *Debts* owing by [customer] [N/A]% of the *Full Face Value* of *Debts* owed by that *customer* which are purchased by *us* under this *Agreement*.
- (c) after a Notice has issued under clause 14 of the *Terms and Conditions* the amount *we* determine in *our* absolute discretion which is not required by *us* as the *Reserve Amount* for that *Debt*.

**22. INELIGIBLE FACTORED DEBTS - see clause 4.4**

*Factored Debts* will be excluded from eligibility where they are:

- (a) unpaid at a time which is 90 days after the date of the invoice for that *Factored Debt*; or
  - (b) owed by a *Customer* that owes more than 20% of all *Factored Debts* owed to you [or us] unless otherwise varied by us at *our* absolute discretion; or
  - (c) owed by a *Customer* in respect of whom *we* have not conducted a credit rating within 12 months or where *our* credit rating for that *Customer* is unacceptable to *us* in *our* absolute discretion; or
  - (d) owed by a *Customer* whose *Debts* we have not previously considered to be *Eligible Factored Debts*; or
  - (e) owed by a person or company that is related to *you* or any *guarantor*; or
  - (f) not arising from an arms length commercial transaction in *your* ordinary course of business; or
  - (g) subject to any set-off or counter claim, or likely to be in *our* judgment; or
  - (h) based on a progress claim; or
  - (i) not based on a bona fide transaction for goods supplied or services rendered or a combination of those; or
  - (j) not owed in Australian dollars, and by a *Customer* who conducts business in Australia; or
  - (k) subject to any claim or interest by any third party; or
  - (l) based on any claim for delivery, interest, installation costs or the like; or
- unless we agree to include all or part of the *Factored Debt* as eligible for drawdown in *our* absolute discretion.

**AGREEMENT SIGNATURES**

*GBFA-G*

**1. "YOU"**

Executed for and on behalf of  
**Sparfacts Pty Ltd**  
ACN 119 057 653 ABN 95 119 057 653  
By Authority of the Directors:



.....  
Signature of Gavin James Brown  
Director



.....  
Signature of Lynda Cathryn Chapman  
Director / Secretary

---

**2. US**

Executed by Oxford Funding Pty Limited ACN 065  
663 176 by being signed by its Attorneys

)  
)  
) .....  
) Attorney –

who certify that they are the

)  
)  
) .....  
) Attorney –

and

being authorised Officers of the Company under Power of  
Attorney dated 8 April 2005 (a certified copy of which is  
filed in Permanent Order Book No. 277, Page 22, Item 21)  
in the presence of:-

*Oxford to complete*

Witness .....

Witness Full Name.....



**OXFORD FUNDING PTY LTD**  
**ACN 065 663 176**  
**ABN 72 065 663 176**

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**STANDARD TERMS**  
**&**  
**CONDITIONS**  
(Version 6)

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**STANDARD TERMS AND CONDITIONS (Version 6)**

**1. COSTS AND OTHER AMOUNTS**

**1.1 You must pay us:**

- 1.1.1 all fees, charges, bank charges and other expenses incurred by *us* under or specified in this Agreement or incidental to it or in connection with any transactions contemplated by it;
- 1.1.2 all stamp duty, tax and other government or semi-government charges payable in respect of the *Transaction Documents* or any transactions entered into under them;
- 1.1.3 all costs and charges (including legal fees on the higher of a solicitor/own client basis and a full indemnity basis) incurred by *us* in negotiation, preparation, execution, stamping and (where necessary) registration of the *Transaction Documents*;
- 1.1.4 all costs and charges (including legal fees on the higher of a solicitor/own client basis and a full indemnity basis) incurred by *us*:

(a) where an *Event or Default* has occurred under any *Transaction Document*; or

(b) in preserving or protecting *our* position or enforcing or attempting to enforce all or any of *our* rights under any *Transaction Document*; including the costs of *our* agents, consultants or contractors as *we* reasonably determine and including such time spent by *our* and/or *our* agents' employees at the rate from time to time applied to *our* and/or *our* agents' employees as stipulated by *us* from time to time, but if not otherwise stipulated, at the following rates:

- Managing Director and Chief Executive Officer or any person performing some or all of the functions of any of those positions - at \$380 plus GST per hour;
- National Sales Manager and Chief Operations Officer or any person performing some or all of the functions of any of those positions - at \$292 plus GST per hour;
- Operations Manager, Credit Manager, Technology Manager and Sales Manager or any person performing some or all of the functions of any of those positions - at \$264 plus GST per hour;
- Factoring Coordinator or any person performing some or all of the functions of any of those positions - at \$171 plus GST per hour;
- Personal Assistant or any person performing some or all of the functions of any of those positions - at \$127 plus GST per hour;
- Credit Officer, Operations Staff or any person performing some or all of the functions of any of those positions - at \$105 plus GST per hour;
- Office Assistant or any person performing some or all of the functions of any of those positions - at \$88 plus GST per hour.

1.2 *You* must promptly comply with all of *our* requests and those of *our* lawyers in connection with any payments required in respect of the charges in clause 1.1

1.3 *You* indemnify *us* against any liability resulting from delay or failure to pay any of the charges in clause 1.1.

1.4 Unless otherwise specified in the *Transaction Documents* all costs charges and other payments due to *us* are payable on demand.

**STANDARD TERMS AND CONDITIONS (Version 6)**

- 1.5 You must pay us the *Security Release Fee* upon release or discharge of any one or more *securities*, if at the time of release of the *security*, in our view, there is a risk that you are or may become liable to us in the future under this *Agreement* or any *Transaction Document*.
- 1.6 You must pay us the sum of \$35.00 plus GST for each new *Customer* whose *Debts* you offer to sell to us after the initial sale of *Debts* to us under this *Agreement*, plus any costs we incur in assessing the credit risk of the *Customer*, whether or not we accept your offer in relation to that *Customer*.
- 1.7 If we agree in our absolute discretion, following your request, to release any part of the *Cash Reserve/ Reserve Release* where there are insufficient funds available in the *Reserve Account*, or otherwise prior to the date set out in Part 10 of the *Details*, you must pay us the greater of:
- 1.7.1 \$200.00 plus GST; or
- 1.7.2 1.0% of the funds to be made available plus GST.

**2. GENERAL OBLIGATIONS**

- 2.1 You must not do anything that would prevent any *Factored Debts* being paid to us by your *customers*. In particular you shall not ask or require your *customers* to pay *Factored Debts* to any person other than ourselves unless we direct you in writing to do so.
- 2.2 You shall require your *customers* to pay *Factored Debts* directly to us by the placing of a notice to such effect in the form annexed as Schedule A to these *Terms and Conditions* on each invoice.
- 2.3 Any payment received by you in respect of a *Factored Debt* is received by you on trust for us and you must deliver it to us in original form or bank it as we direct whether or not, in the case of cheques, drafts or notes, it may, in addition to the payment of the *Debt* include an additional amount. If made payable to you it must be endorsed by you to us or as we direct, provided that if you are not in default of the terms of this *Agreement* we shall reimburse to you any amount received by us not in respect of *Factored Debts*.
- 2.4 Whenever we request you to do so you shall execute a legal assignment to us of any *Factored Debts* and give your *customers* written notice of such assignment.

**3. YOUR WARRANTIES AND UNDERTAKINGS AS TO FACTORED DEBTS**

- 3.1 You warrant to us in relation to each *Debt* you offer to us that (except as disclosed in writing to us at the time of offering the *Debt*):
- 3.1.1 the *Debt* is fully valid and enforceable for the *Full Face Value* free of any cross claims, set offs, charges, discounts or any other rights whatsoever;
- 3.1.2 the *Debt* was incurred in the ordinary course of your *customer's* business on your standard terms of trade as disclosed to us and that the terms provide for payment in Australia in Australian dollars;
- 3.1.3 your *customers* have not and will not during the term of the *Factored Debt* have or claim any set off or other claim by way of cross action against you or dispute their liability to pay the *Debt* on any ground whatsoever;
- 3.1.4 you have investigated the financial status and credit of each of your *customers* and are satisfied that each *customer* is able to pay the relevant *Debt* before the due date;
- 3.1.5 you are not aware of any matter in relation to any of your *customers* that may affect our decision to purchase that *customer's Debts*;
- 3.1.6 you have disclosed to us any fact or matter you know or ought to know would influence our decision whether or not to accept any offer you make to us;
- 3.1.7 you have full power to sell the legal and equitable title to each *Debt* and that you will transfer each *Debt* to us free from any third party rights whatsoever;

**STANDARD TERMS AND CONDITIONS (Version 6)**

- 3.1.8 no *Factored Debt* is owed by an *Associate or Related Company* or person of yours; and
- 3.1.9 no supplier to you is entitled to or claims any interest in respect of any *Factored Debt* under any retention of title or similar provisions.
- 3.2 You undertake to us in relation to each *Debt* you offer us that (except as disclosed in writing to us at the time of offering the *Debt*):
- 3.2.1 you shall duly and promptly perform and observe all the terms of the agreement giving rise to the *Debt* and do everything necessary to ensure that the *Debt* is recoverable by action at law;
- 3.2.2 you will not make any arrangements with your customers to compromise, set off or discharge any *Debt*;
- 3.2.3 you shall not make any arrangements for or accept the return of any goods without our consent in writing where the sale of those goods gave rise to a *Factored Debt*;
- 3.2.4 you will not issue a credit note in relation to a *Factored Debt* without proper cause. Any credit note issued by you will be promptly notified to us. You will deliver any credit note and any other information in relation to it to us before issuing it if we require you to do so. We shall have total discretion to deliver such a credit note to your customer but if we deliver it, the delivery shall be without prejudice to any rights we have under this Agreement;
- 3.2.5 you will keep us fully informed of all information concerning disputes or possible disputes about any *Factored Debt* or that may affect the credit worthiness of any of your customers; and
- 3.2.6 you will do everything necessary to validly assign each *Debt* to us.
- 3.3 You shall indemnify us against any failure by you to fulfill your obligations under this clause and against any loss arising by reason of any actions whatsoever brought by customers against you in relation to any agreement giving rise to a *Factored Debt*.
4. **OUR RIGHT OF ENTRY AND INSPECTION**
- You agree that we (or our nominee) shall be able to enter land or buildings occupied by you without notice to inspect and take copies of any documents relating in any way to any *Factored Debts*.
5. **LIMITATIONS ON YOUR RIGHTS UNDER ANY SALE OF GOODS OR OTHER AGREEMENTS**
- Subject to clause 3.2.4 you agree that you will not rescind, cancel or vary any sale of goods or other agreement between a customer and you which gave rise to a *Factored Debt*, without our express consent in writing.
6. **LIMITATIONS ON YOUR RIGHTS TO DEAL WITH DEBTS**
- Subject to clause 3.2.4 you agree that you will not assign, charge or otherwise encumber any of your *Debts* or enter into any other agreement for factoring or discounting them without our prior written consent.
7. **RESTRICTIONS ON YOUR PAYMENTS TO YOUR DIRECTORS**
- Unless you have given us six months prior notice in writing of your intention to do so, you may not pay, lend or credit your directors any amounts without our prior written consent other than the following:

**STANDARD TERMS AND CONDITIONS (Version 6)**

- 7.1 director's fees, salaries, expenses or benefits (including superannuation benefits) in whatever form for an amount which is no greater than that disclosed in *your* last balance sheet and profit and loss account before this Agreement;
- 7.2 money payable under any agreement now in force which has been disclosed to *us* prior to *our* execution of this Agreement and where *we* have given *our* prior written approval to the payment; and
- 7.3 dividends.

**8. YOUR GENERAL ACCOUNTING OBLIGATIONS**

- 8.1 *You* must:
  - 8.1.1 give to *us* all accounts and financial information provided for in this Agreement. The accounts and information must be prepared in accordance with all accounting standards in force or recommended by the Australian Society of Accountants and the Institute of Chartered Accountants and kept so as to give a true and fair view of *your* financial position and that of *your Group*;
  - 8.1.2 keep proper books of account containing entries of all transactions in relation to *your Group's* business. Books of account, delivery receipts and all other documents relating to *your Group's* business must be kept at *your* principal place of business and be open for inspection at all reasonable times by *us* or anyone *we* authorise in writing; and
  - 8.1.3 appoint an accountant approved by *us* to maintain *your* debtors ledger and such other accounts as *we* require if requested to do so by *us* in writing. If *you* do not do so for whatever reason *we* shall be entitled to appoint an accountant on *your* behalf. *We* are irrevocably authorised to pay for such an appointment and any work performed by the accountant *we* appoint out of any money due to *you* under this Agreement.
- 8.2 *You* must give to *us* within 30 *Business Days* of the end of each financial year and half year the following statements for the next year certified as correct by at least one of *your* directors:
  - 8.2.1 the estimated consolidated after tax profit of the *Group*; and
  - 8.2.2 the budgets of the *Group*.
- 8.3 Any material revisions of the statements in clause 8.2 must be given to *us* within 30 days.
- 8.4 All statements given pursuant to clauses 8.2 and 8.3 must be certified as correct by at least one of *your* directors.
- 8.5 *You* must give to *us* within 180 days of the end of each financial year and half year:
  - 8.5.1 a consolidated balance sheet and individual balance sheets for *you* and for each of the companies in *your Group*;
  - 8.5.2 consolidated profit and loss account and detailed audited individual profit and loss accounts for *you* and each of the companies in *your Group*; and
  - 8.5.3 an individual reconciliation of profit and loss appropriation accounts together with a consolidated profit summary for *you* and each of the companies in *your Group*.
- 8.6 Subject to clause 8.7 all accounts referred to in clause 8.5 must be prepared and audited by an independent chartered accountant agreed upon in writing between *you* and *us*. If *you* and *we* fail to agree upon a named accountant within 30 *Business Days* after a written request by either of *you* or *us* to the other *we* shall nominate one.
- 8.7 If *you* and each of the companies in *your Group* are a small proprietary company under Section 45A(2) of the Corporations Law *we* may exempt *you* from the requirements in clause 8.6 on *your* request in writing to *us*. Even if *we* grant *you* an exemption *you* must still supply the accounts reports and other information referred to in Section 292 and 293 of the Corporations Law if

**STANDARD TERMS AND CONDITIONS (Version 6)**

Section 292(2) of the Corporations Law applies.

8.8 You must if requested by us give to us management accounts and any other financial information we require about you or a company in your Group to enable us to make an assessment of your financial position and that of your Group. The management accounts and any other information shall be for each month or such other periods as we may from time to time nominate and must be given to us within 30 days of the end of each period.

**9. YOUR ACCOUNTING OBLIGATIONS FOR DEBTS**

9.1 You must if requested by us keep all proper books and accounts necessary to disclose the following matters to us in relation to Factored Debts at all times:

- 9.1.1 the amount;
- 9.1.2 the terms of payment;
- 9.1.3 the amounts collected and the time of each collection; and
- 9.1.4 the balance due by the customer.

9.2 You agree that if you are requested to keep the accounts referred to in clause 9.1 and all other records and documents relating to the Factored Debts the accounts will be kept at your expense, as agent for us and that we may remove them at any time for any period we think fit.

9.3 You must deliver to us on demand the following documents in relation to Factored Debts:

- 9.3.1 all agreements, customer invoices, delivery receipts and ledger cards;
- 9.3.2 all invoices, vouchers and accounts issued by you;
- 9.3.3 all writing evidencing the agreement between you and your customers and customer receipts for any goods delivered by you; and
- 9.3.4 all other evidence or documents which would be required by us to enforce the Debt in a court of law or that we may from time to time require.

If you maintain accounts on computer, your obligations include providing to us copies of all computer software and all other programs and information necessary to enable us to inspect and efficiently use and maintain them.

9.4 You warrant in relation to the documents and information in clause 9.3 that as at the time they are provided by you to us they contain correct and sufficient details of:

- 9.4.1 the names and addresses of customers who owe you Debts;
- 9.4.2 the goods sold and services rendered to your customers by you and the dates of the sales or services; and
- 9.4.3 the amounts payable by your customers and the terms of such payments.

9.5 Without prejudice to our rights under this clause we may permit you to retain any documents referred to in clause 9.3 for the convenience of your business or lend them to you for such periods as we think fit.

9.6 If we request you to do so you must by the 15th day of each month deliver to us a full aged debtor trial balance of all your Debts for the previous month together with a full reconciliation and any other information we may reasonably require in relation to the Factored Debts.

9.7 You shall not deal in your books of account or financial statements with any Factored Debt in any way that we direct you not to do so.

9.8 Where goods are the subject of a sale which gave rise to a Factored Debt and the goods are returned to you for whatever reason you shall hold such goods on trust for us and deal with them in accordance with our directions.

9.9 If we direct you to do so you must deliver the goods to us.

**STANDARD TERMS AND CONDITIONS (Version 6)**

**10. YOUR DUTY TO INDEMNIFY US**

- 10.1 *You must indemnify us and keep us indemnified against any failure for whatever reason by a customer to pay the Net Invoice Value of a Factored Debt by the Repurchase Date.*
- 10.2 *Without limiting the generality of your obligations under clause 10.1 you agree that you will pay us the Net Invoice Value of any Factored Debt less any money received by us in respect of it without the need for any demand from us if:*
- 10.2.1 *any Factored Debt remains unpaid or has not been paid to us wholly or partly by the Repurchase Date;*
  - 10.2.2 *any warranty given by you about a Factored Debt has been breached whether at the time of offering it to us or subsequently;*
  - 10.2.3 *we think that the Factored Debt is unlikely to be paid in full by the Repurchase Date for that Debt and we notify you of that fact;*
  - 10.2.4 *the customer in relation to a Factored Debt;*
    - (a) *is an individual and commits an act of bankruptcy as defined in the Bankruptcy Act 1966 (Cth); or*
    - (b) *is a company and any application is filed or an order is made or a resolution passed for its winding up or if any meeting is called for the purpose of considering such a resolution;*
  - 10.2.5 *a receiver, administrator or other controller is appointed for all or part of the undertaking or property of the customer;*
  - 10.2.6 *the holder of any mortgage charge or encumbrance takes possession of any of the customer's assets; or*
  - 10.2.7 *any execution or other process of a court or any authority is levied over the customer's property.*
- 10.3 *Title to any Factored Debt shall remain with us even if you have made a payment under clause 10.1 or 10.2 and we shall be entitled to receive the full proceeds from the Factored Debt subject only to the terms of this Agreement, which proceeds will be credited to your Drawdown Account or your Reserve Account at our discretion.*
- 10.4 *If you issue a customer with a credit note or accept the return of goods in relation to the whole or any part of a Factored Debt you must immediately pay to us the Full Face Value of the credit note. Our rights under this clause are without prejudice to the obligations imposed on you under clause 5 and clause 6.*

**11. WHAT IS THE PERIOD OF OUR AGREEMENT AND HOW CAN IT BE ENDED?**

- 11.1 *This Agreement shall operate until it is ended by you or us in a way set out in this Agreement.*
- 11.2 *Either of you or us can end this Agreement for future transactions by giving the other 60 days prior written notice.*
- 11.3 *You can end this Agreement without giving 60 days prior written notice if you pay us the Short Notice Fee.*
- 11.4 *We can end this Agreement at our option without notice if an Event of Default occurs.*
- 11.5 *An Event of Default occurs if:*
- 11.5.1 *you breach any obligation under this Agreement;*
  - 11.5.2 *in our opinion any warranty you have given us under any Transaction Document is or becomes incorrect;*

**STANDARD TERMS AND CONDITIONS (Version 6)**

- 11.5.3 in *our* opinion you have not disclosed to *us* something known to you that you know or ought to know might influence *our* decision whether or not to enter into this Agreement;
  - 11.5.4 you or any other person breach any obligation under any of the *Collateral Securities*; or
  - 11.5.5 an *Event of Default* specified in any of the *Collateral Securities* occurs.
- 11.6 Except as specifically provided the ending of this Agreement does not affect your obligations under it prior to its end including without limitation your obligation to pay interest, fees and charges as provided for in this Agreement and your obligations under clauses 9 and 10 in respect of *Factored Debts*.

**12. YOUR OBLIGATION TO REPURCHASE FACTORED DEBTS**

- 12.1 If this Agreement is ended for whatever reason you must repurchase all *Factored Debts*, (including any *Debts* for which you have made a payment under clause 10) immediately, without any need for demand from *us*.
- 12.2 The repurchase price for any *Factored Debt* shall be its *Full Face Value* less any money (including any payment) we have received in relation to it.
- 12.3 Title to all *Factored Debts* remains with *us* until we have received all money due to *us* or payable by you in the future under the *Transaction Documents*.

**13. WHAT MUST YOU PAY AT THE END OF THIS AGREEMENT?**

- 13.1 You agree to pay *us* on demand the *Early Termination Fee* (if applicable) if this Agreement is terminated by you or by *us* for any reason whatsoever.
- 13.2 Unless you give *us* 60 days prior written notice of termination, you must pay *us* on demand a *Short Notice Fee* in lieu of such notice calculated as follows:
  - 13.2.1 if less than 30 days written notice is given the sum equivalent to 5% of the *Full Face Value* of all *Factored Debts* purchased by *us* from you which remain unpaid at the date you give notice;
  - 13.2.2 if 30 days or more but less than 60 days written notice is given the sum equivalent to 3% of the *Full Face Value* of all *Factored Debts* purchased by *us* from you which remain unpaid at the date you gave notice.
- 13.3 You agree that the *Early Termination Fee* and the *Short Notice Fee* have been calculated by *us* after consideration of the loss which we would suffer if this Agreement was terminated early and/or without the giving of 60 days prior notice in writing and represent a genuine pre-estimate of the loss which the termination would cause *us* in such circumstances.

**14. CONVERSION TO NON SELECTIVE FACTORING**

- 14.1 We may require you to offer to sell *us* all your *Debts* by giving you a notice in writing ("Notice") in any of the following circumstances:
  - 14.1.1 if an *Event of Default* occurs;
  - 14.1.2 if we form the view that the *Securities* are at risk; or
  - 14.1.3 if we form the view that there has been a material adverse change to you or your business or the *Factored Debts*.
- 14.2 From service of the Notice, you must offer to sell *us* all your *Debts* no less than once each month. Each *Debt* must be included in the first offer made after the date the *Debt* arose.
- 14.3 The provisions of this Agreement apply to *Debts* purchased by *us* after a Notice has been issued unless specified otherwise.



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- 14.4 You must require *your customers* to pay directly to us;
- 14.4.1 all *Factored Debts* unless we specify otherwise in writing; and
- 14.4.2 after an *Event of Default* has occurred, all *Factored Debts*
- by the placing of a notice to that effect in the form annexed as Schedule A to these *Terms and Conditions* on each invoice.
15. **OUR DISCRETION TO VARY THIS AGREEMENT**
- 15.1 We may give notice of our intention to amend, add to or delete any term of this Agreement at any time by written notice to *you*.
- 15.2 Without limiting the generality of what we can do under clause 14.1 we can give notice of an:
- 15.2.1 increase or decrease in the *Advance Rate*, the *Reserve Amount* or any fees or charges payable under this Agreement; or
- 15.2.2 imposition of any additional fees or charges.
- 15.3 You must accept or reject any amendments, additions or deletions we propose to make by notice in writing to *us* within seven days of the date of *our* notice to *you*.
- 15.4 If *you* reject any amendment, addition or deletion *you* shall be deemed to have given *us* notice to terminate this Agreement under clause 11.2.
- 15.5 If *you* fail to notify *us* within seven days of *your* acceptance or rejection of *our* amendment, addition or deletion, then *we* may, without future notice to *you* deem *your* failure to be an acceptance by *you* of the amendment, addition or deletion.
- 15.6 Any amendment, addition or deletion if accepted shall only be applicable to *Debts* purchased after the date of *our* notice to *you*.
16. **YOU MUST APPOINT US AS YOUR ATTORNEY**
- 16.1 By this clause *you* irrevocably appoint *us* and *our Authorised Officers* or any one or more of them jointly and each of them severally to be *your* true and lawful attorney. As *your* attorney *we* and *our Authorised Officers* can in *your* name and on *your* behalf:
- 16.1.1 render accounts to *customers* who owe *Factored Debts*;
- 16.1.2 contact or communicate by letter, telephone, electronic mail, or in person any of *your customers* for the purposes of verifying the terms and collecting payment of any *Factored Debt* owed by such *customer*;
- 16.1.3 demand, commence or defend any action or other proceedings in any court for the recovery or otherwise in relation to any *Factored Debt* which has not been legally assigned to *us* and bring action or proceedings to prosecute or discontinue or become non suit at *our* absolute discretion;
- 16.1.4 bring any action to wind up or bankrupt any *customer*;
- 16.1.5 do everything necessary to prepare and complete formal or legal assignments of any *Factored Debts* to *us* or otherwise to perfect *our* title to a *Factored Debt*;
- 16.1.6 write to any debtors in *your* name to require payment of any *Factored Debts* whenever and in any manner *we* think fit;
- 16.1.7 give in *your* name and on *your* behalf notice of the assignment, formal, legal or equitable of any *Factored Debt*;
- 16.1.8 draw, accept and endorse cheques, bills or other negotiable instruments in relation to any *Factored Debt*; and

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- 16.1.9 do anything whatsoever necessary to secure performance by *you* of *your* obligations under this Agreement or otherwise in relation to the *Factored Debts*.
- 16.2 The power of attorney conferred on *us* and *our Authorised Officers* by this clause shall be irrevocable as long as *you* remain under any obligation actual or contingent under this Agreement despite any termination or purported termination of the Agreement.
17. **WHAT IS THE LAW GOVERNING THIS AGREEMENT?**  
The proper law for this Agreement is that of the *Relevant State* and we both agree to submit to the jurisdiction of its courts.
18. **CERTIFICATES**  
Any certificate by one of *our Authorised Officers* as to any fact or opinion about *the Transaction Documents* or any transaction entered into under them shall be prima facie evidence of such facts or opinions.
19. **WAIVER AND RIGHTS OF SET OFF**
- 19.1 If *you* breach this Agreement *you* shall not be entitled to claim any waiver by *us* of *your* default unless *we* give *you* a certificate in writing signed by an *Authorised Officer* expressly waiving *your* breach.
- 19.2 *We* shall be entitled to set off any amounts whatsoever *you* owe *us* under this Agreement or otherwise against any sum *we* owe *you*.
- 19.3 *Our* right to set off shall continue despite *you* going into liquidation or a *Receiver* being appointed over the whole or any part of *your* assets.
- 19.4 All warranties and indemnities given by *you* to *us* are absolute and unconditional in all circumstances and shall not be affected by any delay, concession or indulgence on *our* part to exercise any of *our* rights.
20. **NOTICES**
- 20.1 A notice or demand or other communication contemplated by this Agreement may be given by *you* or *us* by prepaid post, facsimile or email transmission to the last known address, facsimile number of the other or email address or by written notice left at that address.
- 20.2 Such a notice demand or other communication is deemed to be properly given and received:
- 20.2.1 if by letter on the second *Business Day* after the day of posting;
- 20.2.2 if by facsimile or electronic mail on production of a transmission confirmation from the transmitting facsimile indicating that the facsimile or electronic mail was sent in its entirety to the facsimile number or electronic mail address of the recipient; or
- 20.2.3 if delivered by hand, upon delivery;  
but if a receipt is not on a *Business Day* or is after 4.00 pm at the place of receipt, it is deemed to be given and received on the next *Business Day*.
- 20.3 Where *you* consist of more than one party service by *us* on one of *you* shall be deemed to be service on all of *you*.
- 20.4 Any notice or demand to *you* from *us* shall be deemed to be properly signed if it is in writing and signed by one of *our Authorised Officers*.
21. **NO FINANCIAL ADVICE**  
*You* acknowledge and agree that *we* have not provided or held ourselves out as providing any financial advice to *you* whatsoever and that the responsibility of determining the type and amount of any facilities *you* want is entirely *yours*.

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**22. ASSIGNMENT**

22.1 You must not assign *your* rights or obligations under this Agreement without first obtaining *our* prior written consent.

22.2 We can assign *our* rights and obligations under this Agreement at any time without restriction.

**23. CONSENT**

Unless any provision of this Agreement specifies otherwise, any consent required to be given by *us* under this Agreement may be given or refused absolutely or subject to any conditions that *we* may determine in *our* absolute discretion.

**24. TERMS OF THIS AGREEMENT TO PREVAIL**

We may from time to time give *you* written notice of the terms on which the facility provided under this Agreement is to operate. If there is a conflict between such a notice including *our* original facility letter and this Agreement the terms and conditions of this Agreement shall prevail unless *we* determine otherwise.

**25. TIME FOR PAYMENT**

Time is of the essence in relation to any payment from *you* to *us* under this Agreement.

**26. SECURITIES YOU MUST PROVIDE**

26.1 You agree that for the purposes of securing *your* obligations under this Agreement that *you* will ensure that the following shall be granted to *us*:

26.1.1 the *Securities*; and

26.1.2 the *Guarantees* of the *Guarantors* if any specified in Part 6 of the *Schedule*.

26.2 You acknowledge that *your* obligations under this Agreement shall be secured by the *Collateral Securities*.

**27. THE COLLATERAL AGREEMENTS**

This Agreement is collateral to the *Collateral Securities* and *Transaction Documents*.

**28. GOODS AND SERVICES TAX**

All amounts, rates and other payments payable by *you* under this Agreement are exclusive of any goods and services tax, broad based consumption tax, value added tax or similar tax ("GST"). If GST is imposed on any supply made by *us* under or in connection with this Agreement (a "taxable supply") then *you* must pay to *us* an additional amount equal to the GST paid by *us*.

**29. KEY WORDS AND EXPRESSIONS**

- *Activity Fee* means the fee set out Part 4 of the *Details*;
- *Administration Fee* means the fee set out in Part 14 of the *Details*;
- *Advance* means the amount calculated in accordance with the formula set out in Part 21 of the *Details*;
- *Advance Rate* means in respect of each *Debt* purchased by *us*, the rate used to calculate the *Advance* for that *Debt* in accordance with Part 21 of the *Details*;
- *Agreed Indemnity Period* means the period specified in Part 11 of the *Details*;
- *Agreement* means the agreement entered into between *you* and *us* incorporating these Terms and Conditions by reference and the *Schedules* and *Details* attached to that Agreement;
- *Associate* includes an associate in accordance with Section 11 and Section 15 of the

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Corporations Act and includes any related entity within the meaning of Section 9 of the Corporations Act;

- *Authorised Officer* means any one of *our* directors, *our* company secretary, any person employed by *us* whose title includes the word "manager", or any other person authorised by *us* to sign documents or give notices or communications or certificates including but not limited to our solicitors, accountants or duly appointed agents and their employees;
- *Batch Fee* means the fee set out in Part 15 of the *Details*;
- *Business Day* means any day other than a Saturday or Sunday that banks in the capital city of the *Relevant State* are open for business;
- *Cash Reserve/Reserve Release* means the amount available for payment to *you* from the *Reserve Account*;
- *Chargeback* means the amount *you* must pay *us* in respect of any *Factored Debt*;
- *Collateral Securities* means and includes the *Guarantees* and *Securities*;
- *Current drawings* means at any time, the total amount which *you* have drawn down from the *Drawdown Account* in respect of *Eligible Factored Debts*;
- *Customers* means *your customers* from time to time and any person liable to *you* in respect of *Debts* and every one of them;
- *Debts* means *your* book debts from time to time;
- *Details* means the *Details* part of the *Agreement*;
- *Drawdown Account* means the account maintained on *our* books to show amounts available for drawdown in respect of *Eligible Factored Debts*;
- *Drawdown Fee* means the fee set out in Part 16 of the *Details*;
- *Early Termination Fee* means the amounts set out in Part 8 of the *Details*;
- *Electronic Funds Transfer Fee* means the fee set out in Part 7 of the *Details*;
- *Eligible Factored Debts* means all *Factored Debts* which remain unpaid excluding the *Factored Debts* in any of the categories in Part 22 of the *Details*;
- *Event of Default* means any event described as such in these *Terms and Conditions* or any of the *Transaction Documents*;
- *Facility Limit* means the amount set out in Part 19 of the *Details*;
- *Factored Debts* means those of *your Debts* offered for sale to *us* and in respect of which we have accepted the offer;
- *Field Review Fee* means the fee specified in Part 19 of the *Details*;
- *Group* means *you* and all companies that are *Related Companies* to *you*;
- *Guarantees* means the guarantees (if any) specified in Part 12 of the *Details* and any other guarantee from time to time of *your* obligations under this *Agreement*;
- *Full Face Value* in respect of any *Debt* means the gross amount charged to the *customer* less any allowances made or allowable or which may on the terms of that invoice become allowable to the *customer* in respect of the *Debt*;
- *Minimum Fee* means the fee set out in Part 17 of the *Details*;
- *Related Company* means a related body corporate within the meaning of the *Corporations Act*;
- *Relevant State* means the state or territory in which *our* office is situated as specified in Part 1 of the *Details*;
- *Recourse Date* means the date set out in Part 11 of the *Details*;
- *Recourse Fee* means the fee set out in Part 20 of the *Details*;

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- *Reserve Account* means the account so styled in *your* name in our records to which *Reserve Amounts* are credited;
- *Reserve Amount* means the amount calculated in accordance with the formula set out in Part 9 of the *Details*;
- *Security Release Fee* means the amount *we* determine in *our* discretion which compensates *us* for the risk of early release of any *Security*;
- *Securities* means the securities specified in Part 12 of the *Details* and any other security provided to *us* from time to time for the performance by *you* of *your* obligations under this *Agreement*;
- *Service Fee* means the fee set out in Part 5 of the *Details*;
- *Settlement Fee* means the fee set out in Part 6 of the *Details*;
- *Short Notice Fee* means the fee specified in clause 13.3 of these *Terms and Conditions*;
- *Terms and Conditions* means these our standard terms and conditions applicable to general business factoring as at the date of this *Agreement*;
- *Transaction Documents* means this *Agreement*, any other agreement between *us* and the *Collateral Securities*;
- *Us* means Oxford Funding Pty Ltd ACN 065 663 176, ABN 72 065 663 176. *We*, *our* and similar parts of speech have corresponding meanings;
- *You* means the person referred to as such on the first page of this *Agreement*. *Your* and similar parts of speech have corresponding meanings.

30. **GENERAL INTERPRETATION**

In this *Agreement* unless there is something inconsistent with the context or circumstances:

- 30.1 Words importing any one gender include the other genders;
- 30.2 Words importing persons are deemed to include all bodies and associations, whether corporate or unincorporated, and vice versa;
- 30.3 Words (including defined terms) importing the singular include the plural and vice versa;
- 30.4 The headings in this *Agreement* are for convenience and reference only and will not be construed as affecting the meaning or interpretation of this *Agreement*;
- 30.5 A reference to a statute or regulation, or to a provision of a statute or regulation, includes a reference to that statute, regulation or provision as amended, consolidated, replaced or re-enacted from time to time;
- 30.6 The obligations imposed and the benefits conferred under this *Agreement* on *you* and *us* will be binding and continue for the benefit of the respective parties and each of their respective successors in title, legal personal representatives and permitted assigns;
- 30.7 A reference to any party to this *Agreement* includes that party's successors in title, legal personal representatives and permitted assigns;
- 30.8 A reference to dollars and "\$" will be taken as referring to amounts in Australian currency;
- 30.9 Where a party comprises two or more persons, all covenants and agreements by that party binds  
  
such two or more persons jointly and severally unless expressed to be only several;
- 30.10 The interpretation of any covenant clause or word mentioned in this *Agreement* shall not be

**STANDARD TERMS AND CONDITIONS (Version 6)**

restricted by reference to any other covenant clause or word or by the position of such covenants clauses or words and in the event of any ambiguity all of the covenants clauses and words shall be construed in such a way as to widen and not restrict *our* powers, rights and remedies under this Agreement;

- 30.11 Where the day on or by which anything is to be done under this Agreement is not a *Business Day* such act, matter or thing may be done on the next succeeding day which is a *Business Day*;
- 30.12 Reference in this Agreement to a month shall be a reference to a calendar month.

31. **ANTI-MONEY LAUNDERING AND COUNTER-TERRORISM FINANCING (AML/CTF)**

You declare and undertake to the Bank that the payment of monies by us, or any other transactions performed by us in accordance with your instructions, does not and will not breach any laws in Australia or in any other country.

To comply with our AML/CTF regulatory requirements we will need to obtain identification information to establish your identity (and the identity of other persons associated with your account). We may also do the following:

- (a) require you to provide to us or otherwise obtain, any additional information documentation or other information;
- (b) suspend, block or delay transactions on your account or refuse to make a payment or provide services to you. We will incur no liability to you if we do so;
- (c) report any, or any proposed transaction or activity to any body authorised to accept such reports relating to AML/CTF or any other law.

Unless you have disclosed that you are acting in a trustee capacity or on behalf of another party, you warrant that you are acting on your own behalf in making an investment.

**Schedule A**

**INVOICE ASSIGNED**  
THE DEBT SUBJECT TO THIS INVOICE  
HAS BEEN ASSIGNED TO  
**OXFORD FUNDING PTY LTD**  
ACN 065 663 176 ABN 72 065 663 176  
LEVEL 3, 120 HARBOUR ESPLANADE, DOCKLANDS VIC 3008  
DIRECT PAYMENT TO OXFORD FUNDING PTY LTD  
SHALL BE THE ONLY DISCHARGE OF THIS DEBT

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

**100 % Owned Subsidiaries**

	<b><u>State/Country of Incorporation</u></b>
SPAR Acquisition, Inc.	Nevada
SPAR Bert Fife, Inc. (inactive)	Nevada
SPAR Canada Company	Nova Scotia, Canada
SPAR Wings & Ink Company	Nova Scotia, Canada
SPAR Canada, Inc.	Nevada
SPAR Group International, Inc.	Nevada
SPAR International Ltd.	Cayman Islands
SPAR Marketing Force, Inc.	Nevada
SPAR Megaforce, Inc. (inactive)	Nevada
SPAR Trademarks, Inc.	Nevada
SPAR Merchandising Romania, Ltd. (inactive)	Romania
SPAR China Ltd.	China
SPAR FM Japan, Inc.	Japan
SPAR (Shanghai) Field Marketing Ltd. (inactive)	China
NMS Retail Services, ULC	Nova Scotia, Canada
National Assembly Services, Inc.	New Jersey
National Merchandising Services, LLC	Nevada
NMS Holdings, Inc.	Nevada

**51% Owned Subsidiaries**

	<b><u>Country</u></b>
SGRP Meridian (Pty), Ltd.	South Africa
Owns 51% of CMR-Meridian (Pty) Ltd.	South Africa
SPARFACTS Australia (Pty), Ltd.	Australia
Business Ideas Provider GRUP SRL	Romania
SPAR (Shanghai) Marketing Management Company Ltd.	China
Owns 51% of SPAR DSI Human Resource Company	China
SPAR TODOPROMO, SAPI, de CV	Mexico
NDS SPAR Tanitium ve Danismanlik Anonim Sti.	Turkey
SPAR KROGNOS Marketing Private Limited	India
Preceptor Marketing Services Private Limited (acquired March 2013)	India

**Consent of Independent Registered Public Accounting Firm**

We consent to the use of our report dated April 1, 2013, with respect to the consolidated financial statements and schedules of SPAR Group, Inc. and Subsidiaries for the years ended December 31, 2012 and 2011 included in its Annual Report on Form 10-K for the year ended December 31, 2012, and to their use (directly or through incorporation by reference), and to the reference to our Firm under the caption "Experts" (if applicable), in each of the following: the Registration Statement on Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan; the Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan; the Registration Statement on Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-152706) pertaining to the SPAR Group, Inc. 2008 Stock Compensation Plan; the Registration Statement on Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc.; the Registration Statement on Form S-3 (No. 333-162657) pertaining to the registered offering and sale of certain shares of common stock of SPAR Group, Inc.; and each related Prospectus, Supplemental Prospectus or Summary Description.

/s/ Rehmann Robson

Troy, Michigan  
April 1, 2013



**Consent of Independent Registered Public Accounting Firm**

We consent to the use of our report dated March 1, 2013, with respect to the financial statements and schedules of SPAR TODOPROMO, SAPI, de CV, included by SPAR Group, Inc., its ultimate majority shareholder, in the consolidated financial statements and schedules of SPAR Group, Inc. and Subsidiaries for the years ended December 31, 2012 and 2011 included in its Annual Report on Form 10-K for the year ended December 31, 2012, and to their use (directly or through incorporation by reference), and to the reference to our Firm under the caption "Experts" (if applicable), in each of the following: the Registration Statement on Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan; the Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan; the Registration Statement on Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-152706) pertaining to the SPAR Group, Inc. 2008 Stock Compensation Plan; the Registration Statement on Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc.; the Registration Statement on Form S-3 (No. 333-162657) pertaining to the registered offering and sale of certain shares of common stock of SPAR Group, Inc.; and each related Prospectus, Supplemental Prospectus or Summary Description.

/s/ Gossler, Sociedad Civil, Member Crowe Horwath International

Mexico City, Mexico

March 28, 2013

**Consent of Independent Registered Public Accounting Firm**

We consent to the use of our report dated March 4, 2013, with respect to the financial statements and schedules of SGRP Meridian (Pty), Ltd., included by SPAR Group, Inc., its ultimate majority shareholder, in the consolidated financial statements and schedules of SPAR Group, Inc. and Subsidiaries for the years ended December 31, 2012 and 2011 included in its Annual Report on Form 10-K for the year ended December 31, 2012, and to their use (directly or through incorporation by reference), and to the reference to our Firm under the caption "Experts" (if applicable), in each of the following: the Registration Statement on Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan; the Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan; the Registration Statement on Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-152706) pertaining to the SPAR Group, Inc. 2008 Stock Compensation Plan; the Registration Statement on Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc.; the Registration Statement on Form S-3 (No. 333-162657) pertaining to the registered offering and sale of certain shares of common stock of SPAR Group, Inc.; and each related Prospectus, Supplemental Prospectus or Summary Description.

/s/ BDO South Africa Inc.

Umhlanga, South Africa  
March 28, 2013

**Consent of Independent Public Accounting Firm**

We consent to the use of our report dated March 28, 2013, with respect to the financial statements and schedules of SPAR KROGNOS Marketing Private Limited (formerly known as *SPAR Solutions Merchandising Private Limited*), included by SPAR Group, Inc., its ultimate majority shareholder, in the consolidated financial statements and schedules of SPAR Group, Inc. and Subsidiaries for the years ended 2011 included in its Annual Report on Form 10-K for the year ended December 31, 2011, and to their use (directly or through incorporation by reference), and to the reference to our Firm under the caption "Experts" (if applicable), in each of the following: the Registration Statement on Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan; the Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan; the Registration Statement on Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan; the Registration Statement on Form S-8 (No. 333-152706) pertaining to the SPAR Group, Inc. 2008 Stock Compensation Plan; the Registration Statement on Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc.; the Registration Statement on Form S-3 (No. 333-162657) pertaining to the registered offering and sale of certain shares of common stock of SPAR Group, Inc.; and each related Prospectus, Supplemental Prospectus or Summary Description.

/s/ Nitin Mittal and Co.

New Delhi, India  
March 28, 2013

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

I, Gary S. Raymond, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2012 (this "report"), of SPAR Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2013

/s/ Gary S. Raymond  
Gary S. Raymond, Chief Executive Officer

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

I, James R. Segreto, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2012 (this "report"), of SPAR Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2013

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

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

In connection with the annual report on Form 10-K for the year ended December 31, 2012 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

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

/s/ Gary S. Raymond

Gary S. Raymond  
Chief Executive Officer

Date: April 1, 2013

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

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

In connection with the annual report on Form 10-K for the year ended December 31, 2012 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

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

/s/ James R. Segreto

James R. Segreto  
Chief Financial Officer, Treasurer and Secretary

Date: April 1, 2013

**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.**

