

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

**FORM 10-Q**

**(Mark One)**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the first quarterly period ended **March 31, 2019**.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-27408

**SPAR GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**33-0684451**

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

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

(Address of principal executive offices)

**10604**

(Zip Code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Emerging Growth Company

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

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2018, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$7.4 million.

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common	SGRP	Nasdaq

The number of shares of the Registrant's Common Stock outstanding as of May 7, 2019, was 20,776,588 shares.

# SPAR Group, Inc.

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

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

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	<u>(Unaudited)</u>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,090	\$ 7,111
Accounts receivable, net	47,419	46,142
Prepaid expenses and other current assets	2,935	1,879
Total current assets	57,444	55,132
Property and equipment, net	3,030	2,950
Operating lease right-of-use assets	5,328	–
Goodwill	3,787	3,788
Intangible assets, net	3,197	3,332
Deferred income taxes	2,665	2,568
Other assets	1,593	1,325
Total assets	<u>\$ 77,044</u>	<u>\$ 69,095</u>
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 9,984	\$ 8,668
Accrued expenses and other current liabilities	18,529	18,168
Due to affiliates	4,558	4,645
Customer incentives and deposits	702	620
Lines of credit and short-term loans	10,049	10,414
Current portion of operating lease liabilities	1,400	–
Total current liabilities	45,222	42,515
Operating lease liabilities, less current portion	3,928	–
Long-term debt and other liabilities	1,922	1,806
Total liabilities	51,072	44,321
Commitments and contingencies – See Note 8		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares– 2,445,598 Issued and outstanding shares– None – March 31, 2019, and December 31, 2018	–	–
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 20,784,483 – March 31, 2019, and December 31, 2018	208	208
Treasury stock, at cost 7,895 shares – March 31, 2019, and December 31, 2018	(8)	(8)
Additional paid-in capital	16,353	16,304
Accumulated other comprehensive loss	(3,540)	(3,638)
Retained earnings	4,033	3,432
Total SPAR Group, Inc. equity	17,046	16,298
Non-controlling interest	8,926	8,476
Total equity	25,972	24,774
Total liabilities and equity	<u>\$ 77,044</u>	<u>\$ 69,095</u>

See accompanying notes.

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2019</b>	<b>2018</b>
Net revenues	\$ 57,160	\$ 54,579
Cost of revenues	46,525	44,849
Gross profit	10,635	9,730
Selling, general and administrative expense	8,394	8,458
Depreciation and amortization	508	542
Operating income	1,733	730
Interest expense	199	199
Other (income), net	(65)	(72)
Income before income tax expense	1,599	603
Income tax expense	558	178
Net income	1,041	425
Net income attributable to non-controlling interest	(422)	(301)
Net income attributable to SPAR Group, Inc.	\$ 619	\$ 124
Basic and diluted income per common share:	\$ 0.03	\$ 0.01
Weighted average common shares – basic	20,777	20,648
Weighted average common shares – diluted	21,051	21,599
Net income	\$ 1,041	\$ 425
Other comprehensive loss:		
Foreign currency translation adjustments	108	(30)
Comprehensive income	1,149	395
Comprehensive income attributable to non-controlling interest	(450)	(271)
Comprehensive income attributable to SPAR Group, Inc.	\$ 699	\$ 124

*See accompanying notes.*

**SPAR Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statement of Equity**  
**(unaudited)**  
*(In thousands)*

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings</u>	<u>Non- Controlling Interest</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance at January 1, 2019	20,785	\$ 208	8	\$ (8)	\$ 16,304	\$ (3,638)	\$ 3,432	\$ 8,476	\$ 24,774
Share-based compensation	-	-	-	-	49	-	-	-	49
Other comprehensive income	-	-	-	-	-	98	(18)	28	108
Net income	-	-	-	-	-	-	619	422	1,041
<b>Balance at March 31, 2019</b>	<b>20,785</b>	<b>\$ 208</b>	<b>8</b>	<b>\$ (8)</b>	<b>\$ 16,353</b>	<b>\$ (3,540)</b>	<b>\$ 4,033</b>	<b>\$ 8,926</b>	<b>\$ 25,972</b>

	<u>Common Stock</u>		<u>Treasury Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Retained Earnings</u>	<u>Non- Controlling Interest</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>					
Balance at January 1, 2018	20,681	\$ 207	104	\$ (115)	\$ 16,271	\$ (1,690)	\$ 4,977	\$ 5,905	\$ 25,555
Share-based compensation	-	-	-	-	49	-	-	-	49
Exercise of stock options	-	-	(71)	79	(79)	-	-	-	-
Distributions to non-controlling investors	-	-	-	-	-	-	-	(463)	(463)
Non-controlling interest related to Resource Plus acquisition	-	-	-	-	-	-	-	3,023	3,023
Other comprehensive income	-	-	-	-	-	-	-	(30)	(30)
Net income	-	-	-	-	-	-	124	301	425
<b>Balance at March 31, 2018</b>	<b>20,681</b>	<b>\$ 207</b>	<b>33</b>	<b>\$ (36)</b>	<b>\$ 16,241</b>	<b>\$ (1,690)</b>	<b>\$ 5,101</b>	<b>\$ 8,736</b>	<b>\$ 28,559</b>

See accompanying notes.

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

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net income	\$ 1,041	\$ 425
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	508	542
Bad debt expense, net of recoveries	(13)	36
Share based compensation	49	49
Changes in operating assets and liabilities:		
Accounts receivable	(1,236)	(7,108)
Prepaid expenses and other assets	(1,390)	(190)
Accounts payable	1,310	512
Accrued expenses, other current liabilities and customer incentives and deposits	269	5,117
Net cash provided by (used in) operating activities	538	(617)
<b>Investing activities</b>		
Purchases of property and equipment and capitalized software	(464)	(487)
Purchase of Resource Plus subsidiary, net of cash acquired	-	767
Net cash (used in) provided by investing activities	(464)	280
<b>Financing activities</b>		
Net (payments) borrowing on lines of credit	(159)	1,252
Payments on term debt	(85)	(18)
Distribution to non-controlling investors	-	(463)
Net cash (used in) provided by financing activities	(244)	771
Effect of foreign exchange rate changes on cash	149	(399)
Net change in cash and cash equivalents	(21)	35
Cash and cash equivalents at beginning of year	7,111	8,827
Cash and cash equivalents at end of period	\$ 7,090	\$ 8,862
<b>Supplemental disclosure of cash flows information:</b>		
Interest paid	\$ 201	\$ 137
Income taxes paid	\$ 95	\$ 59

See accompanying notes.

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

**1. Basis of Presentation**

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

**2. Business and Organization**

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

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

As of March 31, 2019, the Company operates in 10 countries and divides its operations into two reportable segments: its Domestic Division, which has provided services in the United States of America since certain of its predecessors were formed in 1979, and its International Division, which began operations in May 2001 and provides similar merchandising, marketing, audit and in-store event staffing services in Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

**3. Earnings Per Share**

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

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net income attributable to SPAR Group, Inc.	\$ 619	\$ 124
Denominator:		
Weighted average shares used in basic net income per share calculation	20,777	20,648
Weighted average shares used in diluted net income per share calculation	21,051	21,599
Basic and diluted net income per common share	\$ 0.03	\$ 0.01

**4. Credit Facilities and Other Debt**

**Domestic Credit Facilities**

**North Mill Capital Credit Facility**

On April 10, 2019, the Company repaid and replaced its 2018 credit facility with PNC Bank, National Association ("PNC"), with a new secured revolving

credit facility in the United States and Canada (the "NM Credit Facility") with North Mill Capital, LLC ("NM").



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

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

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

The NM Note currently requires the NM Borrowers to pay interest on the loans thereunder equal to (A) Prime Rate designated by Wells Fargo Bank, plus (B) one hundred twenty five basis points (1.25%). In addition, the Company is paying a fee to NM in the amount of 1.5% of the Promissory Notes or \$180,000 payable at \$10,000 per month over the term of the agreement. The Company utilized a broker to assist in this financing and has paid a fee of \$120,000 for their services.

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

The NM Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the NM Loan Parties, including, maintaining a positive trailing EBITDA for each Borrower and limits on capital expenditures and other investments.

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

**PNC Credit Facility**

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

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

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

The PNC Note required the PNC Borrowers to pay interest on the loans thereunder equal to (A) the Daily LIBOR Rate (as defined therein) per annum, plus (B) two hundred fifty basis points (2.50%). On March 31, 2019, the aggregate interest rate under that formula was 4.99% per annum, and the outstanding loan balance was \$8.4 million.

Revolving loans of up to \$9.5 million were available to the Company under the PNC Credit Facility based upon the borrowing base formula defined in the PNC Loan Agreement (principally 85% of "eligible" accounts receivable less certain reserves) rendering a maximum borrowing amount of \$9.5 million as of March 31, 2019.

The PNC Credit Facility contained certain financial and other restrictive covenants and also limited certain expenditures by the PNC Loan Parties, including, maintaining a minimum Tangible Net Worth of \$13.4 million and limits on capital expenditures and other investments.

On March 31, 2019, the PNC Loan Parties were not in compliance with the minimum Tangible Net Worth covenant. The Company had entered into the NM Credit Facility effective April 2019 and did not pursue a waiver.

**Fifth Third Credit Facility**

On January 9, 2018, the Company completed its acquisition of a 51% interest in its new subsidiaries, Resource Plus of North Florida, Inc., and related companies (collectively, "Resource Plus"). When acquired, Resource Plus was a party to a revolving line of credit facility it secured on May 23, 2016, (the "Fifth Third Credit Facility") from Fifth Third Bank for \$3.5 million, which was scheduled to expire on May 23, 2018. Effective April 11, 2018, the term of the Fifth Third Credit Facility was extended and is currently scheduled to become due on April 23, 2020. As there are no provisions (other than defaults) requiring the pay down of the loan until April 23, 2020, any amounts outstanding are classified as long-term debt.

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

The Fifth Third Credit Facility currently requires Resource Plus to pay interest on the loans thereunder equal to (A) the Daily LIBOR Rate (as defined in the agreement) per annum, plus (B) two hundred fifty basis points (2.50%). On March 31, 2019, the aggregate interest rate under that formula was 5.23% per annum.

**Other Debt**

Effective with the closing of the Resource Plus acquisition, the Company entered into promissory notes with the sellers totaling \$2.3 million. The notes are payable in annual installments at various amounts due on December 31st of each year starting with December 31, 2018 and continuing through December 31, 2023. As such these notes are classified as both short term and long term for the appropriate amounts. The total balance owed at March 31, 2019 was approximately \$2.0 million.

**International Credit Facilities:**

SPARFACTS Australia Pty. Ltd. has a secured line of credit facility with National Australia Bank, effective October 31, 2017, for \$800,000 (Australian) or approximately \$568,000 USD (based upon the exchange rate at March 31, 2019). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The outstanding balance with National Australia Bank as of March 31, 2019 was \$608,000 (Australian) or \$431,000 USD and is due on demand.

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

SPAR Todopromo has secured a line of credit facility with BBVA Bancomer Bank for 5.0 million Mexican Pesos or approximately \$258,000 USD (based upon the exchange rate at March 31, 2019). The revolving line of credit was secured on March 15, 2016, and originally expired March 2018. The facility has been amended to extend the terms to April 2020. The variable interest rate is TIE (Interbank Interest Rate) +4%, which resulted in an annual interest rate of 12.5% as of March 31, 2019. The outstanding balance at March 31, 2019 was 5 million Mexican Pesos or approximately \$258,000 USD.

On May 29, 2018, SPAR Brazil established a line of credit facility with Banco Bradesco for 1.2 million Brazilian Real or approximately \$306,000 USD (based upon the exchange rate at March 31, 2019). The facility provides for borrowing with no formal guarantees. The agreement expires on November 29, 2019. The outstanding balance at March 31, 2019, was approximately 100,000 Brazilian Real or approximately \$26,000 USD.

On October 5, 2018 SPAR Brazil secured a line of credit facility with Banco Bradesco for approximately 3.5 million Brazilian Real or approximately \$900,000 USD (based upon the exchange rate at March 31, 2019). The outstanding balance as of March 31, 2019 was approximately 2.9 million Brazilian Real or approximately \$727,000 USD. The note is due December 19, 2019, with varying monthly payments.

On October 5, 2018 SPAR Brazil secured a line of credit facility with Banco Santander for approximately 381,000 Brazilian Real or approximately \$97,000 USD (based upon the exchange rate at March 31, 2019). The outstanding balance as of March 31, 2019 was approximately 321,000 Brazilian Real or approximately \$82,000 USD.

	Interest Rate as of						
	March 31, 2019	2019	2020	2021	2022	2023	2024
Brazil - Bradesco	0.37 - 0.92%	\$ 753	-	-	-	-	-
Brazil - Santander	1.38%	82	-	-	-	-	-
USA - PNC Bank	5.02%	8,450	-	-	-	-	-
USA - Fifth Third Bank	5.23%	-	-	-	-	-	-
USA - Resource Plus Seller Notes	1.85%	333	334	300	300	700	-
Australia - National Australia Bank	6.56%	431	-	-	-	-	-
Mexico - BBVA Shareholder	12.5%	-	258	-	-	-	-
<b>Total</b>		<b>\$ 10,049</b>	<b>\$ 592</b>	<b>\$ 300</b>	<b>\$ 300</b>	<b>\$ 700</b>	<b>\$ -</b>

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

	March 31, 2019	December 31, 2018
<b>Unused Availability:</b>		
United States	\$ 4,550	\$ 4,253
Australia	137	238
Brazil	280	304
Mexico	-	102
<b>Total Unused Availability</b>	<b>\$ 4,967</b>	<b>\$ 4,897</b>

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.

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

**5. Related-Party Transactions**

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

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

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

SPAR Group, Inc. and Subsidiaries  
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***Domestic Related Party Services:***

SPAR Business Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. ("Infotech"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by Robert G. Brown and prior to December 2018 was owned by William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired), and Mr. Bartels was and continues to be Vice Chairman and a director and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP. See Note 8, RELATED PARTIES AND RELATED PARTY LITIGATION, below.

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

SBS provided substantially all of the Field Specialist services in the U.S.A. to the Company from January 1 through July 27, 2018, and an independent vendor and licensee provided them for the balance of 2018. The Company paid \$6.8 million during the three months ended March 31, 2018, to SBS for its provision as needed of the services of approximately 3,800 of SBS's available Field Specialists in the U.S.A. (which amounted to approximately 52% of the Company's total domestic Field Specialist service expense for the three months ended March 31, 2018).

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

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

SPAR Group, Inc. and Subsidiaries  
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Even though the Company believes it had paid SBS for all services provided through July 27, 2018, the Company received notice that there may not have been sufficient funds in SBS' bank accounts to honor all payments SBS had made by check to their Field Specialists. Based on this notice, the Company withheld approximately \$435,000 of final mark-up compensation due SBS and had been making payments, on a daily basis, into the SBS bank account designated for Field Specialist payments to ensure all SBS Field Specialists that had provided services to the Company are properly compensated for those services. The \$435,000 has been completely exhausted and the Company was required to fund an additional \$13,000 to cover these duplicate Field Specialist payments. The Company believes that there may be checks for Field Service payments for as much as an additional \$120,000 that the Company believes may not be honored by SBS. The Company has made plans to ensure that all of the current Field Specialists are properly paid and is exploring its legal options for recovery of all duplicate payments it is making on SBS's behalf.

No SBS compensation to any officer, director or other related party had been reimbursed or approved to date by the Company, and no such compensation reimbursements were approved under SBS's Prior Agreement. This was not a restriction on SBS since SBS is not controlled by the Company and could have paid any compensation to any person that SBS desires out of its own funds. Since SBS is a "Subchapter S" corporation, all income from SBS is allocated to its stockholders (see above).

The appropriateness of SBS's treatment of its Field Specialists as independent contractors had been periodically subject to legal challenge (both currently and historically) by various states and others, SBS's expenses of defending those challenges and other proceedings had historically been reimbursed by the Company under SBS's Prior Agreement, and SBS's expenses of defending those challenges and other proceedings were reimbursed by the Company for the three month period ended March 31, 2018, in the amount of \$60,000, after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company.

On May 15, 2017, the Company advised SBS that, since there was no currently effective comprehensive written services agreement with SBS, the Company would continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis in its discretion, including the relative costs and benefits to the Company. SBS has disputed the right of the Company and SGRP's Audit Committee to review and decide the appropriateness of the reimbursement of any of those related party defense and other expense reimbursements. In addition, on June 13, 2018, the Company gave SBS notice that it would no longer reimburse any such expenses as a result of SGRP's separate settlement of the Clothier Case.

As provided in SBS's Prior Agreement, the Company is not obligated or liable, and the Company has not otherwise agreed and does not currently intend, to reimburse SBS for any judgment or similar amount (including any damages, settlement, or related tax, penalty, or interest) in any legal challenge or other proceeding against or involving SBS, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts).

Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, in connection with any proceedings against SBS, SBS may claim that the Company is somehow liable for any judgment or similar amount imposed against SBS and pursue that claim with litigation. The Company does not believe there is any basis for such claims and would defend them vigorously. There can be no assurance that plaintiffs or someone else will not claim that the Company is liable (under applicable law, through reimbursement or indemnification, or otherwise) for any such judgment or similar amount imposed against SBS, or that the Company will be able to defend any claim successfully. Any imposition of liability on the Company for any such amount could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

SPAR Group, Inc. and Subsidiaries  
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The Company has reached a non-exclusive agreement on substantially better terms than SBS with an experienced independent third-party vendor to provide substantially all of the domestic Field Specialist services used by the Company. The Company has also reached a separate non-exclusive agreement on substantially better terms than with SAS with another independent third-party vendor to provide substantially all of the domestic Field Administrator services used by the Company. The Company transitioned to such new vendors during July 2018, and such transition was virtually unnoticeable to the Company's clients.

SAS provided substantially all of the Field Administrators in the U.S.A. to the Company from January 1 through March 31, 2018. The Company paid \$1.1 million to SAS for its provision of its 57 full-time regional and district administrators (which amounted to approximately 91% of the Company's total domestic field administrative service cost for the three month period ended March 31, 2018).

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

No SAS compensation to any officer, director or other related party (other than to Mr. Peter W. Brown, a related party as noted below, pursuant to previously approved budgets) had been reimbursed by the Company. This was not a restriction on SAS since SAS is not controlled by the Company and could have paid any compensation to any person that SAS desires out of its own funds. Since SAS is a "Subchapter S" corporation, all income from SAS is allocated to its stockholders (see above).

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

Although neither SBS nor SAS has provided or been authorized to perform any services to the Company after their terminations described above effective on or before July 31, 2018, they have apparently continued to operate and claim that the Company owes them for all of their post-termination expenses for the foreseeable future. For the period from August through March 31, 2019, SBS has invoiced the Company for approximately \$124,000, and SAS has invoiced the Company for approximately \$108,000 for the same period. All such invoices have been rejected by the Company. The Company has determined that it is not obligated to reimburse any such post-termination expense (other than for potentially reimbursing SAS for mutually approved reasonable short term ordinary course transition expenses in previously allowed categories needed by SAS to wind down its business, if any), and that such a payment would be an impermissible gift to a related party under applicable law, which determinations have been supported by SGRP's Audit Committee. The SBS invoices included legal expenses for its continuing defense in the Clothier Case even though SGRP on June 13, 2018, gave SBS notice that it would no longer reimburse any such expenses as a result of SGRP's separate settlement of the Clothier Case. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

The Company expects that SBS and SAS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of their post-termination expense, including repeated litigation. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case"), and as a result, the claims of SBS' creditors must now generally be pursued in the SBS Chapter 11 Case. The Company believes there can be no assurance that SBS will ever be able to fully pay any damage award resulting from any determination in the Clothier Case or any other judgment or similar amount resulting from any legal determination adverse to SBS. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Related Party Litigation and SBS Bankruptcy*, below, and *SBS Bankruptcy*, below.

SPAR Group, Inc. and Subsidiaries  
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Any failure of SBS to satisfy any judgment or similar amount resulting from any adverse legal determination against SBS, any claim by SBS, SAS, any other related party or any third party that the Company is somehow liable for any such judgment or similar amount imposed against SBS or SAS or any other related party, any judicial determination that the Company is somehow liable for any such judgment or similar amount imposed against SBS or SAS or any other related party (in whole or in part), or any increase in the Company's use of employees (rather than the services of independent contractors provided by third parties) to perform Field Specialist services domestically, in each case in whole or in part, could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

Current material and potentially material legal proceedings impacting the Company are described in Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters*, below. These descriptions are based on an independent review by the Company and do not reflect the views of SBS, its management or its counsel. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, in connection with any proceedings against SBS, SBS continues to claim that the Company is somehow liable to reimburse SBS for its expenses in those proceedings. The Company does not believe there is any basis for such claims and would defend them vigorously.

Infotech is currently suing the Company in New York seeking reimbursement for approximately \$190,000 respecting alleged lost tax benefits and other expenses it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and previously denied by both management and SGRP's Audit Committee, who had jurisdiction because Infotech is a related party. Infotech also is threatening to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech, for which the Company vigorously denies liability. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters -- Related Party Litigation*, below.

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

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

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



SPAR Group, Inc. and Subsidiaries  
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***International Related Party Services:***

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

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

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

On September 8, 2016, the Company (through its Cayman Islands subsidiary) acquired 100% ownership of SGRP Brasil Participações Ltda. ("SGRP Holdings"), a Brazilian limitada (which is a form of limited liability company). SGRP Holdings then completed the formation and acquired a majority of the stock of SPAR Brasil Serviços de Merchandising e Tecnologia S.A., a Brazilian corporation ("SPAR BSMT"). SGRP Holdings and SPAR BSMT are consolidated subsidiaries of the Company. SPAR BSMT is owned 51% by the Company, 39% by JK Consultoria Empresarial Ltda.-ME, a Brazilian limitada ("JKC"), and 10% by Earth Investments, LLC, a Nevada limited liability company ("EILLC").

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

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

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**Summary of Certain Related Party Transactions:**

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

	Three Months Ended March 31,	
	2019	2018
Services provided by affiliates:		
Field merchandiser and other expenses (SBS)*	\$ -	\$ 6,729
Field administration and other expenses (SAS)*	-	1,149
National Store Retail Services (NSRS)	125	-
Office lease expenses (RJ Holdings)	102	142
Office and vehicle lease expenses (MPT)	16	19
Vehicle rental expenses (MCPT)	290	339
Office and vehicle rental expenses (MHT)	64	53
Consulting and administrative services (CON)	37	59
Legal Services (KMSA)	22	26
Warehousing rental (JFMD)	12	12
<b>Total services provided by affiliates</b>	<b>\$ 668</b>	<b>\$ 8,528</b>

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

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

	March 31, 2019	December 31, 2018
Loans from local investors:(1)		
Australia	\$ 288	\$ 226
Mexico	1,001	1,001
Brazil	139	139
China	1,987	2,130
South Africa	612	618
Resource Plus	531	531
<b>Total due to affiliates</b>	<b>\$ 4,558</b>	<b>\$ 4,645</b>

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

**Affinity Insurance:**

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

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

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The Company also has advanced money to SAS to prepay Affinity insurance premiums (which in the case of workers compensation insurance are a percentage of payroll). The Company had advanced approximately \$226,000 to SAS for the 2019-2020 Affinity plan year based on estimates that assumed SBS and SAS would be providing services to the Company for the full plan year. However, the Company terminated their services at the end of July 2018 therefore, that insurance was required for only one month's payroll. Upon completion of the Affinity audit for the Affinity 2019-2020 plan year, the Company anticipates that SAS will receive a premium refund from Affinity of approximately \$150,000 and will be obligated to repay that amount to the Company.

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

SMF had been in negotiations with SBS and SAS (respectively represented by Robert G. Brown and William H. Bartels, who together own over 59% of SGRP's common stock) since November 2017 for reimbursement and security agreements to document and secure those advances and repayment obligations, which advances total approximately \$675,000. Although SBS and SAS had orally accepted those agreements in principal, the negotiations have recently broken down over their refusal to allow enforceable first priority security interests in the Cash Collateral and SAS's policies with and equity interests in Affinity, as well as their demands for post-termination payments and offsets potentially larger than the Cash Collateral. As a result the Company has recorded a reserve for the full \$901,000 in such receivables in 2018. The Company is exploring its legal options for recovering the Affinity Returns from SAS and SBS. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies*, below.

The Company has filed a claim for \$375,000 respecting the Affinity Cash Collateral loan to SBS in the SBS Chapter 11 Proceeding. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- SBS Bankruptcy*, below.

***Other Related Party Transactions and Arrangements:***

In July 1999, SMF, SBS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and has the right to unilaterally license and exploit certain portions of the Company's proprietary scheduling, tracking, coordination, reporting and expense software (the "Co-Owned Software") are co-owned with SBS and Infotech and each entered into a non-exclusive royalty-free license from the Company to use certain "SPAR" trademarks in the United States (the "Licensed Marks"). As a result of the SBS Chapter 11 Case, SBS' rights in the Co-Owned Software and Licensed Marks are assets of SBS' estate, subject to sale or transfer in any court approved reorganization or liquidation. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters, Related Party Litigation and SBS Bankruptcy*, below.

SPAR Group, Inc. and Subsidiaries  
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Through arrangements with the Company, SBS (owned by Mr. Brown and prior to December 2018 was owned by Mr. Bartels), SAS (owned by Mr. Bartels and family members of Mr. Brown), and other companies owned by Mr. Brown participate in various benefit plans, insurance policies and similar group purchases by the Company, for which the Company charges them their allocable shares of the costs of those group items and the actual costs of all items paid specifically for them. All such transactions between the Company and the above affiliates are paid and/or collected by the Company in the normal course of business.

***SBS Bankruptcy***

The Company received no services from SBS after the termination of SBS' services took effect. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, SBS continues to claim that the Company is somehow liable to reimburse SBS for its expenses in those proceedings. The Company does not believe there is any basis for such claims and would defend them vigorously. The Company anticipates that SBS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of its post-termination expense. See *Domestic Transactions*, above.

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case"), so the pre-petition claims of SBS' creditors must now have to be made in the SBS Chapter 11 Case. On March 11, 2019, the Bankruptcy Court entered an order modifying the automatic stay in the SBS Chapter 11 Case to permit the plaintiffs in the Clothier Case to proceed with the second part of their case to determine damages in the same California Court that rendered the Clothier Determination. The Bankruptcy Court did not modify the automatic stay to permit collection of any resulting damage award from SBS absent further Bankruptcy Court order, and absent such further order, any damage award in Clothier Case will therefore have to be pursued as against SBS in the SBS Chapter 11 Case.

On the advice of SGRP's bankruptcy counsel, management reported and the Audit Committee agreed that while SBS is in the SBS Chapter 11 Case; (a) SBS cannot legally pay the third-party pre-petition invoices and other emailed claims sent via email from SBS to the Company, which are unsecured claims ordinarily payable in chapter 11 as part of the unsecured creditor claim pool (potentially pennies or less per dollar) without specific legal authorization or court order (including under a Bankruptcy Court approved reorganization plan, which is the usual mechanism for paying non-priority claims in a chapter 11 case); (b) any SGRP payment to SBS would likely be utilized to fund the SBS Chapter 11 Case and after that to pay the Clothier claims and other unsecured claimants; (c) SGRP and SMF claims against SBS (including, without limitation, reimbursement claims for funding the Affinity Security Deposits and field payment checks that would have otherwise bounced and indemnification for the Clothier settlement and legal costs) must be and have been asserted in the SBS Chapter 11 Case and can only be satisfied in that case through a Court permitted setoff (potentially dollar-for-dollar), or from the unsecured creditor pool (potentially pennies or less per dollar); (d) any resolution of claims between SBS and SGRP sought (at this time) by SBS from the Bankruptcy Court requires such court's approval after notice to creditors (including the plaintiffs in the Clothier Case) and the U.S. Trustee, so finality can only be achieved in the SBS Chapter 11 Case; and (e) when SBS seeks payment through the Bankruptcy Court (whether for pre- or post-petition claims), SGRP has the right to defend them on the merits and to assert an offset for amounts owed to SMF and SGRP (potentially dollar-for-dollar).

Accordingly, Management recommended and the Audit Committee agreed that it would be in the best interest of all stockholders: (i) to submit SGRP and SMF claims against SBS in the SBS Chapter 11 Case in order to preserve their value (including as an offset against SBS' claims), particularly since those claims against SBS exceed amounts potentially owed to SBS; (ii) not to voluntarily pay any SBS obligations directly to targeted SBS creditors, as such payments would reduce that offset value (potentially dollar-for-dollar), subvert the bankruptcy process and potentially expose SGRP and SMF to direct future liability (for example, liability for a lawsuit if SGRP voluntarily pays for its defense); and (iii) only to make payments to or on behalf of SBS to the extent proven and required in the SBS Chapter 11 Case or other court with jurisdiction over the dispute.

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

A review of the SBS' filings in the SBS Chapter 11 Case shows that SBS has listed the Company as a contingent, unliquidated, disputed creditor, but in its most recently filed amended schedules in that Case, SBS has not expressly scheduled any claims of SBS against the Company. In this regard, on January 10, 2019, SBS filed schedules that reflected a note receivable in the amount of \$300,000 due from the Company. However, on both February 7 and 12, 2019, SBS filed amended schedules that omitted such note receivable. SBS' amended schedules filed on February 12, 2019, reflects a \$300,000 increase in SBS' accounts receivable. None of those schedules name the companies owing those receivables. In depositions Mr. Brown has testified as to various amounts that may be owed to SBS by various parties (including the Company) but the Company has not been able to independently verify the accuracy of such testimony, and any such testimony would not be conclusive evidence or proof of such claim against the Company, and could be corrected or disclaimed as an error afterwards. In any event, the Company believes that it owes nothing to SBS while the Company has substantial claims asserted against SBS.

On March 18, 2019, the Company filed claims in the SBS Chapter 11 Case seeking reimbursement for \$378,838 for SMF's funding of the Affinity Security Deposits and \$12,963 for SMF's funding of the field payment checks that would have otherwise bounced, and \$1,839,459 for indemnification of SGRP for the Clothier settlement (see below) and legal costs and an unspecified amount for indemnification of SGRP for the Hogan action (see Note 8 to the Company's Consolidated Financial Statements, *Commitments and Contingencies - Legal Matters - SBS Clothier Litigation*, below) and other yet to be discovered indemnified claims.

#### **6. Preferred Stock**

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

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

In connection with the 2018 Annual Meeting, the Board, based (in part) on the recommendation of its Compensation Committee, approved the modification of the proposed SPAR Group, Inc. 2018 Stock Compensation Plan (the "2018 Plan") to remove all adjustments for prior plans, continuing awards and share recycling, which the Board determined was within its authority and not materially adverse to the interest of SGRP's existing stockholders. The SPAR Group, Inc. 2018 Stock Compensation Plan (including the above changes) was approved by the stockholders on May 2, 2018.

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The 2018 Plan and information regarding options, stock appreciation rights, restricted stock and restricted stock units granted thereunder are summarized below. The 2018 Plan is substantially similar to the 2008 Plan except for its one-year initial term and resetting the maximum award shares available to 600,000 under the 2018 Plan. The 2008 Plan terminated upon the adoption of the 2018 Plan, and thereafter no further Awards may be made under the 2008 Plan. There were approximately 345,750 SGRP shares remaining for grant Awards that were cancelled at that date.

The 2018 Plan has an initial term that ends on May 31, 2019, and no Award may be granted thereafter under this Plan, unless an extension or elimination of such initial term Plan is approved by stockholders of SGRP if and as required pursuant to the 2018 Plan. In any event, no Award may be granted under the 2018 Plan on or after the tenth (10th) anniversary of the Effective Date of the 2018 Plan unless an extension of the term of the 2018 Plan is approved by stockholders of SGRP if and as required pursuant to the 2018 Plan and Applicable Law. Awards granted prior to the end of the term of the 2018 Plan shall continue to be governed by the 2018 Plan (which 2018 Plan shall continue in full force and effect for that purpose).

The 2018 Plan resets and limits the maximum number of shares of Common Stock that may be issued pursuant to Awards made under the plan to 600,000 shares (the "2018 Plan Maximum").

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

The shares of Common Stock that may be issued pursuant to the Options, SARs, Restricted Stock and RSUs under the 2018 Plan are all subject to the 2018 Plan Maximum.

SGRP has granted restricted stock and stock option awards to its eligible directors, officers and employees and certain employees of its affiliates respecting shares of Common Stock issued by SGRP ("SGRP Shares") pursuant to SGRP's 2008 Stock Compensation Plan (as amended, the "2008 Plan"), which was approved by SGRP's stockholders in May of 2008 and 2009. The 2008 Plan provides for the granting of restricted SGRP shares, stock options to purchase SGRP shares (either incentive or nonqualified), and restricted stock units, stock appreciation rights and other awards based on SGRP shares ("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 option, restricted share awards, and performance stock units. At the May 3, 2018 Annual meeting of stockholders, the 2008 Plan was terminated. At that time, the 2018 Plan was approved by SGRP's stockholders.

As of March 31, 2019, approximately 325,000 shares were available for Award grants under the 2018 Plan. In the first quarter, there were no options awarded. As of May 15, there were 310,000 shares awarded, leaving 15,000 shares of SGRP's common stock available for grant under the 2018 Plan.

The Company recognized \$46,000 and \$43,000 in stock-based compensation expense relating to stock option awards during the three month periods ended March 31, 2019 and 2018, respectively. The tax benefit available from stock based compensation expense related to stock option during both the three months ended March 31, 2019 and 2018 was approximately \$11,000. As of March 31, 2019, total unrecognized stock-based compensation expense related to stock options was \$365,000.

During the three months ended March 31, 2019 and 2018, the Company recognized approximately \$3,000 and \$6,000, respectively of stock based compensation expense related to restricted stock. The tax benefit available to the Company from stock based compensation expense related to restricted stock during the three months ended March 31, 2019 and 2018 was approximately \$1,000 and \$2,000, respectively. As of March 31, 2019, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was \$2,000.

## 8. Commitments and Contingencies

### *Legal Matters*

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

### **RELATED PARTIES AND RELATED PARTY LITIGATION:**

SPAR Business Services, Inc., f/k/a SPAR Marketing Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. ("Infotech"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Transactions*, above. Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired), and Mr. Bartels was and continues to be Vice Chairman and a director and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP.

### **Delaware Litigation Settlement**

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

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

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

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

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

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

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

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

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

In the Settlement the parties agreed to amend and restate SGRP's By-Laws (the "2019 Restated By-Laws") with negotiated changes to the Proposed Amendments that preserve the current roles of the Governance Committee and Board in the location, evaluation, and selection of candidates for director and in the nominations of those candidates for the annual stockholders meeting and appointment of those candidates to fill Board vacancies (other than those under a stockholder written consent making a removal and appointment, which is unchanged). The Board approved and adopted the 2019 Restated By-Laws on January 18, 2018. The Governance Committee and the Board believe that those changes in the 2019 Restated By-Laws will help the Corporation maintain the independent Board desired by them.

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

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

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



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

The Releases are limited to matters related to those actions described therein and subject to specific exclusions, and the parties expressly preserved all unrelated actions and claims. Accordingly, there remain a number of unresolved claims and actions (each a "Non-Settled Matter") between the Company and the following Related Parties (as defined below), including (without limitation), post termination claims by and against SPAR Business Services, Inc. (which is now in a voluntary bankruptcy proceeding in Nevada), and SPAR Administrative Services, Inc., the lawsuit by SPAR InfoTech, Inc., against the Company, and the Bartels Advancement Claim and the claim by Mr. Brown for a similar advancement (see *Advancement Claims*, below).

***Advancement Claims***

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

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

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

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

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

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

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

On January 27, 2019, Mr. Brown sent a draft of his proposed Delaware litigation complaint in an email to Arthur Drogue, SGRP's Chairman, threatening to sue SGRP respecting the Brown Advancement Demand, which he repeated in an email to Mr. McCarthy on February 2, 2019. No such complaint has been filed by Mr. Brown through May 6, 2019, and SGRP continues to deny the Brown Advancement Demand.

***SBS Bankruptcy***

The Company received no services from SBS after the termination of SBS' services took effect. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, SBS continues to claim that the Company is to reimburse SBS for its expenses in various cases and state proceedings. The Company anticipates that SBS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of their post-termination expense. The Company does not believe there is any basis for such claims and would defend them vigorously. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Transactions*, above.

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case"), so the pre-petition claims of SBS' creditors now must be made in the SBS Chapter 11 Case. On March 11, 2019, the Bankruptcy Court entered an order modifying the automatic stay in the SBS Chapter 11 Case to permit the plaintiffs in the Clothier Case to proceed with the second part of their case to determine damages in the same California Court that rendered the Clothier Determination. The Bankruptcy Court did not modify the automatic stay to permit collection of any resulting damage award from SBS absent further Bankruptcy Court order, and absent such further order, any damage award in Clothier Case will therefore have to be pursued against SBS in the SBS Chapter 11 Case.

On the advice of SGRP's bankruptcy counsel, management reported and the Audit Committee agreed that while SBS is in the SBS Chapter 11 Case; (a) SBS cannot legally pay the third-party pre-petition invoices and other emailed claims sent via email from SBS to the Company, which are non-priority claims (*i.e.*, claims that both are unsecured and lack administrative priority) payable in chapter 11 as part of the unsecured creditor claim pool (potentially pennies or less per dollar) without specific legal authorization or court order (including under a Bankruptcy Court approved reorganization plan, which is the usual mechanism for paying non-priority claims in a chapter 11 case); (b) any SGRP payment to SBS would likely be utilized to fund the SBS Chapter 11 Case and after that to pay the Clothier claims and other non-priority claimants; (c) SGRP and SMF non-priority claims against SBS (including, without limitation, reimbursement claims for funding the Affinity Security Deposits and field payment checks that would have otherwise bounced and indemnification for the Clothier settlement and legal costs) must be and have been asserted in the SBS Chapter 11 Case and can only be satisfied in that case only through a Court permitted setoff (potentially dollar-for-dollar), or from the unsecured creditor pool (potentially pennies or less per dollar); (d) any resolution of claims between SBS and SGRP sought (at this time) by SBS from the Bankruptcy Court requires such court's approval after notice to creditors (including the plaintiffs in the Clothier Case) and the U.S. Trustee, so finality can only be achieved in the SBS Chapter 11 Case; and (e) when SBS seeks payment through the Bankruptcy Court (whether for pre- or post-petition claims), SGRP has the right to defend them on the merits and to assert an offset for amounts owed to SMF and SGRP (potentially dollar-for-dollar).

Accordingly, Management recommended and the Audit Committee agreed that it would be in the best interest of all stockholders: (i) to submit SGRP and SMF claims against SBS in the SBS Chapter 11 Case in order to preserve their value (including as an offset against SBS' claims), particularly since those claims against SBS exceed amounts potentially owed to SBS; (ii) not to voluntarily pay any SBS obligations directly to targeted SBS creditors, as such payments would reduce that offset value (potentially dollar-for-dollar), subvert the bankruptcy process and potentially expose SGRP and SMF to direct future liability (for example, liability for a lawsuit if SGRP voluntarily pays for its defense); and (iii) only to make payments to or on behalf of SBS to the extent proven and required in the SBS Chapter 11 Case or other court with jurisdiction over the dispute.

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

On March 18, 2019, the Company filed claims in the SBS Chapter 11 Case seeking reimbursement for \$378,838 for SMF's funding of the Affinity Security Deposits \$12,963 for SMF's funding of the field payment checks that would have otherwise bounced, \$1,839,459 for indemnification of SGRP for the Clothier settlement (see below) and legal costs, and an unspecified amount for indemnification of SGRP for the Hogan action (see below) and other yet to be discovered indemnified claims.

#### ***Infotech Litigation Against SGRP***

On September 19, 2018, SGRP was served with a Summons and Complaint by SPAR InfoTech, Inc. ("Infotech"), an affiliate of SGRP that is owned principally by Robert G. Brown (one of the Majority Stockholders, a defendant in the By-Laws Action, and the plaintiff in the 225 Action) as plaintiff commencing a case against SGRP entitled SPAR InfoTech, Inc. v. SPAR Group, Inc., et al., Index no. 64452/2018 (Supreme Court, Westchester County) (the "Infotech Action"). The Infotech Action seeks payment from SGRP of approximately \$190,000 for alleged lost tax benefits and other expenses that it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and that were previously denied by both management and SGRP's Audit Committee (which had jurisdiction because Infotech is a related party).

In 2016, SGRP acquired SPAR Brasil Serviços de Merchandising e Tecnologia S.A. ("SPAR BSMT"), its Brazilian subsidiary, with the assistance of Robert G. Brown ("Mr. Brown"), who retired as Chairman and an officer and director on May 3, 2018, and his nephew, Peter W. Brown, who became a director on May 3, 2018. Mr. Brown used his private company, Infotech and undisclosed Irish companies to structure the acquisition for SGRP.

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

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

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

SGRP will vigorously contest the Infotech Action.

Infotech also is threatening to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech, for which the Company vigorously denies liability. Infotech has given a draft complaint to the Company.

***SBS Field Specialist Litigation***

The Company's merchandising, audit, assembly and other services for its domestic clients are performed by field merchandising, auditing, assembly and other field personnel (each a "Field Specialist") substantially all of whose services were provided to the Company prior to August 2018 by SBS, the Company's affiliate. SBS is not a subsidiary or in any way under the control of SGRP, SBS is not consolidated in the Company's financial statements, SGRP does not manage, direct or control SBS, and SGRP does not participate in or control the defense by SBS of any litigation against it. The Company terminated its relationship with SBS and received no services from SBS after July 27, 2018. For affiliation, termination, contractual details and payment amounts, see Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, above.

The appropriateness of SBS' treatment of Field Specialists as independent contractors has been periodically subject to legal challenge (both currently and historically) by various states and others. SBS' expenses of defending those challenges and other proceedings have historically been reimbursed by the Company under SBS' Prior Agreement, and SBS' expenses of defending those challenges and other proceedings were reimbursed by the Company through the termination of the contract in July 2018, in the amount of \$50,000, after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company.

In March 2017, the Company advised SBS that, since there was no currently effective comprehensive written services agreement with SBS, the Company would continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis in its discretion, including the relative costs and benefits to the Company. See *Related Party Transactions - Domestic Related Party Services*, above. SBS has disputed the right of the Company and SGRP's Audit Committee to review and decide the appropriateness of the reimbursement of any of those related party defense and other expense reimbursements. As provided in SBS' Prior Agreement, the Company is not obligated or liable, and the Company has not otherwise agreed and does not currently intend, to reimburse SBS for any judgment or similar amount (including any damages, settlement, or related tax, penalty, or interest) in any legal challenge or other proceeding against or involving SBS, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts).

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

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

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

Due to (among other things) the Clothier Determination and the ongoing proceedings against SBS, which could have had a material adverse effect on SBS' ability to provide future services needed by the Company, and the Company's identification of an independent third party company who would provide comparable services on substantially better terms, the Company terminated the services of SBS effective July 27, 2018, and the Company has engaged that independent third party company to provide the Field Specialist services formerly provided by SBS.

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

***SBS Clothier Litigation***

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

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

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

Facing significant potential damages in the Clothier Case, SGRP chose, and on June 7, 2018, entered into mediation with the plaintiffs and plaintiff's counsel in the Clothier Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SGRP asked SBS to participate financially and provide its knowledge in that mediation, but SBS and its stockholders wanted SGRP to bear the full cost of any settlement and on several occasions they declined or failed to participate in that mediation. SGRP disagreed, insisting on the Majority Stockholders' and SBS' economic participation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, which is subject to court approval and not likely to become final until several months into 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of \$1.3 million, payable in four equal annual installments that commence 30 days after the settlement becomes final, and the Company will be released by plaintiff and the settlement class from all other liability under the Clothier Case (the "Clothier Settlement"). SBS did not participate in the Clothier Settlement and will not be released. The Company has recorded a \$1.3 million charge for the Clothier Settlement during 2018. On March 21, 2019, the court issued a tentative ruling preliminarily approving the Clothier settlement.

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

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

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

***SGRP Hogan Litigation***

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

On March 12, 2018, the Court denied both defendants' Motion to Dismiss for failure to state a claim, denied the Motion to Compel Arbitration as to SGRP (because as drafted by SBS, the arbitration clause did not reference or protect SGRP), denied the Motion to Stay as to SGRP, and allowed the Motion to Stay as to SBS pending the outcome of the Supreme Court's decision in *Epic Systems Corp. v. Lewis*. In May 2018, the Supreme Court decided arbitration clauses that include an express waiver of a worker's right to bring or participate in a class action did not violate the National Labor Relations Act, which resulted in all SBS disputes (but not any SGRP disputes) being sent to arbitration. On April 24, 2018, SGRP filed a notice of appeal with the First Circuit of the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP. SGRP and Hogan agreed to stay the District Court litigation pending the First Circuit's decision on SGRP's appeal. Briefing on SGRP's appeal closed on August 8, 2018 and the appeal hearing was heard by the First Circuit on September 11, 2018. On January 25, 2019, the First Circuit issued a judgment affirming the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP and remanding the case back to the District Court for further proceedings. As a result, SGRP would have been required to go to trial without SBS.

Facing lengthy and costly litigation and significant potential damages in the Hogan Case, on March 27, 2019, SGRP entered into mediation with the plaintiffs and plaintiff's counsel in the Hogan Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SBS and its stockholders were no longer involved in that case and so were not involved in that mediation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, which is subject to court approval and not likely to become final until later in 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of \$250,000 (in three installments) one hundred eighty (180) days after the settlement becomes final, and the Company will be released by plaintiff and the settlement class from all other liability under the Hogan Case (the "Hogan Settlement"). The Company has recorded \$250,000 liability as a result of the settlement.

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

***SBS and SGRP Litigation Generally***

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

**9. Segment Information**

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

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

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

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

	Three Months Ended March 31,	
	2019	2018
<b>Revenue:</b>		
United States	\$ 18,657	\$ 18,369
International	38,503	36,210
Total revenue	<u>\$ 57,160</u>	<u>\$ 54,579</u>
<b>Operating income (loss):</b>		
United States	\$ 757	\$ (320)
International	976	1,050
Total operating income	<u>\$ 1,733</u>	<u>\$ 730</u>
<b>Interest expense:</b>		
United States	\$ 59	\$ 14
International	140	185
Total interest expense	<u>\$ 199</u>	<u>\$ 199</u>
<b>Other (income), net:</b>		
United States	\$ –	\$ 30
International	(65)	(102)
Total other (income), net	<u>\$ (65)</u>	<u>\$ (72)</u>
<b>Income (loss) before income tax expense:</b>		
United States	\$ 698	\$ (364)
International	901	967
Total income before income tax expense	<u>\$ 1,599</u>	<u>\$ 603</u>
<b>Income tax expense (benefit):</b>		
United States	\$ 201	\$ (12)
International	357	190
Total income tax expense	<u>\$ 558</u>	<u>\$ 178</u>
<b>Net income (loss):</b>		
United States	\$ 497	\$ (352)
International	544	777
Total net income	<u>\$ 1,041</u>	<u>\$ 425</u>
<b>Net income (loss) attributable to non-controlling interest:</b>		
United States	\$ (97)	\$ 89
International	(325)	(390)
Total net income (loss) attributable to non-controlling interest	<u>\$ (422)</u>	<u>\$ (301)</u>
<b>Net income (loss) attributable to SPAR:</b>		
United States	\$ 400	\$ (263)
International	219	387
Total net income (loss) attributable to SPAR Group, Inc.	<u>\$ 619</u>	<u>\$ 124</u>
<b>Depreciation and amortization:</b>		
United States	\$ 369	\$ 382
International	139	160
Total depreciation and amortization	<u>\$ 508</u>	<u>\$ 542</u>
<b>Capital expenditures:</b>		
United States	\$ 378	\$ 635
International	86	437
Total capital expenditures	<u>\$ 464</u>	<u>\$ 1,072</u>



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

Note: There were no inter-company sales for the three months ended March 31, 2019 or 2018.

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Assets:</b>		
United States	\$ 29,669	\$ 27,280
International	47,375	41,815
Total assets	<u>\$ 77,044</u>	<u>\$ 69,095</u>

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Long lived assets:</b>		
United States	\$ 4,223	\$ 2,560
International	5,728	1,715
Total long lived assets	<u>\$ 9,951</u>	<u>\$ 4,275</u>

**Geographic Data** (in thousands)

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>		<b>2018</b>	
		% of consolidated net revenue		% of consolidated net revenue
<b>International revenue:</b>				
Brazil	\$ 15,532	27.2%	\$ 13,410	24.6%
South Africa	6,534	11.4	7,444	13.6
Mexico	5,287	9.2	5,360	9.8
China	3,279	5.7	2,442	4.5
Japan	2,730	4.8	2,247	4.1
India	2,206	3.9	2,424	4.4
Canada	2,104	3.7	1,934	3.5
Australia	764	1.3	886	1.6
Turkey	67	0.1	63	0.1
Total international revenue	<u>\$ 38,503</u>	<u>67.3%</u>	<u>\$ 36,210</u>	<u>66.2%</u>

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

## 10. Recent Accounting Pronouncements

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

### *Recently Implemented Pronouncements*

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

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

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

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

During 2018, the Company adopted the following ASU:

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

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

**11. Leases**

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

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

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

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

The reported results for Q1 2019 reflect the application of ASC 842 guidance, whereas comparative periods and their respective disclosures prior to the adoption of ASC 842 are presented using the legacy guidance of ASC 840. As a result of adopting the new standard, SPAR recognized ROU assets and liability of \$5.7 million. There was no adjustment to deferred taxes as a result of SPAR's adoption of ASC 842. The adoption of ASC 842 did not have a material impact on SPAR's results of operations or cash flows, nor did it have an impact on any of SPAR's existing debt covenants.

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

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

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

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

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

The components of SPAR's lease expenses for the fiscal quarter ended March 31, 2019, which are included in the condensed consolidated income statement, are as follows (in thousands):

<b>Lease Costs</b>	<b>Classification</b>	<b>March 31, 2019</b>
Operating lease cost	Selling, General and Administrative Expense	\$ 532
Short-term lease cost	Selling, General and Administrative Expense	29
Variable costs	Selling, General and Administrative Expense	290
Total lease cost		<u>\$ 851</u>

Supplemental cash flow information related to SPAR's leases for the fiscal quarter ended March 31, 2019 is as follows (in thousands):

	<b>March 31, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 509
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	\$ 5,736(a)

(a) Amounts for the three months ended March 31, 2019 include the transition adjustment for the adoption of ASU 2016-02 discussed in Note 10.

The following table presents supplemental balance sheet information related to SPAR's operating leases as of March 31, 2019 (in thousands):

<b>Leases</b>	<b>March 31, 2019</b>
<i>Assets:</i>	
Operating lease right-of-use assets	\$ 5,328
<i>Liabilities:</i>	
Current portion of operating lease liabilities	\$ 1,400
Non-current portion of operating lease liabilities	3,928
Total operating lease liabilities	<u>\$ 5,328</u>
Weighted average remaining lease term—operating leases (in years)	2.1
Weighted average discount rate—operating leases	8.9%

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

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

Period Ending March 31,	Amount
2019	\$ 1,336
2020	2,682
2021	878
2022	987
2023	78
Thereafter	-
Total lease payments	5,961
Less: imputed interest	(633)
Total	<u>\$ 5,328</u>

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

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

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

**Forward-Looking Statements**

*This Quarterly Report on Form 10-Q (this "Quarterly Report") contains "forward-looking statements" within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, made by, or respecting, SPAR Group, Inc. ("SGRP") and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), and this Quarterly Report has been filed by SGRP with the Securities and Exchange Commission (the "SEC"). There also are "forward-looking statements" contained in SGRP's Annual Report on Form 10-K/A for its fiscal year ended December 31, 2018 (as filed, the "Annual Report"), as filed with the SEC on April 24, 2019, in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on May 15, 2019, which SGRP filed with the SEC on April 29, 2019, and Additional Definitive Materials filed with the SEC on May 3, 2019 (collectively, the "Proxy Statement"), and SGRP's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and statements as and when filed with the SEC (including this Quarterly Report, the Annual Report and the Proxy Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, the "Securities Laws").*

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

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

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

## SPAR Group, Inc. and Subsidiaries

### GENERAL

The Company is a diversified international merchandising, business technology and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides its merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandise, office supply, value, grocery, drug, independent, convenience, home improvement and electronics stores. The Company also provides furniture and other product assembly services in stores, homes and offices. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May of 2001. The Company currently does business in 10 countries that encompass approximately 50% of the total world population through its operations in the United States, Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

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

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

**SPAR Group, Inc. and Subsidiaries**

**RESULTS OF OPERATIONS**

**Three months ended March 31, 2019, compared to three months ended March 31, 2018**

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

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>		<b>2018</b>	
	\$	%	\$	%
Net revenues	\$ 57,160	100.0%	\$ 54,579	100.0%
Cost of revenues	46,525	81.4	44,849	82.2
Gross profit	10,635	18.6	9,730	17.8
Selling, general & administrative expense	8,394	14.7	8,458	15.5
Depreciation & amortization	508	0.9	542	1.0
Operating income	1,733	3.0	730	1.3
Interest expense, net	199	0.3	199	0.4
Other (income), net	(65)	(0.1)	(72)	(0.1)
Income before income taxes	1,599	2.8	603	1.0
Income tax expense	558	1.0	178	0.3
Net income	1,041	1.8	425	0.7
Net income attributable to non-controlling interest	(442)	(0.7)	(301)	(0.6)
Net income attributable to SPAR Group, Inc.	\$ 619	1.1%	\$ 124	0.1%

**Net Revenues**

Net revenues for the three months ended March 31, 2019, were \$57.2 million, compared to \$54.6 million for the three months ended March 31, 2018, an increase of \$2.6 million or 5%. The increase in net revenue is primarily attributable to the Brazil subsidiary, which contributed \$2.1 million.

Domestic net revenues totaled \$18.7 million in the three months ended March 31, 2019, compared to \$18.4 million for the same period in 2018, an increase of 1.6%.

International net revenues totaled \$38.5 million for the three months ended March 31, 2019, compared to \$36.2 million for the same period in 2018, an increase of \$2.3 million or 6.3%. The increase in international net revenues was primarily due to the Brazilian operation, which added \$2.1 million.

**Cost of Revenues**

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 81.4% of its net revenues for the three months ended March 31, 2019, and 82.2% of its net revenues for the three months ended March 31, 2018.

Domestic cost of revenues was 74.8% of net revenues for the three months ended March 31, 2019, and 76.7% of net revenues for the three months ended March 31, 2018. The decrease in cost of revenues as a percentage of net revenues of 1.9 percentage points was due primarily to a shift in our labor platform in the latter part of 2018 and a favorable mix of project work compared to the same period last year. For the three months ended March 31, 2018, approximately 56% of the Company's domestic cost of revenues resulted from in-store merchandiser specialist, on-site assembly technician and field administration services, purchased from certain of the Company's affiliates, SBS, and SAS, respectively. (See Note 5 to the Company's Condensed Consolidated Financial Statements - *Related-Party Transactions*.)



## SPAR Group, Inc. and Subsidiaries

Internationally, the cost of revenues decreased to 84.6% of net revenues for the three months ended March 31, 2019, compared to 85.0% of net revenues for the three months ended March 31, 2018. The cost of revenue decrease of 0.4 percentage points was primarily due to margin improvement in Brazil operations.

### **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 \$8.4 million and \$8.5 million for the three months ended March 31, 2019 and 2018, respectively.

Domestic selling, general and administrative expenses totaled \$3.6 million and \$4.2 million for the three month periods ended March 31, 2019 and 2018, respectively.

International selling, general and administrative expenses totaled \$4.8 million and \$4.3 million for the three months ended March 31, 2019 and 2018, respectively.

### **Depreciation and Amortization**

Depreciation and amortization charges totaled \$508,000 for the three months ended March 31, 2019, and \$542,000 for the same period in 2018.

### **Interest Expense**

The Company's net interest expense was \$199,000 for both the three months ended March 31, 2019 and 2018.

### **Other Income**

Other income totaled \$65,000 for the three month period ended March 31, 2019, compared to \$72,000 for the same period last year.

### **Income Taxes**

Income tax expense was \$558,000 for the three months ended March 31, 2019, compared to \$178,000 for the three months ended March 31, 2018.

### **Non-controlling Interest**

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$422,000 and \$301,000 for the three months ended March 31, 2019 and 2018, respectively.

### **Net Income**

The Company reported net income of \$619,000 for the three months ended March 31, 2019, or \$0.03 per diluted share, compared to a net income of \$124,000, or \$0.01 per diluted share, for the corresponding period last year. The change is due primarily to increase in international operations.

## SPAR Group, Inc. and Subsidiaries

### Liquidity and Capital Resources

In the three months ended March 31, 2019, the Company had a net income before non-controlling interest of \$1,041,000.

Net cash provided by operating activities was \$538,000 for the three months ended March 31, 2019, compared to net cash used of \$617,000 for the three months ended March 31, 2018, respectively. The net cash provided by operating activities during the three months ended March 31, 2019, was primarily due to an increase in accounts payable and accrued expenses and other current liabilities partially offset by increases in accounts receivable and prepaid expenses.

Net cash used in investing activities was \$464,000 for the three months ended March 31, 2019, compared to net cash provided by investing activities of \$280,000 for the three months ended March 31, 2018. The net cash used in investing activities during the three months ended March 31, 2019, was due to fixed asset additions, primarily capitalized software.

Net cash used in financing activities for the three months ended March 31, 2019, was approximately \$244,000, compared to \$771,000 provided by financing activities for the three months ended March 31, 2018. Net cash used in financing activities during the three months ended March 31, 2019, was primarily due to net payments on lines of credit and term debt.

The above activity and the impact of foreign exchange rate changes resulted in a decrease in cash and cash equivalents for the three months ended March 31, 2019 of approximately \$21,000.

At March 31, 2019, the Company had net working capital of \$12.2 million, as compared to net working capital of \$12.6 million at December 31, 2018. The Company's current ratio was 1.3 at both March 31, 2019, and December 31, 2018.

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

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

### Item 4. Controls and Procedures

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

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

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

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

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

## SPAR Group, Inc. and Subsidiaries

### Changes in Internal Controls Over Financial Reporting

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

### PART II: OTHER INFORMATION

#### Item 1. Legal Proceedings

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

#### **RELATED PARTIES AND RELATED PARTY LITIGATION:**

SPAR Business Services, Inc., f/k/a SPAR Marketing Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. ("Infotech"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Transactions*, above. Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired), and Mr. Bartels was and continues to be Vice Chairman and a director and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP.

#### **Delaware Litigation Settlement**

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

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

## SPAR Group, Inc. and Subsidiaries

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

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

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

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

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

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

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

In the Settlement the parties agreed to amend and restate SGRP's By-Laws (the "2019 Restated By-Laws") with negotiated changes to the Proposed Amendments that preserve the current roles of the Governance Committee and Board in the location, evaluation, and selection of candidates for director and in the nominations of those candidates for the annual stockholders meeting and appointment of those candidates to fill Board vacancies (other than those under a stockholder written consent making a removal and appointment, which is unchanged). The Board approved and adopted the 2019 Restated By-Laws on January 18, 2018. The Governance Committee and the Board believe that those changes in the 2019 Restated By-Laws will help the Corporation maintain the independent Board desired by them.

## SPAR Group, Inc. and Subsidiaries

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

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

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

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

The Releases are limited to matters related to those actions described therein and subject to specific exclusions, and the parties expressly preserved all unrelated actions and claims. Accordingly, there remain a number of unresolved claims and actions (each a "Non-Settled Matter") between the Company and the following Related Parties (as defined below), including (without limitation), post termination claims by and against SPAR Business Services, Inc. (which is now in a voluntary bankruptcy proceeding in Nevada), and SPAR Administrative Services, Inc., the lawsuit by SPAR InfoTech, Inc., against the Company, and the Bartels Advancement Claim and the claim by Mr. Brown for a similar advancement (see *Advancement Claims*, below).

### *Advancement Claims*

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

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

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

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

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

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

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

On January 27, 2019, Mr. Brown sent a draft of his proposed Delaware litigation complaint in an email to Arthur Drogue, SGRP's Chairman, threatening to sue SGRP respecting the Brown Advancement Demand, which he repeated in an email to Mr. McCarthy on February 2, 2019. No such complaint has been filed by Mr. Brown through May 6, 2019, and SGRP continues to deny the Brown Advancement Demand.

### ***SBS Bankruptcy***

The Company received no services from SBS after the termination of SBS' services took effect. Furthermore, even though SBS was solely responsible for its operations, methods and legal compliance, SBS continues to claim that the Company is to reimburse SBS for its expenses in various cases and state proceedings. The Company anticipates that SBS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of their post-termination expense. The Company does not believe there is any basis for such claims and would defend them vigorously. See Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions – Domestic Transactions*, above.

On November 23, 2018, SBS petitioned for bankruptcy protection under chapter 11 of the United States Bankruptcy Code in the U.S. District for Nevada (the "SBS Chapter 11 Case"), so the pre-petition claims of SBS' creditors now must be made in the SBS Chapter 11 Case. On March 11, 2019, the Bankruptcy Court entered an order modifying the automatic stay in the SBS Chapter 11 Case to permit the plaintiffs in the Clothier Case to proceed with the second part of their case to determine damages in the same California Court that rendered the Clothier Determination. The Bankruptcy Court did not modify the automatic stay to permit collection of any resulting damage award from SBS absent further Bankruptcy Court order, and absent such further order, any damage award in Clothier Case will therefore have to be pursued against SBS in the SBS Chapter 11 Case.

On the advice of SGRP's bankruptcy counsel, management reported and the Audit Committee agreed that while SBS is in the SBS Chapter 11 Case; (a) SBS cannot legally pay the third-party pre-petition invoices and other emailed claims sent via email from SBS to the Company, which are non-priority claims (*i.e.*, claims that both are unsecured and lack administrative priority) payable in chapter 11 as part of the unsecured creditor claim pool (potentially pennies or less per dollar) without specific legal authorization or court order (including under a Bankruptcy Court approved reorganization plan, which is the usual mechanism for paying non-priority claims in a chapter 11 case); (b) any SGRP payment to SBS would likely be utilized to fund the SBS Chapter 11 Case and after that to pay the Clothier claims and other non-priority claimants; (c) SGRP and SMF non-priority claims against SBS (including, without limitation, reimbursement claims for funding the Affinity Security Deposits and field payment checks that would have otherwise bounced and indemnification for the Clothier settlement and legal costs) must be and have been asserted in the SBS Chapter 11 Case and can only be satisfied in that case only through a Court permitted setoff (potentially dollar-for-dollar), or from the unsecured creditor pool (potentially pennies or less per dollar); (d) any resolution of claims between SBS and SGRP sought (at this time) by SBS from the Bankruptcy Court requires such court's approval after notice to creditors (including the plaintiffs in the Clothier Case) and the U.S. Trustee, so finality can only be achieved in the SBS Chapter 11 Case; and (e) when SBS seeks payment through the Bankruptcy Court (whether for pre- or post-petition claims), SGRP has the right to defend them on the merits and to assert an offset for amounts owed to SMF and SGRP (potentially dollar-for-dollar).

## SPAR Group, Inc. and Subsidiaries

Accordingly, Management recommended and the Audit Committee agreed that it would be in the best interest of all stockholders: (i) to submit SGRP and SMF claims against SBS in the SBS Chapter 11 Case in order to preserve their value (including as an offset against SBS' claims), particularly since those claims against SBS exceed amounts potentially owed to SBS; (ii) not to voluntarily pay any SBS obligations directly to targeted SBS creditors, as such payments would reduce that offset value (potentially dollar-for-dollar), subvert the bankruptcy process and potentially expose SGRP and SMF to direct future liability (for example, liability for a lawsuit if SGRP voluntarily pays for its defense); and (iii) only to make payments to or on behalf of SBS to the extent proven and required in the SBS Chapter 11 Case or other court with jurisdiction over the dispute.

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

On March 18, 2019, the Company filed claims in the SBS Chapter 11 Case seeking reimbursement for \$378,838 for SMF's funding of the Affinity Security Deposits \$12,963 for SMF's funding of the field payment checks that would have otherwise bounced, \$1,839,459 for indemnification of SGRP for the Clothier settlement (see below) and legal costs, and an unspecified amount for indemnification of SGRP for the Hogan action (see below) and other yet to be discovered indemnified claims.

### ***Infotech Litigation Against SGRP***

On September 19, 2018, SGRP was served with a Summons and Complaint by SPAR InfoTech, Inc. ("Infotech"), an affiliate of SGRP that is owned principally by Robert G. Brown (one of the Majority Stockholders, a defendant in the By-Laws Action, and the plaintiff in the 225 Action) as plaintiff commencing a case against SGRP entitled SPAR InfoTech, Inc. v. SPAR Group, Inc., et al., Index no. 64452/2018 (Supreme Court, Westchester County) (the "Infotech Action"). The Infotech Action seeks payment from SGRP of approximately \$190,000 for alleged lost tax benefits and other expenses that it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and that were previously denied by both management and SGRP's Audit Committee (which had jurisdiction because Infotech is a related party).

In 2016, SGRP acquired SPAR Brasil Serviços de Merchandising e Tecnologia S.A. ("SPAR BSMT"), its Brazilian subsidiary, with the assistance of Robert G. Brown ("Mr. Brown"), who retired as Chairman and an officer and director on May 3, 2018, and his nephew, Peter W. Brown, who became a director on May 3, 2018. Mr. Brown used his private company, Infotech and undisclosed Irish companies to structure the acquisition for SGRP.

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

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

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

SGRP will vigorously contest the Infotech Action.

Infotech also is threatening to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech, for which the Company vigorously denies liability. Infotech has given a draft complaint to the Company.

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

The Company's merchandising, audit, assembly and other services for its domestic clients are performed by field merchandising, auditing, assembly and other field personnel (each a "Field Specialist") substantially all of whose services were provided to the Company prior to August 2018 by SBS, the Company's affiliate. SBS is not a subsidiary or in any way under the control of SGRP, SBS is not consolidated in the Company's financial statements, SGRP does not manage, direct or control SBS, and SGRP does not participate in or control the defense by SBS of any litigation against it. The Company terminated its relationship with SBS and received no services from SBS after July 27, 2018. For affiliation, termination, contractual details and payment amounts, see Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions - Domestic Related Party Services*, above.

The appropriateness of SBS' treatment of Field Specialists as independent contractors has been periodically subject to legal challenge (both currently and historically) by various states and others. SBS' expenses of defending those challenges and other proceedings have historically been reimbursed by the Company under SBS' Prior Agreement, and SBS' expenses of defending those challenges and other proceedings were reimbursed by the Company through the termination of the contract in July 2018, in the amount of \$50,000, after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company.

In March 2017, the Company advised SBS that, since there was no currently effective comprehensive written services agreement with SBS, the Company would continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis in its discretion, including the relative costs and benefits to the Company. See *Related Party Transactions - Domestic Related Party Services*, above. SBS has disputed the right of the Company and SGRP's Audit Committee to review and decide the appropriateness of the reimbursement of any of those related party defense and other expense reimbursements. As provided in SBS' Prior Agreement, the Company is not obligated or liable, and the Company has not otherwise agreed and does not currently intend, to reimburse SBS for any judgment or similar amount (including any damages, settlement, or related tax, penalty, or interest) in any legal challenge or other proceeding against or involving SBS, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts).

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



## SPAR Group, Inc. and Subsidiaries

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

Due to (among other things) the Clothier Determination and the ongoing proceedings against SBS, which could have had a material adverse effect on SBS' ability to provide future services needed by the Company, and the Company's identification of an independent third party company who would provide comparable services on substantially better terms, the Company terminated the services of SBS effective July 27, 2018, and the Company has engaged that independent third party company to provide the Field Specialist services formerly provided by SBS.

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

### *SBS Clothier Litigation*

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

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

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

Facing significant potential damages in the Clothier Case, SGRP chose, and on June 7, 2018, entered into mediation with the plaintiffs and plaintiff's counsel in the Clothier Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SGRP asked SBS to participate financially and provide its knowledge in that mediation, but SBS and its stockholders wanted SGRP to bear the full cost of any settlement and on several occasions they declined or failed to participate in that mediation. SGRP disagreed, insisting on the Majority Stockholders' and SBS' economic participation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, which is subject to court approval and not likely to become final until several months into 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of \$1.3 million, payable in four equal annual installments that commence 30 days after the settlement becomes final, and the Company will be released by plaintiff and the settlement class from all other liability under the Clothier Case (the "Clothier Settlement"). SBS did not participate in the Clothier Settlement and will not be released. The Company has recorded a \$1.3 million charge for the Clothier Settlement during 2018. On March 21, 2019, the court issued a tentative ruling preliminarily approving the Clothier settlement.

## SPAR Group, Inc. and Subsidiaries

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

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

### ***SGRP Hogan Litigation***

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

On March 12, 2018, the Court denied both defendants' Motion to Dismiss for failure to state a claim, denied the Motion to Compel Arbitration as to SGRP (because as drafted by SBS, the arbitration clause did not reference or protect SGRP), denied the Motion to Stay as to SGRP, and allowed the Motion to Stay as to SBS pending the outcome of the Supreme Court's decision in *Epic Systems Corp. v. Lewis*. In May 2018, the Supreme Court decided arbitration clauses that include an express waiver of a worker's right to bring or participate in a class action did not violate the National Labor Relations Act, which resulted in all SBS disputes (but not any SGRP disputes) being sent to arbitration. On April 24, 2018, SGRP filed a notice of appeal with the First Circuit of the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP. SGRP and Hogan agreed to stay the District Court litigation pending the First Circuit's decision on SGRP's appeal. Briefing on SGRP's appeal closed on August 8, 2018 and the appeal hearing was heard by the First Circuit on September 11, 2018. On January 25, 2019, the First Circuit issued a judgment affirming the District Court's decision that the arbitration clause (as written by SBS) did not protect SGRP and remanding the case back to the District Court for further proceedings. As a result, SGRP would have been required to go to trial without SBS.

Facing lengthy and costly litigation and significant potential damages in the Hogan Case, on March 27, 2019, SGRP entered into mediation with the plaintiffs and plaintiff's counsel in the Hogan Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SBS and its stockholders were no longer involved in that case and so were not involved in that mediation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, which is subject to court approval and not likely to become final until later in 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of \$250,000 (in three installments) one hundred eighty (180) days after the settlement becomes final, and the Company will be released by plaintiff and the settlement class from all other liability under the Hogan Case (the "Hogan Settlement"). The Company has recorded \$250,000 liability as a result of the settlement.

## SPAR Group, Inc. and Subsidiaries

### ***SBS and SGRP Litigation Generally***

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

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

#### ***Existing Risk Factors***

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

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

Not applicable.

### **Item 3. Defaults upon Senior Securities**

Not applicable.

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

Not applicable.

### **Item 5. Other Information**

Not applicable.

**SPAR Group, Inc. and Subsidiaries**

**Item 6. Exhibits**

- 31.1 [Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 31.2 [Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 32.1 [Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 32.2 [Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.](#)
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition
- 101.LAB XBRL Taxonomy Extension Labels
- 101.PRE XBRL Taxonomy Extension Presentation

**SPAR Group, Inc. and Subsidiaries**

**SIGNATURES**

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

Date: May 15, 2019

SPAR Group, Inc., Registrant

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

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

I, Christiaan M. Olivier, certify that:

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

Date: May 15, 2019

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

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

I, James R. Segreto, certify that:

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

Date: May 15, 2019

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

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

In connection with the quarterly report on Form 10-Q for the three-month period ended March 31, 2019 of SPAR Group, Inc., the undersigned hereby certifies that, to his knowledge:

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

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

May 15, 2019

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



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

In connection with the quarterly report on Form 10-Q for the three-month period ended March 31, 2019 of SPAR Group, Inc., the undersigned hereby certifies that, to his knowledge:

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

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

May 15, 2019

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