

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the second quarterly period ended **June 30, 2017**.

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 of Incorporation

33-0684451
IRS Employer Identification No.

333 Westchester Avenue, South Building, Suite 204, White Plains, New York 10604
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (914) 332-4100

Indicate by check 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 12 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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.

Large Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)

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

On August 9, 2017, there were 20,602,008 shares of Common Stock outstanding.

SPAR Group, Inc.

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PART I: FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

	June 30, 2017 (Unaudited)	December 31, 2016 (revised) (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,309	\$ 7,324
Accounts receivable, net	32,435	33,669
Prepaid expenses and other current assets	1,857	1,299
Total current assets	42,601	42,292
Property and equipment, net	2,487	2,536
Goodwill	1,836	1,847
Intangible assets, net	2,037	2,340
Deferred income taxes	4,869	4,694
Other assets	1,832	1,142
Total assets	<u>\$ 55,662</u>	<u>\$ 54,851</u>
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 5,696	\$ 5,567
Accrued expenses and other current liabilities	12,171	9,766
Due to affiliates	2,584	3,349
Customer incentives and deposits	1,528	1,305
Lines of credit and short-term loans	8,802	9,778
Total current liabilities	30,781	29,765
Long-term debt and other liabilities	40	4
Total liabilities	30,821	29,769
Commitments and Contingencies – See Note 9		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares– 2,445,598 Issued and outstanding shares– None – June 30, 2017 and December 31, 2016	–	–
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 20,680,717 – June 30, 2017 and December 31, 2016	207	207
Treasury stock, at cost 42,460 shares – June 30, 2017 and 37,877 shares – December 31, 2016	(51)	(51)
Additional paid-in capital	16,198	16,093
Accumulated other comprehensive loss	(2,021)	(2,407)
Retained earnings	5,999	5,835
Total SPAR Group, Inc. equity	20,332	19,677
Non-controlling interest	4,509	5,405
Total equity	24,841	25,082
Total liabilities and equity	<u>\$ 55,662</u>	<u>\$ 54,851</u>

(1) See Note 2 Correction of Prior Period Financial Statements.

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016 (revised) (1)	2017	2016 (revised) (1)
Net revenues	\$ 42,722	\$ 29,732	\$ 82,608	\$ 56,343
Cost of revenues	33,765	22,705	65,604	43,147
Gross profit	8,957	7,027	17,004	13,196
Selling, general and administrative expense	7,452	5,763	14,510	11,277
Depreciation and amortization	534	484	1,039	972
Operating income	971	780	1,455	947
Interest expense	54	31	7	60
Other (income), net	(135)	(80)	(197)	(105)
Income before income tax expense	1,052	829	1,645	992
Income tax expense	278	226	697	231
Net income	774	603	948	761
Net income attributable to non-controlling interest	(431)	(320)	(849)	(618)
Net income attributable to SPAR Group, Inc.	\$ 343	\$ 283	\$ 99	\$ 143
Basic and diluted income per common share:	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.01
Weighted average common shares – basic	20,647	20,569	20,648	20,566
Weighted average common shares – diluted	21,312	21,328	21,336	21,331
Net income	\$ 774	\$ 603	\$ 948	\$ 761
Other comprehensive income (loss):				
Foreign currency translation adjustments	578	(213)	742	(701)
Comprehensive income	1,352	390	1,690	60
Comprehensive (income) attributable to non-controlling interest	(689)	(173)	(1,205)	(156)
Comprehensive income (loss) attributable to SPAR Group, Inc.	\$ 663	\$ 217	\$ 485	\$ (96)

(1) See Note 2 Correction of Prior Period Financial Statements.

See accompanying notes.

SPAR Group, Inc. and Subsidiaries
Consolidated Statement of Equity
(unaudited) (revised) (1)
(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, 2017	20,681	\$ 207	38	\$ (51)	\$ 16,093	\$ (2,407)	\$ 5,835	\$ 5,405	\$ 25,082
Share-based compensation	–	–	–	–	130	–	–	–	130
Purchase of treasury shares	–	–	30	(32)	–	–	–	–	(32)
Reissued treasury shares – RSU's	–	–	(4)	5	(5)	–	–	–	–
Exercise of stock options	–	–	(21)	27	(20)	–	–	–	7
Distributions to non- controlling investors	–	–	–	–	–	–	–	(2,101)	(2,101)
Adoption of ASU 2016-09 (Note 12)	–	–	–	–	–	–	65	–	65
Other comprehensive income	–	–	–	–	–	386	–	356	742
Net income	–	–	–	–	–	–	99	849	948
Balance at June 30, 2017	20,681	\$ 207	43	\$ (51)	\$ 16,198	\$ (2,021)	\$ 5,999	\$ 4,509	\$ 24,841

(1) See Note 2 Correction of Prior Period Financial Statements.

See accompanying notes.

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

	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net income	\$ 948	\$ 761
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,039	972
Bad debt expense, net of recoveries	68	21
Share based compensation	130	183
Changes in operating assets and liabilities:		
Accounts receivable	1,062	(578)
Prepaid expenses and other assets	(1,283)	(1,639)
Accounts payable	156	429
Accrued expenses, other current liabilities and customer incentives and deposits	1,743	297
Net cash provided by operating activities	<u>3,863</u>	<u>446</u>
Investing activities		
Purchases of property and equipment and capitalized software	(640)	(732)
Net cash used in investing activities	<u>(640)</u>	<u>(732)</u>
Financing activities		
Net (payments) borrowing on lines of credit	(608)	635
Proceeds from stock options exercised	7	3
Payments on term debt	(289)	(14)
Payments on capital lease obligations	(7)	–
Purchase of treasury shares	(32)	–
Distribution to non-controlling investors	(2,101)	(286)
Net cash (used in) provided by financing activities	<u>(3,030)</u>	<u>338</u>
Effect of foreign exchange rate changes on cash	792	(743)
Net change in cash and cash equivalents	985	(691)
Cash and cash equivalents at beginning of year	7,324	5,718
Cash and cash equivalents at end of period	<u>\$ 8,309</u>	<u>\$ 5,027</u>
Supplemental disclosure of cash flows information		
Interest paid	\$ 128	\$ 67
Income taxes paid	\$ 198	\$ 123
Increase in deferred tax asset due to adoption of ASU 2016-09 (Note 12)	\$ 65	\$ –

See accompanying notes.

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

In connection with the preparation of the Company's consolidated financial statements for the three months ended March 31, 2017, the Company identified an error in the recognition of accumulated other comprehensive loss both in the equity section of the consolidated balance sheet, consolidated statement of equity and the comprehensive loss portion of the consolidated statement of income and comprehensive loss. In accordance with Staff Accounting Bulletin ("SAB") No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company evaluated the error and determined that the related impact was not material to the results of operations or financial position for any prior annual or interim period. The correction of this error required reclassification of \$1.6 million between comprehensive loss attributable to the Company and comprehensive loss attributable to non-controlling interest for the year ended December 31, 2016. Accordingly, the Company corrected the consolidated balance sheet and consolidated statement of income and comprehensive loss as of and for the year ended December 31, 2016 and will correct these errors for all prior periods presented by revising the appropriate consolidated financial statements. The impact to the consolidated balance sheet as of December 31, 2016 and the consolidated statements of income and comprehensive loss for the three and six months ended June 30, 2016, the three and nine months ended September 30, 2016, and the year ended December 31, 2016 is as follows:

1. Basis of Presentation

The unaudited, interim consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group"), accompanying this Quarterly Report on Form 10-Q for the second quarter ended June 30, 2017 (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, 2016 has been compiled 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 for the year ended December 31, 2016, as filed with the Securities and Exchange Commission (the "SEC") on April 17, 2017 (the "2016 Annual Report"), and SGRP's Proxy Statement for its 2017 Annual Meeting of Stockholders as filed with the SEC on April 28, 2017 (the "2017 Proxy Statement"). Particular attention should be given to Items 1 and 1A of the 2016 Annual Report respecting the Company's Business and Risk Factors, respectively, and the following parts of SGRP's 2017 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.

2. Correction of Prior Period Financial Statements

In connection with the preparation of the Company's consolidated financial statements for the three months ended March 31, 2017, the Company identified an error in the recognition of accumulated other comprehensive loss both in the equity section of the consolidated balance sheet, consolidated statement of equity and the comprehensive loss portion of the consolidated statement of income and comprehensive loss. In accordance with Staff Accounting Bulletin ("SAB") No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company evaluated the error and determined that the related impact was not material to the results of operations or financial position for any prior annual or interim period. The correction of this error required reclassification of \$1.6 million between comprehensive loss attributable to the Company and comprehensive loss attributable to non-controlling interest for the year ended December 31, 2016. Accordingly, the Company corrected the consolidated balance sheet and consolidated statement of income and comprehensive loss as of and for the year ended December 31, 2016 and will correct these errors for all prior periods presented by revising the appropriate consolidated financial statements. The impact to the consolidated balance sheet as of December 31, 2016 and the consolidated statements of income and comprehensive loss for the three and six months ended June 30, 2016, the three and nine months ended September 30, 2016, and the year ended December 31, 2016 is as follows:

Consolidated Balance Sheets (in thousands):

	As Reported	As of June 30, 2016 Adjusted	As Revised
Accumulated other comprehensive loss	\$ (3,570)	\$ 1,479	\$ (2,091)
Total SPAR Group, Inc. equity	\$ 18,330	\$ 1,479	\$ 19,809
Non-controlling interest	\$ 6,028	\$ (1,479)	\$ 4,549

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

	As of September 30, 2016			As of December 31, 2016		
	As Reported	Adjusted	As Revised	As Reported	Adjusted	As Revised
Accumulated other comprehensive loss	\$ (3,364)	\$ 1,373	\$ (1,991)	\$ (3,995)	\$ 1,588	\$ (2,407)
Total SPAR Group, Inc. equity	\$ 18,572	\$ 1,373	\$ 19,945	\$ 18,089	\$ 1,588	\$ 19,677
Non-controlling interest	\$ 6,574	\$ (1,373)	\$ 5,201	\$ 6,993	\$ (1,588)	\$ 5,405

Consolidated Statement of Income and Comprehensive Loss (in thousands):

	Three months ended June 30, 2016			Six months ended June 30, 2016		
	As Reported	Adjusted	As Revised	As Reported	Adjusted	As Revised
Comprehensive income attributable to non-controlling interest	\$ (320)	\$ 147	\$ (173)	\$ (618)	\$ 462	\$ (156)
Comprehensive loss attributable to SPAR Group, Inc.	\$ 70	\$ 147	\$ 217	\$ (558)	\$ 462	\$ (96)

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	As Reported	Adjusted	As Revised	As Reported	Adjusted	As Revised
Comprehensive income attributable to non-controlling interest	\$ (546)	\$ (105)	\$ (651)	\$ (1,164)	\$ 357	\$ (807)
Comprehensive loss attributable to SPAR Group, Inc.	\$ 147	\$ (105)	\$ 42	\$ (411)	\$ 357	\$ (54)

	Twelve months ended December 31, 2016		
	As Reported	Adjusted	As Revised
Comprehensive income attributable to non-controlling interest	\$ (1,583)	\$ 572	\$ (1,011)
Comprehensive loss attributable to SPAR Group, Inc.	\$ (953)	\$ 572	\$ (381)

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

3. 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, toy, home improvement and electronics stores, as well as providing furniture and other product assembly services, audit services, in-store events, technology services and marketing research.

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

As of June 30, 2017, 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.

4. Earnings Per Share

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Numerator:				
Net income attributable to SPAR Group, Inc.	\$ 343	\$ 283	\$ 99	\$ 143
Denominator:				
Weighted average shares used in basic net income per share calculation	20,647	20,569	20,648	20,566
Weighted average shares used in diluted net income per share calculation	21,312	21,328	21,336	21,331
Basic and diluted net income per common share	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.01

5. Credit Facilities

Sterling Credit Facility:

SGRP and certain of its US and Canadian subsidiaries (namely SPAR Marketing Force, Inc., SPAR Assembly & Installation, Inc. (F/K/A SPAR National Assembly Services, Inc.), SPAR Group International, Inc., SPAR Trademarks, Inc., SPAR Acquisition, Inc., SPAR Canada, Inc.), and SPAR Canada Company ("SCC") (together with SGRP and SCC, each a "Borrower") are parties to a Revolving Loan and Security Agreement dated July 6, 2010, as amended in June 2011, July 2012, January 2013, July 2013, October 2013, June 2014, September 2015, December 2016, March 2017, April 2017 and June 2017 (as amended, the "Sterling Loan Agreement"), with Sterling National Bank (the "Lender"), and their Secured Revolving Loan Note in the amended maximum principal amounts of \$9.0 million (see below) to the Lender (as amended by all loan amendments, the "Sterling Note"), to document and govern their credit facility with the Lender (including such agreement and note, the "Sterling Credit Facility"). The Sterling Credit Facility currently is scheduled to expire and the Borrowers' loans thereunder will become due on September 6, 2017.

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

The Sterling Loan Agreement currently requires the Borrowers to pay interest on the loans thereunder equal to the Agent's floating Prime Rate (as defined in such agreement) plus one half of one percent (1/2%) per annum, and a fee on the maximum unused line thereunder equal to one-eighth of one percent (0.125%) per annum.

Revolving Loans of up to \$9.0 million are available to the Borrowers under the Sterling Credit Facility based upon the borrowing base formula defined in the Sterling Loan Agreement (principally 85% of "eligible" US and Canadian accounts receivable less certain reserves). The Sterling Credit Facility is secured by substantially all of the assets of the Borrowers (other than SGRP's non-Canadian foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

The amendment to the Sterling Loan Agreement dated as of December 22, 2016, among other things, increased the maximum principal amount of the Secured Revolving Loan Note to \$9.0 million until January 31, 2017 and increased the interest rate to Prime plus one half of one percent. The amendment to the Sterling Loan Agreement dated as of March 3, 2017, among other things, extended the Secured Revolving Loan Note of \$9.0 million until July 6, 2017 and the amendment dated as of April 13, 2017, among other things, provided for a waiver of the Company's default on its Fixed Charge Ratio ("FCR") for the year ended December 31, 2016 and provided for an adjustment to its FCR for 2017. The June 27, 2017 amendment to the Sterling Loan Agreement extended the termination date to September 6, 2017.

The Sterling Loan Agreement requires the Borrowers to maintain certain financial covenants, including maintenance by the Borrowers of a minimum combined tangible net worth of \$7.4 million and minimum consolidated tangible net worth of \$10.0 million, with those figures increasing by at least 50% of combined and consolidated net profit each year, respectively. In addition, the Borrowers and the Company must not exceed a maximum combined indebtedness to tangible net worth ratio of 3.0 to 1.0, and the Borrowers must maintain a minimum fixed charge coverage ratio of 1.5 to 1.0. Also, capital expenditures for the Borrowers cannot exceed \$2.0 million during any fiscal year, and, on a consolidated basis, the Company's year-end operations may not result in a loss or deficit, as determined in accordance with GAAP. The Company was in compliance with its financial covenants at June 30, 2017.

International Credit Facilities:

SPARFACTS Australia Pty. Ltd. has a secured line of credit facility with Oxford Funding Pty Ltd. for \$1.2 million (Australian) or approximately \$922,000 USD (based upon the exchange rate at June 30, 2017). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The agreement technically expired on October 31, 2012, but is being extended from month to month at the Company's request. The outstanding balance as of June 30, 2017 was \$298,000 USD.

On March 7, 2011, the Japanese subsidiary, SPAR FM Japan, Inc., a wholly owned subsidiary, secured a term loan with Mizuho Bank in the amount of 20.0 million Yen (Japanese), or approximately \$178,000 USD. The loan is payable in monthly installments of 238,000 Yen or approximately \$2,100 USD at an interest rate of 0.1% per annum with a maturity date of February 28, 2018. The outstanding balance at June 30, 2017, was approximately 2.2 million Yen or \$19,000 USD (based upon the exchange rate at June 30, 2017), all of which is now classified as short term.

On November 29, 2016, SPAR Brazil established a line of credit with Itau Bank for 1.5 million Brazilian Real or approximately \$454,000 USD (based upon the exchange rate at June 30, 2017). The line of credit expires November 29, 2017, and the current interest rate is 2.08% per month. The outstanding balance at June 30, 2017 was zero.

On December 26, 2016, SPAR Brazil secured a term loan with Bradesco Bank for 2.0 million Brazilian Real or approximately \$605,000 USD (based upon the exchange rate at June 30, 2017). The term loan is payable in monthly installments of 184,000 Brazilian Real or approximately \$56,000 USD at an annual interest rate of 17.3% with a maturity date of December 15, 2017. As of June 30, 2017, 878,000 Brazilian Real or \$266,000 USD was outstanding (based upon the exchange rate at June 30, 2017).

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 \$277,000 USD (based upon the exchange rate at June 30, 2017). The revolving line of credit was secured on March 15, 2016 and expires March 2018. The variable interest rate is TIE (Interbank Interest Rate) +4% which resulted in an annual interest rate of 11.5% at the end of June 2017. The outstanding balance at June 30, 2017 was \$119,000.

The Company had scheduled future maturities of loans as of June 30, 2017, approximately as follows (dollars in thousands):

	Interest Rate as of June 30, 2017	2017	2018
USA - Sterling National Bank	4.8%	\$ 8,100	\$ -
Japan - Mizuho Bank	0.1%	13	6
Australia - Oxford Funding Pty Ltd.	6.4%	298	-
Brazil - Bradesco Bank	17.3%	266	-
Mexico - BBA Bancomer	11.5%	119	-
Total		<u>\$ 8,796</u>	<u>\$ 6</u>

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

	June 30, 2017	December 31, 2016
<u>Unused Availability:</u>		
United States	\$ 662	\$ 500
Australia	624	688
Mexico	158	241
Brazil	454	-
Total Unused Availability	<u>\$ 1,898</u>	<u>\$ 1,429</u>

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

6. Related-Party Transactions

SGRP's policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Senior Executives and Employees Amended and Restated (as of) August 13, 2015 (the "Ethics Code"). The Ethics Code is intended to promote and reward honest, ethical, respectful and professional conduct by each 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 and collusion and Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from engaging in any business activity that conflicts with his or her duties to the Company, and directs each "Covered Person" to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any "Approved Activity" (as such terms are defined in the Ethics Code). 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.

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

SGRP's Audit Committee has the specific duty and responsibility to review and approve the overall fairness of all material related-party transactions. The Audit Committee receives 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, Inc. ("Nasdaq"), and other applicable law to ensure that the overall economic and other terms will be (or continue to be) no less favorable to the Company than would be the case in an arms-length contract with an unrelated provider of similar services (i.e., its overall fairness to the Company including pricing and the ability to provide services at comparable performance levels). The Audit Committee periodically reviews all related party relationships and transactions described below.

In addition, in order to (among other things) assist the Board and the Audit Committee in connection with an overall review of the Company's related party transactions and certain worker classification-related litigation matters, in April 2017 the Board formed a special subcommittee of the Audit Committee (the "Special Subcommittee") to (among other things) review the structure, documentation, fairness, conflicts, fidelity, appropriateness, and practices respecting each of the relationships and transactions discussed in this Note 6 (including those described in this Note under *Domestic Related Party Services*, below). The Special Subcommittee commenced that review in the first quarter of 2017 with the assistance of special auditors and counsel and is currently reviewing the preliminary results of such review, including the feedback received from its special auditors and counsel. The Company is currently unable to predict the remaining duration and final results of this review by the Special Subcommittee. See Note 9 to the Company's Consolidated Financial Statements – *Commitments and Contingencies – Legal Matters*, below.

Domestic Related Party Services:

SPAR Business Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. ("SIT"), are affiliates of SGRP but are not under the control or part of the consolidated Company. Mr. Robert G. Brown, a Director, Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, Vice Chairman and a major stockholder of SGRP, are the sole stockholders of SBS. Mr. Brown is the sole stockholder of SIT. Mr. Brown is a director and officer of SBS and SIT. Mr. Bartels is a director and officer of SAS. The stockholders of SAS were Mr. Bartels and previously Mr. Brown, and as of January 1, 2015, Mr. Brown transferred all of his ownership to parties related to Mr. Brown, each of whom is considered an affiliate of the Company for related party purposes because of their family relationships with Mr. Brown.

The Company executes the services it provides to its domestic clients primarily through independent field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), substantially all of whom are provided by SBS, and administers those services through local and regional administrators, substantially all of whom are provided by SAS. The Company paid \$12.8 million and \$10.3 million during the six months ended June 30, 2017 and 2016, respectively, to SBS for its provision as needed of approximately 5,230 of SBS's available Field Specialists in the U.S.A. (which amounted to approximately 81% and 80% of the Company's total domestic Field Specialist expense for the six months ended June 30, 2017 and 2016, respectively). The Company paid \$2.1 million for both the six months ended June 30, 2017 and 2016, to SAS for its provision of its 56 and 50 full-time regional and district administrators as of June 30, 2017 and 2016, respectively (which amounted to approximately 90% and 92% of the Company's total domestic field administrative service cost for the six months ended June 30, 2017 and 2016). In addition to these field service and administration expenses, SAS also incurs other administrative expenses related to benefit and employment tax expenses of SAS and payroll processing, legal and other administrative expenses and SBS incurs expenses for processing vendor payments, legal defense and other administrative expenses (but those expenses are only reimbursed by SGRP to the extent approved by the Company as described below). The total cost recorded by the Company for the expenses of SBS and SAS in providing their services to the Company, including the "Cost Plus Fee" arrangement (as defined and discussed below) and other expenses paid directly by the Company on behalf of and invoiced to SBS and SAS, was \$14.9 and \$12.5 million, for the six months ended June 30, 2017 and 2016, respectively.

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

The terms of the Amended and Restated Field Service Agreement with SBS dated as of January 1, 2004, as amended in 2011, and the Amended and Restated Field Management Agreement with SAS dated as of January 1, 2004 (each a "Prior Agreement"), defined reimbursable expenses and established a "Cost Plus Fee" arrangement where the Company paid SBS and SAS for their costs of providing those services plus a fixed percentage of such reimbursable expenses (the "Cost Plus Fee"). The parties have had negotiations respecting replacement agreements since the Prior Agreements expired on November 30, 2014. As further described below, a new Field Administration Agreement was entered into with SAS in 2016.

The Company and SBS have agreed in principle to a revised Cost Plus Fee arrangement equal to 2.96% of the Field Specialists and certain other approved reimbursable expenses incurred by SBS in performing services for the Company, subject to certain offsetting credits. This agreement in principle went into effect on and has applied since December 1, 2014. A new SBS agreement is being prepared, which will be subject to contractual terms and provisions acceptable to the parties, but the documentation is proceeding slowly because the parties have failed (among other things) to agree on the descriptions and extent of the approval processes for reimbursable expenses.

No SBS compensation to any officer, director or other related party has been reimbursed or approved to date by the Company, and no such compensation reimbursements were made or approved under SBS's Prior Agreement. This is not a restriction on SBS since SBS is not controlled by the Company and may pay any compensation to any person that SBS desires out of its own funds. However, SBS has attempted to invoice the Company monthly for certain such compensation payments from July of 2015 through December 2016, but the Company has rejected those invoices as non-reimbursable expenses. Since SBS is a "Subchapter S" corporation, all income from SBS is allocated to its stockholders (see above).

The Company has determined that the rates charged by SBS for the services of its field merchandising, auditing, assembly and other field personnel (each a "Field Specialist") are favorable to the Company when compared to other possible non-affiliate providers. SBS has advised the Company that those favorable rates are dependent (at least in part) on SBS's ability to continue to use independent contractors as its Field Specialists, that such Field Specialists generally provide greater flexibility and performance quality at lower total costs as a result of their business independence and initiative, and that it has an agreement with each Field Specialist clearly confirming his, her, or its status as an independent contractor.

The appropriateness of SBS's treatment of its Field Specialists as independent contractors has 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 have 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 six months ended June 30, 2017 and 2016 (in the amounts of \$179,000 and \$443,000, respectively), after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company. The Company has advised SBS that, since there is no currently effective comprehensive written services agreement with SBS, the Company will continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis, including the relative costs and benefits to the Company. The Company has not agreed, and does not currently intend, to reimburse SBS for any judgment, settlement, or related tax, penalty, or interest in any legal challenge or other proceeding, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts). However, there are no assurances that SBS or someone else will not claim, or that SBS will be able to successfully defend any claim, that the Company is liable (through reimbursement, indemnification or otherwise) for any judgment against SBS. Furthermore, there can be no assurance that SBS will succeed in defending any such legal challenge, the legal expenses of prolonged litigation and appeals could continue to be (and have from time to time been) significant, and any adverse determination in any such challenge could have a material adverse effect on SBS's ability to provide services needed by the Company and the Company's costs of doing business.

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

Current material and potentially material proceedings against SBS and, in one instance, the Company are described in Note 9 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.

Any prolonged continuation of or material increase in the legal defense costs of SBS (and thus the reimbursable expenses SBS may charge to and that may be paid by the Company), any claim by SBS, SAS, any related party or any third party that the Company is somehow liable for any judgment against SBS or SAS, any judicial determination that the Company is somehow liable for any judgment against SBS or SAS (in whole or in part), any decrease in SBS's or SAS's performance (quality or otherwise), any inability by SBS or SAS to execute the services for the Company, or any increase in the Company's use of employees (rather than independent contractors) as its domestic Field Specialists, 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, 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.

On June 14, 2016, SAS and SMF entered into a new Field Administration Agreement (the "SAS Agreement"). In order to provide continuity with SAS's Prior Agreement, the SAS Agreement is effective and governs the relationship of the parties as of December 1, 2014, and amends, restates and completely replaces SAS's Prior Agreement. The SAS Agreement more clearly defines reimbursable and excluded expenses and the budget and approval procedures and continues the indemnifications and releases provided by SAS's Prior Agreement (which indemnifications and releases were and are comparable to those applicable to SGRP's directors and executive officers under its By-Laws and applicable law). Specifically, the SAS Agreement reduced the Cost Plus Fee from 4% to 2% effective as of June 1, 2016.

SGRP's Audit Committee has approved the SAS Agreement pursuant to its specific duty and responsibility to review and approve the overall fairness of all material related-party transactions, as more fully provided above in this Note 6 to the Company's Consolidated Financial Statements.

No unbudgeted SAS compensation to any officer, director or other related party has been reimbursed or approved to date by the Company, and no such compensation reimbursements were made or approved under SAS's Prior Agreement. This is not a restriction on SAS since SAS is not controlled by the Company and may pay 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).

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 consolidated with the Company.

International Related Party Services:

SGRP Meridian (Pty), Ltd. ("Meridian") is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by the following individuals: Mr. Brian Mason, Mr. Garry Bristow, and Mr. Adrian Wingfield. 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, Mr. Bristow and Mr. Wingfield are all officers and own 46.7%, 20% and 33.3%, respectively of Merhold Holding Trust ("MHT") which provides services similar to those provided by MPT. MPT owns the building where Meridian is headquartered and also owns 2 vehicles both of which are subleased to Meridian. MCPT provides a fleet of 126 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 Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited) (continued)

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 for the three and six month periods ended June 30, 2017 and 2016.

In August 2016, Mr. Juan F. Medina Domenzain ("JFMD"), partner in SPAR Todopromo, purchased the warehouse that was being leased by SPAR Todopromo. A new lease expiring December 31, 2017, was entered into with SPAR Todopromo with the same terms and cost as with the previous owner.

On September 8, 2016, the Company (through one of its subsidiaries, SPAR International Ltd.) acquired 100% ownership of SGRP Brasil Participações Ltda. ("SGRP Holdings"), a Brazilian limitada (which is a form of limited liability company), from its affiliate, SIT, at cost (including approved expenses). See *Related Party Transactions and Arrangements in the Brazil Acquisition* in this Note, below. 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"). PWB is an officer and employee of the Company's affiliate, SIT, which is owned by SGRP's Chairman, Mr. Robert G. Brown, and is also an employee of the Company's affiliate, SAS. PWB was an official observer at the meetings of SGRP's Board from 2014 through December 2016, and PWB also is the nephew of Mr. Robert G. Brown. PWB also is a director of SPAR BSMT. 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 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's company, Karla Martins Sociedade de Advogados ("KMSA").

The NM Acquisition (as defined below in Note 11 to the Company's Consolidated Financial Statement - *Purchase of Interest in Subsidiaries*) and associated related party transactions were reviewed and approved by the Audit Committee of SGRP's Board of Directors.

The Company believes it is the largest and most important customer of SBS, SAS, NRS, MPT, MCPT, MHT, CON, JFMD and KMSA (and from time to time may be each entity's only customer), and accordingly the Company generally has been able to negotiate better terms, receives more personal and responsive service and is more likely to receive credits and other financial accommodations from SBS, SAS, NRS, MPT, MCPT, MHT, CON, JFMD and KMSA than the Company could reasonably expect to receive from an unrelated service provider who has significant other customers and business. SBS, SAS and other material affiliate contracts and arrangements are annually reviewed and considered for approval by SGRP's Audit Committee, subject to the ongoing negotiations with SBS as described above.

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

Summary of Related Party Services:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Services provided by affiliates:				
Field merchandiser and other expenses (SBS)	\$ 6,929	\$ 5,390	\$ 12,805	\$ 10,337
Field administration and other expenses (SAS)	1,055	989	2,129	2,127
Office and vehicle rental expenses (MPT)	16	12	32	24
Vehicle rental expenses (MCPT)	296	194	600	373
Office and vehicle rental expenses (MHT)	42	26	83	51
Consulting and administrative services (CON)	57	83	153	167
Legal Services (KMSA)	23	-	46	-
Warehousing rental (JFMD)	12	-	23	-
Total services provided by affiliates	\$ 8,430	\$ 6,694	\$ 15,871	\$ 13,079

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

	June 30, 2017	December 31, 2016
Loans from local investors:(1)		
Australia	\$ 246	\$ 231
Mexico	1,001	1,001
Brazil	139	139
China	303	761
NMS LLC	-	348
Accrued Expenses due to affiliates:		
SBS/SAS	895	869
Total due to affiliates	\$ 2,584	\$ 3,349

(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.

Other Related Party Transactions and Arrangements

In July 1999, SPAR Marketing Force, Inc. ("SMF"), SBS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and had the right to unilaterally license and exploit their "Business Manager" Internet job scheduling software (which had been jointly developed by such parties), and all related improvements, revisions, developments and documentation from time to time voluntarily made or procured by any of them at its own expense. Business Manager and its other proprietary software and applications are used by the Company for (among other things) the scheduling, tracking, coordination and reporting of its merchandising and marketing services and are accessible via the Internet or other applicable telecommunication network by the authorized representatives of the Company and its clients through their respective computers and mobile devices. In addition, SPAR Trademarks, Inc., a wholly owned subsidiary of SGRP ("STM"), SBS and SIT entered into separate perpetual trademark licensing agreements whereby STM has granted non-exclusive royalty-free licenses to SIT and SBS (and through them to their commonly controlled subsidiaries and affiliates by sublicenses, including SAS) for their continued use of the name "SPAR" and certain other trademarks and related rights of STM. SBS and SAS provide services to the Company, as described above, SIT assisted in the Brazilian acquisition at a cost to the Company of \$49,000, as described below, and SIT no longer provides services to and does not compete with the Company.

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

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

In addition to the above, SAS purchases insurance coverage for worker compensation, casualty and property insurance risk for itself, for SBS for its Field Specialists that require such insurance coverage, and for the Company from Affinity Insurance, Ltd. ("Affinity"). SAS owns a minority (less than 1%) of the common stock in Affinity. The Affinity insurance premiums for such coverage are ultimately charged to SAS (and through SAS to the Company), SBS (and through SBS to its covered Field Specialists) and the Company based on the contractual arrangements of the parties.

7. Preferred Stock

SGRP's certificate of incorporation authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. The Company issued 554,402 of SGRP shares to affiliated retirement plans which were all converted into common shares in 2011 (including dividends earned thereon), leaving 2,445,598 shares of remaining authorized preferred stock. At June 30, 2017, no shares of SGRP Series A Preferred Stock were issued and outstanding.

8. Stock-Based Compensation and Other Plans

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. As of June 30, 2017, approximately 1,378,000 SGRP shares were available for Award grants under the amended 2008 Plan. In the second quarter, there were 70,000 options awarded to officers and certain employees and 40,000 options were awarded to the outside directors of SPAR Group, Inc.

The Company recognized \$63,000 and \$70,000 in stock-based compensation expense relating to stock option awards during the three month periods ended June 30, 2017 and 2016, respectively. The tax benefit available from stock based compensation expense related to stock option during the three months ended June 30, 2017 and 2016 was approximately \$12,000 and \$27,000 respectively. The Company recognized \$109,000 and \$151,000 in stock-based compensation expense relating to stock option Awards during the six month periods ended June 30, 2017 and 2016, respectively. The tax benefit, available to the Company, from stock based compensation expense related to stock options during the six months ended June 30, 2017 and 2016 was approximately \$41,000 and \$57,000, respectively. However, since the Company has NOL's available for the next several years, these tax benefits have not been realized as of this report. As of June 30, 2017, total unrecognized stock-based compensation expense related to stock options was \$193,000.

SPAR Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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During the three months ended June 30, 2017 and 2016, the Company recognized approximately \$12,000 and \$18,000, respectively of stock based compensation expense related to restricted stock. The tax benefit available to the Company from stock based compensation expense related to restricted stock during the three months ended June 30, 2017 and 2016 was approximately \$5,000 and \$7,000, respectively. During the six months ended June 30, 2017 and 2016, the Company recognized approximately \$21,000 and \$32,000, 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 six months ended June 30, 2017 and 2016 was approximately \$7,900 and \$11,400, respectively. However, since the Company has NOL's available for the next several years, these tax benefits have not been realized as of this report. As of June 30, 2017, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was \$35,000.

9. 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, disposition of these matters are not anticipated to have a material adverse effect on the Company or its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

The Company executes the services it provides to its domestic clients primarily through independent field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), almost all of whom are engaged and provided as independent contractors by SBS. For contractual details and payment amounts, see Note 6 to the Company's Consolidated Financial Statements – *Related Party Transactions – Domestic Related Party Services*, above.

The appropriateness of SBS's treatment of its Field Specialists as independent contractors has 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 have 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 during the three month periods ended June 30, 2017 and 2016 (in the amounts of \$93,000 and \$89,000, respectively), and the six month periods ended June 30, 2017 and 2016 (in the amounts of \$179,000 and \$443,000, respectively), after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company. The Company has advised SBS that, since there is no currently effective comprehensive written services agreement with SBS, the Company will continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis, including the relative costs and benefits to the Company. The Company has not agreed, and does not currently intend, to reimburse SBS for any judgment, settlement, or related tax, penalty, or interest in any legal challenge or other proceeding, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts). However, there are no assurances that SBS or someone else will not claim, or that SBS will be able to successfully defend any claim, that the Company is liable (through reimbursement, indemnification or otherwise) for any judgment against SBS. Furthermore, there can be no assurance that SBS will succeed in defending any such legal challenge, the legal expenses of prolonged litigation and appeals could continue to be (and have from time to time been) significant, and any adverse determination in any such challenge could have a material adverse effect on SBS's ability to provide services needed by the Company and the Company's costs of doing business.

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" 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, 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 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 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 subsequently dismissed from the action without prejudice. 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 as independent contractors rather than employees. The parties have now moved into phase two to determine damages (if any). No trial date for phase two has been set and the parties are currently engaged in discovery as to the measure of damages in this case. SBS has advised the Company that SBS will appeal the adverse phase one determination when permitted under the court's rules.

SBS Rodgers Litigation

Maceo Rodgers was engaged by and provided services to SBS pursuant to the terms of his "Master Agreements" with SBS acknowledging his engagement as an independent contractor. On February 21, 2014, Rodgers filed suit against SBS, Robert G. Brown and William H. Bartels, styled Civil Action No. 3:14-CV-00055, in the U.S. District Court for the Southern District of Texas (Galveston Division). Plaintiff asserted claims on behalf of himself and an alleged class of similarly situated individuals who provided services to SBS as independent contractors at any time on or after July 15, 2012, claiming they all were misclassified as independent contractors and that, as a result of this misclassification, the Defendants improperly underpaid them in violation of the Fair Labor Standards Act's overtime and minimum wage provisions. Although the Court conditionally certified the class on December 8, 2015, only 61 individuals joined the action as opt-in plaintiffs, and all but 11 of them have potentially disqualifying arbitration provisions, residences outside the class's geographic area, or late opt-in filings, and are being challenged by the Defendants in various pending motions, including a motion to decertify the class.

SBS and SGRP Hogan Litigation

Paradise Hogan was engaged by and provided services to SBS as an independent contractor pursuant to the terms of an "Independent Contractor Master Agreement" with SBS acknowledging his engagement as an independent contractor. On January 6, 2017, Hogan filed suit against SBS and SPAR Group, Inc. ("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. Plaintiff's counsel subsequently notified SGRP's attorney of their intent to amend their Complaint without prejudice. The Amended Complaint, which was filed on May 2, 2017, eliminated all of Plaintiff's claims except for a single claim against SGRP for failure to pay Hogan and a similarly situated class of Massachusetts independent contractors all wages under the Massachusetts Wage Act and a separate, but identical claim against SBS. The result of the amendment significantly narrowed the scope of the litigation and eliminated the original nationwide Fair Labor Standards Act claims. The Company was granted leave to refile their motion to compel arbitration to dismiss Hogan's case pending arbitration, and to dismiss Hogan's case for failure to state a specific claim upon which relief could be granted. The Company's motion was filed on June 7, 2017, Plaintiff's opposition to the Company's motion was filed on June 21, 2017 and the Company thereafter filed a reply brief in support of its motion on June 30, 2017. The parties currently await a hearing date on the Company's motion.

SPAR Group, Inc. and Subsidiaries
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Potential Adverse Effects of the SBS Litigation

Any prolonged continuation of or material increase in the legal defense costs of SBS (and thus the reimbursable expenses SBS may charge to and that may be paid by the Company), any claim by SBS, any other related party or any third party that the Company is somehow liable for any judgment against SBS or other related party, any judicial determination that the Company is somehow liable for any judgment against SBS or other related party (in whole or in part), any decrease in SBS's performance (quality or otherwise), any inability by SBS to execute the services for the Company, or any increase in the Company's use of employees (rather than independent contractors) as its domestic Field Specialists, 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, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 6 to the Company's Consolidated Financial Statements – *Related Party Transactions – Domestic Related Party Services*, above.

10. Segment Information

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
United States	\$ 13,685	\$ 11,184	\$ 25,006	\$ 20,936
International	29,037	18,548	57,602	35,407
Total revenue	<u>\$ 42,722</u>	<u>\$ 29,732</u>	<u>\$ 82,608</u>	<u>\$ 56,343</u>
Operating income:				
United States	\$ 292	\$ 362	\$ 357	\$ 64
International	679	418	1,098	883
Total operating income	<u>\$ 971</u>	<u>\$ 780</u>	<u>\$ 1,455</u>	<u>\$ 947</u>
Interest expense:				
United States	\$ 52	\$ 27	\$ 102	\$ 52
International	2	4	(95)	8
Total interest expense	<u>\$ 54</u>	<u>\$ 31</u>	<u>\$ 7</u>	<u>\$ 60</u>
Other (income), net:				
United States	\$ -	\$ -	\$ -	\$ -
International	(135)	(80)	(197)	(105)
Total other (income), net	<u>\$ (135)</u>	<u>\$ (80)</u>	<u>\$ (197)</u>	<u>\$ (105)</u>
Income before income tax expense:				
United States	\$ 240	\$ 335	\$ 255	\$ 12
International	812	494	1,390	980
Total income before income tax expense	<u>\$ 1,052</u>	<u>\$ 829</u>	<u>\$ 1,645</u>	<u>\$ 992</u>
Income tax expense:				
United States	\$ 31	\$ 123	\$ (85)	\$ (88)
International	247	103	782	319
Total income tax expense	<u>\$ 278</u>	<u>\$ 226</u>	<u>\$ 697</u>	<u>\$ 231</u>
Net income:				
United States	\$ 209	\$ 212	\$ 340	\$ 100
International	565	391	608	661
Total net income	<u>\$ 774</u>	<u>\$ 603</u>	<u>\$ 948</u>	<u>\$ 761</u>
Depreciation and amortization:				
United States	\$ 340	\$ 336	\$ 679	\$ 679
International	194	148	360	293
Total depreciation and amortization	<u>\$ 534</u>	<u>\$ 484</u>	<u>\$ 1,039</u>	<u>\$ 972</u>
Capital expenditures:				
United States	\$ 245	\$ 262	\$ 511	\$ 506
International	87	99	181	226
Total capital expenditures	<u>\$ 332</u>	<u>\$ 361</u>	<u>\$ 692</u>	<u>\$ 732</u>

Note: There were no inter-company sales for the six months ended June 30, 2017 or 2016.

	June 30, 2017	December 31, 2016
Assets:		
United States	\$ 22,416	\$ 22,189
International	33,246	32,662
Total assets	<u>\$ 55,662</u>	<u>\$ 54,851</u>

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

Geographic Data (in thousands)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
<u>International revenue:</u>	\$	% of consolidated net revenue	\$	% of consolidated net revenue	\$	% of consolidated net revenue	\$	% of consolidated net revenue
Brazil	8,157	19.1%	–	–%	18,100	21.9%	–	–%
South Africa	6,916	16.2	4,721	15.9	12,943	15.7	8,935	15.9
Mexico	5,374	12.6	5,106	17.2	10,062	12.2	10,105	17.9
China	2,120	5.0	2,882	9.7	4,528	5.5	5,617	10.0
India	1,838	4.3	1,376	4.6	3,450	4.2	2,680	4.8
Japan	1,835	4.3	1,765	5.9	3,544	4.3	3,358	6.0
Canada	1,742	4.1	1,871	6.3	3,045	3.7	3,129	5.6
Australia	996	2.3	755	2.5	1,806	2.2	1,414	2.5
Turkey	59	0.1	72	0.2	124	0.2	169	0.3
Total international revenue	\$ 29,037	68.0%	\$ 18,548	62.3%	\$ 57,602	69.9%	\$ 35,407	63.0%

	June 30,		December 31,	
	2017		2016	
<u>Long lived assets:</u>				
United States	\$	8,494	\$	8,594
International		4,567		3,965
Total long lived assets	\$	13,061	\$	12,559

11. Purchase of Interests in Subsidiaries

In September 2016, after acquiring SGRP Brasil Participações Ltda. ("SGRP Holdings"), a Brazilian limitada (which is a form of limited liability company), and establishing SPAR Brasil Serviços de Merchandising e Tecnologia S.A., a Brazilian corporation ("SPAR BSMT"), in a series of related party transactions (See Note 6 to the Company's Consolidated Financial Statements - *Related Party Transactions – International Related Party Services*, above), SGRP Holdings and SPAR BSMT (the "Purchasers") entered into a Quota Purchase Agreement dated September 13, 2016 (the "NM QPA"), with Interservice Publicidade Sociedade Ltda., a Brazilian limitada, Momentum Promoções Ltda., a Brazilian limitada, and IPG Nederland B.V., a Netherlands company (collectively, the "Sellers"). The Sellers are subsidiaries of The Interpublic Group of Companies, Inc., a Delaware corporation ("Interpublic"), which is a global provider of advertising, media and other business services. The NM QPA provided for the acquisition by the Purchasers from the Sellers (the "NM Acquisition") of all of the equity shares (called "quotas") in New Momentum Ltda., a Brazilian limitada, and New Momentum Serviços Temporários Ltda., a Brazilian limitada (each a "NM Company" or collectively the "NM Companies"), two of Interpublic's "In Store" companies in Brazil. SPAR BSMT acquired 99% of the quotas issued by each NM Company and SGRP Holdings acquired 1% of the quotas issued by each NM Company pursuant to the NM QPA. The closing of the acquisition of the NM Companies was completed with the disbursement of the purchase price to the Sellers on September 19, 2016, effective as of close of business on September 13, 2016. The purchase price for the NM Companies was R\$1,312,000 (approximately US\$401,000). The Company has since changed the names of the NM Companies to SPAR Brasil Serviços LTDA. and SPAR Brasil Serviços Temporários LTDA.

Momentum Promoções Ltda., one of the Sellers, also agreed to provide certain transition services and continued use of certain existing office space to SPAR BSMT and each of the NM Companies (collectively, "SPAR Brazil"), pursuant to a Transition Services Agreement dated September 13, 2016 (the "Transition Agreement"), and a Sublease Agreement dated September 13, 2016 (the "Sublease"), respectively. The Sublease has an initial term of 12 months and requires monthly rent and back office support payments of R\$205,417 (approximately \$65,700 USD). After December 31, 2016, the Transition Agreement relating to Accounting Service, terminated on April 30, 2017 and for IT service, terminates on September 13, 2017.

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

The Company has completed its preliminary calculation of the fair value and related allocation of assets between goodwill and other. The amounts listed below reflect the results of our preliminary assessment and may be updated should additional information become available related to this acquisition. A summary of assets acquired, goodwill and liabilities assumed and net of purchase price are as follows (in thousands):

Cash	\$	484
Net Working Capital, net of cash		(155)
Fixed Assets		22
Intangible Assets		336
Goodwill		133
Assumed Liabilities		(419)
Net Fair Value of Assets Acquired	\$	<u>401</u>

For the six month period ended June 30, 2017, the Company reported revenue of \$19.7 million and a net income of \$46,000 related to this acquisition. The following table contains unaudited pro forma revenue and net income for SPAR Group, Inc. assuming SPAR Brasil closed on January 1, 2016 (in thousands):

	Revenue	Net Loss
Consolidated supplemental pro forma for the six month period ended June 30, 2016	\$ 71,862	\$ (10)

The pro forma in the table above includes adjustments for, amortization of intangible assets and acquisition costs to reflect results that are more representative of the results of the transactions as if the SPAR Brasil acquisition closed on January 1, 2016. This pro forma information utilizes certain estimates, is presented for illustrative purposes only and may not be indicative of the results of operation that would have actually occurred. In addition, future results may vary significantly from the results reflected in the pro forma information. The unaudited pro forma financial information does not reflect the impact of future events that may occur after the acquisition, such as anticipated cost savings from operating synergies.

12. Summary of Significant Accounting Policies

New Accounting Pronouncements

In January 2017, the FASB issued Accounting Standard Update 2017-04 (ASU 2017-04), Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment. With ASU 2017-04, an entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of ASU 2017-04 will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is required to be applied prospectively for reporting periods beginning after December 31, 2017. The impact on the Company's consolidated financial statements will depend on the facts and circumstances of any specific future transactions.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows ("ASU 2016-15") which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new standard is effective for reporting periods after December 15, 2017, with early adoption permitted. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 amending how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model which is a new impairment model based on expected losses. Under this model, an entity recognizes an allowance for expected credit losses based on historical experience, current conditions and forecasted information rather than the current methodology of delaying recognition of credit losses until it is probable a loss has been incurred. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019 with early adoption permitted for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation— Stock Compensation (Topic 718)" ("ASU 2016-09"). The guidance changes how companies account for certain aspects of equity-based payments to employees. Entities will be required to recognize income tax effects of awards in the income statement when the awards vest or are settled. The guidance also allows an employer to repurchase more of an employee's shares than it can under current guidance for tax withholding purposes providing for withholding at the employee's maximum rate as opposed to the minimum rate without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The updated guidance is effective for annual periods beginning after December 15, 2016. Effective January 1, 2017, the Company adopted the accounting guidance contained within ASU 2016-09.

In February 2016, the FASB issued ASU 2016-02 amending the existing accounting standards for lease accounting and requiring lessees to recognize lease assets and lease liabilities for all leases with lease terms of more than 12 months, including those classified as operating leases. Both the asset and liability will initially be measured at the present value of the future minimum lease payments, with the asset being subject to adjustments such as initial direct costs. Consistent with current U.S. Generally Accepted Accounting Principles ("GAAP"), the presentation of expenses and cash flows will depend primarily on the classification of the lease as either a finance or an operating lease. The new standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases in order to provide additional information about the nature of an organization's leasing activities. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 and requires modified retrospective application. Early adoption is permitted. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures. As our operations are conducted in leased facilities, this ASU may require us to disclose additional information about our leasing activities. The Company plans to evaluate the impact of the new guidance on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, simplifying the balance sheet classification of deferred taxes by requiring all deferred taxes, along with any related valuation allowance, to be presented as noncurrent. This ASU is effective for the Company beginning in the first quarter of 2017, which the Company has applied retroactively. Upon the adoption of the guidance, the Company has reclassified \$471,000 from current assets to non-current assets, and reduced both non-current and current liabilities by \$2,389,000.

In May 2014, the FASB issued new revenue recognition guidance under ASU 2014-09 that will supersede the existing revenue recognition guidance under U.S. GAAP. The new standard focuses on creating a single source of revenue guidance for revenue arising from contracts with customers for all industries. The objective of the new standard is for companies to recognize revenue when it transfers the promised goods or services to its customers at an amount that represents what the company expects to be entitled to in exchange for those goods or services. In July 2015, the FASB deferred the effective date by one year (ASU 2015-14). This ASU will now be effective for annual periods, and interim periods within those annual periods, beginning on or after December 15, 2017. Early adoption is permitted, but not before the original effective date of December 15, 2016. Since the issuance of the original standard, the FASB has issued several other subsequent updates including the following: 1) clarification of the implementation guidance on principal versus agent considerations (ASU 2016-08); 2) further guidance on identifying performance obligations in a contract as well as clarifications on the licensing implementation guidance (ASU 2016-10); 3) rescission of several SEC Staff Announcements that are codified in Topic 605 (ASU 2016-11); 4) additional guidance and practical expedients in response to identified implementation issues (ASU 2016-12); and 5) technical corrections and improvements (ASU 2016-20). The company is currently assessing the method under which it will adopt and the potential impact of adopting ASU 2014-09 on its financial position, results of operations, cash flow and/or disclosures.

13. Capital Lease Obligations

The Company has an outstanding capital lease obligation with an interest rate of 5.8%. The related capital lease assets balances are detailed below (in thousands):

Start Date:	Original Cost	Accumulated Amortization	Net Book Value at June 30, 2017
January 2017	\$ 76	\$ 13	\$ 63

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

Annual future minimum lease payments required under the leases, together with the present value as of June 30, 2017, are as follows (in thousands):

Year Ending December 31,	Amount
2017	\$ 14
2018	28
2019	28
Total	70
Less amount representing interest	7
Present value of net minimum lease payments included in accrued expenses and other current liabilities, and long term debt	<u>\$ 63</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 for its fiscal year ended December 31, 2016 (as filed, the "Annual Report"), as filed with the SEC on April 17, 2017, in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders held on May 18, 2017 (the "Proxy Statement"), which SGRP filed with the SEC on April 28, 2017, 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, toy, 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.

An Overview of the Merchandising and Marketing Services Industry

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

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

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

SPAR Group, Inc. and Subsidiaries

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

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

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

The Company's Domestic and International Geographic Segments:

The Company provides similar merchandising, business technology and marketing services throughout the world, operating within two reportable segments, its Domestic and International Divisions. The Company tracks and reports certain financial information separately for these two segments using the same metrics. The primary measurement utilized by management is operating profit level, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two segments, which includes, among other items, their respective net revenues, operating income and net income for each of the three and six month periods ended June 30, 2017 and 2016, and their respective assets as of June 30, 2017, and December 31, 2016, is provided above in Note 10 to the Company's Condensed Consolidated Financial Statements – *Segment Information*.

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

Primary Territory	Date Established	SGRP Percentage Ownership	Principal Office Location
United States of America	1979	100%	White Plains, New York, United States of America
Japan	May 2001	100%	Tokyo, Japan
Canada	June 2003	100%	Vaughan, Canada
South Africa	April 2004	51%	Durban, South Africa
India	April 2004	51%	New Delhi, India
Australia	April 2006	51%	Melbourne, Australia
China	March 2010	51%	Shanghai, China
Mexico	August 2011	51%	Mexico City, Mexico
Turkey	November 2011	51%	Istanbul, Turkey
Brazil ¹	September 2016	51%	Sao Paulo, Brazil

- In September 2016, the Company established a new joint venture subsidiary in Brazil as noted above in Note 11 to the Company's Condensed Consolidated Financial Statements – *Purchase of Interests in Subsidiaries*. This new subsidiary purchased stock in two Brazilian companies – New Momentum, Ltda. and New Momentum Servicos Temporarios Ltda.

SPAR Group, Inc. and Subsidiaries

CRITICAL ACCOUNTING POLICIES

Other than the adoption of accounting pronouncements as described above, there have been no significant changes to the Company's accounting policies since it filed its audited consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2016, with the SEC on April 17, 2017.

SPAR Group, Inc. and Subsidiaries

RESULTS OF OPERATIONS

Three months ended June 30, 2017, compared to three months ended June 30, 2016

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).

	Three Months Ended June 30,			
	2017		2016	
	\$	%	\$	%
Net revenues	\$ 42,722	100.0%	\$ 29,732	100.0%
Cost of revenues	33,765	79.0	22,705	76.4
Gross profit	8,957	21.0	7,027	23.6
Selling, general & administrative expense	7,452	17.4	5,763	19.4
Depreciation & amortization	534	1.2	484	1.6
Operating income	971	2.4	780	2.6
Interest expense, net	54	0.1	31	0.1
Other (income), net	(135)	(0.3)	(80)	(0.3)
Income before income taxes	1,052	2.6	829	2.8
Income tax expense	278	0.7	226	0.8
Net income	774	1.9	603	2.0
Net income attributable to non-controlling interest	(431)	(1.0)	(320)	(1.1)
Net income attributable to SPAR Group, Inc.	\$ 343	0.9%	\$ 283	0.9%

Net Revenues

Net revenues for the three months ended June 30, 2017, were \$42.7 million, compared to \$29.7 million for the three months ended June 30, 2016, an increase of \$13.0 million or 43.7%. The increase in net revenue is primarily attributable to the acquisition of our Brazil subsidiary which contributed \$8.2 million. In addition, the remainder of our international segment increased \$2.3 million, and our domestic segment increased \$2.5 million.

Domestic net revenues totaled \$13.7 million in the three months ended June 30, 2017, compared to \$11.2 million for the same period in 2016, an increase of 22.4%. The increase was primarily due to an increase in project work compared to last year.

International net revenues totaled \$29.0 million for the three months ended June 30, 2017, compared to \$18.5 million for the same period in 2016, an increase of \$10.5 million or 56.6%. The increase in net revenues was primarily due to the September 2016 acquisition of our Brazilian operation which added \$8.2 million and an increase in South Africa of \$2.2 million.

Cost of Revenues

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 79.0% of its net revenues for the three months ended June 30, 2017, and 76.4% of its net revenues for the three months ended June 30, 2016.

Domestic cost of revenues was 71.7% of net revenues for the three months ended June 30, 2017, and 69.5% of net revenues for the three months ended June 30, 2016. The increase in cost of revenues as a percentage of net revenues of 2.2 percentage points was due primarily to continued price pressure and an unfavorable mix of project work compared to the same period last year. For the three months ended June 30, 2017 and 2016, approximately 80.8% and 80.9%, respectively, 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, SPAR Business Services, Inc. ("SBS"), and SPAR Administrative Services, Inc. ("SAS"), respectively. (See Note 6 to the Condensed Consolidated Financial Statements - *Related-Party Transactions*.)

SPAR Group, Inc. and Subsidiaries

Internationally, the cost of revenues increased to 82.5% of net revenues for the three months ended June 30, 2017, compared to 80.5% of net revenues for the three months ended June 30, 2016. The cost of revenue increase of 2.0 percentage points was primarily due to a mix of higher cost margin business in Brazil, China and South Africa.

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 \$7.5 million and \$5.8 million for the three months ended June 30, 2017 and 2016, respectively.

Domestic selling, general and administrative expenses totaled \$3.2 million and \$2.7 million for the three month periods ended June 30, 2017 and 2016, respectively. The increase in selling, general and administrative expense was directly related to increased spending on accounting and legal services.

International selling, general and administrative expenses totaled \$4.2 million for the three months ended June 30, 2017, compared to \$3.1 million for the same period in 2016. The increase of approximately \$1.1 million was primarily attributable to the Brazil acquisition.

Depreciation and Amortization

Depreciation and amortization charges totaled \$534,000 for the three months ended June 30, 2017, and \$484,000 for the same period in 2016.

Interest Expense

The Company's net interest expense was \$54,000 for the three months ended June 30, 2017, compared to \$31,000 for the three months ended June 30, 2016.

Other Income

Other income totaled \$135,000 and \$80,000 for the three months ended June 30, 2017 and 2016, respectively, with the increase primarily in South Africa.

Income Taxes

Income tax expense was \$278,000 for the three months ended June 30, 2017, compared to \$226,000 for the three months ended June 30, 2016.

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 \$431,000 and \$320,000 for the three months ended June 30, 2017 and 2016, respectively.

Net Income

The Company reported net income of \$343,000 for the three months ended June 30, 2017, or \$0.02 per diluted share, compared to a net income of \$283,000, or \$0.01 per diluted share, for the corresponding period last year.

SPAR Group, Inc. and Subsidiaries

Six months ended June 30, 2017, compared to six months ended June 30, 2016

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

	Six Months Ended June 30,			
	2017		2016	
	\$	%	\$	%
Net revenues	\$ 82,608	100.0%	\$ 56,343	100.0%
Cost of revenues	65,604	79.4	43,147	76.6
Gross profit	17,004	20.6	13,196	23.4
Selling, general & administrative expense	14,510	17.6	11,277	20.0
Depreciation & amortization	1,039	1.3	972	1.7
Operating income	1,455	1.7	947	1.7
Interest expense, net	7	0.0	60	0.1
Other (income), net	(197)	(0.2)	(105)	(0.2)
Income before income taxes	1,645	1.9	992	1.8
Income tax expense	697	0.8	231	0.4
Net income	948	1.1	761	1.4
Net income attributable to non-controlling interest	(849)	(1.0)	(618)	(1.1)
Net income attributable to SPAR Group, Inc.	\$ 99	0.1%	\$ 143	0.3%

Net Revenues

Net revenues for the six months ended June 30, 2017, were \$82.6 million, compared to \$56.3 million for the six months ended June 30, 2016, an increase of \$26.3 million or 46.6%. The increase in net revenue attributable to our international segment was \$22.2 million, primarily from our Brazil and South Africa operations. Our domestic segment contributed an increase of \$4.1 million compared to last year.

Domestic net revenues totaled \$25.0 million in the six months ended June 30, 2017, compared to \$20.9 million for the same period in 2016, an increase of 19.4%. The increase was primarily due to an increase in project work compared to last year.

International net revenues totaled \$57.6 million for the six months ended June 30, 2017, compared to \$35.4 million for the same period in 2016, an increase of \$22.2 million or 62.7%. The increase in net revenues was primarily due to the September 2016 acquisition of our Brazilian operation which contributed \$18.1 million, and an increase in South Africa by \$4.0 million.

Cost of Revenues

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 79.4% of its net revenues for the six months ended June 30, 2017, and 76.6% of its net revenues for the six months ended June 30, 2016.

Domestic cost of revenues was 71.9% of net revenues for the six months ended June 30, 2017, and 70.4% of net revenues for the six months ended June 30, 2016. The increase in cost of revenues as a percentage of net revenues of 1.5 percentage points was due primarily to continued price pressure and an unfavorable mix of project work compared to the same period last year. For the six months ended June 30, 2017 and 2016, approximately 82.3% and 81.5%, respectively, 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, SPAR Business Services, Inc. ("SBS"), and SPAR Administrative Services, Inc. ("SAS"), respectively. (See Note 6 to the Condensed Consolidated Financial Statements - *Related-Party Transactions*.)

SPAR Group, Inc. and Subsidiaries

Internationally, the cost of revenues increased to 82.7% of net revenues for the six months ended June 30, 2017, compared to 80.2% of net revenues for the six months ended June 30, 2016. The cost of revenue increase of 2.5 percentage points was primarily due to a mix of higher cost margin business in Brazil and Mexico.

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 \$14.5 million and \$11.3 million for the six months ended June 30, 2017 and 2016, respectively.

Domestic selling, general and administrative expenses totaled \$6.0 million and \$5.5 million for the six month periods ended June 30, 2017 and 2016, respectively. The increase in selling, general and administrative expense was directly related to increased spending on accounting and legal services.

International selling, general and administrative expenses totaled \$8.5 million for the six months ended June 30, 2017, compared to \$5.8 million for the same period in 2016. The increase of approximately \$2.7 million was primarily attributable to the Brazil acquisition.

Depreciation and Amortization

Depreciation and amortization charges totaled \$1.0 million for both the six months ended June 30, 2017, and 2016.

Interest Expense

The Company's net interest expense was \$7,000 for the six months ended June 30, 2017, compared to net interest expense of \$60,000 for the six months ended June 30, 2016. The change was primarily due to interest earned on cash in South Africa.

Other Income

Other income totaled \$197,000 and \$105,000 for the six months ended June 30, 2017 and 2016, respectively, with the increase primarily in South Africa.

Income Taxes

Income tax expense was \$697,000 for the six months ended June 30, 2017, compared to \$231,000 for the six months ended June 30, 2016. The increase in tax expense was primarily due to tax on the distribution of earnings received from our South African subsidiary.

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 \$849,000 and \$618,000 for the six months ended June 30, 2017 and 2016, respectively.

Net Income

The Company reported a net income of \$99,000 for the six months ended June 30, 2017, or \$0.00 per diluted share, compared to \$143,000, or \$0.01 per diluted share, for the corresponding period last year.

Liquidity and Capital Resources

In the six months ended June 30, 2017, the Company had a net income before non-controlling interest of \$1.0 million.

SPAR Group, Inc. and Subsidiaries

Net cash provided by operating activities was \$3.9 million and \$446,000 for the six months ended June 30, 2017 and 2016, respectively. The net cash provided by operating activities during the six months ended June 30, 2017 was primarily due to cash-impacting earnings and a decrease in accounts receivable, plus an increase in accrued expenses and other current liabilities, partially offset by an increase in prepaid expenses and other current assets.

Net cash used in investing activities was \$640,000 for the six months ended June 30, 2017, compared to \$732,000 for the six months ended June 30, 2016. The net cash used in investing activities during the six months ended June 30, 2017 was due to fixed asset additions, primarily capitalized software.

Net cash used in financing activities for the six months ended June 30, 2017 was approximately \$3.0 million, compared to \$338,000 provided by financing activities for the six months ended June 30, 2016. Net cash used in financing activities during the six months ended June 30, 2017 was primarily a result of a distribution to non-controlling local investors in South Africa and also net payments on lines of credit.

The above activity and the impact of foreign exchange rate changes resulted in an increase in cash and cash equivalents for the six months ended June 30, 2017 of \$1.0 million.

At June 30, 2017, the Company had net working capital of \$11.8 million, as compared to net working capital of \$12.5 million at December 31, 2016. The Company's current ratio was 1.4 at both June 30, 2017 and December 31, 2016.

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

Restatement of Previously Issued Financial Statements

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. The evaluation of our disclosure controls and procedures by our Chief Executive Officer and Chief Financial Officer included a review of the restatement described in the filing of this Form 10-Q, where we restated our consolidated balance sheet, consolidated statements of operations and comprehensive income and consolidated statements of equity. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2017 at the reasonable assurance level, to enable us to record, process, summarize and report information required to be disclosed by us in reports that we file or submit within the time periods specified in the SEC rules or forms due to the material weakness described below.

SPAR Group, Inc. and Subsidiaries

Material Weakness in Internal Control over Financial Reporting

A material weakness is defined as a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim consolidated financial statements will not be prevented or detected on a timely basis. In connection with the evaluation of our disclosure controls and procedures as of June 30, 2017, we identified a material weakness in our internal control over financial reporting associated with the recognition of accumulated other comprehensive loss both in the equity section of the consolidated balance sheet and the comprehensive loss portion of the consolidated statement of income and comprehensive loss.

The Company did not design and maintain effective control over the assessment of the presentation of foreign currency translation adjustments when preparing the consolidated financial statements. While this is considered a material weakness in internal control over financial reporting, the Company determined that the related impact was not material to the results of operations or financial position for any prior annual or interim period as described above in Note 2 of the Company's prior period financial statements for the year ended December 31, 2016.

Changes in Internal Control over Financial Reporting

Other than the material weakness as set forth above during the quarter ended June 30, 2017 there have been no changes in our internal controls over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the quarter ended June 30, 2017 identified in connection with our evaluation that has materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Remediation Initiatives

We have taken, and continue to take, the actions described below to remediate the identified material weakness. As we continue to evaluate and work to improve our internal controls over financial reporting, our senior management may determine to take additional measures to address control deficiencies or modify the remediation efforts, or in appropriate circumstances not to complete certain of the remediation measures described in this section. While the Audit Committee and senior management are closely monitoring the implementation, until the remediation efforts discussed in this section, including any additional remediation efforts that our senior management identifies as necessary, are completed, tested, and determined effective, the material weakness described above will continue to exist.

To address this material weakness, our management has implemented new procedures and internal controls surrounding the reporting of its majority owned international subsidiaries to ensure comprehensive income (loss) and non-controlling interest are properly adjusted to account for the impact of foreign currency translation.

As a smaller reporting company, the Company is not required to obtain an attestation report from the Company's independent registered public accounting firm regarding internal control over financial reporting, and accordingly, such an attestation has not been obtained or included in this Quarterly Report.

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, disposition of these matters are not anticipated to have a material adverse effect on the Company or its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

The Company executes the services it provides to its domestic clients primarily through independent field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), almost all of whom are engaged and provided as independent contractors by SBS. For contractual details and payment amounts, see Note 6 to the Company's Consolidated Financial Statements – *Related Party Transactions – Domestic Related Party Services*, above.

The appropriateness of SBS's treatment of its Field Specialists as independent contractors has 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 have 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 during the three month periods ended June 30, 2017 and 2016 (in the amounts of \$179,000 and \$443,000, respectively), after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company. The Company has advised SBS that, since there is no currently effective comprehensive written services agreement with SBS, the Company will continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis, including the relative costs and benefits to the Company. The Company has not agreed, and does not currently intend, to reimburse SBS for any judgment, settlement, or related tax, penalty, or interest in any legal challenge or other proceeding, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts). However, there are no assurances that SBS or someone else will not claim, or that SBS will be able to successfully defend any claim, that the Company is liable (through reimbursement, indemnification or otherwise) for any judgment against SBS. Furthermore, there can be no assurance that SBS will succeed in defending any such legal challenge, the legal expenses of prolonged litigation and appeals could continue to be (and have from time to time been) significant, and any adverse determination in any such challenge could have a material adverse effect on SBS's ability to provide services needed by the Company and the Company's costs of doing business.

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" 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, 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 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 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 subsequently dismissed from the action without prejudice. 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 as independent contractors rather than employees. The parties have now moved into phase two to determine damages (if any). No trial date for phase two has been set and the parties are currently engaged in discovery as to the measure of damages in this case. SBS has advised the Company that SBS will appeal the adverse phase one determination when permitted under the court's rules.

SPAR Group, Inc. and Subsidiaries

SBS Rodgers Litigation

Maceo Rodgers was engaged by and provided services to SBS pursuant to the terms of his "Master Agreements" with SBS acknowledging his engagement as an independent contractor. On February 21, 2014, Rodgers filed suit against SBS, Robert G. Brown and William H. Bartels, styled Civil Action No. 3:14-CV-00055, in the U.S. District Court for the Southern District of Texas (Galveston Division). Plaintiff asserted claims on behalf of himself and an alleged class of similarly situated individuals who provided services to SBS as independent contractors at any time on or after July 15, 2012, claiming they all were misclassified as independent contractors and that, as a result of this misclassification, the Defendants improperly underpaid them in violation of the Fair Labor Standards Act's overtime and minimum wage provisions. Although the Court conditionally certified the class on December 8, 2015, only 61 individuals joined the action as opt-in plaintiffs, and all but 11 of them have potentially disqualifying arbitration provisions, residences outside the class's geographic area, or late opt-in filings, and are being challenged by the Defendants in various pending motions, including a motion to decertify the class.

SBS and SGRP Hogan Litigation

Paradise Hogan was engaged by and provided services to SBS as an independent contractor pursuant to the terms of an "Independent Contractor Master Agreement" with SBS acknowledging his engagement as an independent contractor. On January 6, 2017, Hogan filed suit against SBS and SPAR Group, Inc. ("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. Plaintiff's counsel subsequently notified SGRP's attorney of their intent to amend their Complaint without prejudice. The Amended Complaint, which was filed on May 2, 2017, eliminated all of Plaintiff's claims except for a single claim against SGRP for failure to pay Hogan and a similarly situated class of Massachusetts independent contractors all wages under the Massachusetts Wage Act and a separate, but identical claim against SBS. The result of the amendment significantly narrowed the scope of the litigation and eliminated the original nationwide Fair Labor Standards Act claims. The Company was granted leave to refile their motion to compel arbitration, and to dismiss Hogan's case pending arbitration, and to dismiss Hogan's case for failure to state a specific claim upon which relief could be granted. The Company's motion was filed on June 7, 2017, Plaintiff's opposition to the Company's motion was filed on June 21, 2017, and the Company thereafter filed a reply brief in support of its motion on June 30, 2017. The parties currently await a hearing date on the Company's motion.

Potential Adverse Effects of the SBS Litigation

Any prolonged continuation of or material increase in the legal defense costs of SBS (and thus the reimbursable expenses SBS may charge to and that may be paid by the Company), any claim by SBS, any other related party or any third party that the Company is somehow liable for any judgment against SBS or other related party, any judicial determination that the Company is somehow liable for any judgment against SBS or other related party (in whole or in part), any decrease in SBS's performance (quality or otherwise), any inability by SBS to execute the services for the Company, or any increase in the Company's use of employees (rather than independent contractors) as its domestic Field Specialists, 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, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 6 to the Company's Consolidated Financial Statements – *Related Party Transactions – Domestic Related Party Services*, above.

SPAR Group, Inc. and Subsidiaries

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 2016 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 2016 Annual Report other than as disclosed below.

We have identified a material weakness in our internal control over financial reporting. If we fail to remediate this material weakness, our ability to produce accurate and timely financial statements could be impaired, which could adversely affect investor views of us and the value of our common stock.

As a public company, we are required to comply with the standards adopted by the Public Company Accounting Oversight Board in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, regarding internal control over financial reporting. In connection with our evaluation of compliance, we identified a material weakness in our internal control over financial reporting as of March 31, 2017. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. During the first quarter of 2017, we have identified a material weakness in our internal control over financial reporting associated with the recognition of accumulated other comprehensive loss both in the equity section of the consolidated balance sheet and the comprehensive loss portion of the consolidated statement of income and comprehensive loss. Specifically, the Company previously attributed 100% of the foreign currency translation adjustment recorded in annual comprehensive loss to the Company compared to allocating a proportionate amount to the non-controlling interest portion on both the consolidated balance sheet and the consolidated statement of income and comprehensive loss. To address this material weakness, our management has implemented new procedures and internal controls surrounding the reporting of its majority owned international subsidiaries to insure comprehensive income (loss) and non-controlling interest are properly adjusted to account for the impact of foreign currency translation. However, these steps will take time to fully integrate and confirm, and until the remediation steps are fully implemented and tested, the material weakness will continue to exist.

If we fail to remediate the identified material weakness or identify further material weaknesses, we may not be able to accurately report our financial results, prevent fraud, or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price. In addition, our failure to timely file our periodic reports could eventually result in the delisting of our common stock from the New York Stock Exchange, regulatory sanctions from the SEC, and/or the breach of covenants in our credit facilities or of any preferred equity or debt securities we may issue in the future, any of which could have a material adverse impact on our operations and your investment in our common stock.

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

- 10.1 Eleventh Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of June 29, 2017, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc., SPAR Canada, Inc., and SPAR Canada Company, each as a "Borrower" under such loan agreement as of such amendment date (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 5, 2017).
- 10.2 Separation Agreement as of May 15, 2017, between Scott Popaditch and SGRP (as filed herewith).
- 31.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 31.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition
- 101.LAB XBRL Taxonomy Extension Labels
- 101.PRE XBRL Taxonomy Extension Presentation

SPAR Group, Inc. and Subsidiaries

SIGNATURES

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

Date: August 14, 2017

SPAR Group, Inc., Registrant

By: /s/ James R. Segreto

James R. Segreto

Chief Financial Officer, Treasurer and Secretary

SEPARATION AGREEMENT, RELEASE AND WAIVER OF ALL CLAIMS

This Separation Agreement, Release, and Waiver of All Claims (this "Agreement") is entered into by **Scott Popaditch** ("Employee") and **SPAR Group, Inc.**, a Delaware corporation ("SGRP" or the "Company"). Together, the Employee and SGRP may be referred to collectively as the "Parties" and the term "Party" may refer to any and each of them. Additionally, SGRP and all of its domestic and foreign subsidiaries will be referred to collectively as "SPAR Group". For clarity, SPAR Group includes both SGRP and each direct or indirect subsidiary of SGRP at the applicable time. The subsidiaries of SGRP include those listed at the relevant time in Exhibit 21.1 to SGRP's most recent Annual Report on Form 10-K as filed with the SEC, a copy of which can be viewed at the Company's website (www.sparinc.com) under the tab/ sub-tab of Investor Relations/SEC Filings.

Background Information

The Employee has been employed as the Chief Executive Officer and President of SGRP and as a director, executive, officer, employee and/or agent of SGRP and certain domestic and foreign subsidiaries of SGRP, and was paid an annual salary of Two Hundred Sixty Thousand Dollars and No Cents (\$260,000.00) (his "Base Salary"), which was paid in twice-monthly installments and subject to required and authorized payroll withholdings and deductions in accordance with the Company's normal payroll practices.

The Employee and the Company are parties to an Executive Change of Control Severance Agreement (the "Change of Control Severance Agreement"), dated August 23, 2016, and an Executive Officer Severance Agreement (the "Officer Severance Agreement"), dated August 23, 2016, each of which provided for certain severance benefits, subject to the terms and conditions therein, if the Employee's employment was terminated for "Cause" or if he resigned for "Good Reason," as defined therein.

On May 15, 2017, the Employee resigned from all of his positions (whether as a director, executive, officer, employee and/or agent or otherwise), as well as all of his employment, with SPAR Group, effective as of May 15, 2017, upon which resignation effective date (the "Separation Date"), the Employee ceased to be employed or engaged in any capacity by SPAR Group and ceased to be a director, executive, officer, employee and/or agent of each and every SPAR Group company, as applicable.

The Employee and the Company acknowledge and agree that the Employee's resignation was without "Good Reason" and that the Employee's employment was not terminated for "Cause," as those terms are defined in the Change of Control Severance Agreement, Officer Severance Agreement, and/or any other agreement to which the Employee and the Company are parties. As a result of the circumstances related to his resignation, Employee acknowledges and agrees that he is not entitled or otherwise eligible to receive any payments or benefits under the Change of Control Severance Agreement, Officer Severance Agreement, and/or any other agreement to which the Employee and the Company are parties.

Notwithstanding the foregoing, the Employee and SPAR Group desire to enter into this Agreement providing certain separation payments and benefits to the Employee in conjunction with the separation of his employment and in consideration of his continued cooperation and his other agreements below, and except as specifically stated in Section 2(a) below, to fully and mutually settle and resolve all possible matters and claims between them, pursuant to the following terms, provisions and conditions.

NOW, THEREFORE, in consideration of the foregoing, the covenants and agreements hereinafter set forth and other good and valuable consideration (the receipt and adequacy of which is hereby acknowledged), the Parties hereto, intending to be legally bound, agree as follows:

Consideration

1. In consideration for the release set forth in Sections 2, 3, 4, and 5, below, and the other promises and representations made by the Employee as set forth in this Agreement:

- (a) The Employee has twenty-one (21) days after receiving this Agreement to consider this Agreement.

(b) The Employee will receive the Separation Payments, Relocation Reimbursement Payment, and Separation Benefits, as defined below, so long as the Employee signs, dates, and returns an original of this Agreement to James R. Segreto, c/o SPAR Group, Inc., 333 Westchester Avenue, South Building, Suite 204, White Plains, New York 10604, by one of the delivery methods specified in Section 5(c), without revoking it (in whole or in part) within the following seven (7) days after the Employee signs the Agreement (in keeping with the provisions of Section 5).

(c) So long as the Employee (i) signs and dates this Agreement within the 21 day deadline, and (ii) does not revoke this Agreement (in whole or in part) within the following seven (7) days after he signs it (in keeping with the provisions of Section 5), then in consideration of his settlements, releases, waivers, covenants and other agreements made in this Agreement, SGRP (on behalf of SPAR Group) shall pay the Employee (A) \$108,333.33 (equivalent to five (5) months of his Base Salary), payable in installments as provided in this Section (the "Separation Payments"), plus (B) one lump sum payment in the gross and net amount of \$21,666.67 as reimbursement for costs and expenses the Employee incurred in connection with his business-related relocation to Michigan and the sale of his condominium in Michigan (the "Relocation Reimbursement Payment"). To the extent that the Company breaches its payment obligations under this Section 1(c), and Employee notifies the Company of such breach in writing, the Company shall thereafter have five (5) days following its receipt of such written notice to cure the breach.

(d) So long as the Employee does not revoke this Agreement (in whole or in part) within the following seven (7) days after he signs it (in keeping with the provisions of Section 5), the first installment of any such Separation Payments will be paid on the first day that is a regular payday and falls on or after twelve (12) days after the Company has received a properly executed original of this Agreement. SGRP will also release one copy of the fully-executed Agreement to the Employee by the same date. All subsequent installments of the Separation Payments will be paid in twice-monthly installments on the Company's regular paydays, which installments will be equivalent to the Base Salary payment the Employee would have received if still employed with the Company, and subject to required and authorized payroll withholdings and deductions in accordance with the Company's normal payroll practices for its salaried workers.

(e) So long as the Employee does not revoke this Agreement (in whole or in part) within the following seven (7) days after he signs it (in keeping with the provisions of Section 5), the Relocation Reimbursement Payment will be paid on the first day that is a regular payday and falls on or after twelve (12) days after the Company has received a properly executed original of this Agreement. The Employee acknowledges that the Company has made no representations to him regarding the taxation of the Relocation Reimbursement Payment. The Employee agrees that he shall be exclusively liable for the payment of all federal, state and local taxes, if any, which may be due from him as a result of his receipt of the Relocation Reimbursement Payment pursuant to this Agreement. The Employee further represents that he shall make payments on such taxes in the amount required by law. In addition, to the extent the Internal Revenue Service, any state or local taxing authority or agency, and/or any other taxing authority or agency attempts to hold the Company liable for failing to withhold appropriate payroll and other employment-related taxes from the Relocation Reimbursement Payment, the Employee agrees to hold harmless and indemnify the Company from and against any and all losses, costs, damages, penalties, fines, interest and expenses, including, without limitation, attorneys' fees, incurred by the Company to defend itself against any such claims by a taxing authority. In the event of an inquiry by any governmental or taxing authority, the Employee shall not assert any position contrary to the terms of this Agreement.

(f) By law, and regardless of whether the Employee signs this Agreement, he will have the right to continue his medical and dental insurance pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). The COBRA qualifying event shall be deemed to have occurred on the Separation Date. Upon completion of the appropriate COBRA forms and so long as the Employee does not revoke this Agreement (in whole or in part) within the following seven (7) days after he signs it, and subject to all the requirements of COBRA, the Employee will be allowed to continue participation in the Company's health and dental insurance plans at the Company's expense (except for Employee's co-pay and/or his portion of premium payments, which shall be deducted from the Separation Payments to the same extent that such deductions are made for persons currently employed by SGRP), until November 30, 2017 (the "Separation Benefits"). All other benefits ceased as of the Separation Date. Notwithstanding any other provision of this Agreement, this obligation shall cease on the date the Employee becomes eligible to receive health insurance benefits through any other employer, and the Employee agrees to provide the Company with written notice immediately upon securing such employment and upon becoming eligible for such benefits.

(g) Installment payments of the Separation Payments pursuant to this Agreement will stop and will no longer be owed by SGRP to the Employee under this Agreement if and when the Employee is found to have violated the 2016 Agreement (as amended and defined below) or the Post-Separation Obligations and Restrictive Covenants set forth in Sections 6, 7 or 10 below, or initiates any legal action against any of the Company Releasees (as defined in Section 2(a), below) seeking damages and/or other relief based on any Employee Claim released in this Agreement, or otherwise materially breaches this Agreement; provided, however, that prior to stopping the Separation Payments, the Company shall provide the Employee written notice of its determination that the Employee has breached the 2016 Agreement (as amended) or the Post-Separation Obligations and Restrictive Covenants set forth in Sections 6, 7 or 10 below, and has provided the Employee no less than five (5) business days to cure any alleged breach to the extent such breach is curable. Any decision by the Company as to whether or not the Employee has engaged in any breach of this Agreement shall be made by the Governance Committee of SGRP's Board of Directors.

(h) The Parties hereto will cooperate with each other in making all reasonable and diligent efforts to effectuate the terms of this Agreement.

Waiver and Release of Claims

2. In consideration of the Separation Payments, Relocation Reimbursement Payment, and Separation Benefits provided for in Section 1 above:

(a) The Employee hereby and forever releases each and every company in the SPAR Group, as defined in this Agreement, and any and all of each of their past, present, and future assigns, successors, Affiliated Entities (as defined in subsection (e) below), parents, subsidiaries, divisions, and corporations, and any and all of each of their officers, managers, executives, directors, members, shareholders, trustees, joint venturers, partners, employees, insurers, and agents of the same as well as their heirs, executors, administrators, successors, assigns, and other personal or legal representatives, individually and in their respective corporate and personal capacities (together with each SPAR Group company, all hereinafter referred to in this paragraph and this Agreement collectively as "Company Releasees") from any and all legally waivable claims, complaints, duties, obligations or causes of action relating to any matters of any kind or nature, including (but not limited to) any right to recover attorney's fees or costs, whether presently known or unknown, suspected or unsuspected, arising from any and all omissions, acts, facts, causes of action, claims, liabilities, demands, debts, assessments, liens, suits, proceedings, judgments, or damages, known or unknown, liquidated or unliquidated, contingent or non-contingent, arising from or pertaining in any way to all events, facts or occurrences from the beginning of time through the Effective Date of this Agreement (hereinafter each referred to an "Employee Claim"), arising under federal, state, or local law by Constitution, statute, local charter or ordinance, regulation, common law, public policy, contract (express and implied), or equity, that might have otherwise been asserted through the Effective Date of this Agreement, in each case to the fullest extent permitted by applicable law. This release of Employee Claims includes, but is not limited to, a release of any and all:

- (i) Claims under any state or federal statute, regulation or executive order (as amended through the Effective Date) relating to employment, discrimination, fair employment practices, or other terms and conditions of employment, including but not limited to the Age Discrimination in Employment Act and Older Workers Benefit Protection Act (29 U.S.C. § 621 et seq.), the Civil Rights Acts of 1866 and 1871 and Title VII of the Civil Rights Act of 1964 and the Civil Rights Act of 1991 (42 U.S.C. § 2000e et seq.), the Equal Pay Act (29 U.S.C. § 201 et seq.), the Americans With Disabilities Act (42 U.S.C. § 12101 et seq.), the New York State Human Rights Law, the New York City Human Rights Law, the New York State Civil Rights Law, the New York State Corrections Law, the Elliott-Larsen Civil Rights Act (Mich. Comp. Laws §§ 37.2101-37.2804), the Persons with Disabilities Civil Rights Act (Mich. Comp. Laws §§ 37.1101-37.1607), the Michigan Occupational Safety and Health Act (Mich. Comp. Laws §§ 408.1001-408.1094), the Internet Privacy Protection Act (Mich. Comp. Laws §§ 37.271-37.278), the Florida Civil Rights Act (Fla. Stat. §§ 760.01-760.11), and any similar New York, Michigan, Florida or other state or federal statute;
- (ii) Claims under any state or federal statute, regulation or executive order (as amended through the Effective Date) relating to leaves of absence, layoffs or reductions-in-force, wages, hours, or other terms and conditions of employment, including but not limited to the Fair Credit Reporting Act (15 U.S.C. § 1681 et seq.), the National Labor Relations Act (29 U.S.C. § 151 et seq.), the Family and Medical Leave Act (29 U.S.C. § 2601 et seq.), the Employee Retirement Income Security Act of 1974 (29 U.S.C. § 1000 et seq.), COBRA (29 U.S.C. § 1161 et seq.), the Worker Adjustment and Retraining Notification Act (29 U.S.C. § 2101 et seq.), the Fair Labor Standards Act (29 U.S.C. §§ 201 et seq.), the New York State Labor Law, the New York City Earned Sick Time Act, the Michigan Payment of Wages and Fringe Benefits Act (Mich. Comp. Laws §§ 408.471-408.490), the Bullard-Plawecki Employee Right to Know Act (Mich. Comp. Laws §§ 423.501-423.512), the Social Security Number Privacy Act (Mich. Comp. Laws §§ 445.81-445.87), the Sales Representatives Commission Act (Mich. Comp. Laws § 600.2961), the Florida Minimum Wage Act (Fla. Stat. § 448.110), Article X, Section 24 of the Florida Constitution, the Florida Workers' Compensation Retaliation provision (Fla. Stat. § 440.205), and any similar New York, Michigan, Florida or other state or federal statute;

- (iii) Claims under any state or federal common law theory, including, without limitation, wrongful discharge, breach of express or implied contract, promissory estoppel, unjust enrichment, breach of a covenant of good faith and fair dealing, violation of public policy, defamation, interference with contractual relations, intentional or negligent infliction of emotional distress, invasion of privacy, misrepresentation, deceit, fraud or negligence or any claim to attorneys' fees under any applicable statute or common law theory of recovery;
- (iv) Claims under any state or federal statute, regulation or executive order (as amended through the Effective Date) relating to whistleblower protections, violation of public policy, or any other form of retaliation or wrongful termination, including but not limited to the Sarbanes-Oxley Act of 2002, NY Lab. Law §§ 740-741, the Whistleblowers' Protection Act (*Mich. Comp. Laws §§ 15.361-15.369*), the Florida Whistleblower Protection Act (*Fla. Stat. §§ 448.101-448.105*), and any similar New York, Michigan, Florida or other state or federal statute;
- (v) Claims under any Company compensation, employment, commission, benefit, stock option, incentive compensation, bonus, restricted stock, and/or equity plan, program, policy, practice or agreement; and
- (vi) Any other Claim arising under any other local, state and/or federal law.

The only claims that are not being released by the Employee are: (A) unemployment and/or any state disability insurance benefits pursuant to the terms of applicable state law; (B) workers' compensation claims; (C) continued participation in certain SPAR Group benefit plans pursuant to the terms and conditions of the federal law known as COBRA and/or similar state or local law to the extent that any such laws would otherwise apply; (D) any benefit entitlements that were vested as of the date of the Employee's termination, pursuant to the written terms of any company employee benefit plan; (E) any rights or claims that may arise after the Employee signs this Agreement; (F) any rights that are not subject to waiver or are not subject to an unsupervised waiver as a matter of applicable law; and (G) rights to enforce this Agreement.

(b) The Employee represents and confirms that SPAR Group owes him no wages, bonuses, commissions, vacation pay, paid time off, business expense reimbursements, or other compensation or payments of any kind or nature, other than the payments expressly provided for in this Agreement.

(c) Pursuant to the Employee's Offer Letter, dated August 23, 2016, and the applicable plans and agreements governing any equity interest or stock options Employee had with respect to the Company, Employee was granted (i) 25,000 Restricted Stock Units vesting one-third (1/3) per year over the course of three years, (ii) 25,000 stock options per year, with vesting based on performance for the years 2017-2020, and (iii) 400,000 stock options subject to the Company's standard stock option plan, vesting one quarter (1/4) per year over the course of four years (together, the "Equity Grants"). The Employee hereby acknowledges and agrees that (A) no portion of the Equity Grants were vested as of the Separation Date, (B) the Equity Grants were terminated and cancelled as of the Separation Date, and (C) Employee does not have and shall not have any right(s) to exercise any portion of the Equity Grants. Employee further represents and agrees that (x) he does not own any right, title, or interest to any common stock, restricted stock, stock options, or other equity interest in the Company, (y) he has no right to acquire any further stock options, restricted stock, restricted stock units, common stock, equity or other interest in the Company and will not in the future have any right to acquire any further equity or other interest in the Company (other than the right to purchase the Company's stock in the open market), and (z) he shall not have any right to vest in any additional stock, restricted stock, restricted stock units, or stock options under any Company equity, stock and/or stock option plan or program (of whatever name or kind) that he may have participated in or was eligible to participate in during his employment with the Company.

(d) This Agreement shall inure to the benefit of and shall be binding and enforceable by any and all of the Company Releasees.

(e) For purposes of this Agreement, an "Affiliated Entity" means any affiliate of SGRP (as determined by the Audit Committee of the Board of Directors of SGRP in accordance with applicable securities law and Nasdaq rules) that provided any service to or engaged in any agreement, arrangement or transaction with SPAR Group as reported in its most recent applicable related party transaction disclosure or financial statement footnote (under any required or appropriate heading) by SGRP in its filing(s) (now or in the future) with the Securities and Exchange Commission, which affiliates currently include (without limitation) SPAR Administrative Services, Inc., SPAR Business Services, Inc., and SPAR Infotech, Inc.

(f) The Company, for itself and each of the other members of the SPAR Group, hereby and forever releases the Employee, and any and all of each of his past, present, and future heirs, executors, administrators, and other personal or legal representatives, individually and in their respective representative and personal capacities (together with the Employee, all hereinafter referred to in this paragraph and this Agreement collectively as "Employee Releasees"), from any and all legally waivable claims, complaints, duties, obligations or causes of action relating to any matters of any kind or nature, including (but not limited to) any right to recover attorney's fees or costs, whether presently known or unknown, suspected or unsuspected, arising from any and all omissions, acts, facts, causes of action, claims, liabilities, demands, debts, assessments, liens, suits, proceedings, judgments, or damages, known or unknown, liquidated or unliquidated, contingent or non-contingent, arising from or pertaining in any way to all events, facts or occurrences from the beginning of the world through the Effective Date of this Agreement (hereinafter each referred to as a "Company Claim"), arising under federal, state, or local law by Constitution, statute, local charter or ordinance, or regulatory rule or regulation, common law, public policy, contract (express and implied), or equity, that might have otherwise been asserted through the Effective Date of this Agreement, in each case to the fullest extent permitted by applicable law, and in each case excluding any Company Claim to the extent caused by the willful misconduct or fraud by the Employee as finally determined pursuant to applicable law. Each Party represents and warrants to the other that it does not currently know of any Company Claim involving any willful misconduct or fraud by the Employee.

3. Release of Unknown Claims. Except as specifically excepted in Section 2, above, this Agreement covers and includes all claims (including all Employee Claims) that the Employee may have against any and all of the Company Releasees, including SGRP, or the Company may have against the Employee Releasees, to the fullest extent allowed by law, whether actually known or not known, and the Employee and the Company hereby waive any rights against the other Party they may have relating to any unknown injuries, claims, or potential claims, regardless of the fact that they are unknown to them.

4. Bar to Claims and Waiver of Any Right to Damages for Claims Brought by the Employee or Others on the Employee's Behalf.

(a) The Employee and the Company acknowledge and agree that this Agreement may be pled as a complete bar to any action, suit, or other proceeding by the Company or the Employee before any court, or adjudicative or administrative body or tribunal with respect to any of the released Employee Claims or Company Claims, respectively.

(b) Nothing in this Agreement is intended to limit or impair in any way the Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or comparable federal, state and local agencies, or to participate in any such charge filed with such agencies and to recover any appropriate relief in any such action. With respect to any charges or complaints that have been filed or may be filed concerning events or actions relating to the Employee's employment or the termination of that employment with SGRP (or any other SPAR Group entity by which the Employee was employed) and which occurred prior to the Effective Date of this Agreement, however, to the maximum extent permitted by applicable law, the Employee waives and releases any right he may have to recover damages or monetary compensation, however characterized, in any lawsuit or proceeding brought by him, any administrative agency, or any other person on the Employee's behalf or that includes the Employee in any class or other representative or collective action, suit or other proceeding. To the extent that the Employee is identified as a putative or actual member of a class or other representative or collective action (or other proceeding) seeking recovery based on one or more released Employee Claims, he must opt-out of such action, suit or other proceeding when first given an opportunity to do so and/or must otherwise decline to participate in any such action, suit or other proceeding. However, this Section is not intended to limit and does not limit the Employee from instituting legal action for the purpose of enforcing this Agreement (subject to the terms of Section 24 hereof), nor does this Agreement affect his right to enforce any rights or claims he may have in the future based on events occurring after the effective date of this Agreement. Additionally, this Agreement shall not preclude the Employee from bringing a legal action to challenge the validity or enforceability of this Agreement under the Age Discrimination in Employment Act of 1967 as amended by the Older Workers Benefit Protection Act.

Age Discrimination in Employment Act Waiver and Release Notification

5 . Age Discrimination in Employment Act Waiver and Release Notification. This Agreement and the Employee Claims released include a release of claims under the Age Discrimination in Employment Act of 1967, 29 United States Code sections 621-634, which is subject to special waiver protections under the Older Workers Benefits Protections Act, 29 United States Code section 626(f). By signing this Agreement the Employee agrees that he is knowingly and voluntarily releasing and waiving any rights or claims of discrimination under the Age Discrimination in Employment Act of 1967 in exchange for the Separation Payments, Relocation Reimbursement Payment, and Separation Benefit described in Section 1, above, to which he would not otherwise be entitled, and also acknowledges the following:

(a) The Employee has twenty-one (21) days to decide whether or not to sign and date this Agreement. This period is designed to allow him to consult with a financial advisor, accountant, attorney or anyone else whose advice he needs. The Employee should consult appropriate advisors, including an attorney, during this time period. To the extent that he takes less than twenty-one (21) days to consider this Agreement prior to signing and dating it, he acknowledges that he had sufficient time to consider this Agreement with his attorney, if any, and that he expressly, voluntarily and knowingly waived any additional time. Additionally, the Parties agree that any that changes which may be made to this Agreement, whether material or immaterial, will not restart the running of the 21-day consideration period;

(b) Signing and dating this Agreement will not waive any rights or claims for age discrimination that may arise after the Effective Date of this Agreement;

(c) If the Employee does sign and date this Agreement, he has seven (7) days to revoke it. Any revocation must be in writing and delivered by hand delivery, courier, facsimile, overnight delivery, or United States Mail to James R. Segreto, at c/o SPAR Group, Inc., 333 Westchester Avenue, South Building, Suite 204, White Plains, New York 10604, facsimile: (914) 332-0741, by the end of the seventh day after the Employee signs and dates this Agreement; and

(d) If the Employee signs and dates and returns this Agreement, the Separation Payments and Relocation Reimbursement Payment provided for in Section 1, above, will not become payable to him until the first day which payments shall commence on the first day which is a regular payday which falls on or after twelve (12) days after SGRP has obtained a properly executed original of this Agreement without him revoking this Agreement. However, the Employee will not be entitled to receive the Separation Payments, Relocation Reimbursement Payment or Separation Benefits if he revokes this Agreement.

Post-Separation Obligations and Restrictive Covenants

6. Return of Property. The Employee acknowledges and agrees that all property pertaining to his employment, including but not limited to, all business, financial or other reports, books, documents, records and other information, including paper and electronic copies, and equipment and other devices, shall be and remain the property of SPAR Group and will not be taken, used or appropriated by the Employee for any purpose. The Employee agrees to return to SPAR Group, within 10 days of signing this agreement, all written, printed and electronic materials and documents, equipment, and other devices in his control or possession, including pagers, company issued credit cards, keys, client lists, contracts, reports, or any other physical or personal property, which he received or prepared or helped to prepare or purchased (for whole or partial reimbursement) in connection with his employment or engagement in any capacity by SPAR Group. Such materials shall be returned by Federal Express or (as appropriate) U.P.S. to the attention of James R. Segreto, SPAR Group, Inc., 333 Westchester Avenue, South Building, Suite 204, White Plains, New York 10604. The Employee represents that, except as may be expressly permitted by law or by express written permission from the Chairman of the Governance Committee or Chief Financial Officer of SGRP, he will not retain any copies, duplicates, reproductions, or excerpts of these materials or documents and will delete or destroy any electronically stored copies he may have. SGRP will provide a federal express number and/or a U.P.S. number which the Employee can use to return any materials.

7. Acknowledgment of Existing Restrictive Covenants and Amendment.

(a) The Employee acknowledges that by virtue of his employment with SGRP, he had access to and knowledge of SPAR Group's confidential information and trade secrets (including confidential information of other SPAR Group companies), was in a position of trust and confidence with SPAR Group, and benefitted from SPAR Group's goodwill. The Employee understands and acknowledges that SPAR Group invested significant time and expense in developing the Confidential Information and goodwill. The Employee further acknowledges that he previously entered into a Confidentiality, Non-Solicitation and Non-Competition Agreement with the Company containing various restrictive covenants dated August 23, 2016 (the "2016 Agreement"); provided, however, that Sections 7(a) and 8 of the 2016 Agreement are hereby amended to remove from the protections for SGRP and restrictions on the Employee under those Sections the category of merchandising and marketing services consisting of product demonstrations and sampling in the United States of America (the "US Demo Business"), but without in any way limiting or modifying any of the other protections for the SPAR Group and restrictions on the Employee under the 2016 Agreement, meaning that so long as the Employee does not breach the 2016 Agreement (as so amended), the Employee may (among other things) be engaged by, provide services to, invest in or accept employment with an entity (or any entity's distinct operating subsidiary or division) that is exclusively engaged in the US Demo Business. Accordingly, the Employee acknowledges and agrees that: (i) the 2016 Agreement (as so amended) will continue in full force and effect according to its terms and it shall survive the termination of his employment with the Company, (ii) he will honor and abide by the terms of the 2016 Agreement (as so amended), and (iii) he will abide by any and all common law and or statutory obligations related to protection and non-disclosure of the Company's trade secrets and/or confidential and proprietary documents and information.

(b) Notwithstanding any other provision of this Agreement or the 2016 Agreement prohibiting the disclosure of trade secrets or confidential information, pursuant to the Defend Trade Secrets Act of 2016 ("DTSA"), the Employee understands and acknowledges that: (a) he will not be held criminally or civilly liable under any federal or state trade secret law for any disclosure of a trade secret that is made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law, or is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal; and (b) if the Employee files a lawsuit or other court proceeding for alleged retaliation by the Company for reporting a suspected violation of law, the Employee may disclose the Company's trade secrets to his attorney and use the trade secret information in the court proceeding if he: (i) files any document containing the trade secret under seal; and (ii) does not disclose the trade secret, except pursuant to court order. Notwithstanding the foregoing, the Employee acknowledges and agrees that nothing in this Agreement shall limit, curtail or diminish the Company's statutory rights under the DTSA, any applicable state law regarding trade secrets, or common law.

8. Specific Performance. The Employee acknowledges and agrees that damages at law will be an insufficient remedy to the SPAR Group in the event that of a breach of the 2016 Agreement and/or Section 6, 7, or 10 hereof, and accordingly, in addition to any other rights or that may be available to it, SGRP (on behalf of itself or any other member of the SPAR Group) also shall be entitled to obtain injunctive or similar equitable relief to enforce these provisions against the Employee in any court of competent jurisdiction.

9 . Non-Admission. The Employee acknowledges that this Agreement, and the Separation Payments and benefits set forth above, do not constitute an admission of any liability, wrongdoing or obligation by SPAR Group. The Parties agree that this Agreement may not be used as evidence in any action, except an action to enforce this Agreement.

10. Mutual Non-Disparagement and Cooperation. (a) The Employee shall not, directly or indirectly, publish or communicate defamatory and/or disparaging remarks about, or in any way damage or impair the reputation, business practices, or goodwill of SPAR Group or any shareholder, partner, member, director, executive, manager, officer, employee, attorney, agent or other representative of any SPAR Group company, or the products and services of SPAR Group. No current member of the Company's Board of Directors shall, directly or indirectly, publish or communicate defamatory and/or disparaging remarks about, or in any way damage or impair the reputation, business practices, or goodwill of the Employee or any of his representatives. The term "disparaging" means a public communication of a lack of integrity, the commission of unlawful acts, or any other statement or writing which would tend to discredit the person about whom the communication is made. A public communication is one made to anyone or entity other than a tax, financial or legal advisor, or an immediate family member. The Company agrees to provide a neutral reference regarding Employee in response to any employment inquiry concerning Employee. The reference will include only his name, start date, end date and last position held. This Section does not, in any way, restrict or impede the Employee or the Company or its subsidiaries from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation or order, or from making disclosures which are otherwise expressly permitted by this Agreement. To the extent that any person is compelled by subpoena, judicial order or other legal process to provide testimony to any governmental, administrative, regulatory, or judicial authority in a proceeding, investigation or inquiry, nothing in this Section shall prohibit such person from providing truthful testimony in response to such subpoena, judicial order or other legal process.

(b) In addition, the recitation or use of any document or other evidence or fact in any inquiry or proceeding respecting any enforcement of this Agreement by a Party or inquiry by the Internal Revenue Service, Securities and Exchange Commission, Nasdaq and/or any federal, state or local agency, or regulatory body shall not violate this Section 10 or any other provision of this Agreement.

(c) The Employee agrees to cooperate with the SPAR Group in formally removing him as an officer, director or other representative of the members of the SPAR Group, including prompt execution of all related documents.

(d) The Employee also agrees to reasonably cooperate in full with SPAR Group concerning any past, present, or future legal matter as to which he has, or could reasonably be expected to have, knowledge through his former positions with SPAR Group including, without limitation, being available, upon reasonable notice, to meet with the Company regarding matters in which he has been involved and any contract matters or audits; to prepare for, attend and participate in any proceeding (including, without limitation, depositions, consultations, discovery or trial); to provide affidavits; to assist with any audit, inspection, proceeding or other inquiry; and to act as a witness in connection with any litigation or other legal proceeding affecting the Company. The Employee shall be entitled to reimbursement of reasonable travel expenses and other costs incurred in association with his obligations under this Section 10(d). To the extent that (i) the Company or its attorneys request in writing that Employee provide cooperation pursuant to this Section 10(d), and (ii) the written request for cooperation relates to matters that are not otherwise subject to indemnification pursuant to Section 27 below, then the Company will reimburse Employee for his reasonable attorneys' fees to the extent it is reasonably necessary for Employee to retain independent counsel in order to reasonably comply with his cooperation obligations hereunder.

Miscellaneous Provisions

11. Filing and Disclosure of Agreement and/or Agreement-Related Information by SGRP. In its 8-K filing with the Securities and Exchange Commission, SGRP will disclose the Employee's departure consistent with this Agreement, and the narrative for such disclosure will be substantially in the same form as Exhibit A hereto. The Employee understands and expressly agrees that SGRP will also have to file the description (substantially in the form of Exhibit A hereto) of the Employee's departure from the SPAR Group and this Agreement with the Securities and Exchange Commission and that doing so is not a violation of this Agreement. In addition, the recitation or use of any document or other evidence or fact in any inquiry or proceeding respecting any enforcement of this Agreement by a Party or inquiry by the Internal Revenue Service, the Securities and Exchange Commission, and/or Nasdaq shall not violate this Agreement.

12. Severability. In the event that any provision of this Agreement shall be determined to be superseded, invalid, illegal or otherwise unenforceable (in whole or in part) pursuant to applicable law by a court or other governmental authority, the Parties agree that: (a) any such authority shall have the power, and is hereby requested by the Parties, to reduce or limit the scope or duration of such provision to the maximum permissible under applicable law or to delete such provision or portions thereof to the extent it deems necessary to render the balance of such Agreement enforceable; (b) such reduction, limitation or deletion shall not impair or otherwise affect the validity, legality or enforceability of the remaining provisions of this Agreement, which shall be enforced as if the unenforceable provision or portion thereof were so reduced, limited or deleted, in each case unless such reduction, limitation or deletion of the unenforceable provision or portion thereof would impair the practical realization of the principal rights and benefits of either Party hereunder; provided that if any provision of the release of claims in Section 2(a) herein is held to be invalid and the Employee proceeds with any claim within the scope of Section 2(a) against any of the Company Releasees, then the Employee agrees to return all consideration paid to him under Section 1 hereof, and the Company will be relieved from any further obligation to provide the Employee with any further compensation, benefit, or consideration described in this Agreement; (c) such determination and such reduction, limitation and/or deletion shall not be binding on or applied by any court or other governmental authority not otherwise bound to follow such conclusions pursuant to applicable law; and (d) upon the written request of SGRP, the Employee agrees to promptly execute a substantially similar release, waiver or covenant that counsel to SGRP advises should be legal and enforceable before the same tribunal.

1 3 . Non-Waiver. Any waiver or consent respecting this Agreement shall be effective only if in writing and signed by the required Parties (which in the case of SGRP shall require the signature of one of its authorized Executives) and then only in the specific instance and for the specific purpose for which given. No waiver or consent shall be deemed (regardless of frequency given) to be a further or continuing waiver or consent. No voluntary notice to or demand on any Party in any case shall entitle such Party to any other or further notice or demand. Except as expressly provided otherwise in this Agreement, (a) no failure or delay by any Party in exercising any right, power, privilege, remedy, interest or entitlement hereunder shall be deemed or construed to be a waiver thereof, (b) no single or partial exercise thereof shall preclude any other or further exercise or enforcement thereof or the exercise or enforcement of any other right, power, privilege, interest or entitlement, and (c) the rights, powers, privileges, remedies, interests and entitlements under this Agreement shall be cumulative, are not alternatives, and are not exclusive of any other right, power, privilege, remedy, interest or entitlement provided by this Agreement or applicable law.

1 4 . Integration and Complete Agreement. (a) Each Party acknowledges and agrees that, in entering into this Agreement, it or he has not directly or indirectly received or acted or relied upon any representation, warranty, promise, assurance or other agreement, understanding or information (whether written, electronic, oral, express, implied or otherwise) from or on behalf of the other Party, any other Party's subsidiaries or other Affiliated Entities, or any other Party's respective representatives, respecting any of the matters contained in this Agreement except for those expressly set forth in this Agreement. This Agreement, along with the 2016 Agreement (which, except as amended by this Agreement, remains in full force and effect according to its terms), contains the entire agreement and understanding of the Parties and supersedes and completely replaces all prior and other representations, warranties, promises, assurances and other agreements, understandings and information (including, without limitation, all existing agreements, offers and proposals), whether written, electronic, oral, express, implied or otherwise, from a Party or between them with respect to the matters contained in this Agreement; provided, however, that except to the extent any express provision of this Agreement is inconsistent or conflicts with any provision of any of the following (in which case the applicable provision of this Agreement shall control, govern and be given effect), this Agreement does not, is not intended, and shall not be deemed or construed to void, modify, supersede or preclude application to the Employee of the SGRP Policies (including the Company's Employee Policy Manual and the SGRP Ethics Code) or any applicable SGRP Employee Benefit, which may be modified, supplemented, rescinded, or revised from time to time as the Company deems necessary or appropriate in its sole discretion.

(b) For purposes of clarity, the Parties acknowledge and agree that the (i) Offer Letter, (ii) any equity award or grant documents that Employee received during his employment with the Company, (iii) the Change of Control Severance Agreement, and (iv) the Officer Severance Agreement, are all terminated, null and void, and of no force or effect.

1 5 . Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the Employee, his heirs, executors, administrators and beneficiaries, successors and assigns, and shall be binding upon and inure to the benefit of each of the SPAR Group companies and each of their subsidiaries and Affiliated Entities and each of their successors and assigns. Each SPAR Group company, and each of their subsidiaries and Affiliated Entities, and any other Company Releasee, is an express third party beneficiary of this Agreement.

16. Amendment. This Agreement may not be altered or modified except in writing signed by both the Employee and the Chief Executive Officer or Chief Financial Officer of SGRP as authorized by SGRP's Governance Committee.

17. No Other Consideration. No other consideration has been or will be furnished or paid to the Employee or to his attorneys, other than as set forth in this Agreement.

18. The Employee Has Read and Had an Opportunity to Consult Counsel Regarding the Agreement. The Employee acknowledges and agrees that he has read this Agreement and has had an opportunity to ask questions and consult with an attorney of his choice regarding the contents and significance of this Agreement before signing this Agreement. The Employee understands the contents and significance of this Agreement and he enters into this Agreement **voluntarily and of his own free will**.

19. No Complaints, Charges, Grievances, or Actions. The Employee represents that he has not filed any charges, grievances, complaints, lawsuits or other claims against any of the Company Releasees, including SGRP.

20. No Reliance on Representations. The Employee affirms that in making this Agreement he is not relying on, and has not relied on, any representation or statements made by SGRP or its attorneys with respect to the facts involved in the dispute underlying this Agreement or with regard to his rights or asserted rights. The Employee fully understands and warrants that if any fact on which he relied in executing this Agreement is found hereafter to be other than or different from the facts now believed by him to be true, the Employee expressly accepts and assumes the risk of such possible difference in fact and acknowledges that this Agreement shall be and remain effective notwithstanding any such difference in fact.

21. Terms of Agreement Not Construed Against Drafting Party and Related Provisions. This Agreement shall be interpreted in accordance with the plain meaning of its terms and not strictly for or against any of the Parties. The Parties hereto agree that the rule of construction to the effect that any ambiguities are to be construed against the drafting Party shall not be employed in any interpretation of this Agreement. Each provision of this Agreement shall be interpreted so as to render it effective and valid. Similarly, captions to the various paragraphs of this Agreement are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

22. Counterparts, Multiple Originals, and Related Provisions. The Parties agree that this Agreement may be executed in duplicate and/or in separate counterparts of the entire Agreement or of signature pages to the Agreement, each of which may have been executed by one or more of the Parties hereto and delivered by mail, courier, telecopy or other electronic or physical means, with these duplicate agreements or separate executed counterparts, taken together, forming a single binding agreement on all Parties. The Parties also agree that, so long as each of the Parties executes this Agreement, copies of this Agreement, including photocopies, scanned PDF copies, and facsimile copies, including signed duplicates and/or counterparts, shall be deemed to constitute an original and may be used in lieu of an original for any purpose, and shall be fully enforceable against a signing Party.

23. Section 409A. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, SGRP makes no representation or warranty that any of the payments and or benefits provided under this Agreement comply with Section 409A, and in no event shall SGRP be liable for all or any portion of any taxes, penalties, interest or other expenses ("409A Liability") that may be incurred by the Employee on account of any non-compliance with Section 409A except to the extent (and in the proportion) such 409A Liability is incurred by the Employee due to SGRP's willful or grossly negligent breach of this Agreement.

24. Applicable Law. To the greatest extent permitted by applicable law, this Agreement shall be governed by and construed in accordance with the applicable federal law of the United States of America, and to the extent not preempted by such federal law, by the applicable law of the State of Delaware in the case of Section 27 (Indemnification), or by the applicable law of the State of New York in the case of any other provisions of this Agreement, in each case other than those conflict of law rules that would defer to the substantive laws of another jurisdiction. Without affecting the right of any other Company Releasees to seek enforcement of this Agreement, the Parties each hereby consent and agree that any state or federal court sitting in Westchester County, New York, shall have exclusive personal jurisdiction and proper venue with respect to any unresolved dispute or controversy between the Parties arising out of or in connection with the Employee's employment by SGRP or any of its subsidiaries; provided, however, that the foregoing shall not deprive any Party of the right to appeal the decision of any such court to a proper appellate court located elsewhere; and further provided that any dispute, claim or controversy arising out of or related to this Agreement (other than the Company bringing an action for injunctive relief in which the Company alleges that the Employee breached the 2016 Agreement and/or any of the covenants set forth in Sections 6, 7, or 10 hereof) or any breach of this Agreement, shall be submitted to and decided by binding arbitration in Westchester County, New York. Arbitration shall be administered under the rules of the American Arbitration Association ("AAA") in accordance with the American Arbitration Association's Employment Arbitration Rules in effect at such time and any requirements imposed by New York law. Any arbitral award determination shall be final and binding upon the Parties and may be entered as a judgment in a court of competent jurisdiction.

25. Waiver of Jury Trial. The Parties further agree that, to the greatest permitted by applicable law, any action, suit or proceeding relating to or otherwise arising out of or in connection with the Employee's employment by SGRP or any of its subsidiaries shall be resolved by a bench trial and not a jury trial, and each Party hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury. This waiver of jury trial and each other express waiver, release, relinquishment or similar surrender of rights (however expressed) made by a Party in this Agreement has been absolutely, unconditionally, irrevocably, knowingly and intentionally made by such Party.

26. Attorney Fees for Enforcement. Except for any legal action to determine the validity of the Age Discrimination in Employment Act of 1967 release provisions of this Agreement, for which no attorney fees will be awarded, and except for any legal action arising out of the tax consequences of the Relocation Reimbursement Payment (as provided in Section 1) if any Party to this Agreement or any of the Company Releasees or Employee Releasees brings any claim, action, or suit or initiates any arbitration relating to or arising out of this Agreement or any alleged breach of this Agreement (including one seeking to recover based on any released Employee Claim) or otherwise arising out of or in connection with the Employee's employment by SGRP or any of its subsidiaries, the substantially prevailing Party shall be entitled to reimbursement from the non-prevailing Party for his, her, or its costs, expenses, and reasonable attorneys' fees incurred in such claim, suit, action, or arbitration, as well as all other remedies.

27. Indemnification. (a) To the maximum extent permitted by Delaware law and the By-Laws of the Company as in effect on the Effective Date (the "By-Laws"), but excluding any dispute arising out of this Agreement or its enforcement or any dispute between Employee and SPAR Group, the Company at its own expense shall, upon written demand from the Employee, indemnify, reimburse, hold harmless and defend the Employee, with counsel selected by the Company (and reasonably acceptable to the Employee) and otherwise in accordance with the procedures established in the By-Laws, from and against any and all claims, losses and expenses (as more fully provided in the By-Laws, including reasonable attorneys' fees and the advancement of reasonable attorneys' fees and expenses) arising out of or incurred or sustained in connection with any action, suit, proceeding or investigation to which the Employee or his legal representatives may be made a party by reason of him having been a director, executive, officer, employee or agent of the Company, any subsidiary, or any of their respective affiliates or employee benefit plans; in each case excluding any and all claims, losses and expenses to the extent (and in the proportion) attributable to any act or omission of the Employee not involving Proper Conduct. "Proper Conduct" shall mean any action or conduct of the Employee if all of the following are true with respect thereto: (i) the Employee acted in good faith, (ii) the Employee acted in a manner he reasonably believed to be in or not opposed to the best interests of the Company and its subsidiaries, (iii) with respect to any criminal proceeding, the Employee had no reasonable cause to believe such action or conduct was unlawful, and (iv) such action or conduct would not have otherwise disqualified the Employee from receiving indemnification from the Company under Delaware law.

(b) Employee shall be entitled to coverage under all director, executive and officer liability insurance policies maintained from time to time by the Company or any subsidiary in accordance with their respective terms respecting his former employment and positions with them.

(c) The provisions of this Section are in addition to, and shall not be deemed exclusive of, any other rights to which the Employee seeking indemnification may have under any by-law, agreement, vote of stockholders or directors, or otherwise.

(d) The provisions of this Agreement shall survive the execution and delivery hereof, the making of the Separation Payments and the expiration of the restrictive covenant periods and shall continue in full force and effect thereafter in accordance with such provisions for the duration the applicable statutes of limitation.

28. Notice. Notices provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered and/or certified mail, return receipt requested, or by overnight carrier to the Parties at the addresses set forth below (or such other addresses as specified by the Parties by like notice), and shall be effective upon receipt or refusal of receipt:

If to the Company, to:

SPAR Group, Inc.
333 Westchester Avenue
South Building, Suite 204
White Plains, New York 10604, U.S.A.
ATTN: James R. Segreto, C.F.O. (or his successor)
Telephone: 1-914-332-4100
Telecopy: 1-914-332-0741

If to the Employee:

Scott Popaditch
625 Bentley Lane
Maitland, Florida 32751, U.S.A.

29. Effective Date. So long as this Agreement is signed by all Parties without being revoked within seven (7) days of the date that it is signed by the Employee, it shall be effective on the eighth (8th) day following Employee's execution of this Agreement (the "Effective Date"). If the Employee does sign this Agreement he can revoke it within seven (7) days of the date that he does so pursuant to and consistent with the terms Section 5, above.

IN WITNESS WHEREOF, and in consideration of the mutual covenants and agreement herein contained and other good and valuable consideration (the receipt and adequacy of which is hereby acknowledged by the Parties), the Parties hereto, intending to be legally bound, have executed this Separation Agreement, Release and Waiver of All Claims as of the Execution Date and intend it to be effective as of the Effective Date.

THE PARTIES ACKNOWLEDGE THAT THEY HAVE READ THE FOREGOING SEPARATION AGREEMENT, RELEASE AND WAIVER OF ALL CLAIMS, FULLY UNDERSTAND IT AND HAVE VOLUNTARILY SIGNED THIS AGREEMENT ON THE DATE INDICATED, SIGNIFYING THEIR ASSENT TO, AND WILLINGNESS TO BE BOUND BY ITS TERMS.

DATED: June 29¹, 2017

/s/ Scott Popaditch
Scott Popaditch

SPAR Group, Inc.

DATED: June 29², 2017

By: /s/ James Segreto
James R. Segreto
Chief Financial Officer

- ¹ To be completed with the applicable signature date.
² To be completed with the applicable signature date.

On this 29th day of June, 2017, before me, Kalpesh P Pates, Notary Public, personally appeared, **Scott Popaditch**, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

/s/ K P Pates (Seal)

Print Name: _____

NOTARY PUBLIC for the State of Florida

My Commission Expires: _____

On this 29th day of June, 2017, before me personally came **James R. Segreto**, to me known, who, being by me duly sworn, did depose and say: that he has an address at c/o SPAR Group, Inc., 333 Westchester Avenue, South Building, Suite 204, White Plains, New York 10604; that he is the **Chief Financial Officer, Treasurer and Secretary of SPAR Group, Inc.**, the Delaware corporation described in and which executed the above instrument; and that he signed his name thereto by authority of the board of directors of said corporation in the above referenced State.

/s/ Mark Pedalino
(Signature and office of individual taking acknowledgment.)

EXHIBIT A

Narrative for Form 8-K Disclosure

Form of Disclosure (in addition to the 8-K filed concurrently with the Press Release dated on or about June 30, 2017):

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On May 15, 2017, effective May 15, 2017, Scott Popaditch resigned from his positions as President and Chief Executive Officer and a director, executive, officer and employee (as applicable) of SPAR Group, Inc. and its subsidiaries pursuant to a negotiated Separation Agreement, Release, and Waiver of All Claims. Under that agreement, Mr. Popaditch will receive separation payments equal to approximately \$108,333.33.

In addition to the above, SGRP may provide such additional disclosure (dollar amounts, etc.) as may be required to satisfy any inquiry or comment from the Securities Exchange Commission or Nasdaq.

The 8-K also will have the normal facing page, description of the SPAR Group, forward looking statement disclaimers and signature block. No 8-K Exhibits are currently contemplated.

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

I, Kori G. Belzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended June 30, 2017 of SPAR Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

/s/ Kori G. Belzer
Kori G. Belzer
Interim President and Chief Executive Officer

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

I, James R. Segreto, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended June 30, 2017 of SPAR Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

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

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

In connection with the quarterly report on Form 10-Q for the three-month period ended June 30, 2017 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/ Kori G. Belzer
Kori G. Belzer
Interim President and Chief Executive Officer

August 14, 2017

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

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

In connection with the quarterly report on Form 10-Q for the three-month period ended June 30, 2017 of SPAR Group, Inc., the undersigned hereby certifies that, to his knowledge:

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

/s/ James R. Segreto

James R. Segreto
Chief Financial Officer, Treasurer and
Secretary

August 14, 2017

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.

