

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 third quarterly period ended **September 30, 2020**.

OR

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

Commission file number 0-27408

SPAR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0684451

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

1910 Opdyke Court, Auburn Hills, Michigan

(Address of principal executive offices)

48326

(Zip Code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Emerging Growth Company

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

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on April 30, 2020, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$6.8 million.

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

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

The number of shares of the Registrant's Common Stock outstanding as of November 11 2020, was 21,111,861 shares.

SPAR Group, Inc.

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

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

	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,750	\$ 10,458
Accounts receivable, net	47,366	49,299
Prepaid expenses and other current assets	4,212	2,404
Total current assets	67,328	62,161
Property and equipment, net	2,846	2,848
Operating lease right-of-use assets	2,742	4,948
Goodwill	3,753	3,784
Intangible assets, net	2,381	2,796
Deferred income taxes	1,388	1,883
Other assets	2,033	1,115
Total assets	\$ 82,471	\$ 79,535
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 8,377	\$ 9,186
Accrued expenses and other current liabilities	21,186	18,548
Due to affiliates	3,475	4,666
Customer incentives and deposits	1,052	594
Lines of credit and short-term loans	12,104	8,932
Current portion of operating lease liabilities	1,145	2,828
Total current liabilities	47,339	44,754
Operating lease liabilities, less current portion	1,597	2,120
Long-term debt and other liabilities	1,300	1,300
Total liabilities	50,236	48,174
Commitments and contingencies – See Note 8		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares – 2,445,598 Issued and outstanding shares – None – Balance at September 30, 2020 and December 31, 2019	-	-
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 21,111,861 – Balance at September 30, 2020, and 21,102,335 – December 31, 2019	211	211
Treasury stock, at cost 1,697 shares – Balance at September 30, 2020, and December 31, 2019	(2)	(2)
Additional paid-in capital	16,621	16,511
Accumulated other comprehensive loss	(5,060)	(3,616)
Retained earnings	7,188	5,851
Total SPAR Group, Inc. equity	18,958	18,955
Non-controlling interest	13,277	12,406
Total equity	32,235	31,361
Total liabilities and equity	\$ 82,471	\$ 79,535

See accompanying notes.

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

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net revenues	\$ 58,865	\$ 66,440	\$ 171,157	\$ 191,823
Cost of revenues	46,849	53,929	137,478	154,614
Gross profit	12,016	12,511	33,679	37,209
Selling, general and administrative expense	8,145	8,940	25,287	26,639
Depreciation and amortization	530	524	1,609	1,563
Operating income	3,341	3,047	6,783	9,007
Interest expense	169	216	482	605
Other income, net	(143)	(11)	(201)	(268)
Income before income tax expense	3,315	2,842	6,502	8,670
Income tax expense	870	760	1,830	2,745
Net income	2,445	2,082	4,672	5,925
Net (income) attributable to non-controlling interest	(1,301)	(1,175)	(3,335)	(2,880)
Net income attributable to SPAR Group, Inc.	\$ 1,144	\$ 907	\$ 1,337	\$ 3,045
Basic and diluted income per common share:	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.15
Weighted average common shares – basic	21,110	20,975	21,108	20,856
Weighted average common shares – diluted	21,147	21,061	21,152	21,096
Net income	\$ 2,445	\$ 2,082	\$ 4,672	\$ 5,925
Other comprehensive income (loss):				
Foreign currency translation adjustments	71	(811)	(3,908)	(644)
Comprehensive income	2,516	1,271	764	5,281
Comprehensive (income) attributable to non-controlling interest	(1,326)	(815)	(871)	(2,623)
Comprehensive income attributable to SPAR Group, Inc.	\$ 1,190	\$ 456	\$ (107)	\$ 2,658

See accompanying notes.

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance at January 1, 2020	21,102	\$ 211	2	\$ (2)	\$ 16,511	\$ (3,616)	\$ 5,851	\$ 12,406	\$ 31,361
Exercise of stock options	6	–	–	–	–	–	–	–	–
Share-based compensation	–	–	–	–	25	–	–	–	25
Other comprehensive (loss)	–	–	–	–	–	(1,456)	–	(2,444)	(3,900)
Net income	–	–	–	–	–	–	296	626	922
Balance at March 31, 2020	21,108	\$ 211	2	\$ (2)	\$ 16,536	\$ (5,072)	\$ 6,147	\$ 10,588	\$ 28,408
Share-based compensation	–	–	–	–	70	–	–	–	70
Other comprehensive (loss)	–	–	–	–	–	(34)	–	(45)	(79)
Net income (loss)	–	–	–	–	–	–	(103)	1,408	1,305
Balance at June 30, 2020	\$ 21,108	\$ 211	2	\$ (2)	\$ 16,606	\$ (5,106)	\$ 6,044	\$ 11,951	\$ 29,704
Share-based compensation	–	–	–	–	17	–	–	–	17
Exercise of stock options	4	–	–	–	(2)	–	–	–	(2)
Other comprehensive income	–	–	–	–	–	46	–	25	71
Net income	–	–	–	–	–	–	1,144	1,301	2,445
Balance at September 30, 2020	21,112	\$ 211	2	\$ (2)	\$ 16,621	\$ (5,060)	\$ 7,188	\$ 13,277	\$ 32,235

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance at January 1, 2019	20,785	\$ 208	8	\$ (8)	\$ 16,304	\$ (3,638)	\$ 3,432	\$ 8,476	\$ 24,774
Share-based compensation	-	-	-	-	49	-	-	-	49
Other comprehensive income (loss)	-	-	-	-	-	98	(18)	28	108
Net income	-	-	-	-	-	-	615	421	1,036
Balance at March 31, 2019	20,785	\$ 208	8	\$ (8)	\$ 16,353	\$ (3,540)	\$ 4,029	\$ 8,925	\$ 25,967
Share-based compensation	-	-	-	-	51	-	-	-	51
Exercise of stock options	65	1	(6)	(7)	6	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	(16)	-	75	59
Net income	-	-	-	-	-	-	1,523	1,284	2,807
Balance at June 30, 2019	20,850	\$ 209	2	\$ (15)	\$ 16,410	\$ (3,556)	\$ 5,552	\$ 10,284	\$ 28,884
Share-based compensation	-	-	-	-	65	-	-	-	65
Exercise of stock options	244	1	-	-	(27)	-	-	-	(26)
Other comprehensive (loss)	-	-	-	-	-	(450)	-	(361)	(811)
Net income	-	-	-	-	-	-	907	1,175	2,082
Balance at September 30, 2019	21,094	\$ 210	\$ 2	\$ (15)	\$ 16,448	\$ (4,006)	\$ 6,459	\$ 11,098	\$ 30,194

See accompanying notes.

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

	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net income	\$ 4,672	\$ 5,925
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	1,609	1,563
Non-cash lease expense	2,308	1,553
Bad debt expense, net of recoveries	256	278
Share-based compensation	112	165
Changes in operating assets and liabilities:		
Accounts receivable	1,758	(11,247)
Prepaid expenses and other assets	(2,240)	(2,610)
Accounts payable	(798)	2,748
Operating lease liabilities	(2,308)	(1,553)
Accrued expenses, other current liabilities and customer incentives and deposits	1,854	4,750
Net cash provided by operating activities	7,223	1,572
Investing activities		
Purchases of property and equipment and capitalized software	(1,248)	(1,378)
Net cash used in investing activities	(1,248)	(1,378)
Financing activities		
Net borrowings on lines of credit	3,209	10,372
Payoff of bank line of credit	-	(9,598)
Payments from stock options exercised	(2)	-
Payments on term debt	-	(71)
Payments on capital lease obligations	-	(89)
Net cash provided by financing activities	3,207	614
Effect of foreign exchange rate changes on cash	(3,890)	(547)
Net change in cash and cash equivalents	5,292	261
Cash and cash equivalents at beginning of year	10,458	7,111
Cash and cash equivalents at end of period	\$ 15,750	\$ 7,372
Supplemental disclosure of cash flows information:		
Interest paid	\$ 509	\$ 375
Income taxes paid	\$ 554	\$ 541

See accompanying notes.

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

1. Basis of Presentation

The unaudited, interim condensed consolidated financial statements of the Company, accompanying this Quarterly Report on Form 10-Q for the third quarter ended September 30, 2020 (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 accompanying consolidated balance sheet as of December 31, 2019 is derived from the Company's audited financial statements as of that date. Because certain information and footnote disclosures have been condensed or omitted, these consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2019 contained in the Company's 2019 Annual Report on Form 10-K (the "2019 Form 10-K"). 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, 2019, as filed with the Securities and Exchange Commission (the "SEC") on April 14, 2020 (the "2019 Annual Report"). Particular attention should be given to Items 1 and 1A of the 2019 Annual Report respecting the Company's Business and Risk Factors, respectively. The Company's results of operations for the interim period are not necessarily indicative of its operating results for the entire year. Except for the change noted below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements.

2. Business and Organization

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

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

As of September 30, 2020, 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.

Novel Coronavirus (COVID-19) Outbreak

In March 2020, the World Health Organization declared the novel strain of Coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

In the USA, many of our clients have been affected by business closure and stay at home orders, which has hampered our ability to perform in-store services since March 2020. As of the date of this filing, many of our Company subsidiaries globally have been impacted by temporary retail closures or reduced in-store hours, although most of our customer's locations remain open to provide essential products. New store openings and remodels with the Company's assistance are particularly susceptible to such external factors and are being delayed by many of the Company's clients due to the effects of the Novel Coronavirus. The Company has initiated mitigation efforts and is monitoring the situation on a country-by-country basis. The Company has also implemented several cost savings measures which include a reduction in the use of contracted workers, furloughing employees, reducing hours and a reduction in other corporate and non-critical expenses.

Due in part to the uncertainty stemming from the COVID-19 pandemic as described above the Company experienced a decrease in market capitalization near the end of the first quarter that has continued into the subsequent period. As a result of this condition, the Company reviewed for any triggering event and the need to perform quantitative interim impairment testing over the Company's goodwill assets as of September 30, 2020. The Company concluded that a triggering event did not occur based on qualitative factors assessed as part of the annual impairment test previously performed, such as actual results to date in comparison to previous forecasts and assumptions based on current projections, including projected revenue, projected operational profit, terminal growth rates, and the cost of capital, and accordingly did not record any asset impairment charges on its goodwill. In performing its assessment, the Company believes it has made reasonable accounting estimates based on the facts and circumstances that were available as of the reporting date considering the developing situation resulting from the COVID-19 pandemic. If actual results are not consistent with the assumptions and judgements used, there may be exposure to future impairment losses that could be material to the Company's results of operations.

Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company cannot reasonably estimate the length or severity of this pandemic, however we currently anticipate a material adverse impact on our consolidated financial position, results of operations, and cash flows in fiscal 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The CARES Act is aimed at providing emergency assistance and health care for individuals, families, and businesses affected by the COVID-19 pandemic and generally supporting the U.S.

economy. The CARES Act, among other things, includes provisions related to refundable payroll tax credits, deferment of the employer portion of social security payments, net operating loss carryback periods, modifications to the net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. We are analyzing the various aspects of the CARES Act to determine the impact specific provisions may have on us. However, the company does not foresee any material adjustments.

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

3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income attributable to SPAR Group, Inc.	\$ 1,144	\$ 907	\$ 1,337	\$ 3,045
Denominator:				
Shares used in basic net income per share calculation	21,110	20,975	21,108	20,856
Effect of diluted securities:				
Stock options and unvested restricted shares	37	86	44	240
Shares used in diluted net income per share calculations	21,147	21,061	21,152	21,096
Basic and diluted net income per common share:	\$ 0.05	\$ 0.04	\$ 0.06	\$ 0.15

4. Credit Facilities and Other Debt

Domestic Credit Facilities

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

North Mill Capital Credit Facility

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

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

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

The NM Note currently requires the NM Borrowers to pay interest on the loans thereunder equal to (A) Prime Rate designated by Wells Fargo Bank, plus (B) one hundred twenty five basis points (1.25%) or a minimum of 6.75%. In addition, the Company is paying a fee to NM of \$10,000 per month over the term of the agreement. The Company utilized a broker to assist in this financing and paid a fee of \$120,000 for their services. On September 30, 2020, the aggregate interest rate under that formula was 6.75% per annum, and the outstanding loan balance was \$11.7 million. Outstanding amounts are classified as short-term debt.

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

The NM Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the NM Loan Parties, including, maintaining a positive trailing EBITDA for each Borrower and limits on capital expenditures and other investments. The Company was in compliance of such covenants as of September 30, 2020.

Fifth Third Credit Facility

One of the Company's consolidated subsidiaries, Resource Plus of North Florida, Inc. ("Resource Plus"), is a party to a revolving line of credit facility (the "Fifth Third Credit Facility") from Fifth Third Bank for \$3.5 million, which was scheduled to become due on April 23, 2020. Effective April 16, 2020, the term of the Fifth Third Credit Facility was extended and is currently scheduled to become due on June 16, 2022.

Revolving loans of up to \$3.5 million are available to Resource Plus under the Fifth Third Credit Facility based upon the borrowing base formula defined in the agreement (principally 80% of "eligible" accounts receivable less certain reserves). As of September 30, 2020, there was no outstanding balance. The Fifth Third Credit Facility is secured by substantially all assets of Resource Plus.

The Fifth Third Credit Facility currently requires Resource Plus to pay interest on the loans thereunder equal to (A) the Daily LIBOR Rate (as defined in the agreement) per annum, plus (B) two hundred fifty basis points (2.50%). On September 30, 2020, the aggregate interest rate under that formula was 3.60% per annum. The Fifth Third Credit Facility contains a debt service coverage ratio financial covenant requiring RP to maintain a minimum of ratio of 1.2 for available cash flow to fixed charges, as defined in the agreement. The Company was not in compliance of the covenant as of September 30, 2020 and expects to obtain a waiver from the Fifth Third Bank.

Effective with the closing of the Resource Plus acquisition, the Company entered into promissory notes with the sellers totaling \$2.3 million. The notes are payable in annual installments at various amounts due on December 31st of each year starting with December 31, 2018 and continuing through December 31, 2023. As such these notes are classified as both short term and long term for the appropriate amounts. The total balance owed at September 30, 2020 was approximately \$1.6 million.

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

International Credit Facilities:

SPARFACTS Australia Pty. Ltd. has a secured line of credit facility with National Australia Bank, effective October 31, 2017, for \$800,000 (Australian) or approximately \$571,305 USD (based upon the exchange rate at September 30, 2020). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The outstanding balance with National Australia Bank as of September 30, 2020 was \$127,313 (Australian) or \$90,918 USD and is due on demand.

On October 5, 2018, SPAR Brazil secured a line of credit facility with Banco Santander for approximately 381,000 Brazilian Real or approximately \$67,704 USD (based upon the exchange rate at September 30, 2020). There was no outstanding balance as of September 30, 2020. This note is due September 30, 2020.

SPAR Todopromo has secured a line of credit facility with Steel Factoring for 5.0 million Mexican Pesos or approximately \$224,630 USD (based upon the exchange rate at September 30, 2020). The revolving line of credit was secured on December 13, 2019, and expires December 2020. The fixed interest rate for the Steel Factoring facility is 18%, as of September 30, 2020. There was no outstanding balance as of September 30, 2020.

Effective February 4, 2020, SPAR Todopromo established a line of credit facility with Ve Por Mas for 5.2 million Mexican Pesos or approximately \$233,750 USD (based upon the exchange rate at September 30, 2020). The line expires on February 4, 2021. The variable interest rate is TIIE plus 3.0% resulting in a rate of 9.1% as of September 30, 2020. There was no outstanding balance as of September 30, 2020.

SPAR Todopromo has secured a line of credit facility with BBVA Bancomer for 5.0 million Mexican Pesos or approximately \$224,630 USD (based upon the exchange rate at September 30, 2020). The revolving line of credit expired April 2020 but has been extended to May 2021. The variable interest rate is TIIE (Interbank Interest Rate) plus 5.2% resulting in a rate of 10.9% as of September 30, 2020. There was no outstanding balance as of September 30, 2020.

	Interest Rate as of September 30, 2020	2020	2021	2022	2023	2024	2025
Australia - National Australia Bank	6.56%	91	-	-	-	-	-
Brazil - Santander	16.52%	-	-	-	-	-	-
Mexico - Steel Factoring	18.00%	-	-	-	-	-	-
Mexico - Ve Por Mas	9.10%	-	-	-	-	-	-
Mexico - Bancomer Bank	10.90%	-	-	-	-	-	-
USA – North Mill Capital	6.75%	11,680	-	-	-	-	-
USA - Fifth Third Bank	3.60%	-	-	-	-	-	-
USA – Resource Plus Seller Notes	1.85%	333	300	300	700	-	-
Total		\$ 12,104	\$ 300	\$ 300	\$ 700	\$ -	\$ -

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

	September 30, 2020	December 31, 2019
<u>Unused Availability:</u>		
United States / Canada	\$ 3,820	\$ 3,694
Australia	480	423
Mexico	683	-
Brazil	68	49
Total Unused Availability	\$ 5,051	\$ 4,166

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

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

5. Related-Party Transactions

SGRP's policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Executives, Officers, Employees, Consultants and other Representatives Amended and Restated (as of) March 15, 2018 (the "Ethics Code"). The Ethics Code is intended to promote and reward honest, ethical, respectful and professional conduct by each director, executive, officer, employee, consultant and other representative of any of SGRP and its subsidiaries (together with SGRP, the "Company") and each other Covered Person (as defined in the Ethics Code) in his or her position with the Company anywhere in the world, including (among other things) serving each customer, dealing with each vendor and treating each other with integrity and respect, and behaving honestly, ethically and professionally with each customer, each vendor, each other and the Company. Article II of the Ethics Code specifically prohibits various forms of self-dealing (including dealing with relatives) and collusion and Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from using or disclosing the Confidential Information of the Company or any of its customers or vendors, seeking or accepting anything of value from any competitor, customer, vendor, or other person relating to doing business with the Company, or engaging in any business activity that conflicts with his or her duties to the Company, and directs each "Covered Person" to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any "Approved Activity" (as such terms are defined in the Ethics Code). Examples of violations include (among other things) having any ownership interest in, acting as a director or officer of or otherwise personally benefiting from business with any competitor, customer or vendor of the Company other than pursuant to any Approved Activity. Approved Activities include (among other things) any contract with an affiliated person (each an "Approved Affiliate Contract") or anything else disclosed to and approved by SGRP's Board of Directors (the "Board"), its Governance Committee or its Audit Committee, as the case may be, as well as the ownership, board, executive and other positions held in and services and other contributions to affiliates of SGRP and its subsidiaries by certain directors, officers or employees of SGRP, any of its subsidiaries or any of their respective family members. The Company's senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including those related to the oversight and approval of conflicting relationships and transactions, subject to the review and oversight of SGRP's Governance Committee as provided in clause IV.11 of the Governance Committee's Charter, and SGRP's Audit Committee as provided in clause I.2(1) of the Audit Committee's Charter. The Governance Committee and Audit Committee each consist solely of independent outside directors (see *Domestic Related Party Services, International Related Party Services, SBS Bankruptcy, Settlement and March 2020 Claim, Summary of Certain Related Party Transactions, Infotech Litigation and Settlement, Affinity Insurance and Related Reimbursement Dispute, and Other Related Party Transactions and Arrangements*, below).

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

Domestic Related Party Services:

SPAR Business Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. ("Infotech"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by SBS LLC which in turn is beneficially owned by Robert G. Brown. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned principally by Robert G. Brown. Mr. Robert G. Brown and Mr. Bartels (the "Majority Stockholders") (see below), are members of a 13D control group and founders of SGRP, Mr. Robert G. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired), and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels. Mr. Robert G. Brown became Chairman of SGRP's Strategic Committee and a member of SGRP's Technology Committee when such committees were formed on July 17, 2020. Mr. Robert G. Brown resigned as Chairman and a member of SGRP's Strategic Committee effective September 1, 2020. Mr. Bartels was and continues to be a director of SGRP, but retired as Vice Chairman on July 17, 2020, and as an employee of SGRP as of January 1, 2020 (see Bartels' Retirement and Director Compensation, below). Mr. Robert G. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies – Legal Matters*, and *SBS Bankruptcy, Settlement and March 2020 Claim* and *Infotech Litigation and Settlement*, below.

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

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

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

SAS has not provided or been authorized to perform any services to the Company after their terminations described above effective on or before July 31, 2018. While SAS has apparently continued to operate for its own benefit and/or the winding down of its operations, the Company has determined that it is not obligated to reimburse any post-termination expense. However, in the spirit of settlement, the Company had offered to reimburse SAS \$237,500 for claimed transition expenses to be offset by \$226,000 owed by SAS to the Company, for a net payment to SAS of \$11,500. SAS has not accepted the Company's offer.

The Company expects that SBS and SAS may use every available means to attempt to collect reimbursement from the Company for the foreseeable future for all of their post-termination expense, including repeated litigation. See Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters and SBS Bankruptcy, Settlement and March 2020 Claim*, below.

Any claim by Robert G. Brown, William H. Bartels, SBS, SAS, any other related party or any third party that the Company is somehow liable for any judgment or similar amount imposed against SBS or SAS or any other related party, any judicial determination that the Company is somehow liable for any judgment or similar amount imposed against SBS or SAS or any other related party, or any increase in the Company's use of employees (rather than the services of independent contractors provided by third parties) to perform Field Specialist services domestically, in each case in whole or in part, could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, legal costs liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See SBS Bankruptcy, Settlement and March 2020 Claim, Infotech Litigation and Settlement and Affinity Insurance and Related Reimbursement Dispute and Related Reimbursement Dispute, below, and Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies -- Legal Matters*, below.

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

Infotech sued the Company in September 2018 in New York seeking reimbursement for approximately \$190,000 respecting alleged lost tax benefits and other expenses it claims to have incurred in connection with SGRP's acquisition of its Brazilian subsidiary and previously denied on multiple occasions by both management and SGRP's Audit Committee, whose approval was required because Infotech is a related party. Infotech also threatened to sue the Company in Romania for approximately \$900,000 for programming services allegedly owed to the Company's former Romanian subsidiary (sold at book value to Infotech in 2013) and not provided to Infotech, for which the Company vigorously denies liability. The Company and Infotech settled this matter. See *Infotech Litigation and Settlement* below, and Note 8 to the Company's Consolidated Financial Statements - *Commitments and Contingencies - Legal Matters*, below.

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Peter W. Brown was appointed as a Director on the Board as of May 3, 2018, replacing Mr. Robert G. Brown upon his retirement from the Board and Company at that date. He has recently been deemed independent by the Board except for with respect to related party matters and for matters concerning SPAR Brasil Servicos de Merchandising e Tecnologia S.A., a Brazilian corporation and SGRP subsidiary ("SPAR BSMT"). Peter Brown is an affiliate and related party respecting SGRP and was proposed by Mr. Robert G. Brown to represent the Brown family interests. He worked for and is a stockholder of SAS (see above) and certain of its affiliates, he is the nephew of Mr. Robert G. Brown, he is a director of SPAR BSMT and owns Earth Investments LLC, ("EILLC"), which owns 10% interest in the SGRP's Brazilian subsidiary. Mr. Robert G. Brown is a significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels.

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

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

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

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

SBS Bankruptcy, Settlement and March 2020 Claim

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

On August 6, 2019, SGRP, and its subsidiaries SPAR Marketing Force, Inc. ("SMF"), a Nevada corporation, and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation, submitted to the U.S. District Court in Nevada (the "Bankruptcy Court") their Compromise and Settlement Agreement, dated July 26, 2019 (the "Settlement Agreement"), with SBS, a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession, and SBS, LLC, a Nevada limited liability company. The Settlement Agreement was submitted in the SBS Chapter 11 Case. Pursuant to the Settlement Agreement, the Company settled its claims for (among other things) indemnification from SBS in Clothier and the Rodgers class action case in Texas ("Rodgers").

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

On August 6, 2019, the Bankruptcy Court approved the Settlement Agreement and the SBS reorganization pursuant to SBS' First Amended Chapter 11 Plan of Reorganization, as amended by the Settlement Agreement (the "Plan of Reorganization"). Pursuant to its Plan of Reorganization, SBS also settled its potential liability in the Clothier and Rodgers cases, but the Company believes that Robert G. Brown and William H. Bartels were not released from Clothier, any related case or Rodgers. See Note 8 to the Company's Consolidated Financial Statements in the *Commitments and Contingencies -- Legal Proceedings -- SBS Bankruptcy, Settlement and March 2020 Claim, SBS Clothier Litigations, and SBS Rodgers Litigation*, below. In the Settlement Agreement, except for the carve out described in the next paragraph, SBS completely released the Company from all obligations that may be owed to SBS.

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

- (i) the Company's \$2.2 million in claims were settled for \$174,097 payable by SBS over 24 monthly installments of \$7,254 per month starting January 1, 2020, and without any interest (collectively, the "Discounted Claim Payments"), as such terms are defined in the SBS Settlement Agreement and the Company accrued \$174,097 for the Discounted Claim Payments; and
- (ii) SMF will pay to SBS the Proven Unpaid A/R (as defined in the SBS Settlement Agreement) upon its determination (as described below).

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

The Company recorded the total settlement amount of \$174,097 as of December 31, 2019, respecting the potential Discounted Claim Payments. This settlement amount is payable in 24 equal monthly payments of \$7,254 starting January 1, 2020. Through November 1, 2020, SBS is in default of making the first eleven payments totaling \$79,794 and formal default notices have been sent to SBS. SBS has responded and claimed an offset respecting its undocumented and unproven claims. As of September 30, 2020, the total settlement of \$174,097 has been reserved by the Company, but such reservation does not release or affect SBS' obligations to make those payments to the Company.

On March 6, 2020, Robert G. Brown on behalf of SBS sent an email communication to Arthur B. Drogue, to which he copied Arthur H. Baer, demanding payment of \$1,707,374 to SBS from SMF pursuant to (among other things) the SBS Settlement Agreement (the "March 2020 Claim"). The Company has reviewed the March 2020 Claim in detail (although Brown has provided no backup or proof) and the Company strongly disagrees that any such amount is owed. The Company believes that the robust and comprehensive mutual releases and other provisions in the SBS Settlement Agreement provide valuable relief from such claims and potential future claims and litigation by SBS respecting the Company's past involvement with SBS, including the March 2020 Claim. However, Robert G. Brown, president, director and indirect owner of SBS, since and notwithstanding the Court's approval of the SBS Settlement Agreement, has continued to make unproven and undocumented claims that amounts that were fully released pursuant to the SBS Settlement Agreement and approved by the bankruptcy court are nevertheless due to SBS from the Company, and the Company strongly disagrees. The Company is prepared to take action in Nevada Bankruptcy Court by reopening the SBS bankruptcy case and petitioning official settlement of this matter. Since all such claims have been completely released by SBS (with Mr. Robert G. Brown's approval), the Company owes nothing and has not accrued anything respecting Mr. Robert G. Brown's renewed claims. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP, and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels. Mr. Brown became Chairman of SGRP's Strategic Committee and a member of SGRP's Technology Committee when such committees were formed on July 17, 2020. Mr. Robert G. Brown resigned as Chairman and a member of SGRP's Strategic Committee effective September 1, 2020.

At SGRP's March 2020 Board meeting, Mr. Bartels was requested by an independent director to compile a list of unproven and undocumented claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bringing their total claims to approximately \$3 million. The Company has completely rejected these claims, and believes it was released from all such claims by SBS in the SBS bankruptcy reorganization.

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The March 2020 Claim includes estimates for the individual legal defenses of Robert G. Brown and William H. Bartels in the private attorney general action in California ("PAGA") and Texas ("Rodgers") in cases that do not involve and never included the Company and for which the Company believes it has no liability. The March 2020 Claim also includes defense expenses for the SBS Clothier case, which expenses SBS settled for a highly discounted amount in its bankruptcy reorganization but now wants the Company to pay in full. SBS in its bankruptcy reorganization settled its potential liability in the Rodgers and Clothier cases and SBS has, and since July 2019 had, no more defense expenses in those cases. Subsidiaries of SGRP were at one time in the Clothier case but were dismissed without prejudice leaving SGRP subject to potential liability. Accordingly, SGRP settled the Clothier case separately. SGRP was never named in the Rodgers case. However, the alleged continued willful misclassification by SBS of its independent contractors after the Clothier misclassification determination is a claimed basis for the PAGA lawsuit against Brown and Bartels. See Note 8 to the Company's Consolidated Financial Statements in the Commitments and Contingencies -- *Legal Proceedings -- SBS Field Specialist Litigation, SBS Clothier Litigation, and SGRP Hogan Litigation*. Mr. Bartels' list also includes payments of \$500,000 per year to Robert G. Brown for extended retirement and advisory fees, although the Company has never proposed, committed or agreed to them and on several occasions specifically rejected Mr. Brown's proposals in various forms for them.

Infotech Litigation and Settlement

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

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

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

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

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

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Notes to Consolidated Financial Statements
(unaudited) (continued)

The Infotech Settlement Agreement required the Company to make payments totaling \$275,000 in four installments: (i) \$75,000 following Court approval (which Payment has already been made); (ii) \$75,000 within 30 days following discontinuance of the Infotech Action (which was discontinued on October 30, 2019); (iii) \$75,000 within 60 days following discontinuance of the Infotech Action; and (iv) \$50,000 within 90 days following discontinuance of the Infotech Action. The Infotech Settlement was paid in accordance with the agreement and was therefore paid in full effective January 2020.

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

International Related Party Services:

SGRP Meridian (Pty), Ltd. ("Meridian") is a consolidated international subsidiary of the Company and is owned 51% by SGRP, 23% by Friedshel 401 Proprietary Limited and 26% by Lindicom Empowerment Holdings Proprietary Limited. Mr. Garry Bristow, who is an executive at SGRP Meridian and a Director of CMR Meridian, is one of the beneficial owners of both Merhold Cape Property Trust ("MCPT") and Merhold Holding Trust ("MHT"). Mr. Adrian Wingfield, who is a Director of CMR Meridian, is one of the beneficial owners of MHT. MHT owns the building where Meridian is headquartered and also owns 32 vehicles which are leased to Meridian. MCPT provides a fleet of 173 vehicles to Meridian under a month by month contract. Meridian has recently made the decision to end the fleet program with MCPT and award the fleet program to Fleet Africa.

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 has supplied administrative and operational consulting support to SPAR Todopromo since 2016.

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

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

JKC is owned by Mr. Jonathan Dagues Martins, a Brazilian citizen and resident ("JDM") and his sister, Ms. Karla Dagues Martins, a Brazilian citizen and resident. JDM is the Chief Executive Officer and President of each SPAR Brazil company pursuant to a Management Agreement between JDM and SPAR BSMT dated September 13, 2016. JDM also is a director of SPAR BSMT. Accordingly, JKC and JDM are each a related party respecting the Company. EILLC is owned by Mr. Peter W. Brown, a citizen and resident of the USA ("PWB") and a director of SPAR BSMT and SGRP and nephew of Robert G. Brown. See *Re-determining Independence of Peter W. Brown*, below. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP, and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels. Accordingly, PWB and EILLC are each a related party respecting the Company.

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

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Summary of Certain Related Party Transactions:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Services provided by affiliates:				
National Store Retail Services (NSRS)	1,532	4,088	3,924	4,473
Office lease expenses (Mr. Burdekin)	6	6	18	18
Office lease expenses (RJ Holdings)	174	162	524	361
Office and vehicle lease expenses (MPT)	13	16	40	48
Vehicle rental expenses (MCPT)	267	294	847	881
Office and vehicle rental expenses (MHT)	65	73	196	205
Consulting and administrative services (CON)	8	29	31	103
Legal Services (KMSA)	20	21	77	64
Warehousing rental (JFMD)	12	13	37	37
Consulting and administrative fees (SPARFACTS)	43	-	115	-
Total services provided by affiliates	\$ 2,140	\$ 4,702	\$ 5,809	\$ 6,190

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

	September 30, 2020	December 31, 2019
Loans from local investors:(1)		
Australia	\$ 609	\$ 467
Mexico	623	623
Brazil	139	139
China	1,430	2,271
South Africa	408	635
Resource Plus	266	531
Total due to affiliates	\$ 3,475	\$ 4,666

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

Affinity Insurance and Related Reimbursement Dispute:

SMF, a wholly-owned subsidiary of SGRP that provides merchandising and marketing service to its clients throughout the United States through (among other things) services provided by others, is owed \$675,000 for security deposit advances and \$226,000 for quarterly premium advances made by SMF (as described below) to SAS. Prior to the termination of the services provided by SAS and SBS (effective at the end of July 2018), SMF engaged SAS as an independent contractor to provide the services of Field Administrators to domestically schedule, deploy and administer the independent Field Specialists provided by SBS as an independent contractor under a similar engagement. See *Domestic Related Party Service*, above.

Affinity Insurance Company, Ltd. ("Affinity") is a captive insurance company that provides insurance and reinsurance products to its shareholders and their affiliates in exchange for payment of premium installments, posting of security collateral and other requirements, and subject to adjustments and assessments. SAS is, and has been, a shareholder and member of Affinity and has been since approximately 2000. SMF became a direct shareholder and member of Affinity in March 2018 in order to directly procure insurance for the domestic employees of the Company.

The business services SAS provided to, or on behalf of, SMF included insurance coverages for SMF and other SGRP employees domestically prior to March 2018, for SAS' Field Administrators and other employees through the termination by SMF of SAS' services effective on or about July 31, 2018, and for the Field Specialists provided by SBS to SMF through the termination by SMF of SBS' services effective on or about July 31, 2018, all in connection with services provided by SMF to its clients. In connection with the business services provided by SAS, and based on informal arrangements between the parties, the Affinity insurance premiums for such coverage were ultimately charged (through SAS) for their fair share of the costs of that insurance to SMF, SAS (which then charges the Company) and SBS. The Company also advanced money to SAS to prepay Affinity insurance premiums.

SAS has received and may shortly be receiving returns of those security deposit advances and quarterly premium advances from Affinity totaling approximately \$921,000. SMF has demanded repayment of its advances to SAS from these recent refunds received from Affinity, but SAS has refused and appears to have distributed the moneys to other SAS related parties. SAS has recently stated it has no funds available to remit to SMF even though they have repeatedly acknowledged SAS owes these advances to SMF and in fact, it has been documented that these liabilities were properly reported in SAS' financial statements.

On July 8, 2020 the Company issued a demand notice to SAS for the return of \$901,000 (the \$675,000 security advances and the \$226,000 premium advances) but to-date SAS has refused to comply with this demand.

The Company has prepared the draft of a complaint to be filed in the Supreme Court of the State of New York in Westchester County, NY, seeking appropriate relief and recovery from SAS and other related parties, which it prepared with the support of SGRP's Audit Committee (which has certain oversight responsibilities respecting related party matters). However, because of the pending changes in the SGRP's CEO and CFO positions, the Audit Committee recommended that management delay filing the complaint until it can be reviewed and pursued by SGRP's new CEO and CFO (upon their selection and appointment) if and as they determine appropriate, and it has been delayed.

Prior to the termination of the services provided by SAS and SBS (effective at the end of July 2018), SMF engaged SAS as an independent contractor to provide the services of Field Administrators to domestically schedule, deploy and administer the independent Field Specialists provided by SBS as an independent contractor under a similar engagement. SAS and SBS are affiliates of SGRP but are not in any way owned by, under the control of or consolidated with SGRP. SAS is owned beneficially by William H. Bartels, Peter W Brown, relatives of Robert G. Brown. SBS is currently owned beneficially by Robert G. Brown. Bartels, Brown and Brown are directors of SGRP. Robert G. Brown, William H. Bartels and related parties own a majority of the outstanding shares of SGRP's common stock. See *Related Party Transactions-- Domestic Related Party Service* in Note 5 to the Company's Consolidated Financial Statements (unaudited), above.

At the time SMF terminated SAS's services; the security deposit that SAS provided to Affinity to procure insurance coverage on behalf of SMF was approximately \$965,000. SMF financed approximately \$675,000 of that security deposit by SMF advancing approximately \$296,000 directly to SAS and SMF advanced the remainder, approximately \$379,000, to SAS through SBS.

To date, Affinity has reduced the security deposit by \$489,000, from \$965,000 to \$476,000. Of the total reduction of \$489,000, Affinity refunded \$177,000 in cash to SAS and Affinity deducted the \$312,000 balance from the security deposit to settle SAS premiums and other related fees due (but not paid by SAS) to Affinity, including approximately \$102,000 for SAS expenses due and payable to Affinity incurred by SAS after SMF terminated the SAS Agreement and approximately \$210,000 that SAS incurred as additional premium assessments by Affinity. As these security deposit deductions were not related to SMF services or expenses, SAS is required to repay SMF the full amount of said \$489,000 deduction from the security deposit.

In addition, Affinity recently notified SAS that the security deposit currently needed was approximately \$138,000 and SAS in the near future could be receiving an additional cash refund and credits against SAS obligations in the aggregate amount of \$338,000, reducing the security deposit by a total of \$827,000 in cash payments and credits. SMF has demanded a full repayment of the \$675,000 security advance.

In a related matter, SMF also advanced monies to SAS to fund the payments that SAS was obligated to pay to Affinity for quarterly premium installments. SMF advanced and SAS accrued a liability of approximately \$226,000 for monies advanced by SMF to SAS for such quarterly premium installments. Affinity is obligated to refund any excess premiums and in fact in May of 2020, Affinity refunded \$94,414 of those premium payments to SAS.

SAS owes repayment of the full \$226,000 for those premium payments regardless of how much Affinity may return. On July 8, 2020, SMF demanded that SAS repay the \$226,000 advance for quarterly premiums to SMF. Part of this payment should come from the \$94,414 premium refund. SAS refused and failed to remit any of the monies it owed to SMF.

In response to SMF's repayment demands, on behalf of SAS, William H. Bartels and Peter W. Brown alleged that SAS did not have the funds because SMF did not make all insurance payments to SAS required under the Service Agreement notwithstanding the fact that SMF had, in addition to making insurance payments, had also advanced to SAS an additional \$226,000 to SAS for the purpose of paying the advanced insurance premiums due Affinity. SMF replied that it did not understand how SAS would be short in cash as it was proven by a review by an independent third-party public Accounting Firm (as noted below) that SAS was paid in full for all incurred insurance cost prior to SMF's termination of the Service agreement in July 2018, including the SMF advance of \$226,000.

With the agreement of SAS, SMF caused a review to be performed by an independent third-party public Accounting Firm, to verify that all insurance related payments due by SMF to SAS were properly and timely paid to SAS prior of the termination of services in July 2018. The audit revealed that SMF had in fact paid all funds due SAS for services provided, including all insurance related expenses. The third-party review also confirmed that it became aware of several SAS related party fund transfers and withdrawals during the review period that may be the cause of the depletion of funds in the SAS bank accounts and their inability to repay the advances made by SMF to SAS for insurance premiums.

As noted above, SMF learned that Affinity had been refunding cash amounts to SAS because of reduced obligations to Affinity as it appears that SAS has significantly reduced its insurance requirements, and that Affinity had been making set offs from the security deposit when SAS did not pay required premiums and other amounts.

In November 2017, SMF began negotiations with SBS and SAS (respectively represented by Robert G. Brown and William H. Bartels, who together are the Majority Stockholders) for reimbursement and security agreements to document and secure those security deposit advances and repayment obligations. In March of 2018, SMF proposed a joint reimbursement and security agreement with SAS and SBS since the advances to them were comingled in the Affinity security deposit. Mr. Brown said that SBS would not sign any joint agreement with SAS. At the request of the Audit Committee separate agreements were prepared and submitted.

In July 2018, SAS proposed a fundamentally revised agreement containing no collateral enforcement provisions. At the same time SAS gave a reimbursement and security agreement containing the requisite collateral enforcement provisions to SR Services, Inc. ("SRS"), another affiliate of SAS and SBS controlled by Robert G. Brown (although the SRS agreement was not disclosed to SMF until a year later). SRS was owed approximately \$180,000 by SAS for Affinity security advances.

The Company recorded a reserve for the full \$901,000 in such receivables in 2018 but has not and will not release SAS' obligations to repay those amounts.

As previously reported, SAS is claiming alleged ongoing post-termination expenses, but SMF believes that no post-termination expenses are required to be paid to SAS for its expenses following the termination of SAS' services two years ago in July 2018. See *Domestic Related Party Service*, above .

For the Company's other litigation and disputes with SAS, SBS and the Majority Stockholders, please see *SBS Bankruptcy, Settlement and March 2020 Claim*, and *Infotech Litigation and Settlement*, and *Affinity Insurance and Related Reimbursement Dispute*, above, and *SBS Field Specialist Litigation*, *SBS Clothier Litigation*, *SBS and SGRP Hogan Litigation*, and *SBS Rodgers Litigation* in Note 8, below.

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Bartels' Retirement and Director Compensation

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

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

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

Based on current rates and benefits, the aggregate value of such compensation, fees and benefits payable to Mr. Bartels will be approximately \$220,558 per year and a total of \$1,102,790 for the Five Year Period. Such compensation, fees and benefits (in whole or in part) may be extended beyond the Five Year Period in the discretion of the Board. The Company recognized \$700,000 of retirement benefit expense during the nine-month period ended September 30, 2020, representing the present value of the future payments due Mr. Bartels.

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

Mr. Bartels is one of the founders and a significant stockholder of SGRP (holding approximately 25.1% of the SGRP Shares). He also is part of a control group holding a majority of the SGRP Shares with Robert G. Brown (together with Mr. Bartels), which group most recently acted to (1) unilaterally select, appoint and elect Panagiotis ("Panos") N. Lazaretos to serve on the board of directors of SGRP, effective on December 10, 2019, and unilaterally select, appoint and elect Robert G. Brown to serve on the board of directors of SGRP, effective as of April 24, 2020.

Other Related Party Transactions and Arrangements:

In July 1999, SMF, SBS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and has the right to unilaterally license and exploit certain portions of the Company's proprietary scheduling, tracking, coordination, reporting and expense software (the "Co-Owned Software") are co-owned with SBS and Infotech and each entered into a non-exclusive royalty-free license from the Company to use certain "SPAR" trademarks in the United States (the "Licensed Marks").

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Through arrangements with the Company, SBS (owned by Mr. Bartels and Mr. Brown), SAS (owned by Mr. Bartels and family members of Mr. Robert G. Brown), and other companies owned by Mr. Brown participate or have participated 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.

6. Preferred Stock

SGRP's certificate of incorporation authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. The Company issued 554,402 of SGRP shares to affiliated retirement plans, which were all converted into common shares in 2011 (including dividends earned thereon), leaving 2,445,598 shares of remaining authorized preferred stock. At September 30, 2020, no shares of SGRP Series A Preferred Stock were issued and outstanding.

7. Stock-Based Compensation and Other Plans

As of September 30, 2020, there were Awards representing 585,000 shares of SGRP's Common Stock that had been granted under the 2018 Plan (565,000 of which remain outstanding), and Awards representing 3,044,927 shares of SGRP's Common Stock outstanding under the 2008 Plan. After May 31, 2019, the 2018 Plan ended and no further grants can be made under the 2018 Plan respecting such shares of SGRP's Common Stock. There is no new plan in place for stock compensation.

The Company recognized \$42,000 and \$63,000 in stock-based compensation expense relating to stock option awards during the three month periods ended September 30, 2020 and 2019, respectively. The tax benefit available from stock based compensation expense related to stock option during both the three months ended September 30, 2020 and 2019 was approximately \$11,000 and \$16,000 respectively. The Company recognized \$112,000 and \$160,000 in stock-based compensation expense relating to stock option awards during the nine month periods ended September 30, 2020 and 2019, respectively. The tax benefit available from stock based compensation expense related to stock option during the nine months ended September 30, 2020 and 2019 was approximately \$28,000 and \$40,000 respectively. As of September 30, 2020, total unrecognized stock-based compensation expense related to stock options was \$75,000.

During the three months ended September 30, 2020 and 2019, the Company recognized approximately \$0 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 September 30, 2020 and 2019 was approximately \$0. During the nine months ended September 30, 2020 and 2019, the Company recognized approximately \$0 and \$5,000, 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 September 30, 2020 and 2019 was approximately \$0 and \$1,000, respectively. As of September 30, 2020, there was no unrecognized stock-based compensation expense related to unvested restricted stock awards.

8. Commitments and Contingencies

Legal Matters

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

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RELATED PARTIES AND RELATED PARTY LITIGATION:

SBS, SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. ("Infotech"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by an entity controlled by Robert G. Brown and prior to November 2018 was owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels, Peter W. Brown and certain other relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. Messrs. Brown and Bartels (including, as applicable, certain related parties, the "Majority Stockholders") collectively own approximately 53.2% of SGRP's common stock and are the founders of SGRP. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP, and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels. Mr. Bartels is Vice Chairman and a director of SGRP. Mr. Bartels retired as an employee of the Company as of January 1, 2020 (in accordance with the actions of SGRP's Compensation Committee on January 22, 2020). See *Bartels' Retirement and Director Compensation*, above. Messrs. Brown and Bartels also are stockholders, directors and/or executive officers of various affiliates of SGRP.

SGRP claims against SAS re Affinity

The Company has prepared the draft of a complaint to be filed in the Supreme Court of the State of New York in Westchester County, NY, seeking appropriate relief and recovery from SAS and other related parties, which it prepared with the support of SGRP's Audit Committee (which has certain oversight responsibilities respecting related party matters). However, because of the pending change in the SGRP CEO position, the Audit Committee recommended that management delay filing the complaint until it can be reviewed and pursued by SGRP's new CEO. See *Affinity Insurance and Related Reimbursement Dispute*, above.

Delaware Litigation Settlement

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

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

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

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

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

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

Advancement Claims

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

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

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

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

In December 2018 SGRP reached an agreement with Mr. Bartels through counsel to conditionally make his reasonably documented Allocated By-Laws Expenses (the "Bartels Advancement Settlement"), pursuant to which payment to Mr. Bartels of the accepted Allocated By-Laws Expenses was paid approximately \$106,000 in April 2019. If Mr. Bartels is ultimately determined to not be entitled to indemnification, he could still be obligated to return all amounts advanced to him by SGRP.

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

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

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On January 27, 2019, Mr. Robert G. Brown sent a draft of his proposed Delaware litigation complaint in an email to Arthur Drogue, SGRP's Chairman, threatening to sue SGRP respecting the Brown Advancement Demand, which he repeated in an email to Mr. McCarthy on February 2, 2019. On March 21, 2020, Mr. Robert G. Brown repeated the Brown Advancement Demand and sent a slightly revised draft complaint that would purportedly change the contemplated litigation jurisdiction from Delaware to Massachusetts. No explanation was given for this alleged change in jurisdiction. On August 1, 2020, Robert G. Brown sent a slightly revised complaint to William H. Bartels (who forwarded it to Arthur H. Baer, Chairman of the Board and Audit Committee) changing the contemplated litigation jurisdiction from Massachusetts back to Delaware. It was signed and notarized and said by Robert G. Brown in his email to be in the process of being filed and served. On September 16, 2020, Mr. Brown filed that complaint pro se (without counsel) in the Delaware Chancery Court against the Company and two former independent directors, Eric McCarthy and Art Drogue. However, through November 13, 2020, no such complaint has been served by Mr. Brown. SGRP continues to deny the Brown Advancement Demand. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP, and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels. Mr. Robert G. Brown became Chairman of SGRP's Strategic Committee and a member of SGRP's Technology Committee when such committees were formed on July 17, 2020. Mr. Robert G. Brown resigned as Chairman and a member of SGRP's Strategic Committee effective September 1, 2020.

SBS Bankruptcy, Settlement and March 2020 Claim

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

On August 6, 2019, SGRP, and its subsidiaries SPAR Marketing Force, Inc. ("SMF"), a Nevada corporation, and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation, submitted to the U.S. District Court in Nevada (the "Bankruptcy Court") their Compromise and Settlement Agreement, dated July 26, 2019 (the "Settlement Agreement"), with SBS, a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession, and SBS, LLC, a Nevada limited liability company. The Settlement Agreement was submitted in the SBS Chapter 11 Case. Pursuant to the Settlement Agreement, the Company settled its claims for (among other things) indemnification from SBS in Clothier and the Rodgers class action case in Texas ("Rodgers").

On August 6, 2019, the Bankruptcy Court approved the Settlement Agreement and the SBS reorganization pursuant to SBS' First Amended Chapter 11 Plan of Reorganization, as amended by the Settlement Agreement (the "Plan of Reorganization"). Pursuant to its Plan of Reorganization, SBS also settled its potential liability in the Clothier and Rodgers cases, but the Company believes that Robert G. Brown and William H. Bartels were not released from Clothier, any related case or Rodgers. See *SBS Rodgers Litigation*, below. In the Settlement Agreement, except for the carve out described in the next paragraph, SBS completely released the Company from all obligations that may be owed to SBS.

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

- (i) the Company's \$2.2 million in claims were settled for \$174,097.34 payable by SBS over 24 monthly installments of \$7,254.06 per month starting January 1, 2020, and without any interest (collectively, the "Discounted Claim Payments"), as such terms are defined in the SBS Settlement Agreement; and
- (ii) SMF will pay to SBS the Proven Unpaid A/R (as defined in the SBS Settlement Agreement) upon its determination (as described below).

In the SBS Settlement Agreement, the parties agreed to have a third party financial and accounting services firm, independently determine the Proven Unpaid A/R based on parameters set forth in the SBS Settlement Agreement. In the SBS Settlement Agreement, the parties will accept the determination of the third party financial and accounting services firm as final and binding, and all other claims and amounts are released. The third party financial and accounting services firm, has determined that the Company had paid all amounts due to SBS and has no further obligation.

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The Company has recorded the total settlement amount of \$174,097 as of December 31, 2019. This settlement amount is payable in 24 equal monthly payments of \$7,254 starting January 1, 2020. To date SBS is in default of the first nine payments totaling \$65,286 and formal default notices have been sent to SBS. SBS has responded and claimed an offset respecting its undocumented and unproven claims. As of this date the Company believes these SBS payments must ultimately be paid by SBS and will continue to evaluate its collectability from SBS and establish reserves as appropriate. As of September 30, 2020, the total settlement has been reserved.

On March 6, 2020, Robert G. Brown on behalf of SBS sent an email communication to Arthur B. Drogue, to which he copied Arthur H. Baer, demanding payment of \$1,707,374 to SBS from SMF SGRP pursuant to (among other things) the SBS Settlement Agreement (the "March 2020 Claim"). The Company has reviewed the March 2020 Claim in detail (although Brown has provided no backup or proof) and the Company strongly disagrees that any such amount is owed. The Company believes that the robust and comprehensive mutual releases and other provisions in the SBS Settlement Agreement provide valuable relief from such claims and potential future claims and litigation by SBS respecting the Company's past involvement with SBS, including the March 2020 Claim. However, Robert G. Brown, president, director and indirect owner of SBS, since and notwithstanding the Court's approval of the SBS Settlement Agreement, has continued to make unproven and undocumented claims that amounts that were fully released pursuant to the SBS Settlement Agreement and approved by the bankruptcy court are nevertheless due to SBS from the Company, and the Company strongly disagrees. The Company is prepared to take action in Nevada Bankruptcy Court by reopening the SBS bankruptcy case and petitioning official settlement of this matter. Since all such claims have been completely released by SBS (with Mr. Robert G. Brown's approval), the Company owes nothing and has not accrued anything respecting Mr. Robert G. Brown's renewed claims. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP, and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels.

At SGRP's March 2020 Board meeting, Mr. Bartels was requested by an independent director to compile a list of claims that he and Mr. Brown believe are owed by the Company. On March 17, 2020, that list was given to the Audit Committee Chairman and included additional claims, net of an anticipated reduction, totaling approximately \$1.3 million, bringing their total claims to approximately \$3 million. The Company has completely rejected these claims, and believes it was released from all such claims by SBS in the SBS bankruptcy reorganization.

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

Infotech Litigation and Settlement

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

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

SPAR Group, Inc. and Subsidiaries
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(unaudited) (continued)

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

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

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

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

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

SBS Field Specialist Litigation

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

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

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

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

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

SBS Clothier Litigation

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

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

Facing significant potential damages in the Clothier Case, SGRP chose, and on June 7, 2018, entered into mediation with the plaintiffs and plaintiff's counsel in the Clothier Case to try to settle any potential future liability for any possible judgment against SGRP in that case. SGRP asked SBS to participate financially and provide its knowledge in that mediation, but SBS and its stockholders wanted SGRP to bear the full cost of any settlement and on several occasions they declined or failed to participate in that mediation. SGRP disagreed, insisting on the Majority Stockholders' and SBS' economic participation. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, subject to the final court approval (the "Clothier Settlement"). Final approval was granted on September 20, 2019, and the Company was released by plaintiff and the settlement class from all other liability under the Clothier Case. The Company recorded a \$1.3 million charge for the Clothier Settlement during 2018, when the agreement in the Clothier Settlement was reached. Pursuant to the Clothier Settlement SGRP will pay a maximum settlement amount of \$1.3 million, payable in four equal annual installments that commenced with the first payment of \$325,000 in December 2019. The \$975,000 balance was accrued as of September 30, 2020.

Since SGRP has no further involvement in the Clothier Case, SGRP stopped paying (as of June 7, 2018) for SBS' legal expenses (defense and appeal) in the Clothier Case and notified SBS. Defendants continue to demand that those expenses be reimbursed by SGRP. SBS did not participate in the Clothier Settlement and was not released. Rather than proceed to the damage portion of the trial respecting trial the Clothier Misclassification Determination, SBS filed for bankruptcy protection.

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Notes to Consolidated Financial Statements
(unaudited) (continued)

SBS and SGRP Hogan Litigation

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

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

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

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

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 by SBS 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, 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 were challenged by the Defendants in various motions, including a motion to decertify the class. The Court, however, did not rule on these motions and instead stayed the case on September 19, 2017 to allow the parties to mediate. On October 24, 2017, the Court granted the parties' joint motion to extend the stay order until January 31, 2018.

Rodgers settled for a claim of approximately \$618,000 against SBS (but not any claims against Brown or Bartels), in the SBS bankruptcy case, and in full settlement of that claim they agreed upon a discounted payment amount of approximately \$48,000, payable in equal quarterly installments over a five (5) year period. See SBS Bankruptcy, Settlement and March 2020 Claim, above.

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

9. Segment Information

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

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

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue:				
United States	\$ 27,041	\$ 26,480	\$ 72,453	\$ 73,142
International	31,824	39,960	98,704	118,681
Total revenue	<u>\$ 58,865</u>	<u>\$ 66,440</u>	<u>\$ 171,157</u>	<u>\$ 191,823</u>
Operating income:				
United States	\$ 1,299	\$ 1,273	\$ 1,924	\$ 4,633
International	2,042	1,774	4,859	4,374
Total operating income	<u>\$ 3,341</u>	<u>\$ 3,047</u>	<u>\$ 6,783</u>	<u>\$ 9,007</u>
Interest expense (income):				
United States	\$ 158	\$ 130	\$ 435	\$ 377
International	11	86	47	228
Total interest expense	<u>\$ 169</u>	<u>\$ 216</u>	<u>\$ 482</u>	<u>\$ 605</u>
Other (income), net:				
United States	(0)	(1)	(2)	(2)
International	(143)	(10)	(199)	(266)
Total other (income), net	<u>\$ (143)</u>	<u>\$ (11)</u>	<u>\$ (201)</u>	<u>\$ (268)</u>
Income before income tax expense:				
United States	\$ 1,141	\$ 1,144	\$ 1,491	\$ 4,258
International	2,174	1,698	5,011	4,412
Total income before income tax expense	<u>\$ 3,315</u>	<u>\$ 2,842</u>	<u>\$ 6,502</u>	<u>\$ 8,670</u>
Income tax expense:				
United States	\$ 436	\$ 217	\$ 637	\$ 918
International	434	543	1,193	1,827
Total income tax expense	<u>\$ 870</u>	<u>\$ 760</u>	<u>\$ 1,830</u>	<u>\$ 2,745</u>

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

Net income:				
United States	\$ 705	\$ 927	\$ 854	\$ 3,340
International	<u>1,740</u>	<u>1,155</u>	<u>3,818</u>	<u>2,585</u>
Total net income	<u>\$ 2,445</u>	<u>\$ 2,082</u>	<u>\$ 4,672</u>	<u>\$ 5,925</u>
Net (income) attributable to non-controlling interest:				
United States	\$ (299)	\$ (380)	\$ (882)	\$ (1,155)
International	<u>(1,002)</u>	<u>(795)</u>	<u>(2,453)</u>	<u>(1,725)</u>
Total net (income) attributable to non-controlling interest	<u>\$ (1,302)</u>	<u>\$ (1,175)</u>	<u>\$ (3,335)</u>	<u>\$ (2,880)</u>
Net income (loss) attributable to SPAR Group, Inc.:				
United States	\$ 406	\$ 547	\$ (28)	\$ 2,185
International	<u>738</u>	<u>360</u>	<u>1,365</u>	<u>860</u>
Total net income attributable to SPAR Group, Inc.	<u>\$ 1,144</u>	<u>\$ 907</u>	<u>\$ 1,337</u>	<u>\$ 3,045</u>
Depreciation and amortization:				
United States	\$ 399	\$ 390	\$ 1,231	\$ 1,144
International	<u>131</u>	<u>134</u>	<u>378</u>	<u>419</u>
Total depreciation and amortization	<u>\$ 530</u>	<u>\$ 524</u>	<u>\$ 1,609</u>	<u>\$ 1,563</u>
Capital expenditures:				
United States	\$ 417	\$ 418	\$ 1,085	\$ 1,140
International	<u>46</u>	<u>25</u>	<u>163</u>	<u>238</u>
Total capital expenditures	<u>\$ 463</u>	<u>\$ 443</u>	<u>\$ 1,248</u>	<u>\$ 1,378</u>

Note: There were no inter-company sales for the nine months ended September 30, 2020 or 2019.

	September 30, 2020	December 31, 2019
Assets:		
United States	\$ 35,046	\$ 24,927
International	<u>47,425</u>	<u>54,608</u>
Total assets	<u>\$ 82,471</u>	<u>\$ 79,535</u>

	September 30, 2020	December 31, 2019
Long lived assets:		
United States	\$ 4,580	\$ 4,957
International	<u>3,041</u>	<u>3,954</u>
Total long lived assets	<u>\$ 7,621</u>	<u>\$ 8,911</u>

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

Geographic Data (in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	\$	% of consolidated net revenue	\$	% of consolidated net revenue	\$	% of consolidated net revenue	\$	% of consolidated net revenue
International revenue:								
Brazil	\$ 11,252	19.1%	\$ 16,829	25.3%	\$ 37,355	21.8%	\$ 48,974	25.5%
South Africa	6,325	10.7	6,589	9.9	19,327	11.3	19,565	10.2
Mexico	5,006	8.5	5,676	8.5	15,673	9.2	16,627	8.7
China	3,019	5.1	2,889	4.3	8,339	4.9	9,348	4.9
Japan	2,335	4.0	2,777	4.2	6,766	4.0	8,372	4.4
India	2,128	3.6	2,267	3.4	6,335	3.7	6,538	3.4
Canada	1,571	2.7	2,107	3.2	4,291	2.5	6,670	3.5
Australia	188	0.3	759	1.1	618	0.4	2,386	1.2
Turkey	-	-	67	0.1	-	-	201	0.1
Total international revenue	<u>\$ 31,824</u>	<u>54.0%</u>	<u>\$ 39,960</u>	<u>60.0%</u>	<u>\$ 98,704</u>	<u>57.8%</u>	<u>\$ 118,681</u>	<u>61.9%</u>

10. Recent Accounting Pronouncements

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

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

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

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

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

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

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

11. Leases

The Company is a lessee under certain operating leases for office space and equipment.

ASC 842 requires lessees to recognize leases on the balance sheet as a lease liability with a corresponding right of use ("ROU") asset, subject to certain permitted accounting policy elections.

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

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

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

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

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

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Notes to Consolidated Financial Statements
(unaudited) (continued)

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

The components of SPAR's lease expenses for the nine months ended September 30, 2020 and 2019, which are included in the condensed consolidated income statement, are as follows (in thousands):

Lease Costs	Classification	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating lease cost	Selling, General and Administrative Expense	\$ 701	\$ 482	\$ 2,084	\$ 1,544
Short-term lease cost	Selling, General and Administrative Expense	\$ 90	\$ 20	305	76
Variable costs	Selling, General and Administrative Expense	\$ 97	\$ 290	291	875
Total lease cost		<u>\$ 888</u>	<u>\$ 792</u>	<u>\$ 2,680</u>	<u>\$ 2,495</u>

Supplemental cash flow information related to SPAR's leases for nine months ended September 30, 2020 and 2019 is as follows (in thousands):

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	\$ 795	\$ 201	\$ 2,335	\$ 1,553
Assets obtained in exchange for new operating lease liabilities				
Operating lease	\$ -	\$ 5,736(a)	\$ 213	\$ 5,736(a)

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

At September 30, 2020, SPAR had the following maturities of lease liabilities related to office space and equipment, all of which are under non-cancellable operating leases (in thousands):

Period Ending September 30,	Amount
2020	\$ 603
2021	1,387
2022	737
2023	136
Total Lease Payments	<u>2,863</u>
Less: imputed interest	121
Total	<u>2,742</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, 2019 (as filed, the "Annual Report"), as filed with the SEC on April 14, 2020, in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on May 13, 2020, which SGRP filed with the SEC on May 1, 2020 (the "Proxy Statement"), SGRP's definitive Proxy Statement and Information Statement (the "First Special Meeting Proxy/Information Statement"), filed with the SEC on April 3, 2020, and SGRP's Current Report on Form 8-K respecting the First Special Meeting voting results as filed with the SEC on May 4, 2020 (the "First Special Meeting Report"), 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, the First Special Meeting Proxy/Information Statement and the First Special Meeting Report, 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 potential negative effects of the Coronavirus and COVID-19 pandemic on Company's business, cash flow or financial condition, the Company's cash flow later this year, or 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, the First Special Meeting Proxy/Information Statement and the First Special Meeting Report and the other applicable SEC Reports, but you should not place undue reliance on any of them. The results, actions, levels of activity, performance, achievements or condition of the Company (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition) and other events and circumstances planned, intended, anticipated, estimated or otherwise expected by the Company (collectively, "Expectations"), and our forward-looking statements (including all Risks) and other information reflect the Company's current views about future events and circumstances. Although the Company believes those Expectations and views are reasonable, the results, actions, levels of activity, performance, achievements or condition of the Company or other events and circumstances may differ materially from our Expectations and views, and they cannot be assured or guaranteed by the Company, since they are subject to Risks and other assumptions, changes in circumstances and unpredictable events (many of which are beyond the Company's control). In addition, new Risks arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Accordingly, the Company cannot assure you that its Expectations will be achieved in whole or in part, that it has identified all potential Risks, or that it can successfully avoid or mitigate such Risks in whole or in part, any of which could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.

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

SPAR Group, Inc. and Subsidiaries

GENERAL

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

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

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

SPAR Group, Inc. and Subsidiaries

RESULTS OF OPERATIONS

Three months ended September 30, 2020, compared to three months ended September 30, 2019

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 September 30,			
	2020		2019	
	\$	%	\$	%
Net revenues	\$ 58,865	100.0%	\$ 66,440	100.0%
Cost of revenues	46,849	79.6	53,929	81.2
Gross profit	12,016	20.4	12,511	18.8
Selling, general & administrative expense	8,145	13.8	8,940	13.5
Depreciation & amortization	530	0.9	524	0.8
Operating income	3,341	5.7	3,047	4.6
Interest expense, net	169	0.3	216	0.3
Other income, net	(143)	(0.2)	(11)	(0.0)
Income before income taxes	3,315	5.6	2,842	4.3
Income tax expense	870	1.5	760	1.1
Net income	2,445	4.2	2,082	3.1
Net income attributable to non-controlling interest	(1,301)	(2.2)	(1,175)	(1.8)
Net income attributable to SPAR Group, Inc.	\$ 1,144	1.9%	\$ 907	1.4%

Net Revenues

Net revenues for the three months ended September 30, 2020 were \$58.9 million, compared to \$66.4 million for the three months ended September 30, 2019, a decrease of \$7.5 million or 11.3%.

Domestic net revenues totaled \$27.1 million in the three months ended September 30, 2020, compared to \$26.4 million for the same period in 2019.

International net revenues totaled \$31.8 million for the three months ended September 30, 2020, compared to \$40.0 million for the same period in 2019, a decrease of \$8.2 million or 20.5%. The decrease in international net revenues was primarily due to foreign currency translation and the impact of Covid-19.

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 79.6% of its net revenues for the three months ended September 30, 2020, and 81.2% of its net revenues for the three months ended September 30, 2019.

Domestic cost of revenues was 77.5% of net domestic revenues for the three months ended September 30, 2020, and 77.3% of net domestic revenues for the three months ended September 30, 2019. The increase in cost of revenues was due primarily to an unfavorable mix of project work.

Internationally, the cost of revenues as a percentage of net international revenues was 81.4% and 83.9% for the three months ended September 30, 2020 and 2019, respectively.

SPAR Group, Inc. and Subsidiaries

Selling, General and Administrative Expenses

Selling, general and administrative expenses of the Company include its corporate overhead, project management, information technology, executive compensation, human resources, legal and accounting expenses. Selling, general and administrative expenses were approximately \$8.1 million and \$8.9 million for the three months ended September 30, 2020 and 2019, respectively.

Domestic selling, general and administrative expenses totaled \$4.4 million for the three months ended September 30, 2020 and 2019.

International selling, general and administrative expenses totaled \$3.7 million and \$4.5 million for the three months ended September 30, 2020 and 2019, respectively.

Depreciation and Amortization

Depreciation and amortization charges totaled \$530,000 and \$524,000 for the three months ended September 30, 2020 and 2019, respectively.

Interest Expense

The Company's net interest expense \$169,000 for the three months ended September 30, 2020, and \$216,000 for the same period in 2019.

Other Income

Other income was \$143,000 and \$11,000 for the three months ended September 30, 2020 and 2019, respectively.

Income Taxes

Income tax expense was \$870,000 for the three months ended September 30, 2020, compared to \$760,000 for the three months ended September 30, 2019.

Non-controlling Interest

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$1.3 million for the three months ended September 30, 2020 and \$1.2 million for three months ended September 30, 2019 respectively.

Net Income

The Company reported net income of \$1.1 million for the three months ended September 30, 2020, or \$0.05 per diluted share, compared to a net income of \$907,000, or \$0.04 per diluted share, for the corresponding period last year.

SPAR Group, Inc. and Subsidiaries

Nine months ended September 30, 2020, compared to nine months ended September 30, 2019

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).

	Nine Months Ended September 30,			
	2020		2019	
	\$	%	\$	%
Net revenues	\$ 171,157	100.0%	\$ 191,823	100.0%
Cost of revenues	137,478	80.3	154,614	80.6
Gross profit	33,679	19.7	37,209	19.4
Selling, general & administrative expense	25,287	14.8	26,639	13.9
Depreciation & amortization	1,609	0.9	1,563	0.8
Operating income	6,783	4.0	9,007	4.7
Interest expense, net	482	0.3	605	0.3
Other income, net	(201)	(0.1)	(268)	(0.1)
Income before income taxes	6,502	3.8	8,670	4.5
Income tax expense	1,830	1.1	2,745	1.4
Net income	4,672	2.7	5,925	3.1
Net income attributable to non-controlling interest	(3,335)	(1.9)	(2,880)	(1.5)
Net income attributable to SPAR Group, Inc.	<u>\$ 1,337</u>	<u>0.8%</u>	<u>\$ 3,045</u>	<u>1.6%</u>

Net Revenues

Net revenues for the nine months ended September 30, 2020, were \$171.2 million, compared to \$191.8 million for the nine months ended September 30, 2019, a decrease of \$20.6 million or 10.7%.

Domestic net revenues totaled \$72.5 million in the nine months ended September 30, 2020, compared to \$73.1 million for the same period in 2019. The decrease of \$0.6 million was primarily due to the impact of Covid-19.

International net revenues totaled \$98.7 million for the nine months ended September 30, 2020, compared to \$118.7 million for the same period in 2019, a decrease of \$20.0 million or 16.8%. The decrease in international net revenues was primarily due to foreign currency translation and the impact of Covid-19.

Cost of Revenues

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 80.3% of its net revenues for the nine months ended September 30, 2020, and 80.6% of its net revenues for the nine months ended September 30, 2019.

Domestic cost of revenues was 77.6% of net domestic revenues for the nine months ended September 30, 2020, and 75.3% of net domestic revenues for the nine months ended September 30, 2019. The increase in cost of revenues was due primarily to an unfavorable mix of project work.

Internationally, the cost of revenues as a percentage of net international revenues was 82.4% and 83.9% for the nine months ended September 30, 2020 and 2019, respectively.

SPAR Group, Inc. and Subsidiaries

Selling, General and Administrative Expenses

Selling, general and administrative expenses of the Company include its corporate overhead, project management, information technology, executive compensation, human resources, legal and accounting expenses. Selling, general and administrative expenses were approximately \$25.3 million and \$26.6 million for the nine months ended September 30, 2020 and 2019, respectively.

Domestic selling, general and administrative expenses totaled \$13.1 million and \$12.3 million for the nine months ended September 30, 2020 and 2019, respectively. The increase is primarily due to an accrual for retirement benefits.

International selling, general and administrative expenses totaled \$12.2 million and \$14.3 million for the nine months ended September 30, 2020 and 2019, respectively.

Depreciation and Amortization

Depreciation and amortization charges totaled \$1.6 million for the nine months ended September 30, 2020 and 2019.

Interest Expense

The Company's net interest expense was \$482,000 for the nine months ended September 30, 2020, and \$605,000 for the same period in 2019.

Other Income

Other income was \$201,000 and \$268,000 for the nine months ended September 30, 2020 and 2019, respectively.

Income Taxes

Income tax expense was \$1.8 million for the nine months ended September 30, 2020, compared to \$2.7 million for the nine months ended September 30, 2019.

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 \$3.3 million and \$2.9 million for the nine months ended September 30, 2020 and 2019, respectively.

Net Income

The Company reported net income of \$1.3 million for the nine months ended September 30, 2020, or \$0.06 per diluted share, compared to a net income of \$3.0 million, or \$0.15 per diluted share, for the corresponding period in 2019.

Liquidity and Capital Resources

In the nine months ended September 30, 2020, the Company had a net income before non-controlling interest of \$4.7 million.

Net cash provided by operating activities was \$7.2 million for the nine months ended September 30, 2020, compared to \$1.6 million for the nine months ended September 30, 2019. The net cash provided by operating activities during the nine months ended September 30, 2020, was primarily due to a decrease in accounts receivable and an increase in accrued expenses offset by a decrease in accounts payable and operating lease liabilities and an increase in prepaids. Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic and the other risks detailed in the section titled "Risk Factors" included elsewhere in our Annual Report. However, we believe that our existing cash, cash equivalents, short-term investment balances, funds available under our debt agreement, and cash generated from operations, will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months.

Net cash used in investing activities was \$1.2 million for the nine months ended September 30, 2020, compared to \$1.4 million for the nine months ended September 30, 2019. The net cash used in investing activities during the nine months ended September 30, 2020, was due to fixed asset additions, primarily capitalized software.

SPAR Group, Inc. and Subsidiaries

Net cash provided by financing activities for the nine months ended September 30, 2020, was \$3.2 million compared to \$0.6 million for the nine months ended September 30, 2019. Net cash provided by financing activities during the nine months ended September 30, 2020, was primarily due to net payments/draws 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 nine months ended September 30, 2020 of approximately \$5.3 million.

The Company had net working capital of \$20.0 million and \$17.4 million at September 30, 2020 and December 31, 2019 respectively. The Company's current ratio was 1.4 at both September 30, 2020, and December 31, 2019.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

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

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (2013)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of September 30, 2020.

Management's Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's third quarter of its 2020 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SPAR Group, Inc. and Subsidiaries

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Background: Related Parties And Related Party Litigation:

SPAR Business Services, Inc., f/k/a SPAR Marketing Services, Inc. ("**SBS**"), SPAR Administrative Services, Inc. ("**SAS**"), and SPAR InfoTech, Inc. ("**Infotech**"), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by an entity controlled by Robert G. Brown, and prior to November 2018, was owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels, Peter W. Brown and certain other relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown. Messrs. Brown and Bartels (including, as applicable, certain related parties, the "**Majority Stockholders**") collectively own approximately 53.2% of SGRP's common stock and are the founders of SGRP. Mr. Brown was Chairman and an officer and director of SGRP through May 3, 2018 (when he retired) and became a director of SGRP on April 24, 2020, as discussed in *INFORMATION IN CONNECTION WITH APPOINTMENT OF ROBERT G. BROWN AS A DIRECTOR* in the First Special Meeting Proxy/Information Statement. Mr. Bartels retired as an employee of the Company as of January 1, 2020 (in accordance with the actions of SGRP's Compensation Committee on January 22, 2020). See *Bartel's Retirement and Director Compensation* in Note 5 to the Company's Consolidated Financial Statements - *Related Party Transactions*, above. Messrs. Brown and Bartels also are stockholders, directors and/or executive officers of various affiliates of SGRP.

For recent actions by the Majority Stockholders to change or potentially change the Board and 2019 By-Laws, see *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts in Part 1A-Risk Factors in the Annual Report*

SGRP claims against SAS re Affinity

The Company has prepared the draft of a complaint to be filed in the Supreme Court of the State of New York in Westchester County, NY, seeking appropriate relief and recovery from SAS and other related parties, which it prepared with the support of SGRP's Audit Committee (which has certain oversight responsibilities respecting related party matters). However, because of the pending changes in the SGRP CEO and CFO positions, the Audit Committee recommended that management delay filing the complaint until it can be reviewed and pursued by SGRP's new CEO and CFO (upon their selection and appointment) if and as they determine appropriate. See *Affinity Insurance and Related Reimbursement Dispute in Related Part Transactions* in Note 5, above.

Delaware Litigation Settlement

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

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

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

SPAR Group, Inc. and Subsidiaries

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

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

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

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

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

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

SPAR Group, Inc. and Subsidiaries

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

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

For additional recent actions by the Majority Stockholders to change or potentially change the Board and 2019 By-Laws, see *Risks Related to the Company's Significant Stockholders and Potential Voting Control and Conflicts in Part 1A - Risk Factors in the Annual Report*.

Advancement Claims

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

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

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

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

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

SPAR Group, Inc. and Subsidiaries

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

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

On January 27, 2019, Mr. Robert G. Brown sent a draft of his proposed Delaware litigation complaint in an email to Arthur Drogue, SGRP's Chairman, threatening to sue SGRP respecting the Brown Advancement Demand, which he repeated in an email to Mr. McCarthy on February 2, 2019. On March 21, 2020, Mr. Robert G. Brown repeated the Brown Advancement Demand and sent a slightly revised draft complaint that would purportedly change the contemplated litigation jurisdiction from Delaware to Massachusetts. No explanation was given for this change and SGRP believes that Mr. Robert G. Brown does not live or work in Massachusetts, but Mr. Robert G. Brown's brother, James S. Brown, is a Massachusetts lawyer and was an unsuccessful candidate for election as a SGRP director at the April 30, 2020, special stockholder meeting at the unilateral direction of Mr. Robert G. Brown and related parties. On August 1, 2020, Robert G. Brown sent a slightly revised complaint to William H. Bartels (who forwarded it to Arthur H. Baer, (Chairman of the Board and Audit Committee) changing the contemplated litigation jurisdiction from Massachusetts back to Delaware. Although it was signed and notarized and said by Robert G. Brown in his email to be in the process of being filed, no such complaint has been filed by Mr. Brown through May 29, 2020, and SGRP continues to deny the Brown Advancement Demand. In addition, SGRP believes that the Delaware Court has exclusive jurisdiction pursuant to SGRP's 2019 Restated By-Laws and the Settlement. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels.

SBS Bankruptcy, Settlement and March 2020 Claim

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

On August 6, 2019, SGRP, and its subsidiaries SPAR Marketing Force, Inc. ("[SMF](#)"), a Nevada corporation, and SPAR Assembly & Installation, Inc., f/k/a SPAR National Assembly Services, Inc., a Nevada corporation, submitted to the U.S. District Court in Nevada (the "[Bankruptcy Court](#)") their Compromise and Settlement Agreement, dated July 26, 2019 (the "[Settlement Agreement](#)"), with SBS, a Nevada corporation formerly known as SPAR Marketing Services, Inc., debtor and debtor-in-possession, and SBS, LLC, a Nevada limited liability company. The Settlement Agreement was submitted in the SBS Chapter 11 Case. Pursuant to the Settlement Agreement, the Company settled its claims for (among other things) indemnification from SBS in Clothier and the Rodgers class action case in Texas ("[Rodgers](#)"), and SBS released all receivable and other claims against the Company. See Note 8 to the Company's Consolidated Financial Statements – *Legal Proceedings – SBS Bankruptcy, Settlement, and March 2020 Claim*, above.

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

In the SBS settlement, the Company's \$2.2 million in claims were settled for \$174,097.34 payable over 24 monthly installments of \$7,254.06 per month starting January 1, 2020. To date SBS is in default of the first 5 months of installment payments totaling \$36,270.30.

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On March 6, 2020, Robert G. Brown demanded payment in full of \$1,707,374 to SBS from SMF and SGRP pursuant to the SBS Settlement Agreement. The Settlement Agreement includes a specific carve out clause for the payment of specific fees for services provided by SBS to SMF. The clause required a special review, by a third party prominent auditing firm, as verification that SMF actually made those payments to SBS. The report has been completed and properly supports the Company's position that all such fees were paid to SBS (the "March 2020 Claim"). The Company disagrees that such amount is owed. The Company believes that the robust and comprehensive mutual releases in the SBS Settlement Agreement provide valuable relief from potential future claims and litigation by SBS respecting the Company's past involvement with SBS, including the March 2020 Claim. However, Robert G. Brown, president, director and indirect owner of SBS, since and notwithstanding the Court's approval of the SBS Settlement Agreement, has continued to allege that the claims and amounts that were fully released pursuant to the SBS Settlement Agreement and approved by the bankruptcy court are due to SBS from the Company, and the Company strongly disagrees. Since all such SBS claims have been completely released by SBS (with Mr. Brown's approval), the Company owes nothing and will not accrue anything respecting Mr. Brown's renewed claims. Mr. Robert G. Brown is significant stockholder of SGRP, and member of a 13D control group, SGRP's former Chairman and director of SGRP, and became a director again on April 24, 2020, pursuant to the written consents of the Brown Group and Mr. Bartels.

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

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

Infotech Litigation and Settlement

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

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

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

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

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

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

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

SBS Field Specialist Litigation

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

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

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

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

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 2019 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 2019 Annual Report. You should review and give attention to all of those Risk Factors, including (without limitation) *Dependence Upon and Cost of Services Provided by Affiliates and Use of Independent Contractors, Potential Conflicts in Services Provided by Affiliates, Risks Related to the Company's Significant Stockholders: Potential Voting Control and Conflicts, and Risks of a Nasdaq Delisting and Penny Stock Trading.*

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

SPAR Group, Inc. and Subsidiaries

Item 6. Exhibits

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

SPAR Group, Inc. and Subsidiaries

SIGNATURES

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

Date: November 16, 2020

SPAR Group, Inc., Registrant

By: /s/ Fay DeVriese
Fay DeVriese
Chief Financial Officer

**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 September 30, 2020 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: November 16, 2020

/s/ Kori G. Belzer
Kori G. Belzer
Chief Operating Officer

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

I, Fay DeVriese, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended September 30, 2020 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: November 16, 2020

/s/ Fay DeVriese
Fay DeVriese,
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 September 30, 2020 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
Chief Operating Officer

November 16, 2020

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

**Certification of 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 September 30, 2020 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/ Fay DeVriese
Fay DeVriese
Chief Financial Officer, Treasurer and
Secretary

November 16, 2020

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