

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the first quarterly period ended **September 30, 2023**

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

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 stock, par value \$0.01 per share	SGRP	The NASDAQ Stock Market LLC

As of November 7, 2023, the Registrant had 23,240,959 shares of common stock, par value \$0.01 per share, outstanding.

SPAR Group, Inc.

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

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

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net revenues	\$ 67,333	\$ 69,832	\$ 197,649	\$ 196,626
Related party - cost of revenues	1,628	2,535	4,807	7,201
Cost of revenues	52,332	54,457	152,235	151,806
Gross profit	13,373	12,840	40,607	37,619
Selling, general and administrative expense	11,284	10,614	32,345	29,952
Depreciation and amortization	548	506	1,574	1,524
Operating income	1,541	1,720	6,688	6,143
Interest expense, net	380	270	1,248	595
Other income, net	(164)	(126)	(347)	(363)
Income before income tax expense	1,325	1,576	5,787	5,911
Income tax expense	227	676	1,806	1,942
Net income	1,098	900	3,981	3,969
Net income attributable to non-controlling interest	(839)	(932)	(2,217)	(2,180)
Net income (loss) attributable to SPAR Group, Inc.	\$ 259	\$ (32)	\$ 1,764	\$ 1,789
Basic income per common share attributable to SPAR Group, Inc.	\$ 0.01	\$ (0.00)	\$ 0.08	\$ 0.08
Diluted income per common share attributable to SPAR Group, Inc.	\$ 0.01	\$ (0.00)	\$ 0.08	\$ 0.08
Weighted-average common shares outstanding – basic	23,237	22,227	23,201	21,873
Weighted-average common shares outstanding – diluted	23,376	22,227	23,350	22,010
Net income	\$ 1,098	\$ 900	\$ 3,981	\$ 3,969
Other comprehensive income (loss)				
Foreign currency translation adjustments	(497)	(1,085)	(359)	(5,021)
Comprehensive income (loss)	601	(185)	3,622	(1,052)
Comprehensive (income) loss attributable to non-controlling interest	(688)	(303)	(1,788)	1,696
Comprehensive income (loss) attributable to SPAR Group, Inc.	\$ (87)	\$ (488)	\$ 1,834	\$ 644

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,960	\$ 9,345
Accounts receivable, net	65,650	63,714
Prepaid expenses and other current assets	6,163	7,861
Total current assets	79,773	80,920
Property and equipment, net	3,094	3,261
Operating lease right-of-use assets	2,023	969
Goodwill	1,712	1,708
Intangible assets, net	1,295	2,040
Deferred income taxes, net	3,859	3,766
Other assets	2,259	1,934
Total assets	\$ 94,015	\$ 94,598
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 10,533	\$ 10,588
Accrued expenses and other current liabilities	16,674	20,261
Due to affiliates	2,999	2,964
Customer incentives and deposits	1,771	2,399
Lines of credit and short-term loans	19,323	17,980
Current portion of operating lease liabilities	946	363
Total current liabilities	52,246	54,555
Operating lease liabilities, net of current portion	1,077	606
Long-term debt	922	1,376
Total liabilities	54,245	56,537
Commitments and contingencies – See Note 4		
Stockholders' equity:		
Series B convertible preferred stock, \$0.01 par value per share: 2,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 2,000,000 shares issued as of September 30, 2023 and December 31, 2022; 650,000 shares and 854,753 shares outstanding as of September 30, 2023 and December 31, 2022, respectively	7	9
Common stock, \$0.01 par value per share: 47,000,000 shares authorized as of September 30, 2023 and December 31, 2022; 23,446,444 and 23,059,138 shares issued as of September 30, 2023 and December 31, 2022, respectively; 23,240,959 shares and 22,853,653 shares outstanding as of September 30, 2023 and December 31, 2022, respectively	232	229
Treasury stock, at cost, 205,485 shares and 205,485 shares as of September 30, 2023 and December 31, 2022, respectively	(285)	(285)
Additional paid-in capital	20,928	20,708
Accumulated other comprehensive loss	(4,871)	(4,941)
Retained earnings	8,471	6,707
Total stockholders' equity attributable to SPAR Group, Inc.	24,482	22,427
Non-controlling interest	15,288	15,634
Total stockholders' equity	39,770	38,061
Total liabilities and stockholders' equity	\$ 94,015	\$ 94,598

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common Stock		Series B Convertible Preferred Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other		Retained Earnings	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount		Comprehensive Loss				
Balance at December 31, 2022	22,961	\$ 229	855	\$ 9	205	\$ (285)	\$ 20,708	\$ (4,941)	\$ 6,707	\$ 15,634	\$ 38,061	
Share-based compensation	-	-	-	-	-	-	173	-	-	-	173	
Conversion of preferred stock to common stock	307	4	(205)	(2)	-	-	3	-	-	-	5	
Dividend to NCI	-	-	-	-	-	-	-	-	-	(334)	(334)	
Other comprehensive income	-	-	-	-	-	-	-	85	-	92	177	
Net income	-	-	-	-	-	-	-	-	866	911	1,777	
Balance at March 31, 2023	23,268	\$ 233	650	\$ 7	205	\$ (285)	\$ 20,884	\$ (4,856)	\$ 7,573	\$ 16,303	\$ 39,859	
Share-based compensation	-	-	-	-	-	-	(39)	-	-	-	(39)	
Dividend to NCI	-	-	-	-	-	-	-	-	-	(850)	(850)	
Other changes to noncontrolling interest	-	-	-	-	-	-	-	-	-	(460)	(460)	
Retirement of shares	(35)	(1)	-	-	-	-	-	-	-	-	(1)	
Other comprehensive income (loss)	-	-	-	-	-	-	-	331	-	(370)	(39)	
Net income	-	-	-	-	-	-	-	-	639	467	1,106	
Balance at June 30, 2023	23,233	\$ 232	650	\$ 7	205	\$ (285)	\$ 20,845	\$ (4,525)	\$ 8,212	\$ 15,090	\$ 39,576	
Share-based compensation	-	-	-	-	-	-	83	-	-	-	83	
Exercise of stock options	8	0	-	-	-	-	-	-	-	-	0	
Distribution to NCI	-	-	-	-	-	-	-	-	-	(490)	(490)	
Other comprehensive income (loss)	-	-	-	-	-	-	-	(346)	-	(151)	(497)	
Net income	-	-	-	-	-	-	-	-	259	839	1,098	
Balance at September 30, 2023	23,241	\$ 232	650	\$ 7	205	\$ (285)	\$ 20,928	\$ (4,871)	\$ 8,471	\$ 15,288	\$ 39,770	

See accompanying notes to the unaudited condensed consolidated financial statements.

SPAR Group, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity (Continued)
(Unaudited)
(In thousands)

	Common Stock		Series B Preferred Stock		Treasury Stock		Additional	Accumulated	Retained Earnings	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Comprehensive Loss			
Balance at December 31, 2021	21,320	\$ 213	-	\$ -	54	\$ (104)	\$ 17,231	\$ (5,028)	\$ 7,439	\$ 17,597	\$ 37,348
Share-based compensation expense	-	-	-	-	-	-	150	-	-	-	150
Issuance of Series B convertible preferred stock	-	-	2,000	20	-	-	3,248	-	-	-	3,268
Conversion of Series B convertible preferred stock to common stock	525	5	(350)	(3)	-	-	-	-	-	-	2
Other comprehensive income (loss)	-	-	-	-	-	-	-	1,602	-	(1,976)	(374)
Net income	-	-	-	-	-	-	-	-	672	783	1,455
Balance at March 31, 2022	21,845	\$ 218	1,650	\$ 17	54	\$ (104)	\$ 20,629	\$ (3,426)	\$ 8,111	\$ 16,404	\$ 41,849
Share-based compensation	-	-	-	-	-	-	130	-	-	-	130
Stock repurchase program	(74)	-	-	-	74	(89)	1	-	-	-	(88)
Other comprehensive (loss)	-	-	-	-	-	-	-	(2,237)	-	(1,325)	(3,562)
Net income (loss)	-	-	-	-	-	-	-	-	1,149	465	1,614
Balance at June 30, 2022	21,771	\$ 218	1,650	\$ 17	128	\$ (193)	\$ 20,760	\$ (5,663)	\$ 9,260	\$ 15,544	\$ 39,943
Share-based compensation	-	-	-	-	-	-	309	-	-	-	309
Majority Shareholder agreement	949	9	(633)	(6)	-	-	-	-	-	-	3
Exercise of stock options	38	-	-	-	-	-	(118)	-	-	-	(118)
Stock repurchase program	(74)	-	-	-	74	(92)	-	-	-	-	(92)
Retirement of shares	(3)	-	-	-	-	-	-	-	-	-	-
Other comprehensive (loss)	-	-	-	-	-	-	-	(511)	-	(574)	(1,085)
Net income (loss)	-	-	-	-	-	-	-	-	(32)	932	900
Balance at September 30, 2022	22,681	\$ 227	1,017	\$ 11	202	\$ (285)	\$ 20,951	\$ (6,174)	\$ 9,228	\$ 15,902	\$ 39,860

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 3,981	\$ 3,969
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	1,574	1,524
Amortization of operating lease right-of-use assets	433	589
Bad debt expense, net of recoveries	138	35
Deferred income tax expense (benefit)	(15)	-
Share-based compensation expense	217	585
Majority stockholders change in control agreement	-	(420)
Changes in operating assets and liabilities:		
Accounts receivable	(1,963)	(12,283)
Prepaid expenses and other current assets	1,635	(4,164)
Accounts payable	409	3,708
Operating lease liabilities	(433)	(589)
Accrued expenses and other current liabilities	(4,336)	2,884
Net cash provided by (used in) operating activities	<u>1,640</u>	<u>(4,162)</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,083)	(1,237)
Net cash used in investing activities	<u>(1,083)</u>	<u>(1,237)</u>
Cash flows from financing activities		
Borrowings under line of credit	80,151	33,151
Repayments under line of credit	(79,520)	(23,904)
Payments to acquire noncontrolling interests	(473)	-
Distribution to noncontrolling interest	(1,674)	-
Net cash provided by (used in) financing activities	<u>(1,516)</u>	<u>9,247</u>
Effect of foreign exchange rate changes on cash	(426)	(5,200)
Net change in cash, cash equivalents and restricted cash	<u>(1,385)</u>	<u>(1,352)</u>
Cash, cash equivalents at beginning of period	9,345	13,473
Cash, cash equivalents at end of period	<u>\$ 7,960</u>	<u>\$12,121</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	\$ 1,302	\$738
Cash paid for income taxes	\$ 1,945	\$1,710
Supplemental disclosure of non-cash investing and financing activities:		
Non-cash majority stockholders change in control agreement charges	\$ -	\$3,270

See accompanying notes to the unaudited condensed consolidated financial statements.

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

1. Nature of the Business

SPAR Group, Inc. ("SGRP" or the "Corporation"), and its subsidiaries (and SGRP together with its subsidiaries may be referred to as "SPAR Group", the "Company", "SPAR", "We", or "Our") is a global merchandising and brand marketing services company, providing a broad range of services to retailers, consumer goods manufacturers and distributors around the world.

2. Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 included in the 2022 Annual Report on Form 10-K that was filed with the Securities and Exchange Commission on April 17, 2023.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements. In the opinion of management, the included disclosures are adequate, and the accompanying unaudited condensed consolidated financial statements contain all adjustments which are necessary for a fair presentation of the Company's consolidated financial position as of September 30, 2023, consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2023 and 2022, and consolidated cash flows for the nine months ended September 30, 2023 and 2022. Such adjustments are of a normal and recurring nature. The consolidated results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the consolidated results of operations that may be expected for the year ending December 31, 2023.

Principles of Consolidation

The Company consolidates its 100%-owned subsidiaries and all of the 51%-owned joint ventures in which the Company has a controlling financial interest. All significant intercompany transactions have been eliminated in the unaudited condensed consolidated financial statements.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the amounts disclosed for contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Significant balances subject to such estimates and assumptions include carrying amounts of property and equipment and intangible assets, valuation allowances for receivables, carrying amounts for deferred tax assets and liabilities, and liabilities incurred from operations and customer incentives. Actual results could differ from those estimates.

Segment Reporting

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 ("CODM") in deciding how to allocate resources and in assessing performance. The Company's CODM is the Chief Executive Officer.

The Company provides similar merchandising, marketing and business services throughout the world and has three reportable regional segments: (i) Americas, which is comprised of United States, Canada, Brazil and Mexico; (ii) Asia-Pacific ("APAC"), which is comprised of Japan, China, India and Australia; and (iii) Europe, Middle East and Africa ("EMEA"), which is comprised of South Africa. Certain corporate expenses have been allocated to segments based on each segment's revenue as a percentage of total company revenue.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU No. 2016-13"), which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance was effective for the Company beginning January 1, 2023, and interim periods therein. Early adoption is permitted. The Company adopted ASU No. 2016-13 on January 1, 2023 and the adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements, results of operations or disclosures.

3. Debt

North Mill Capital Credit Facility

The Company, through SPAR Marketing Force, Inc. ("SMF") and SPAR Canada Company ULC ("SCC", and collectively with SMF, the "NM Borrowers"), has a secured revolving credit facility in the United States (the "US Revolving Credit Facility") and Canada (the "Canada Revolving Credit Facility", and collectively with the US Revolving Credit Facility, the "NM Credit Facility") with North Mill Capital, LLC, d/b/a SLR Business Credit ("NM").

In order to obtain, document and govern the NM Credit Facility, SMF, SCC, SGRP and certain of SGRP's direct and indirect subsidiaries in the United States and Canada (including SMF and SCC as borrowers and SGRP as a guarantor, collectively, the "NM Loan Parties") entered into a Loan and Security Agreement with NM dated as of April 10, 2019, which, as amended from time to time (as amended, the "NM Loan Agreement"), governs the NM Credit Facility. Pursuant to the NM Loan Agreement, the NM Borrowers agreed to reimburse NM for legal and documentation fees incurred in connection with the NM Loan Agreement and such amendments.

On July 1, 2022, the NM Loan Parties and NM executed and delivered a Fourth Modification Agreement, effective as of June 30, 2022 (the "Fourth Modification Agreement"), pursuant to which the NM Loan Parties and NM agreed to extend the NM Credit Facility from October 10, 2023, to October 10, 2024, and increased the amount of the US Revolving Credit Facility to \$17.5 million while the Canada Revolving Credit Facility remained at CDN\$1.5 million. In addition, the Fourth Modification Agreement permanently increased SMF's borrowing base availability for billed receivables to up to 90% from 85%, and unbilled receivables to up to 80% from 70%, and increased the cap on unbilled accounts for SMF to \$6.5 million from \$5.5 million.

On August 9, 2022, the NM Loan Parties and NM executed and delivered a Fifth Modification Agreement, effective immediately (the "Fifth Modification Agreement"), pursuant to which the NM Loan Parties and NM agreed to temporarily increase the borrowing base availability under the NM Credit Facility, and the NM Borrowers agreed to pay certain additional fees.

On February 1, 2023, the NM Loan Parties and NM executed and delivered a Sixth Modification Agreement, effective immediately (the "Sixth Modification Agreement"), pursuant to which the NM Loan Parties and NM agreed to increase the amount of the US Revolving Credit Facility to \$28.0 million and increase the Canada Revolving Credit Facility to CDN\$2.0 million. In addition, the Sixth Modification Agreement increased the cap on unbilled accounts in the borrowing base for SMF to \$7.0 million from \$6.5 million.

The Restated US Note and Restated Canadian Note (together, the "NM Notes") and the NM Loan Agreement together require the NM Borrowers to pay interest on the loans thereunder equal to: (i) the Prime Rate designated from time to time by Wells Fargo Bank; plus (ii) one and nine-tenths percentage points (1.90%) or an aggregate minimum of 6.75% per annum. In addition, the NM Borrowers are paying a facility fee to NM in an amount equal to: (i) for the year commencing on October 10, 2022, approximately \$0.1 million plus 0.80% of the amount of any advances other than under the US Revolving Credit Facility plus an additional facility fee of \$15,000 for every incremental \$1.0 million of loan balance in excess of \$21.0 million, and (ii) for the year commencing on October 10, 2023, approximately \$0.2 million plus 0.80% of the amount of any advances other than under the US Revolving Credit Facility plus an additional facility fee of \$15,000 for every incremental \$1.0 million of loan balance in excess of \$21.0 million. For the Sixth Modification Agreement, the NM Borrowers paid NM a fee of approximately \$28,000 for the US and \$3,000 for Canada.

As of September 30, 2023, the aggregate interest rate was 10.40% per annum and the aggregate outstanding loan balance was approximately \$15.6 million, which is included within lines of credit and short-term loans in the unaudited condensed consolidated balance sheets. The aggregate outstanding loan balance is divided between the US Revolving Credit Facility and the Canada Revolving Credit Facility as follows: (i) the outstanding loan balance under the US Revolving Credit Facility was approximately \$14.5 million; and (ii) the outstanding loan balance under the Canada Revolving Credit Facility was approximately \$1.1 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 the NM Borrowers (i.e., SMF and SCC) and imposes limits on all of the NM Loan Parties (including SGRP) on non-ordinary course payments and transactions, incurring or guaranteeing indebtedness, increases in executive, officer or director compensation, capital expenditures and certain other investments. The NM Loan Parties were in compliance with such covenants as of September 30, 2023.

The obligations of the NM Borrowers are secured by the receivables and other assets of the NM Borrowers and substantially all of the assets of the other NM Loan Parties, however, the obligations are not secured by any equity in, financial asset respecting or asset of any Excluded Subsidiary (as such term is defined in the NM Loan Agreement). Pursuant to the NM Loan Agreement, Excluded Subsidiary means each of the following direct or indirect subsidiaries of SGRP: (i) Resource Plus of North Florida, Inc. (“Resource Plus”), Mobex of North Florida, Inc., and LeaseX, LLC, and their respective subsidiaries; (ii) NMS Retail Services ULC, which is an inactive Nova Scotia ULC; (iii) SPAR Group International, Inc.; (iv) SPAR FM Japan, Inc.; (v) SPAR International, Ltd.; (vi) each other subsidiary formed outside of the United States or Canada; and (vii) any other entity in which any such subsidiary is a partner, joint venture or other equity investor.

Resource Plus Seller Notes

Effective with the closing of the Company's acquisition of Resource Plus in 2018, the Company issued promissory notes to the sellers of \$2.3 million. The promissory notes are payable at annual installments in various amounts on December 31 of each year, starting with December 31, 2018 and continuing through December 31, 2023.

International Credit Facilities

In October 2017, SPARFACTS Australia Pty. Ltd. secured a line of credit facility with National Australia Bank for AUD\$0.8 million. The facility provides for borrowing based upon a formula, as defined in the applicable loan agreement (principally 80% of eligible accounts receivable less certain deductions) and was due on demand.

In December 2020, SPAR China secured a loan with Industrial Bank for 3.0 million Chinese Yuan. The loan will expire in December 2023 and is due on demand.

In December 2021, SPAR China secured a loan with Industrial and Commercial Bank of China for 2.0 million Chinese Yuan, which was paid in July 2023.

In March 2022, SGRP Meridian (Pty), Ltd. secured loans with Investec Bank Ltd, for 100.5 million South African Rand; of which 80.0 million South African Rand expires in July 2024 and 25.0 million South African Rand expires in July 2025.

Summary of the Company's lines of credit and short-term loans (in thousands):

	Interest Rate as of September 30, 2023	Balance as of September 30, 2023	Interest Rate as of December 31, 2022	Balance as of December 31, 2022
Australia - National Australia Bank	12.10%	\$ 132	10.60%	\$ 156
China- Industrial and Commercial Bank	4.15%	-	4.15%	290
China- Industrial Bank	4.00%	411	4.00%	435
South Africa - Investec Bank Ltd.	11.75%	2,522	10.50%	1,700
USA - North Mill Capital	10.40%	15,558	5.25%	14,399
USA - Resource Plus Seller Notes	1.85%	700	1.85%	1,000
Total		\$ 19,323		\$ 17,980

Summary of the Company's Long- term debt (dollars in thousands):

	Interest Rate as of September 30, 2023	Balance Outstanding September 30, 2023	Interest Rate as of December 31, 2022	Balance Outstanding December 31, 2022
South Africa - Investec Bank Ltd.	11.75%	\$ 922	10.50%	\$ 1,376
Total		<u>\$ 922</u>		<u>\$ 1,376</u>

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

	September 30, 2023	December 31, 2022
Unused Availability:		
United States / Canada	\$ 1,863	\$ 4,601
Australia	383	390
South Africa	2,107	454
Mexico	-	1
Total Unused Availability	<u>\$ 4,353</u>	<u>\$5,446</u>

4. 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.

All prior litigations associated with the Company through SPAR Business Services, Inc. ("SBS") and its independent contractors have been settled as per CIC Agreement (note 8).

5. Common Stock

As of September 30, 2023, the Company's certificate of incorporation authorized the Company to issue 47,000,000 shares of common stock, par value \$0.01 per share.

The voting, dividend and liquidation rights of the holders of the Company's common stock are subject to and qualified by the rights, powers and preferences of the holders of the Company's Series B convertible preferred stock. Each share of the Company's common stock is entitled to one vote on all matters submitted to a vote of the Company's stockholders. Holders of the Company's common stock are entitled to receive dividends as may be declared by the Company's board of directors (the "Board"), if any, subject to the preferential dividend rights of the Company's Series B convertible preferred stock. No cash dividends had been declared or paid during the periods presented.

In May 2022, the Board authorized the Company to repurchase up to 500,000 shares of the Company's common stock pursuant to the 2022 Stock Repurchase Program (the "2022 Stock Repurchase Program"), which ended May 2023. During the three and nine months ended September 30, 2023, there were no shares of common stock repurchased under the 2022 Stock Repurchase Program.

6. Preferred Stock

The Company's certificate of incorporation authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share, which may have such preferences and priorities over the Company's common stock and other rights, powers and privileges as the Board may establish in its discretion.

In January 2022, the Company filed a "Certificate of Designation of Series "B" Preferred Stock of SPAR Group, Inc." (the "Preferred Designation") with the Secretary of State of Delaware, which created a series of 2,000,000 shares of convertible preferred stock designated as "Series B" convertible preferred stock, par value of \$0.01 per share. In January 2022, 2,000,000 shares of Series B convertible preferred stock were issued to the majority stockholders and related parties pursuant to the Change of Control, Voting and Restricted Stock Agreement. See Note 8.

Shares of Series B convertible preferred stock do not carry any voting or dividend rights and upon vesting, are convertible into the Company's common stock at a ratio of 1-to-1.5. See Note 8. The holders of the Series B convertible preferred stock have a liquidation preference over the Company's common stock and vote together for matters pertaining only to the Series B convertible preferred stock where only the holders of the Series B convertible preferred stock are entitled to vote. The holders of outstanding Series B Preferred Stock do not have the right to vote for directors or other matters submitted to the holders of the Company's common stock.

During the nine months ended September 30, 2023, 204,753 shares of Series B convertible preferred stock converted to 307,130 shares of the Company's common stock. As of September 30, 2023, 650,000 shares of Series B convertible preferred stock were outstanding, which upon vesting, will convert to 975,000 shares of the Company's common stock.

Following the remaining Series B convertible preferred stock shares converting to common stock and when there are no more shares of Series B convertible preferred stock outstanding, the Company may change or cancel the authorized Series B convertible preferred stock, and to the extent it reduces such authorization without issuance, the Company can create other series of preferred stock with potentially different dividends, preferences and other terms.

7. Share-Based Compensation

Stock Options

For the three months ended September 30, 2023 and 2022, the Company recognized share-based compensation expense related to stock options of approximately \$15,000 and \$30,000, respectively. For the nine months ended September 30, 2023 and 2022, the Company recognized share-based compensation expense related to stock options of approximately \$45,000 and \$166,000, respectively.

Restricted Stock Units

For the three months ended September 30, 2023 and 2022, the Company recognized share-based compensation expense related to restricted stock units of approximately \$68,000 and \$109,000, respectively. For the nine months ended September 30, 2023 and 2022, the Company recognized share-based compensation expense related to restricted stock units of approximately \$172,000 and \$423,000, respectively.

8. Related Party Transactions

Domestic Related Party Transactions

Mr. Robert G. Brown and Mr. William H. Bartels are directors and significant stockholders of SGRP, and thus each is a related party and affiliate of SGRP. Mr. Robert G. Brown was the Chairman of the Board of Directors of SGRP (the "Board"), but ceased to be eligible to hold that position when the 2022 By-Laws became effective on January 25, 2022. SPAR Business Services, Inc. ("SBS") (See note 4) and SPAR Administrative Services, Inc. ("SAS"), are related parties and affiliates of SGRP, but are not under the control or part of the Company. SBS is a related party and affiliate of SGRP because it is owned by SBS LLC, which in turn is beneficially owned by Mr. Robert G. Brown. SAS is a related party and affiliate of SGRP because it is owned principally by Mr. William H. Bartels and entities owned by affiliates of Mr. Robert G. Brown.

Change of Control, Voting and Restricted Stock Agreement

The Change of Control, Voting and Restricted Stock Agreement (the "CIC Agreement") became effective on January 28, 2022, when signed by the Company and Robert G. Brown, ("Mr. Brown"), William H. Bartels, ("Mr. Bartels"), SPAR Administrative Services, Inc., a corporation ("SAS"), and collectively with Mr. Brown, Mr. Bartels and SAS, the ("Majority Stockholders"). Mr. Bartels and Mr. Brown are Directors of the Corporation. Mr. Brown was the Chairman of the Board of Directors of SGRP (the "Board"), but ceased holding that position when the 2022 By-Laws (as defined below) became effective on January 25, 2022.

The execution of the CIC Agreement was conditional upon making the changes to and restatement of the Corporation's 2022 By-Laws, which were approved by the Board and became effective on January 25, 2022 (the "2022 By-Laws").

The financial terms of the CIC Agreement to the Majority Stockholders, totaled \$4,477,585, consisting of the following:

1. The Corporation issued to the Majority Stockholders 2,000,000 restricted shares of Series B Preferred Stock, which are convertible into 3,000,000 SGRP Shares pursuant to the 1:1.5 conversion ratio set forth in the Preferred Designation and the CIC Agreement, subject to adjustment for a forward or reverse share split, share dividend, or similar transactions. These shares will vest over time upon execution of the CIC Agreement in 5 phases through November 10, 2023, assuming the Majority Stockholders' ongoing compliance with the terms and conditions of the CIC Agreement. Series B Preferred Shares may only be transferred to affiliates and certain related parties of the Majority Stockholders if those affiliates and certain related parties execute a joinder to the CIC Agreement. The Series B Preferred Stock shares was valued at \$3,690,000 in total, based on the SGRP stock price on December 31, 2021 of \$1.23 per share for the 3,000,000 conversion SGRP shares.
2. The Corporation made a \$250,000 cash payment to Mr. Brown and agreed to reimburse up to \$35,000 of the legal expenses of the Majority Stockholders that were incurred after January 1, 2021, in connection with the negotiation and execution of the CIC Agreement.
3. The Corporation assumed financial responsibility for, and paid directly to Affinity Insurance Company, Ltd., \$502,585 to settle SAS obligations and the related claim for the 2014-2015 plan year.

Pursuant to the CIC Agreement, all actions, claims and demands between the Majority Stockholders and the Company were resolved; and the Majority Stockholders and their affiliates during the five-year term of the CIC Agreement have agreed to give up their rights to do any of the following: (i) act or attempt to act by written consent; (ii) submit or attempt to submit any stockholder proposals in advance of any annual or special stockholders meeting of the Corporation; (iii) call or attempt to call any special meetings of the Corporation's stockholders; (iv) continue or commence or attempt to continue or commence any legal claims against the Company; (v) change or attempt to change the size of the Board; (vi) appoint or remove or attempt to appoint or remove any director or officer of the Corporation, except as expressly permitted with in the CIC Agreement; (vii) amend or attempt to amend the Corporation's Certificate of Incorporation or 2022 By-Laws; and (viii) enter or attempt to enter into any agreement, arrangement or understanding with any other person in an effort to take any of those actions.

The Corporation's amended and restated 2022 By-Laws were adopted to increase the independence of the Board by making the following changes (among others): (i) the Board size was fixed at 7 and must consist of at least three (3) Super Independent Directors (as defined below) plus the CEO at all times; (ii) the Chairman, Vice Chairman and all Committee Chairpersons must qualify as Super Independent Directors ; and (iii) to establish a quorum, any Board meeting must have 70% of the Directors including the majority of Super Independent Directors. If there are less than three (3) Super Independent Directors, then the least tenured non-Super Independent Director, other than the CEO, may not vote on Board matters, which helps to ensure that the Board remains under independent governance. As defined in the 2022 By-Laws "Super Independent Director" means a member of the Board who: (1) qualifies as an independent director under applicable laws and regulations; (2) is affirmatively determined to be an independent director by the Governance Committee of the Board; (3) excludes the Majority Stockholders, Spar Administrative Services, Inc. and Spar Business Services, Inc. and any of their respective Relatives, Family Members, or Affiliates; and (4) excludes any Person that is or was a present or past employee or advisor of any company with which any of the Majority Stockholders has been involved and any Person that is, or was in the past, related or affiliated in any way to any of the Majority Stockholders, including, without limitation, any Affiliates of Innovative Global Technologies, LLC or SP/R, Inc. Defined Benefit Pension Trust.

In January 2022, for the CIC Agreement and 2022 By-Law to go into effect, two (2) of the Board members at the time, James R. Brown, Sr. and Panagiotis Lazaretos, who are affiliated with the Majority Stockholders, retired from the Board and assumed other advisory roles with the Company under separate agreements (see below).

Panagiotis Lazaretos Consulting Agreement

On January 27, 2022, the Corporation entered into a consulting agreement with Thenablers, Ltd. effective February 1, 2022 (the "Lazaretos Consulting Agreement"). Thenablers, Ltd. is wholly owned by Mr. Panagiotis Lazaretos, a retired director of the corporation. Following Mr. Lazaretos' retirement as a director on January 25, 2022, Thenablers, Ltd. agreed to provide the consulting services of Mr. Lazaretos to the Corporation regarding global sales and new markets' expansion. The Lazaretos Consulting Agreement cannot be terminated by the consent of either party for the first twelve (12) months, and automatically expires on January 31, 2024. As compensation for its services, Thenablers, Ltd. is entitled to receive: (i) base compensation at a rate of \$10,000 per month for the term of the Consulting Agreement; (ii) incentive based compensation as calculated in Exhibit A of the Lazaretos Consulting Agreement; and (iii) the outstanding options granted to Mr. Panagiotis ("Panos") N. Lazaretos on February 4, 2022 will continue to be outstanding and vest

according to their terms under the agreement. As permitted by that agreement, on February 2, 2023, the Corporation gave notice that it was terminating that agreement effective July 31, 2023.

Other Domestic Related Party Transactions

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 also a director of both NMA and 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"). Beginning in September 2018 and through June 2021, NSRS provided substantially all of the domestic merchandising specialist field force used by NMS. For those services, NMS agrees to reimburse NSRS certain costs for providing those services plus a premium ranging from 4.0% to 10.0% of certain costs. Starting in July 2021, the domestic merchandising specialist field force services provided by NSRS was transitioned to National Remodel & Setup Services, LLC ("NRSS") with the same financial arrangement. Mrs. Andrea Burdekin is the owner of NRSS. NMS also leases office space from Mr. Burdekin. The costs associated with these activities for the three months ended September 30, 2023 and 2022 were approximately \$1.5 million and \$2.5 million, respectively. The costs associated with these activities for the nine months ended September 30, 2023 and 2022 were approximately \$4.2 million and \$7.1 million, respectively.

Resource Plus is owned jointly by SGRP through its direct 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 and are subleased to Resource Plus. The costs associated with these activities for the three months ended September 30, 2023 and 2022 were approximately \$0.1 million and \$0.2 million, respectively. The costs associated with these activities for the nine months ended September 30, 2023 and 2022 were approximately \$0.4 million and \$0.5 million, respectively.

On December 1, 2021, the Corporation entered into the Agreement for Marketing and Advertising Services (the "WB Agreement") with WB Marketing, Inc. (the "Agent", and together with the Company, the "Parties"). The Agent is an entity owned and controlled by Mrs. Jean Matacunas who is the wife of President and Chief Executive Officer, Michael R. Matacunas. Costs associated with these activities for the nine-months ended September 30, 2023 and 2022 were approximately \$0.1 million and \$0.1 million, respectively.

International Related Party Services

The Company's principal Brazilian subsidiary, SPAR BSMT, is owned 51% by the Company. Mr. Jonathan Dagues Martins, ("JDM") is the Chief Executive Officer and President of each SPAR Brazil subsidiary pursuant to a Management Agreement between JDM and SPAR BSMT dated September 13, 2016. JDM also is a director of SPAR BSMT. Accordingly, JDM is a related party of the Company. EILLC is owned by Mr. Peter W. Brown, a director of SPAR BSMT and the Corporation.

SPARFACTS is a consolidated international subsidiary of the Company and is owned 51% by SGRP. Ms. Lynda Chapman is a director of SPARFACTS. Her various companies provide office lease, accounting and consultant services to SPARFACTS.

Summary of Certain Related Party Transactions

Due to related parties consists of the following as of the periods presented (in thousands):

	September 30, 2023	December 31, 2022
Loans from joint venture partners ⁽¹⁾ :		
China	\$ 1,500	\$ 1,382
Mexico	623	623
Australia	610	693
Resource Plus	266	266
Total due to affiliates	<u>\$ 2,999</u>	<u>\$ 2,964</u>

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

Bartels' Retirement and Director Compensation

Mr. William H. Bartels retired as an employee of the Company as of January 1, 2020 but continues to serve as a member of SPAR's Board. Mr. Bartels is also one of the founders and a significant stockholder of SGRP. Effective January 18, 2020, SPAR's Governance Committee proposed and unanimously approved retirement benefits for the five-year period commencing January 1, 2020, and ending December 31, 2024 (the "Five-Year Period"), for Mr. Bartels. The aggregate value of benefits payable to Mr. Bartels is approximately \$0.2 million per year and a total of \$1.1 million for the Five-Year Period.

As of September 30, 2023, there are approximately \$0.2 million of benefits payable, which are included in accrued expenses and other current liabilities in the unaudited condensed consolidated balance sheets.

9. Segment Information

Select statement of operations activity of the Company's reportable segments for the periods presented were (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenues:				
Americas	\$ 53,796	\$ 53,738	\$ 154,457	\$ 149,992
APAC	5,674	7,147	17,432	19,351
EMEA	7,863	8,947	25,760	27,283
Total net revenues	<u>\$ 67,333</u>	<u>\$ 69,832</u>	<u>\$ 197,649</u>	<u>\$ 196,626</u>
Operating income (loss):				
Americas	\$ 1,328	\$ 1,441	\$ 5,894	\$ 5,862
APAC	(218)	(341)	(510)	(1,491)
EMEA	431	620	1,304	1,772
Total operating income	<u>\$ 1,541</u>	<u>\$ 1,720</u>	<u>\$ 6,688</u>	<u>\$ 6,143</u>
Interest expense, net:				
Americas	\$ 264	\$ 203	\$ 895	\$ 399
APAC	31	6	47	24
EMEA	85	61	306	172
Total interest expense, net	<u>\$ 380</u>	<u>\$ 270</u>	<u>\$ 1,248</u>	<u>\$ 595</u>
Other (income) expense, net:				
Americas	\$ 5	\$ (12)	\$ 22	\$ (24)
APAC	(59)	(50)	(69)	(62)
EMEA	(110)	(64)	(300)	(277)
Total other (income) expense, net	<u>\$ (164)</u>	<u>\$ (126)</u>	<u>\$ (347)</u>	<u>\$ (363)</u>
Income (loss) before income tax expense:				
Americas	\$ 1,059	\$ 1,250	\$ 4,977	\$ 5,487
APAC	(190)	(297)	(488)	(1,453)
EMEA	456	623	1,298	1,877
Total income before income tax expense	<u>\$ 1,325</u>	<u>\$ 1,576</u>	<u>\$ 5,787</u>	<u>\$ 5,911</u>
Income tax expense:				
Americas	\$ (163)	\$ 467	\$ 1,068	\$ 1,346
APAC	45	(145)	8	(104)
EMEA	345	354	730	700
Total income tax expense	<u>\$ 227</u>	<u>\$ 676</u>	<u>\$ 1,806</u>	<u>\$ 1,942</u>

Net income, depreciation and amortization expense, and capital expenditures of the Company's reportable segments for the periods presented were (in thousands):

Net income (loss):								
Americas	\$	1,222	\$	783	\$	3,909	\$	4,141
APAC		(235)		(152)		(496)		(1,349)
EMEA		111		269		568		1,177
Total net income	\$	<u>1,098</u>	\$	<u>900</u>	\$	<u>3,981</u>	\$	<u>3,969</u>

Net income (loss) attributable to non-controlling interest								
Americas	\$	604	\$	(582)	\$	1,484	\$	(1,660)
APAC		(5)		(45)		11		476
EMEA		240		(305)		722		(996)
Total net income (loss) attributable to non-controlling interest	\$	<u>839</u>	\$	<u>(932)</u>	\$	<u>2,217</u>	\$	<u>(2,180)</u>

Net income (loss) attributable to SPAR Group, Inc.								
Americas	\$	618	\$	201	\$	2,425	\$	2,481
APAC		(230)		(197)		(507)		(873)
EMEA		(129)		(36)		(154)		181
Total net income (loss) attributable to SPAR Group, Inc.	\$	<u>259</u>	\$	<u>(32)</u>	\$	<u>1,764</u>	\$	<u>1,789</u>

Depreciation and amortization								
Americas	\$	472	\$	482	\$	1,402	\$	1,456
APAC		36		15		60		39
EMEA		40		9		112		29
Total depreciation and amortization	\$	<u>548</u>	\$	<u>506</u>	\$	<u>1,574</u>	\$	<u>1,524</u>

Capital expenditures:								
Americas	\$	286	\$	433	\$	946	\$	1,214
APAC		30		–		37		14
EMEA		49		30		100		9
Total capital expenditures	\$	<u>365</u>	\$	<u>463</u>	\$	<u>1,083</u>	\$	<u>1,237</u>

There were no intercompany sales for the three and nine months ended September 30, 2023 and 2022.

Total assets of the Company's reportable segments as of the periods presented were (in thousands):

	September 30, 2023	December 31, 2022
Assets:		
Americas	\$ 73,118	\$ 75,440
APAC	7,917	5,952
EMEA	12,980	13,206
Total assets	<u>\$ 94,015</u>	<u>\$ 94,598</u>

Long-lived assets of the Company's reportable segments as of the periods presented were (in thousands):

	September 30, 2023	December 31, 2022
Long lived assets:		
Americas	\$ 5,115	\$ 4,605
APAC	1,050	1,244
EMEA	798	315
Total long lived assets	<u>\$ 6,963</u>	<u>\$ 6,164</u>

Geographic Data (in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	% of consolidated net revenue		% of consolidated net revenue		% of consolidated net revenue		% of consolidated net revenue	
United States	\$ 28,722	42.7%	\$ 32,475	46.5%	\$ 81,004	41.0%	\$ 87,406	44.5%
Brazil	18,619	27.7	16,904	24.2	56,717	28.7	49,504	25.2
South Africa	7,863	11.7	8,947	12.8	25,759	13.0	27,283	13.9
Mexico	3,033	4.5	2,375	3.4	8,065	4.1	7,132	3.6
China	2,205	3.3	3,460	5.0	7,106	3.6	7,930	4.0
Japan	1,489	2.2	1,725	2.5	4,533	2.3	5,536	2.8
Canada	3,421	5.1	2,707	3.9	8,671	4.4	5,949	3.0
India	1,577	2.2	831	1.1	4,420	2.2	4,765	2.4
Australia	404	0.6	408	0.6	1,374	0.7	1,121	0.6
Total net revenue	\$ 67,333	100.0%	\$ 69,832	100.0%	\$ 197,649	100.0%	\$ 196,626	100.0%

10. Leases

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

The components of lease expenses consisted of the following for the periods presented (in thousands):

Lease Costs	Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Operating lease cost	Selling, General and Administrative Expense	\$ 71	\$ 103	\$ 212	\$ 358
Short-term lease cost	Selling, General and Administrative Expense	19	137	130	399
Variable costs	Selling, General and Administrative Expense	13	21	44	74
Total lease cost		\$ 103	\$ 261	\$ 386	\$ 831

(1) Variable lease expense consists primarily of property taxes, property insurance, and common area or other maintenance costs for the Company's leases of office space.

The following includes supplemental information for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash paid for amounts included in the measurement of lease liabilities	\$ 233	\$ 245	\$ 489	\$ 775
Assets obtained in exchange for new operating lease liabilities				
Operating lease	\$ 386	\$ -	\$ 1,497	\$ -

Balance sheet information related to leases consisted of the following as of the periods presented (in thousands):

	September 30, 2023	December 31, 2022
<i>Assets:</i>		
Operating lease right-of-use assets	\$ 2,023	\$ 969
<i>Liabilities:</i>		
Current portion of operating lease liabilities	946	363
Non-current portion of operating lease liabilities	1,077	606
Total operating lease liabilities	<u>\$ 2,023</u>	<u>\$ 969</u>
Weighted-average remaining lease term - operating leases (in years)	2.1	2.04
Weighted-average discount rate - operating leases	10.0%	6.4%

The following table summarizes the maturities of lease liabilities as of September 30, 2023 (in thousands):

Period Ending December 31,	Amount
2023	\$ 281
2024	886
2025	957
2026	179
2027	144
Thereafter	109
Total Lease Payments	2,556
Less: imputed interest	533
Total	<u>\$ 2,023</u>

11. 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,	
	2023	2022	2023	2022
Numerator:				
Net income (loss) attributable to SPAR Group, Inc.	\$ 259	\$ (32)	\$ 1,764	\$ 1,789
Denominator:				
Weighted-average common shares outstanding – basic	23,237	22,227	23,201	21,873
Effect of potentially dilutive securities:				
Stock options and unvested restricted shares	139	-	149	137
Weighted-average common shares outstanding – diluted	<u>23,376</u>	<u>22,227</u>	<u>23,350</u>	<u>22,010</u>
Basic income per common share attributable to SPAR Group, Inc.	\$ 0.01	\$ 0.00	\$ 0.08	\$ 0.08
Diluted income per common share attributable to SPAR Group, Inc.	<u>\$ 0.01</u>	<u>\$ 0.00</u>	<u>\$ 0.08</u>	<u>\$ 0.08</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, "SPAR", the "SPAR Group" or the "Company"). There also are forward-looking statements contained in: (a) SGRP's 2022 Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (the "SEC") on April 17, 2023, and SGRP's First Amendment to the 2022 Annual Report on Form 10-K/A for the year ended December 31, 2022, as filed with the SEC on May 1, 2023 (as so amended, the "Annual Report"); and (b) 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 and the Annual 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").

Readers can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. 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 may include (without limitation) statements regarding: risks, uncertainties, cautions, circumstances and other factors ("Risks"); the potential continuing negative effects of the COVID-19 pandemic on the Company's business; the Company's potential non-compliance with applicable Nasdaq director independence; bid price or other rules; the Company's cash flow or financial condition; and plans, intentions, expectations, guidance or other information respecting the pursuit or achievement of the Company's corporate objectives. The Company's forward-looking statements also include (without limitation) those made in this Quarterly Report in "Risk Factors," "Legal Proceedings," and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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, 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

Overview of Our Business

SPAR Group is a leading merchandising, brand marketing, distribution services and analytics company, providing a broad range of sales enhancing services and insights to retailers across most classes of trade and consumer goods manufacturers and distributors around the world. The Company's goal is to be the most creative, energizing and effective global services company that drives sales, margins and operating efficiency for our clients.

As of September 30, 2023, the Company operated in nine countries, including the United States, Canada, Mexico, Brazil, South Africa, Australia, China, Japan and India. Across all of these countries, the Company successfully executes programs through its multi-lingual logistics, reporting and communication technology, which provides clients value through real-time insight on store and product conditions.

With more than 50 years of experience and a diverse network of merchandising specialists around the world, the Company continues to grow its relationships with some of the world's leading businesses. The combination of resource scale, deep expertise, advanced technology and unwavering commitment to excellence, separates the Company from the competition.

The Company's focus is providing services. The team works closely with clients to determine their key objectives to execute globally, focusing on enhancing their sales and profit. At retail, the Company's merchandising brand marketing specialists perform a wide range of programs to maximize product sell-through to consumers. Some of these programs include launching new products, installing displays, assembling product fixtures, and ensuring shelves are fully stocked and reordering when they are not. The Company also assists with sales and customer service. As retailers adapt to changes and new opportunities, our team engages in the total renovations and updating of stores, as well as preparing new locations for grand openings. The Company's distribution associates work in retail and consumer goods distribution and fulfillment centers to prepare the centers to open, testing systems, putting away, picking products and providing peak staffing services for our clients to optimize their supply chain.

The Company reviews its results in three segments, as follows: (i) the Americas, which is comprised of the United States, Canada, Brazil and Mexico; (ii) Asia-Pacific ("APAC"), which is comprised of Japan, China, India and Australia; and (iii) Europe, the Middle East and Africa ("EMEA"), which is comprised of South Africa

The Company's business is led and operated from its global headquarters in Auburn Hills, Michigan, with local leadership and offices in each country.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure of our operating performance and should not be considered as an alternative to net income as a measure of financial performance or any other performance measure derived in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). "Adjusted EBITDA" is defined as net income before (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax expense, (iv) Board of Directors incremental compensation expense, (v) restructuring, (vi) goodwill impairment, (vii) nonrecurring legal settlement costs and associated legal expenses unrelated to the Company's core operations, and (viii) special items as determined by management. This metric is a supplemental measure of our operating performance that is neither required by, nor presented in accordance with, U.S. GAAP.

We present Adjusted EBITDA because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our ongoing operating performance. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in our presentation of Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items. There can be no assurance that we will not modify the presentation of Adjusted EBITDA in future periods, and any such modification may be material. In addition, Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in our industry or across different industries.

Our management believes Adjusted EBITDA is helpful in highlighting trends in our core operating performance compared to other measures, which can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We also use Adjusted to supplement U.S. GAAP measures of performance in the evaluation of the effectiveness of our business strategies and to make budgeting decisions.

Adjusted EBITDA has its limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect our cash expenditure or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in our cash requirements for our working capital needs;
- Adjusted EBITDA does not reflect the interest expense and the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect cash requirements for replacement of assets that are being depreciated and amortized;
- Adjusted EBITDA does not reflect non-cash compensation, which is a key element of our overall long-term compensation;
- Adjusted EBITDA does not reflect the impact of certain cash charges or cash receipts resulting from matters we do not find indicative of our ongoing operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do.

The following is a reconciliation of our net income to Adjusted EBITDA for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	\$ 1,098	\$ 900	\$ 3,981	\$ 3,969
Depreciation and amortization	548	506	1,574	1,524
Interest expense, net	380	270	1,248	595
Income tax expense	227	676	1,806	1,942
Other income, net	(164)	(126)	(347)	(363)
Consolidated EBITDA	2,089	2,226	8,262	7,667
Review of strategic alternatives	143	-	571	-
Shared based compensation	83	309	217	589
Legal costs / settlements - non recurring	140	-	140	(368)
Restructuring costs	28	-	28	-
Consolidated Adjusted EBITDA	2,483	2,535	9,218	7,888
Adjusted EBITDA attributable to noncontrolling interest	(977)	(1,295)	(3,211)	(3,035)
Adjusted EBITDA attributable to SPAR Group, Inc.	\$ 1,506	\$ 1,240	\$ 6,007	\$ 4,853

RESULTS OF OPERATIONS

For the three months ended September 30, 2023, compared to the three months ended September 30, 2022

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

	Three Months Ended September 30,			
	2023		2022	
	\$	%	\$	%
Net revenues	\$ 67,333	100.0%	\$ 69,832	100.0%
Cost of revenues	53,960	80.1	56,992	81.6
Gross profit	13,373	19.9	12,840	18.4
Selling, general & administrative expense	11,284	16.8	10,614	15.2
Depreciation & amortization	548	0.8	506	0.7
Operating income	1,541	2.3	1,720	2.5
Interest expense, net	380	0.6	270	0.4
Other income, net	(164)	(0.2)	(126)	(0.2)
Income before income tax expense	1,325	2.0	1,576	2.3
Income tax expense	227	0.3	676	1.0
Net income	1,098	1.6	900	1.3
Net income attributable to non-controlling interest	(839)	(1.2)	(932)	(1.3)
Net income (loss) attributable to SPAR Group, Inc.	\$ 259	0.4%	\$ (32)	(0.0)%

Net Revenues

Net revenues for the three months ended September 30, 2023 were \$67.3 million, compared to \$69.8 million for the three months ended September 30, 2022, a decrease of \$2.5 million, or 3.6%. This was driven by lower revenue in APAC and EMEA impact by exchange rates and underlying performance, with Americas revenue marginally higher year on year.

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For the three months ended September 30, 2023 and 2022, the Americas net revenue was \$53.8 million and \$53.7 million, respectively, reflecting growth in our core merchandising services business offset by delays in retail remodel projects to later in the year or early next year by our clients. Core merchandising had a strong growth quarter in the US SPAR owned business, in Brazil and in Canada.

For the three months ended September 30, 2023 and 2022, APAC net revenue was \$5.7 million and \$7.1 million, respectively, a decrease of \$1.4 million, or 20.6%. This decrease is partially the result of negative foreign exchange rate movement as well as other extraneous conditions such as the minimum wage increase in Japan.

For the three months ended September 30, 2023 and 2022, EMEA net revenue was \$7.9 million and \$8.9 million, respectively, a decrease of \$1.0 million, or 12.1% partially a consequence the foreign exchange rate impact. The economy in South Africa experienced high inflation, rolling power blackouts and rising food prices during the three-month period. These items combined with a negative foreign exchange rate impact contributed to the quarter results.

Cost of Revenues

The Company's cost of revenues consists of its in-store labor and field management wages, related benefits, travel and other direct labor-related expenses and was 80.1% of net revenue for the quarter ended September 30, 2023 compared to 81.6% of net revenues for the quarter ended September 30, 2022. We delivered an 150-basis point improvement in gross margins against the global pressure of recruiting and continued though more modest wage inflation.

Cost of revenues for the three months ended September 30, 2023 were \$54.0 million, compared to \$57.0 million for the three months ended September 30, 2022, a decrease of \$3.0 million, or 5.3%.

For the three months ended September 30, 2023 and 2022, the Americas cost of revenues were \$43.9 million and \$44.5 million, respectively, a decrease of \$0.6 million, or 1.4%. The Americas cost of revenue as a percent of net revenue was 81.6% for the quarter ended September 30, 2023 and 82.8% for the quarter ended September 30, 2022, reflecting a 120-basis-point improvement in gross margin. We were able to achieve these results by our continued focus on contract pricing, a stabilization in market wages, increasing our higher margin services mix, and reducing travel expenses related to remodel projects.

For the three months ended September 30, 2023 and 2022, APAC cost of revenues were \$4.1 million and \$5.6 million, respectively, a decrease of \$1.5 million, or 27.0%. The APAC cost of revenue as a percent of net revenue was 72.5% and 78.8% for the quarter ended September 30, 2023 compared to the quarter ended September 30, 2022. The improvement was partially due to operating fully in China compared to the slow recovery from the zero-tolerance policy in 2022 third quarter, which inflated cost of revenue ratios in 2022.

For the three months ended September 30, 2023 and 2022, EMEA cost of revenues were \$5.9 million and \$6.9 million, respectively a decrease of \$1.0 million, or 13.2%. The EMEA cost of revenue as a percent of net revenue was 75.6% and 76.6% for the quarter ended September 30, 2023 compared to the quarter ended September 30, 2022. The decrease in cost was primarily the result of the service mix during the quarter and our ability to manage gross margins.

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 \$11.3 million, or 16.8% of net revenue, and approximately \$10.6 million, or 15.2% of net revenue for the quarters ended September 30, 2023 and 2022, respectively. Selling, general and administrative expenses for the quarter ended September 30, 2023 includes several one-time expenses of approximately \$4 million related to our consideration of strategic alternatives, restructuring initiatives, and exceptional legal costs.

For the three months ended September 30, 2023 and 2022, Americas selling, general and administrative expenses were approximately \$8.1 million and \$7.3 million, respectively, an increase of \$0.8 million, or 10.8%. The increase includes the one-time strategic alternative expenses and the annualization of our investment in recruiting and moving our technology to the cloud.

For the three months ended September 30, 2023 and 2022, APAC selling, general and administrative expenses were approximately \$1.7 million and \$1.8 million, respectively, a decrease is of \$0.1 million, or 5.4%. The decrease is primarily attributable to reduction in China and Japan's SG&A's expenses as we carefully manage these businesses in response to the broader economic trends.

For the three months ended September 30, 2023 and 2022, EMEA selling, general and administrative expenses were approximately \$1.5 million and \$1.5 million, respectively, a decrease of less than \$0.1 million, or 1.5%.

Depreciation and Amortization

For the three months ended September 30, 2023 and 2022, depreciation and amortization was approximately \$0.5 million and \$0.5 million, respectively.

Interest Expense

For the three months ended September 30, 2023 and 2022, interest expense was approximately \$0.4 million and \$0.3 million, respectively which reflects higher leverage (to support growth) and an increase in interest rates.

Other Income, Net

For the three months ended September 30, 2023 and 2022, other (income), net was approximately (0.1) million and (\$0.1) million, respectively driven by higher other income net in EMEA.

Income Tax Expense

For the three months ended September 30, 2023 and 2022, income tax expense was approximately \$0.2 million with an effective rate of 17% and \$0.7 million with an effective rate of 43%, respectively. For the third quarter of 2023, our effective rate varied from the U.S. federal statutory rate of 21% primarily as a result of dispersion of global income and impact of higher foreign tax rates and permanent items including non-deductible expenses.

For the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022

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

	Nine Months Ended September 30,			
	2023		2022	
	\$	%	\$	%
Net revenues	\$ 197,649	100.0%	\$ 196,626	100.0%
Cost of revenues	157,042	79.5	159,007	80.9
Gross profit	40,607	20.5	37,619	19.1
Selling, general & administrative expense	32,345	16.4	29,952	15.2
Depreciation & amortization	1,574	0.8	1,524	0.8
Operating income	6,688	3.4	6,143	3.1
Interest expense, net	1,248	0.6	595	0.3
Other income, net	(347)	(0.2)	(363)	(0.2)
Income before income tax expense	5,787	2.9	5,911	3.0
Income tax expense	1,806	0.9	1,942	1.0
Net income	3,981	2.0	3,969	2.0
Net income attributable to non-controlling interest	(2,217)	(1.1)	(2,180)	(1.1)
Net income attributable to SPAR Group, Inc.	\$ 1,764	0.9%	\$ 1,789	0.9%

Net Revenues

Net revenues for the nine months ended September 30, 2023 were \$197.7 million, compared to \$196.6 million for the nine months ended September 30, 2022, an increase of \$1.1 million, or 0.6%.

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For the nine months ended September 30, 2023 and 2022, the Americas net revenue was \$154.4 million and \$150.0 million, respectively, an increase of \$4.4 million, or 2.9%. This increase is due to continued strength in our merchandising services, remodel and distribution services in the U.S. partially offset by a temporary decline in the remodel business especially in our US joint ventures as key clients are pushing projects into the future. Our Canadian operations continued merchandising work while expanding store remodel work. Other contributors are the continued demand momentum in Brazil with stronger revenue and margins as the year started and stability in Mexico.

For the nine months ended September 30, 2023 and 2022, APAC net revenue was \$17.4 million and \$19.4 million, respectively, a decrease of \$2.0 million, or 9.9%. This decrease reflects that despite some sense of recovery in Q2, there is still strong continued economic pressures in China and Japan partially offset by growth in Australia.

For the nine months ended September 30, 2023 and 2022, EMEA net revenue was \$25.8 million and \$27.3 million, respectively, a decrease of \$1.5 million, or 5.6%. We have expanded relationships with key clients and continued our focus on profitability in our South African joint venture.

Cost of Revenues

The Company's cost of revenues consists of its in-store labor and field management wages, related benefits, travel and other direct labor-related expenses and was 79.5% of net revenue for the nine months ended September 30, 2023 compared to 80.9% of net revenues for the nine months ended September 30, 2022. We delivered a 140-basis point improvement in gross margins against the global pressure of recruiting and wage inflation.

Cost of revenues for the nine months ended September 30, 2023 were \$157.0 million, compared to \$159.0 million for the nine months ended September 30, 2022, a decrease of \$2.0 million, or 1.2%.

For the nine months ended September 30, 2023 and 2022, the Americas cost of revenues were \$123.9 million and \$122.5 million, respectively, an increase of \$1.4 million, or 1.1%. The Americas cost of revenue as a percent of net revenue was 80.2% for the nine months ended September 30, 2023 and 81.7% for the nine months ended September 30, 2022, reflecting a 150-basis point improvement in gross margin. We were able to achieve these results by focusing on contract pricing, increasing our higher margin services mix and reducing overtime among other improvements. These results also reflect a stabilizing of market wages.

For the nine months ended September 30, 2023 and 2022, APAC cost of revenues were \$12.9 million and \$14.9 million, respectively, a decrease of \$2.0 million, or 13.3%. The APAC cost of revenue as a percent of net revenue was 74.1% and 77.0% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The decrease in cost of revenue was primarily the result of efficiencies in the Indian and Chinese operations relative to 2022 challenges.

For the nine months ended September 30, 2023 and 2022, EMEA cost of revenues were \$20.2 million and \$21.6 million, respectively a decrease of \$1.4 million, or 6.4%. The EMEA cost of revenue as a percent of net revenue was 78.3% for the nine months ended September 30, 2023 compared to 79.0% for the nine months ended September 30, 2022. The decrease in cost was primarily the result of our continuous focus on pricing, operating improvements and new client business.

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 \$32.3 million, or 16.4% of net revenue, and approximately \$30.0 million, or 15.2% of net revenue for the nine months ended September 30, 2023 and 2022, respectively. Selling, general and administrative expenses for the nine months ended September 30, 2023 includes several one-time expenses of approximately \$9 million related to our consideration of strategic alternatives, restructuring initiatives, and exceptional legal costs.

For the nine months ended September 30, 2023 and 2022, Americas selling, general and administrative expenses were approximately \$23.2 million and \$20.1 million, respectively, an increase of \$3.1 million, or 15.4%. The increase is primarily the result of the one-time strategic alternative expenses, and investment in SG&A to support the accelerated growth.

For the nine months ended September 30, 2023 and 2022, APAC selling, general and administrative expenses were approximately \$5.0 million and \$5.9 million, respectively, a decrease is of \$0.9 million, or 16.0%. The decrease is primarily attributable to reduction in China and Japan's SG&A's expenses as we carefully manage these businesses in response to the broader economic trends.

For the nine months ended September 30, 2023 and 2022, EMEA selling, general and administrative expenses were approximately \$4.1 million and \$3.9 million, respectively, an increase of \$0.2 million, or 6.0%, primarily reflecting an increase in corporate overhead partly related to the one-time expenses referenced above.,

Depreciation and Amortization

For the nine months ended September 30, 2023 and 2022, depreciation and amortization was approximately \$1.6 million and \$1.5 million, respectively.

Interest Expense

For the nine months ended September 30, 2023 and 2022, interest expense was approximately \$1.2 million and \$0.6 million, respectively which reflects higher leverage (to support growth) and an increase in interest rates.

Other Income, Net

For the nine months ended September 30, 2023 and 2022, other expense (income), net was approximately (\$0.3) million and (\$0.4) million, respectively.

Income Tax Expense

For the nine months ended September 30, 2023 and 2022, income tax expense was approximately \$1.8 million with an effective rate of 31% and \$1.9 million with an effective rate of 31%, respectively. For the first nine months of 2023, our effective rate varied from the U.S. federal statutory rate of 21% primarily as a result of dispersion of global income and impact of higher foreign tax rates and permanent items including non-deductible expenses.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with US GAAP requires us to make estimates and judgments that affect the amounts reported in those financial statements and related notes thereto. However, we believe we have used reasonable estimates and assumptions in preparing the unaudited condensed consolidated financial statements. Although we believe that the estimates we use are reasonable, due to the inherent uncertainty involved in making those estimates, actual results reported in future periods could differ from those estimates.

The significant accounting policies and estimates used in preparation of the unaudited condensed consolidated financial statements are described in our audited consolidated financial statements as of and for the fiscal year ended December 31, 2022, and the notes thereto, which are included in the 2022 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 17, 2023. Except as detailed in Note 2 to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, there have been no material changes to our significant accounting policies during the three months ended September 30, 2023.

Liquidity and Capital Resources

Funding Requirements

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 2022 Annual Report on Form 10-K. The Company 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 working capital and capital expenditure requirements over the next 12 months. However, delays in collection of receivables due from any of the Company's major clients, a significant reduction in business from such clients, or a negative economic downturn resulting from the continuing impact of the COVID-19 pandemic, could have a material adverse effect on the Company's business, cash resources, and ongoing ability to fund operations.

The Company is a party to various domestic and international credit facilities. These various domestic and international credit facilities require compliance with their respective financial covenants. See Note 3 to the Company's unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Cash Flows for the nine Months Ended September 30, 2023 and 2022

Net cash provided by (used in) operating activities \$1.6 million and (\$4.2) million for the nine months ended September 30, 2023 and 2022, respectively.

Net cash used in investing activities was approximately \$1.1 million and \$1.2 million for the nine months ended September 30, 2023 and 2022, respectively.

Net cash (used in) provided by financing activities was approximately (\$1.5) million and \$9.2 million for the nine months ended September 30, 2023 and 2022, respectively.

Reflecting the impact of foreign exchange rate changes on the activity above resulted in a decrease in cash, cash equivalents and restricted cash for the nine months ended September 30, 2023 and 2022 of approximately \$0.4 million and \$5.2 million, respectively.

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

Our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, as our principal financial and accounting officer, have reviewed the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q and, based on their evaluation, have concluded that the disclosure controls and procedures were not effective as of such date due to material weaknesses in internal control over financial reporting, described below.

Changes in Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer 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.

Because of its inherent limitations, internal control over financial reporting may not detect or prevent misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management utilized the criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to conduct an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2023. In connection with the audit of our consolidated financial statements for the year ended December 31, 2022, we identified a material weakness in internal control over financial reporting, as described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weakness in Internal Control Over Financial Reporting

Management has determined that a material weakness in its internal control over financial reporting existed as the Company has not designed and implemented effective controls used in the financial close process over non-recurring transactions involving international components. While this control deficiency did not result in a material error in the annual or interim financial statements, there was a reasonable possibility that a material misstatement in the annual or interim financial statements would not have been detected.

Remediation Efforts

The Company has begun the process of, and is focused on, designing and implementing effective internal control measures to improve its internal control over financial reporting and remediate the material weakness identified above. The Company's internal control remediation efforts include the following:

- In the nine months ended September 30, 2023, the Company hired a new Chief Financial Officer, an interim Vice President Controller, and a Director of Accounting;
- The Company is in the process of implementing a risk assessment process by which management identifies risks of misstatement related to all account balances;
- Enhancing policies and procedures to retain adequate documentary evidence for certain management review controls over certain business processes including precision of review and evidence of review procedures performed to demonstrate effective operation of such controls; and
- Strengthening monitoring activities and protocols that will allow the Company to timely assess the design and the operating effectiveness of controls over financial reporting and make necessary changes to the design of controls, if any.

The Company expects that the actions described above and resulting improvements in controls will strengthen its internal control over financial reporting and will address the identified material weaknesses.

Changes in Internal Controls Over Financial Reporting

Except for the material weakness and corrective measures discussed above, there was no other changes in the Company's internal controls over financial reporting that occurred during the three months ended September 30, 2023 that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

For further discussion of certain legal proceedings, see Note 8 – Related Party Transactions and Note 4 - Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the three months ended September 30, 2023, which is incorporated herein by reference, and Note 6 - Commitments and Contingencies of the Notes to the Consolidated Financial Statements included in Part IV, Item 15 on the 2022 Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the Securities and Exchange Commission on April 17, 2023.

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 2022 Annual Report on Form 10-K for the year ended December 31, 2022, which Risk Factors are incorporated by reference into this Quarterly Report on Form 10-Q for the three months ended September 30, 2023.

There have been no material changes in the Company's risk factors since the 2022 Annual Report on Form 10-K for the year ended December 31, 2022.

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 Inline XBRL Instance Document - the instance document does not appear in the interactive Inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 14, 2023

SPAR Group, Inc., Registrant

By: /s/ Antonio Calisto Pato
Antonio Calisto Pato
Chief Financial Officer, Treasurer and Secretary

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

I, Michael R. Matacunas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three-month period ended September 30, 2023 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 14, 2023

/s/ Michael R. Matacunas
Michael R. Matacunas
President and Chief Executive Officer

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

I, Antonio Calisto Pato, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three-month period ended September 30, 2023 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 14, 2023

/s/ Antonio Calisto Pato
Antonio Calisto Pato
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, 2023 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/ Michael R. Matacunas

Michael R. Matacunas

President and Chief Executive Officer

November 14, 2023

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.

Ex-3

**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, 2023 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/ Antonio Calisto Pato
Antonio Calisto Pato
Chief Financial Officer, Treasurer and
Secretary

November 14, 2023

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.

Ex-4