

SPAR GROUP INC  
Form 10-K  
April 15, 2015

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

---

**FORM 10-K**

**(Mark One)**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934 for the fiscal year ended **December 31, 2014**  
OR

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

Commission file number 0-27824

**SPAR GROUP, INC.**  
(Exact name of registrant as specified in its charter)

<b>Delaware</b>	<b>33-0684451</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<b>333 Westchester Avenue, Suite 204, White Plains, New York</b>	<b>10604</b>
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Edgar Filing: SPAR GROUP INC - Form 10-K

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2014, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$10,022,421.

The number of shares of the Registrant's Common Stock outstanding as of April 9, 2015, was 20,578,103 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, for our Annual Meeting of Stockholders, presently scheduled to be held on May 12, 2015, are incorporated by reference into Part III of this Form 10-K.

---

**SPAR GROUP, INC.**

**ANNUAL REPORT ON FORM 10-K**

**INDEX**

**PART I**

	<b>Page</b>
Item 1 Business	4
Item 1A Risk Factors	12
Item 1B Unresolved Staff Comments	21
Item 2 Properties	21
Item 3 Legal Proceedings	22
Item 4 Mine Safety Disclosures	22

**PART II**

Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
Item 6 Selected Financial Data	25
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources	26
Item 7A Quantitative and Qualitative Disclosures about Market Risk	31
Item 8 Consolidated Financial Statements and Supplementary Data	31
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	31
Item 9A Controls and Procedures	31
Item 9B Other Information	32

**PART III**

Item 10 Directors, Executive Officers and Corporate Governance	33
Item 11 Executive Compensation	33
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	33
Item 13 Certain Relationships and Related Transactions, and Director Independence	33
Item 14 Principal Accountant Fees and Services	33

**PART IV**

Item 15 Exhibits and Financial Statement Schedules	34
Signatures	40



## PART I

*There are "forward-looking statements" contained in this Annual Report on Form 10-K (this "Annual Report") of SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 12, 2015 (as filed, the "2015 Proxy Statement", which SGRP plans to file with the SEC pursuant to Regulation 14 A in April of 2015, but not later than 120 days after the end of the Company's 2014 fiscal year), and the Company's other filings under applicable law with the SEC (including this Annual Report and the 2015 Proxy Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, collectively, "Securities Laws". The Company's forward-looking statements include, in particular and without limitation, the statements made and other information provided in this Annual Report under the headings "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar words or variations or negatives of those words.*

*You should carefully consider all forward-looking statements, risk factors and the other risks, cautions and information noted in this Annual Report, the 2015 Proxy Statement and the Company's other SEC Reports that could cause the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition to differ materially from those anticipated by the Company and described in the information in the Company's forward-looking and other statements, whether express or implied, as the Company's anticipations are based upon the Company's plans, intentions, expectations and best estimates and (although the Company believe them to be reasonable) involve known and unknown risks, uncertainties and other unpredictable factors (many of which are beyond the Company's control) that could cause them to fail to occur or be realized or to be materially and adversely different from those the Company anticipated.*

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

*You should not place undue reliance on the Company's forward-looking statements and similar information because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable*

*factors, many of which are beyond its control. The Company's forward-looking statements, risk factors and other risks, cautions and information (whether contained in this Annual Report, the 2015 Proxy Statement or any other applicable SEC Report) are based on the information then available to the Company and speak only as of the date specifically referenced, or if no date is referenced, then as of December 31, 2014, in the case of this Annual Report or the 2015 Proxy Statement or the last day of the period covered thereby in the case of any other applicable SEC Report. New risks and uncertainties arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Over time, the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievements, results, risks or condition will likely differ from those expressed or implied by the Company's forward-looking statements and other information, and such difference could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.*

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

## Item 1. Business

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

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides its merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug store, independent, convenience, toy, home improvement and electronics stores. The Company also provides furniture and other product assembly services in stores, homes and offices. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May of 2001. The Company currently does business in 9 countries that encompass approximately 50% of the total world population through its operations in the United States, Canada, Japan, South Africa, India, China, Australia, Mexico and Turkey.

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

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

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



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

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

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

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

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

***The Company's Domestic and International Segments:***

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

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

SPAR Group has provided merchandising and other marketing services in the United States since the formation of its predecessor in 1979 and outside the United States since it acquired its first international subsidiary in Japan in May of 2001. The Company currently conducts its business through its domestic and international divisions in 9 territories around the world (listed in the table below) that encompass approximately 50% of the total world population.

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

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

In September 2012, the Company, through its subsidiary in South Africa (SGRP Meridian), entered into a joint venture agreement to expand its operations in South Africa. SGRP Meridian owns a 51% ownership interest in the new company; CMR Meridian (Pty) Ltd. ("CMR-Meridian"). (See Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*).

In June 2011, the Company sold 49% of its interest in its Indian subsidiary to KROGNOS Integrated Marketing Services Private Limited. In March 2013, the Company purchased a 51% interest in a new subsidiary in India, Preceptor Marketing Services Private Limited, which began operations in March 2013.

In August 2013, the Company sold its 51% ownership in its active Romania subsidiary to SPAR InfoTech, Inc. (See Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*). The Company continues to have one Romanian subsidiary that is 100% owned and is inactive.

Currently the Company owns two subsidiaries in China. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned. In July 2011, the Company, through its active subsidiary in China (SPAR Shanghai), entered into a joint venture agreement to expand its operations in China. SPAR Shanghai has a 75.5% ownership interest in the new company; SPAR DSI Human Resource Company. In August 2014, the Company, through its subsidiary in Hong Kong, SPAR China Ltd., purchased certain business assets, fixed assets and merchandising teams of three companies in China (collectively Unilink). As consideration for the purchase, Unilink is paid in cash and 20% ownership in SPAR Shanghai, leaving SPAR with a 51% ownership interest in SPAR Shanghai.

In November 2011, the Company started a new 51% owned subsidiary to compete in this important market. (See Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*).

In September 2012, the Company established a new subsidiary, National Merchandising Services, LLC, ("NMS") 51% owned by the Company, with its principal office in Georgia. In March 2013, the Company purchased general merchandising service and certain in-store audit service businesses from Market Force Information, Inc. ("MFI").

***Financial Information about the Company's Domestic and International Segments***

The Company provides similar merchandising and marketing services throughout the world, operating within two reportable segments, its Domestic and International Divisions (as described above). The Company tracks and reports certain financial information separately for these two segments using the same metrics. The primary measurement utilized by management is operating profit level, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two segments, which includes their respective net revenues and operating income for each of the years ended December 31, 2014 and 2013, and their respective assets as of December 31, 2014 and 2013, is provided in Note 12 to the Company's Consolidated Financial Statements – *Segment Information*.

**THE COMPANY'S BUSINESS STRATEGIES**

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

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

The Company is seeking to increase revenues by increasing sales to its current clients, as well as establishing long-term relationships with new clients, many of which currently use other merchandising companies for various reasons. In addition to expanding its direct sales efforts, the Company also is strengthening the relationships between its clients and the Company's senior executives, has hired a marketing director to promote the Company's ability to expand its presence in media and client channels, and is receiving and responding to an increasing number of requests for proposals ("RFPs") from potential or existing clients. The Company believes its technology, field implementation and other competitive advantages will allow it to capture a larger share of this market over time. However, there can be no assurance that any increased sales will be achieved.

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

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

***Developing New Services:***

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

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

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

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

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

The Company believes that it can continue to improve, modify and adapt its technology to support merchandising and other marketing services for additional clients and projects in the United States and in foreign markets. The Company also believes that its proprietary Internet-based, wireless and other software technology gives it a competitive advantage in the marketplace worldwide. The Company's global technology systems are developed, operated,

managed, maintained and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A.

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

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

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

Another key to the Company's international and (more recently) domestic expansion is its strategy of seeking a minority (*i.e.*, non-controlling) investor for the Company's new consolidated subsidiary that is an experienced person or company in the local area who is not otherwise affiliated with the Company (each a "Local Investor"). The Company supervision and control over each consolidated subsidiary is strengthened through its Global Technology Systems, which in the case of new acquisitions are generally phased in by them over time following acquisition. The Company's supervision and control is further strengthened by its company-wide executive management, administrative support, accounting oversight, procedures and controls (financial and reporting), credit support and corporate codes and policies that apply to each such subsidiary (the Company's "Global Administration", and together with its Global Technology Systems, the Company's "Global Contributions"). The Company also seeks to own a majority (at least 51%) of such a subsidiary's equity while the Local Investor purchases a minority equity interest in it (49% or less). In addition to that equity, a Local Investor provides credit support, certain services and the useful local attention, perspective and relationships of a substantial (although non-controlling) equity owner with a strong financial stake in such subsidiary's success (the "Local Contributions"). The Local Investor also often contributes an existing customer base to the subsidiary in which it invests. As of the date of this Annual Report, NMS in the U.S.A. (see below) and each of the Company's international operating subsidiaries (other than those in Canada and Japan) has a Local Investor. See Item 1A - *Risks Associated with International and Domestic Subsidiaries, Risks of Having Material Local Investors in International and Domestic Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, below, and Note 2 to the Consolidated Financial Statements – *Summary of Significant Accounting Policies: Principles of Consolidation, Accounting for Joint Venture Subsidiaries*.

The Company also has expanded its acquisition strategy to, on occasion, purchase a local international consolidated subsidiary through another local international consolidated subsidiary in the same country, which most recently occurred in July 2014 as the Company expanded its merchandising service business in China through its acquisition of a majority of the equity interests in Unilink (see below).

In July 2014, the Company, through its subsidiary in Hong Kong, SPAR China Ltd., entered into an agreement to purchase certain business assets, fixed assets and merchandising teams of the following three companies in China: Shanghai Unilink Marketing Execution and Design Co. Ltd, Shanghai Gold Park Investment Management Co. Ltd,



and Beijing Merchandising Sales and Marketing Co. Ltd (collectively Unilink). As consideration for the purchase, Unilink is paid in cash and 20% ownership in SPAR Shanghai. As a result of this transaction, current ownership interest in SPAR Shanghai is SPAR 51%, Shanghai Wedone Marketing Consulting Co. Ltd 29% and Unilink 20%. The Company consolidated Unilink operations in China beginning August 1, 2014.

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

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

For each of the above, see generally Item 1 - *The Company's Domestic and International Segments*, above, Item 1A - *Dependence Upon and Cost of Services Provided by Affiliates*, *Potential Conflicts in Services Provided by Affiliates*, *Risks Associated with International and Domestic Subsidiaries*, *Risks of Having Material Local Investors in International and Domestic Subsidiaries*, *Risks Associated with Foreign Currency* and *Risks Associated with International Business*, below, Item 13 - *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 10 to the Consolidated Financial Statements - *Related-Party Transactions*, below, Note 2 to the Consolidated Financial Statements - *Summary of Significant Accounting Policies: Principles of Consolidation*, *Accounting for Joint Venture Subsidiaries*, and Note 12 to the Consolidated Financial Statements - *Segment Information*, below.

## **DESCRIPTIONS OF THE COMPANY'S SERVICES**

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

The Company's operations are currently divided into two segments: the Domestic Division and the International Division. The Company's domestic division provides merchandising and marketing services, furniture and other product assembly services, audit services, and technology services to manufacturers, distributors and retailers in the United States. Those services are primarily performed in mass merchandisers, office supply, grocery, drug store, home improvement, convenience, office supply, toy and electronics stores. The Company's international division, established in May 2001, currently provides similar merchandising, marketing services and in-store event staffing through subsidiaries in Japan, Canada, South Africa, India, China, Australia, Mexico and Turkey. Today the Company operates in 9 countries that encompass approximately 50% of the total world population.

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

### ***Syndicated Services:***

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

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

***Dedicated Services:***

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

***Project Services:***

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

***Assembly Services:***

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

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

The Company provides in-store product samplings and in-store product demonstrations to national chains in target markets worldwide.

***Retail Compliance and Price Audit Services:***

The Company's retail compliance and price audit services are initiated by retailers and manufacturers and focus on the following;

- Validate store promotions

  - Confirm P-O-G

  - layout

- Audit compliance with corporate branding and signage

- Verify product placement, displays, POS materials, etc.
- Collect inventory levels and out-of-stock status
- Provide current, accurate pricing intelligence
- Competitive price audits (by product, by market)
- Internal price audits
  - o Ensure pricing accuracy and consistency
  - o Verify promotional and everyday price changes

***Other Marketing Services:***

Other marketing services performed by the Company include:

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

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

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

**THE COMPANY'S SALES AND MARKETING**

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

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

The Company's marketing and sales efforts within its International Division are structured to develop new national, regional and local businesses in both new and existing international territories by acquiring existing businesses and within the Company's existing international territories through targeted sales efforts. The Company has an international acquisition team whose primary focus is to seek out and develop acquisitions throughout the world. Marketing and sales targets and strategies are developed within an international subsidiary, in consultation with the Company's U.S. headquarters, with assistance from the applicable Local Investor, and are communicated to the Company's applicable international sales force for execution. The Company's international sales force for a particular territory is located throughout that territory and work from the Company's office in that territory and their home offices. In addition, the Company's international corporate account executives play an important role in the Company's new business development efforts within the Company's existing manufacturer, distributor and retailer client base within their respective territories.

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

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

## **THE COMPANY'S CUSTOMER BASE**

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

• Mass Merchandisers

• Drug

• Grocery

• Office Supply

• Dollar Stores

• Toy or Specialty

• Home Improvement

• Other retail outlets (such as discount and electronic stores, in-home and in-office, etc.)

The Company did not have any clients that represented 10% or more of the Company's net revenue for the years ended December 31, 2014 and 2013.

## **THE COMPANY'S COMPETITION**

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

## **THE COMPANY'S TRADEMARKS**

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

## **THE COMPANY'S LABOR FORCE**

Worldwide the Company utilized a labor force of approximately 18,000 people in 2014. Today, the Company operates in 9 countries that encompass approximately 50% of the total world population.

During 2014, the Company's Domestic Division employed a labor force of 233 people. As of December 31, 2014, there were 183 full-time employees and 50 part-time employees engaged in domestic operations. The Company's Domestic Division utilized the services of its affiliate, SPAR Administrative Services, Inc. ("SAS"), to schedule and deploy the field force of merchandising specialists and assembly technicians, which consists of field merchandising specialists furnished by SPAR Business Services, Inc. ("SBS"), and National Retail Source, Inc. ("NRS"), as well as the Company's domestic field employees. (See Item 13 – *Certain Relationships and Related Transactions and Director Independence*, below, and Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*, below.) SBS, SAS and NRS furnished approximately 9,100 merchandising specialists and assembly technicians (all of whom are engaged by SBS and NRS) and 54 field managers (all of whom were employed by SAS), respectively. The



Company, SBS, SAS and NRS consider their relations with their respective employees and field merchandising specialists to be good.

As of December 31, 2014, the Company's International Division's labor force consisted of approximately 936 people. There were 895 full-time and 41 part-time employees engaged in international operations. The International Division's field force consisted of approximately 7,500 merchandising specialists.

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

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

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

Any of the events of circumstances described in any of the risk factors, forward-looking statements or other cautionary information contained in this Annual Report or any other SEC Report, or any other event or circumstance bearing risk or harm, could at any time arise, become applicable, change or worsen (as the case may be) and materially and adversely affect the Company or any of its assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition, the market price of the SGRP Common Stock could decline, and you could lose all or part of your investment in SGRP Common stock.

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

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

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

As discussed above in *Company's Customer Base*, the Company currently does not have a significant customer concentration. However, the loss of any of its customers, the loss of the ability to provide merchandising and marketing services in those chains, or the failure to attract new large clients could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

The business and growth of the Company depends in large part on the continued trend toward outsourcing of merchandising and marketing services, which the Company believes has resulted from the consolidation of retailers and manufacturers, as well as the desire to seek outsourcing specialists and reduce fixed operation expenses. There

can be no assurance that this trend in outsourcing will continue, as companies may elect to perform such services internally. A significant change in the direction of this trend generally, or a trend in the retail, manufacturing or business services industry not to use, or to reduce the use of, outsourced marketing services such as those provided by the Company, could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

***Dependence on Retailers with Physical Stores***

Retailers with physical store locations are facing increasing competition from virtual stores on the internet. Some retailers with physical stores have failed and others are struggling in this highly competitive environment. Although the Company's merchandising services help physical retailers in successfully competing against such virtual online stores, and the Company provides assembly and other services utilized by online retailers, the Company's business and growth depends in large part on the continuing need for in-store merchandising of products and the continuing success of retailers with physical store locations. There can be no assurance that the in-store merchandising of products will increase or even continue at current levels or that retailers with physical store locations will continue to compete successfully in those stores, and some retailers are shifting their sales focus to their virtual online stores. A significant decrease in such need for in-store merchandising or success of such physical stores could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

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

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

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

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

In the past, the Company occasionally suffered operating losses. As a result of those losses and related effects, the Company had repeated technical violations of certain covenants in the Company's prior domestic credit facility, which its lender periodically waived for fees rather than permanently resetting them to realistically achievable levels. However, the Company changed its domestic lenders in July 2010 and entered into a new credit facility with financial covenants that the Company believes are more realistic and thus less likely to require waivers. The Company was in compliance of all its new domestic lender's bank covenants in 2014 and 2013. See Item 7 – *Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources*, below, and Note 4 to Consolidated Financial Statements - *Credit Facilities*, below.

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

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

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

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

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

### ***Failure to Develop New Services***

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

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

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

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

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

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

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

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

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

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

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

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

The Company's technicians assemble furniture and other products in the homes and offices of customers. Working at a customer's home or office could give rise to claims against the Company for errors, omissions or misconduct by those technicians, including (without limitation) harassment, personal injury, death, damage to or theft of customer property, or other civil or criminal misconduct by such technicians. Claims also could be made against the Company as a result of its involvement in such assembly services due to (among other things) product assembly errors and



omissions, product defects, deficiencies, breakdowns or collapse, products that are not merchantable or fit for their particular purpose, products that do not conform to published specifications or satisfy customer expectations, or products that cause personal injury, death or property damage, in each case whether actual, alleged or perceived by customers, and irrespective of how much time may have passed since such assembly. If such claims are asserted and adversely determined against the Company, then to the extent such claims are not covered by indemnification from the product's seller or manufacturer or by insurance, they could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

***Risks Associated with Audit Services***

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

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

The success of the Company's domestic business is dependent upon the successful execution of its field merchandising, assembly and management services by SPAR Business Services, Inc., formerly known as SPAR Marketing Services, Inc., and SMS ("SBS"), SPAR Administrative Services, Inc., formerly known as SPAR Management Services, Inc., and SMSI ("SAS"), National Retail Source, LLC ("NRS"), and certain foreign affiliates, each of which is an affiliate, but not a subsidiary, of the Company, and none of which is consolidated in the Company's consolidated financial statements. NRS provides substantially all of the field merchandising services used by National Merchandising Services, LLC ("NMS"), which is a subsidiary of SGRP and part of the Company, and has done so since August 1, 2013 (prior to which those services were provided by NRS's affiliate of National Merchandising of America, Inc.). SBS provides a majority of all of the other domestic field merchandising and assembly services used by the Company other than NMS (87% of the domestic field merchandising and assembly expenses in 2014, excluding NMS field expenses), and SAS provides substantially all of the other domestic field management services used by the Company (92% of the domestic field management expense in 2014, excluding NMS field expenses). Services were provided to the Company (other than NMS) by SBS and SAS at rates equal to their net total cost plus four percent pursuant to contracts that expired on November 30, 2014, and are currently under negotiation. Services are provided to NMS by NMA at rates equal to their total cost (with certain exclusions) plus two percent pursuant to a contract that is cancelable on 60 days' prior notice at any time after December 31, 2014. See *Potential Conflicts in Services Provided by Affiliates*, below, Item 13 – *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*, below.

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

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

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

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

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

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

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

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

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

The market price of the Company's common stock has historically experienced and may continue to experience significant volatility. During the year ended December 31, 2014, the sale price of SGRP Common Stock fluctuated from \$1.27 to \$2.17 per share. The Company believes that its Common Stock is subject to wide price fluctuations due to (among other things) the following:

the relatively small public float and corresponding thin trading market for SGRP Common Stock, attributable to (among other things) the large block of voting shares beneficially owned by the Company's co-founders (as noted

below) and generally low trading volumes, and that thin trading market may cause small trades to have significant impacts on SGRP Common Stock price;

the substantial beneficial ownership of approximately 56.5% of the Company's voting stock and potential control by the Company's co-founders (who also are directors and Officers of the Company), Mr. Robert G. Brown, who beneficially owns approximately 32.5% (or 7.1 million shares) of SGRP Common Stock, and Mr. William H. Bartels, who beneficially owns approximately 24.0% (or 5.3 million shares) of SGRP Common Stock, which amounts were calculated using total beneficial ownership (15.4 million shares) and their individual beneficial ownerships at December 31, 2014 (including all shares then beneficially owned under currently exercisable warrants and vested options), as more fully described above and below;

the periodic potential risk of the delisting of SGRP Common Stock from trading on Nasdaq (as described below);

any announcement, estimate or disclosure by the Company, or any projection or other claim or pronouncement by any of the Company's competitors or any financial analyst, commentator, blogger or other person, respecting (i) any new service created or improved, significant contract, business acquisition or relationship, or other publicized development by the Company or any of its competitors, or (ii) any change, fluctuation or other development in the Company's actual, estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition or in those of any of the Company's competitors, in each case irrespective of accuracy or validity and whether or not adverse or material; and

the general volatility of stock markets, consumer and investor confidence and the economy generally (which often affect the prices of stock issued by the Company and many others without regard to financial results or condition).

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

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

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

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

The Company's co-founders, Mr. Robert G. Brown and Mr. William H. Bartels are directors, executive officers (Chairman and Vice-Chairman, respectively) and significant stockholders of the Company. Mr. Brown beneficially owns approximately 32.5%; Mr. Bartels beneficially owns approximately 24.0%; and they own approximately 56.5% in the aggregate of the SGRP Common Stock, which amounts were calculated using total beneficial ownership (15.4 million shares) and their individual beneficial ownerships (7.1 million shares and 5.3 million shares, respectively) at December 31, 2014. These ownerships included all shares beneficially owned under currently exercisable vested options. Mr. Brown and Mr. Bartels have, should they choose to act together, and under certain circumstances Mr. Brown acting alone may have, the ability to control the election or removal of directors, the appointment or removal of executives, the approval or disapproval of acquisitions, mergers, conflicts of interest, and all other matters that must or may be approved by the Company's stockholders. In any event, Mr. Brown and Mr. Bartels continue to have significant influence over the Company's business and operations and the outcome of the Company's corporate actions, including those involving stockholder approvals. The interests of any significant stockholder may be different from time to time from, and potentially in conflict with, the interests of other stockholders, and ownership concentration could delay or prevent a change in the Company's control or otherwise discourage the Company's potential acquisition by another person, any of which could cause the market price of the SGRP Common Stock to decline and that decline could be significant.

***Risks of Dilution***

The Company may issue stock options and award restricted stock to directors, officers, employees and consultants in the future at Common Stock per-share exercise prices below the price you may have paid. In addition, the Company may issue shares of SGRP Common Stock in the future in furtherance of the Company's acquisitions or development

of businesses or assets. Each of those and other issuances of SGRP Common Stock could have a dilutive effect on the value of your shares, depending on the price the Company is paid (or the value of the assets or business acquired) for such shares, market conditions at the time and other factors.

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

There can be no assurance that the Company will be able to comply in the future with the Bid Price Rule or Nasdaq's continued listing requirements. If the Company fails to satisfy the Bid Price Rule and continues to be in non-compliance after notice and the applicable six month grace period ends, Nasdaq may commence delisting procedures against the Company (during which the Company will have additional time of up to six months to appeal and correct its non-compliance). If the SGRP Common Stock shares were ultimately delisted by Nasdaq, the market liquidity of the SGRP Common Stock could be adversely affected and its market price could decrease, even though such shares may continue to be traded "over the counter", due to (among other things) the potential for increased spreads between bids and asks, lower trading volumes and reporting delays in over-the-counter trades and the negative implications and perceptions that could arise from such a delisting.

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

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

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

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

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

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

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

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



The Company also has foreign currency exposure associated with its international subsidiaries. In 2014, these foreign currency exposures are primarily concentrated in the Australian Dollar, Canadian Dollar, Mexican Peso, South African Rand, Chinese Yuan, Indian Rupee and Japanese Yen.

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

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

- Political and economic risks, including terrorist attacks and political instability;
- Various forms of protectionist trade legislation that currently exist or have been proposed;
- Expenses associated with customizing services and technology;
- Local laws and business practices that favor local competition;
- Dependence on local vendors and potential for undisclosed related party transactions;
  - Multiple, conflicting and changing governmental laws, regulations and enforcement;
- Potentially adverse tax and employment law consequences;
- Local accounting principles, practices and procedures and limited familiarity with US generally accepted accounting principles ("GAAP");
- Local legal principles, practices and procedures, local contract review and negotiation, and limited familiarity with contract issues (excessive warranties, extra-territoriality, sweeping intellectual property claims and the like);
- Foreign currency exchange rate fluctuations and limits on the export of funds;
- Substantial communication barriers, including those arising from language, culture, custom and time zones; and
- Supervisory challenges arising from agreements, distance, physical absences and such communication barriers.

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

None.

### **Item 2. Properties**

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

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

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

**DOMESTIC:**

White Plains, NY (Corporate Headquarters)  
Auburn Hills, MI (Regional Office, Warehouse and Central  
Computer Operations)  
Albany, New York (Audit operations)

**INTERNATIONAL:**

Toronto, Ontario, Canada Tokyo, Japan  
Durban, South Africa New Delhi, India Melbourne, Australia  
Mexico City, Mexico Shanghai, China Istanbul, Turkey

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

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

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

Not applicable.

## PART II

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

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

SGRP's certificate of incorporation authorizes it to issue 47,000,000 shares of common stock with a par value of \$0.01 per share (the "SGRP Common Stock"), which all have the same voting, dividend and liquidation rights. SGRP Common Stock is traded on the Nasdaq Capital Market ("Nasdaq") under the symbol "SGRP". On December 31, 2014, the SGRP Common Stock closing price was \$1.40 per share; there were 20,559,054 shares of SGRP Common Stock issued and outstanding in the aggregate (which does not include Treasury Shares), which had an aggregate market value of \$28.8 million; there were 15,360,154 shares of SGRP Common Stock beneficially owned in the aggregate, which beneficial ownership included all shares then beneficially owned under currently exercisable vested options; there were 14,125,232 shares (or approximately 64.3%) of SGRP Common Stock beneficially owned by the officers, directors and affiliates of SGRP in the aggregate, which affiliated ownership included shares then beneficially owned under currently exercisable vested options and had an aggregate market value of \$19.8 million; and there were 6,617,315 shares (or approximately 30.1%) of SGRP Common Stock beneficially owned by non-affiliates of the Company in the aggregate (*i.e.*, SGRP's public float), which float included shares then beneficially owned under currently exercisable warrants and vested options and had an aggregate market value of \$9.3 million. See Item 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, below.

SGRP's certificate of incorporation also authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which preferred shares have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. 554,402 shares of SGRP Series A preferred stock were purchased in 2008 by affiliates of the Company and surrendered in 2011 for conversion into Common Stock and retirement of such preferred shares. See Item 13 – *Certain Relationships and Related Transactions, and Director Independence*, below, and Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*, below. After such retirement, 2,445,598 shares of SGRP Series A Preferred Stock remain authorized and available for issuance, which available amount could be further reduced by further issuance and subsequent retirement or conversion of such shares or by amendment to facilitate the creation of any other SGRP Preferred Series. At December 31, 2014, no shares of SGRP Series A Preferred Stock were issued and outstanding.

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

***Price Range of Common Stock***

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

	<b>2014</b>		<b>2013</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
First Quarter	\$2.17	\$1.81	\$2.25	\$1.61
Second Quarter	2.05	1.30	3.36	1.62
Third Quarter	1.98	1.27	2.80	1.68
Fourth Quarter	1.82	1.35	2.08	1.63

***Dividends***

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

***Issuer Purchases of Equity Securities***

<b>Period</b>	<b>(a) Total number of shares purchased</b>	<b>(b) Average price paid per share</b>	<b>(c) Total number of shares purchased</b>	<b>Maximum number of shares that may yet be purchased</b>
June 2014	13,139	\$ 1.55	230,828	269,172
July 2014	17,476	1.56	248,304	251,696
August 2014	83,931	1.45	332,235	167,765
Total Purchased 2014	114,546	\$ 1.48		

(a) Current year only.

(b) Current month except for total which is a weighted average of shares purchased in the current year.

(c) Total shares purchased under SPAR Group, Inc., 2012 Stock Repurchase Agreement. Shares repurchased prior to 2014 were 217,689.

There were no such affiliated purchasers during that period.

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

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

SGRP did not issue any SGRP Common Stock during 2013 or 2014 other than pursuant to its existing registered stock compensation and stock purchase plans (See Note 11 to the Consolidated Financial Statements— *Stock Based Compensation*).

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

The Company has filed with the SEC and it has approved a registration statement on Form S-3 (as amended, the "2011 S-3 Registration Statement") for the sale of SGRP Common Stock to the public, which became effective on April 8, 2011. Upon amendment of the 2011 S-3 Registration Statement to update its contents and reflect the terms of particular sales, the Company will be permitted to sell a maximum of 2,000,000 shares for its benefit and the selling stockholders, Mr. Brown and Mr. Bartels, will be permitted to sell a maximum of 500,000 shares each for their respective benefit under the 2011 S-3 Registration Statement (which maximums could be increased by amendment and payment of the requisite fees). Based on the SGRP Common Stock beneficially owned by the Company's non-affiliates (*i.e.*, its public float) and the SGRP Common Stock Price of \$1.40 per share on December 31, 2014, the Company will be permitted under the applicable S-3 rules to sales of approximately \$3.1 million in proceeds (or 2.2 million shares) at that price, and the maximum sales by Mr. Brown and Mr. Bartels will be proportionally increased accordingly. An increase in its public float or a discounted offering sale price would permit the Company to sell more of its Common Stock under the 2011 S-3 Registration Statement. Certain updates to the 2011 S-3 Registration Statement may be required in order to sell shares thereunder.



**Item 6. Selected Financial Data**

Not applicable.

-25-

---

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

*There are "forward-looking statements" contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations", in "Business", "Risk Factors" and elsewhere in this Annual Report, in the 2015 Proxy Statement and in the Company's other SEC Reports. "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, collectively, "Securities Laws"). You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar words or variations or negatives of those words.*

*You should carefully consider all forward-looking statements, risk factors and the other risks, cautions and information noted in this Annual Report, the 2015 Proxy Statement and the Company's other SEC Reports that could cause the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition to differ materially from those anticipated by the Company and described in the information in the Company's forward-looking and other statements, whether express or implied, as the Company's anticipations are based upon the Company's plans, intentions, expectations and best estimates and (although the Company believe them to be reasonable) involve known and unknown risks, uncertainties and other unpredictable factors (many of which are beyond the Company's control) that could cause them to fail to occur or be realized or to be materially and adversely different from those the Company anticipated.*

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

*You should not place undue reliance on the Company's forward-looking statements and similar information because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond its control. The Company's forward-looking statements, risk factors and other risks, cautions and information (whether contained in this Annual Report, the 2015 Proxy Statement or any other applicable SEC Report) are based on the information then available to the Company and speak only as of the date specifically referenced, or if no date is referenced, then as of December 31, 2014, in the case of this Annual Report or the 2015 Proxy Statement or the last day of the period covered thereby in the case of any other applicable SEC*

*Report. New risks and uncertainties arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Over time, the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievements, results, risks or condition will likely differ from those expressed or implied by the Company's forward-looking statements and other information, and such difference could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.*

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

### Overview

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug store, home improvement, independent, convenience and electronics stores, as well as providing furniture and other product assembly services in stores, homes and offices. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May 2001. Today the Company operates in 9 countries that encompass approximately 50% of the total world population through operations in the United States, Canada, Japan, South Africa, India, China, Australia, Mexico and Turkey.

## **Critical Accounting Policies & Estimates**

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

### **Impairment of Long-Lived Assets**

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of the Company's property and equipment and intangible assets subjected to amortization may not be recoverable. When indicators of potential impairment exist, the Company assesses the recoverability of the assets by estimating whether the Company will recover its carrying value through the undiscounted future cash flows generated by the use of the asset and its eventual disposition. Based on this analysis, if the Company does not believe that it will be able to recover the carrying value of the asset, the Company records an impairment loss to the extent that the carrying value exceeds the estimated fair value of the asset. If any assumptions, projections or estimates regarding any asset change in the future, the Company may have to record an impairment to reduce the net book value of such individual asset.

### **Accounting for Joint Venture Subsidiaries**

For the Company's less than wholly owned joint venture subsidiaries, the Company first analyzes to determine if a joint venture subsidiary is a variable interest entity (a "VIE") in accordance with ASC 810 and if so, whether the Company is the primary beneficiary requiring consolidation. A VIE is an entity that has (i) insufficient equity to permit it to finance its activities without additional subordinated financial support or (ii) equity holders that lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary, which is the entity that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that potentially could be significant to the owning entity. Variable interests are contractual, ownership, or other financial interests in a VIE that change with changes in the fair value of the VIE's net assets. The Company continuously re-assesses at each level of the joint venture subsidiary whether the entity is (i) a VIE, and (ii) if so, whether the Company is the primary beneficiary of the VIE. If it was determined that an entity in which the Company holds an interest qualified as a VIE and the Company was the primary beneficiary, it would be consolidated.

The Company has analyzed each of its joint venture subsidiaries to determine whether it is a VIE. The Company owns 51% of the equity interest in these subsidiaries, the other 49% is owned by local unrelated third parties, and the joint venture agreements with those third parties generally provide each venturer with equal voting rights. Based on these and other factors, the Company has determined that each joint venture subsidiary is a VIE and that Company is the primary beneficiary. Accordingly, the Company consolidates each joint venture subsidiary under the VIE rules and reflects the 49% interests of the local third party owners in the consolidated financial statements as non-controlling interests. The Company records these non-controlling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss or equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the non-controlling interest holder based on its economic ownership percentage.

### **Revenue Recognition**

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

**Doubtful Accounts and Credit Risks**

The Company continually monitors the collectability of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$259,000 and \$122,000 at December 31, 2014, and 2013, respectively. Bad debt expense was \$115,000 and \$73,000 for the years ended December 31, 2014 and 2013, respectively.

**Internal Use Software Development Costs**

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

The Company capitalized \$1,082,000 and \$1,010,000 of costs related to software developed for internal use in 2014 and 2013, respectively, and recognized approximately \$895,000 and \$681,000 of amortization of capitalized software for the years ended December 31, 2014 and 2013, respectively.

**Results of Operations**

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

	<b>Year Ended December 31,</b>			
	<b>2014</b>	<b>%</b>	<b>2013</b>	<b>%</b>
Net revenues	\$ 122.0	100.0 %	\$ 112.0	100.0 %
Cost of revenues	91.6	75.1	84.4	75.3

Edgar Filing: SPAR GROUP INC - Form 10-K

Selling, general & administrative expense	25.3	20.8	23.2	20.7
Depreciation & amortization	1.8	1.4	1.5	1.4
Interest expense, net	0.1	0.1	0.1	0.1
Other (income) expense, net	(0.3 )	(0.2 )	(0.3 )	(0.3 )
Income before income taxes	3.5	2.8	3.1	2.8
Income tax (benefit) expense	(0.9 )	(0.8 )	(1.1 )	(1.0 )
Income from continuing operations	4.4	3.6	4.2	3.8
Income from discontinued operations	—	—	0.1	—
Net income	4.4	3.6	4.3	3.8
Net income attributable to non-controlling interest	1.1	0.9	0.9	0.8
Net income attributable to SPAR Group, Inc.	\$3.3	2.7 %	\$3.4	3.0 %

**Results of operations for the year ended December 31, 2014, compared to the year ended December 31, 2013**

**Net Revenues**

Net revenues for the year ended December 31, 2014, were \$122.0 million compared to \$112.0 million for the year ended December 31, 2013, an increase of \$10.0 million or 9.0%.

Domestic net revenues totaled \$46.4 million in the year ended December 31, 2014, compared to \$44.6 million for the same period in 2013. Domestic net revenues increased by \$1.8 million or 4.1% primarily attributable to continued growth from the Company's syndicated services, increased project work and the full-year impact of the acquisition of a competitive company in 2013.

International net revenues totaled \$75.6 million for the year ended December 31, 2014, compared to \$67.4 million for the year ended December 31, 2013, an increase of \$8.2 million or 12.2%. The increase in 2014 international net revenues was in China (\$2.1 million) primarily due to the 2014 acquisition of Unilink, Mexico (\$2.8 million), India (\$2.0 million) and South Africa (\$1.6 million). Foreign currency had a \$5.1 million or 7.6% negative impact.

### **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 75.1% in 2014 compared to 75.3% of net revenues for both years ended December 31, 2014 and December 31, 2013.

Domestic cost of revenues was 68.5% and 68.4% for 2013 of domestic net revenues for both years ended December 31, 2014 and December 31, 2013. Approximately 83% and 81% of the Company's domestic cost of revenues in the year ended December 31, 2014 and 2013, respectively, resulted from in-store merchandiser specialist and field management services purchased from certain of the Company's affiliates, SPAR Business Services, Inc. ("SBS"), and SPAR Administrative Services, Inc. ("SAS") (See Item 13 - *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 10 to the Consolidated Financial Statements - *Related-Party Transactions*).

Internationally, cost of revenue as a percent of net revenue decreased to 79.2% of international net revenues for the year ended December 31, 2014, compared to 80.0% of international net revenues for the year ended December 31, 2013. The international cost of revenue percentage decrease of 0.8 percentage points was primarily due to lower cost business in the markets in South Africa and China.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses of the Company include its corporate overhead, project management, information technology, executive compensation, human resources, legal and accounting expenses. Selling, general and administrative expenses were approximately \$25.3 million and \$23.2 million for the years ended December 31, 2014 and 2013, respectively.

Domestic selling, general and administrative expenses totaled \$12.0 million for the year ended December 31, 2014 compared to \$11.8 million for the year ended December 31, 2013. The increase of approximately \$200,000 was due primarily to legal and accounting services.



International selling, general and administrative expenses totaled \$13.3 million for the year ended December 31, 2014 compared to \$11.4 million for the year ended December 31, 2013. The increase of approximately \$1.9 million was primarily attributable to increased costs to support the increase in business in Mexico, as well as the acquisition of Unilink in China.

### **Depreciation and Amortization**

Depreciation and amortization expenses totaled \$1.8 million for the year ended December 31, 2014 compared to \$1.5 million for the year ended December 31, 2013. The increase was primarily due to higher capital expenditures in 2014 related to software development compared to prior year.

### **Interest Expense**

The Company's interest expense was \$158,000 and \$171,000 for the years ended December 31, 2014 and 2013, respectively.

### **Other Income**

Other income was \$292,000 for the year ended December 31, 2014, compared to \$299,000 for the year ended December 31, 2013.

## **Income Taxes**

The income tax provision for the years ended December 31, 2014 and 2013 was a benefit of \$0.9 million and \$1.1 million, respectively. The tax benefit in 2014 of \$0.9 million was a direct result of the Company's decision to reverse \$1.9 million or 100% of its valuation allowance at December 31, 2014, partially offset by domestic state taxes and for tax provisions related to certain international profits. The Company recognized minimum federal tax provisions in 2014 as the Company utilized operating loss carry forwards in 2014, which were previously offset by valuation allowances.

As of December 31, 2014, the Company's deferred tax assets were primarily the result of U.S. net operating loss carryforwards. A valuation allowance of \$1.9 million was recorded against the Company's gross deferred tax asset balance as of December 31, 2013. For each of the years ended December 31, 2014, and December 31, 2013, the Company recorded a net valuation allowance release of \$1.9 million on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of December 31, 2014, the Company achieved four years of cumulative pre-tax income in the U.S. federal tax jurisdiction, management determined that sufficient positive evidence existed as of December 31, 2014, to conclude that it is more likely than not that additional deferred taxes of \$1.9 million are realizable, and therefore, reduced the valuation allowance accordingly.

At December 31, 2014, and December 31, 2013, the Company has Federal and State NOL carryforwards of \$7.4 million and \$8.5 million, respectively, which if unused will expire in years 2017 through 2029.

## **Non-controlling Interest**

Net operating profits from the non-controlling interests, relating to the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$1,103,000 and \$898,000 for the years ended December 31, 2014 and 2013, respectively.

## **Net Income**

The Company reported a net income attributable to SPAR Group, Inc. of \$3.3 million for the year ended December 31, 2014, or \$0.15 per diluted share, compared to a net income of \$3.4 million for the year ended December 31, 2013, or \$0.15 per diluted share, based on diluted shares outstanding of 21.7 million at both December 31, 2014, and 2013.

### **Off Balance Sheet Arrangements**

None.

### **Liquidity and Capital Resources**

For the years ended December 31, 2014 and 2013, the Company had net income before non-controlling interest of \$4.4 million and \$4.2 million, respectively.

Net cash provided by operating activities was \$2.1 million and \$2.9 million for the years ended December 31, 2014 and 2013, respectively. Net income during 2014 and increases in accrued expenses were primarily offset by increases in accounts receivable (primarily due to increased sales activity in China, South Africa, India and Canada), deferred income tax benefits and decreases in accounts payable.

Net cash used in investing activities for the year ended December 31, 2014 and 2013, was approximately \$1.7 million and \$2.5 million, respectively. The net cash used in investing activities during 2014 was attributable to fixed asset additions and the purchase of China (Unilink).

Net cash provided by financing activities for the year ended December 31, 2014 was approximately \$1.5 million compared to \$1.2 million in 2013. Net cash provided by financing activities during 2014 was primarily a result of increased borrowing on lines of credit, partially offset by settlement of stock options and purchases of treasury shares and payments on capital leases.

The above activity and the impact of foreign exchange rate changes resulted in an increase in cash and cash equivalents for the year ended December 31, 2014 of \$1.6 million.

At December 31, 2014, the Company had net working capital of \$16.5 million, as compared to net working capital of \$10.0 million at December 31, 2013. The Company's current ratio was 2.1 at December 31, 2014, compared to 1.6 at December 31, 2013.



***Credit Facilities:***

The Company is a party to various domestic and international credit facilities. See Note 4 to Consolidated Financial Statements – *Credit Facilities*, below.

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

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

Not applicable.

**Item 8. Consolidated Financial Statements and Supplementary Data**

See Item 15 – *Exhibits and Financial Statement Schedule* of this Annual Report on Form 10-K.

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

None.

**Item 9A. Controls and Procedures**

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

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

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (1992)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2014.

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

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

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

### **Changes in Internal Controls**

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's fourth quarter of its 2014 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

None.

-32-

---

## **PART III**

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 12, 2015, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2015, but not later than 120 days after the end of the Company's 2014 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 12, 2015, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2015, but not later than 120 days after the end of the Company's 2014 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 12, 2015, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2015, but not later than 120 days after the end of the Company's 2014 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.



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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 12, 2015, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2015, but not later than 120 days after the end of the Company's 2014 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 12, 2015, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2015, but not later than 120 days after the end of the Company's 2014 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

## PART IV

### Item 15. Exhibits and Financial Statement Schedule

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

##### Reports of Independent Registered Public Accounting Firms

BDO USA, LLP	F-1
Consolidated Balance Sheets as of December 31, 2014 and 2013	F-2
Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2014 and 2013	F-3
Consolidated Statements of Equity for the years ended December 31, 2014 and 2013	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013	F-5
Notes to Consolidated Financial Statements	F-6

#### 2. Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts for the two years ended December 31, 2014	F-32
--	------

#### 3. Exhibits

##### Exhibit

##### Description

##### Number

3.1	Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name of PIA Merchandising Services, Inc.), as amended ("SGRP"), incorporated by reference to SGRP's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1"), and the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes SGRP's name to SPAR Group, Inc.), (incorporated by reference to Exhibit 3.1
-----	--

Edgar Filing: SPAR GROUP INC - Form 10-K

to SGRP's Quarterly Report on Form 10-Q for the 3rd Quarter ended September 30, 1999).

- 3.2 Amended and Restated By-Laws of SPAR Group, Inc., as adopted on May 18, 2004, as amended through August 6, 2013 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 3.3 Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.4 Charter of the Compensation Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.5 Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).

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

Edgar Filing: SPAR GROUP INC - Form 10-K

on Form 8-K dated June 4, 2009, as filed with the SEC on June 4, 2009).

- 10.2 Summary Description and Prospectus dated August 24, 2009, respecting the SPAR Group, Inc. 2008 Stock Compensation Plan, as amended (incorporated by reference to Exhibit 99(a)(1)(G) to SGRP's SC TO-I).
- 10.3 Form of Nonqualified Stock Option Contract for new awards under the SGRP 2008 Plan (incorporated by reference to SGRP's first and final amendment to its SC TO-I on Schedule TO I/A dated October 20, 2009, as filed with the SEC on October 22, 2009).
- 10.4 2000 Stock Option Plan, as amended through May 16, 2006 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the SEC on November 14, 2006).
- 10.5 2001 Employee Stock Purchase Plan (incorporated by reference to SGRP's Proxy Statement for SGRP's annual stockholders meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).

- 10.6 2001 Consultant Stock Purchase Plan (incorporated by reference to SGRP's Proxy Statement for SGRP's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.7 Amended and Restated Change in Control Severance Agreement between William H. Bartels and SGRP, dated as of December 22, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.8 Amended and Restated Change in Control Severance Agreement between Gary S. Raymond and SGRP, dated as of December 30, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.9 Amended and Restated Change in Control Severance Agreement between Kori G. Belzer and SGRP, dated as of December 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.10 Amended and Restated Change in Control Severance Agreement between Patricia Franco and SGRP, dated as of December 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.11 Amended and Restated Change in Control Severance Agreement between James R. Segreto and SGRP, dated as of December 20, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.12 Amended and Restated Field Service Agreement dated and effective as of January 1, 2004, by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
- 10.13 First Amendment to Amended and Restated Field Service Agreement between SPAR Marketing Services, Inc., a Nevada corporation, and SPAR Marketing Force, Inc., a Nevada corporation ("SMF"), dated September 30, 2008, and effective as of September 24, 2008 (the "First Amendment") (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 10.14 Amended and Restated Field Management Agreement dated and effective as of January 1, 2004, by and between SPAR Management Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
- 10.15 Amended and Restated Programming and Support Agreement by and between SPAR Marketing Force, Inc. and SPAR Infotech, Inc., dated and effective as of September 15, 2007 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on November 14, 2007).
- 10.16 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).
- 10.17

Edgar Filing: SPAR GROUP INC - Form 10-K

Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).

10.18 Joint Venture Agreement dated as of March 29, 2006, by and between FACE AND COSMETIC TRADING SERVICES PTY LIMITED and SPAR International, Ltd., respecting the Company's subsidiary in Australia (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).

10.19 Joint Venture Shareholders Agreement between Friedshelf 401 (Proprietary) Limited, SPAR Group International, Inc., Derek O'Brien, Brian Mason, SMD Meridian CC, Meridian Sales & Mnrechandisign (Western Cape) CC, Retail Consumer Marketing CC, Merhold Holding Trust in respect of SGRP Meridian (Proprietary) Limited, dated as of June 25, 2004, respecting SGRP's consolidated subsidiary in South Africa (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).

- 10.20 Joint Venture Agreement dated as of September 3, 2012, by and between Combined Manufacturers National (Pty) Ltd and SGRP Meridian (Pty) Ltd, respecting SGRP's additional consolidated subsidiary in South Africa (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013).
- 10.21 Joint Venture Agreement dated as of August 2, 2011, by and among Todopromo, S.A. de C.V., Sepeme, S.A. de C.V., Top Promoservicios, S.A. de C.V., Conapad, S.C., Mr. Juan Francisco Medina Domenzain, Mr. Juan Francisco Medina Staines, Mr. Jorge Carlos Medina Staines, Mr. Julio Cesar Hernandez Vanegas, and SPAR Group International, Inc., respecting SGRP's consolidated subsidiary in Mexico (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013).
- 10.22 Joint Venture Agreement dated as of August 30, 2012, by and between National Merchandising of America, Inc., a Georgia corporation, SPAR NMS Holdings, Inc., a Nevada corporation and consolidated subsidiary of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 10.23 Field Services Agreement dated as of September 1, 2012, between National Merchandising of America, Inc., a Georgia corporation, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 10.24 Asset Purchase Agreement dated as of March 15, 2013, between Market Force Information, Inc., a Delaware corporation, and SPAR Marketing Force, Inc., a Nevada corporation and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on March 20, 2013).
- 10.25 Master Field Services Agreement dated as of August 1, 2013, between National Retail Source, LLC, a Georgia limited liability company and affiliate of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 10.26 Share Purchase Agreement (respecting equity and debt interests in SPAR Business Ideas Provider S.R.L.) dated as of August 31, 2013, between SPAR InfoTech, Inc. ("SIT"), a Nevada corporation and affiliate of SGRP, and SPAR International Ltd. ("SPAR Cayman"), a Cayman Islands corporation and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 10.27 Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Sterling Loan Agreement"), by and among SGRP, and certain of its direct and indirect subsidiaries, namely SPAR Incentive Marketing, Inc., PIA Merchandising Co., Inc., Pivotal Sales Company, National Assembly Services, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc. and SPAR, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "SPAR Sterling Borrowers"), and Sterling National Bank, as Agent (the "Sterling Agent"), and Sterling National Bank and Cornerstone Bank,



Edgar Filing: SPAR GROUP INC - Form 10-K

as lenders (collectively, the "Sterling Lenders") (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).

10.28 Secured Revolving Loan Note in the original maximum principal amount of \$5,000,000 issued by the SPAR Sterling Borrowers to Sterling National Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).

10.29 Secured Revolving Loan Note in the original maximum principal amount of \$1,500,000 issued by the SPAR Sterling Borrowers to Cornerstone Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).

10.30 Limited Continuing Guaranty of the obligations of the SPAR Sterling Borrowers under the Sterling Loan Agreement from Robert G. Brown and William H. Bartels in favor of the Sterling Lenders dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).

- 10.31 Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of September 1, 2011, and effective as of June 1, 2011, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent and confirmed by Robert G. Brown and William H. Bartels as guarantors (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 21, 2012).
- 10.32 Second Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated and effective as of July 1, 2012, among the SPAR Sterling Borrowers, the Sterling Lenders (including Cornerstone as a departing Lender), and the Sterling Agent (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on August 10, 2012).
- 10.33 Third Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of February 8, 2013, and effective as of January 1, 2013, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on April 2, 2013).
- 10.34 Fourth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, effective as of July 1, 2013, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., and SPAR Marketing Force, Inc., as "Borrower" (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 15, 2013).
- 10.35 Fifth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of October 30, 2013, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., and SPAR Marketing Force, Inc., each as an original "Borrower", and SPAR Canada, Inc., SPAR Canada Company and SPAR Wings & Ink Company, each as a "Borrower" newly added to such loan agreement by such amendment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 10.36 Confirmation of Credit Facilities Letter by Royal Bank of Canada in favor of SPAR Canada Company dated as of October 17, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.37 General Security Agreement by SPAR Canada Company in favor of Royal Bank of Canada dated as of October 20, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.38 Waiver Letter and Amendment by and between Royal Bank of Canada Company, dated as of March 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 31, 2008).
- 10.39 Letter of Offer dated September 29, 2011, and General Business Factoring Agreement (undated) between Oxford Funding Pty Ltd and SPARfacts Pty Ltd (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013).

- 14.1 Code of Ethical Conduct for the Directors, Senior Executives and Employees, of SPAR Group, Inc., Amended and Restated (as of) August 1, 2012 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 14.2 Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information, as amended and restated on May 1, 2004, and as further amended through March 10, 2011 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 15, 2011).
- 21.1 List of Subsidiaries (as filed herewith).
- 23.1 Consent of BDO USA, LLP (as filed herewith).

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).

101.INS\* XBRL Instance

101.SCH\*XBRL Taxonomy Extension Schema

101.CAL\*XBRL Taxonomy Extension Calculation

101.DEF\*XBRL Taxonomy Extension Definition

101.LAB\*XBRL Taxonomy Extension Labels

101.PRE\* XBRL Taxonomy Extension Presentation

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

## SIGNATURES

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

SPAR Group, Inc.

By: /s/ Jill Blanchard

Jill Blanchard

Chief Executive Officer

Date: April 15, 2015

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

### SIGNATURE

### TITLE

/s/ Jill Blanchard

Jill Blanchard

Date: April 15, 2015

Chief Executive Officer and Director

/s/ Robert G. Brown

Robert G. Brown

Date: April 15, 2015

Chairman of the Board and Director

/s/ William H. Bartels

William H. Bartels

Date: April 15, 2015

Vice Chairman and Director

/s/ Jack W. Partridge

Jack W. Partridge

Date: April 15, 2015

Director

/s/ Lorrence T. Kellar

Lorrence T. Kellar

Date: April 15, 2015

Director

/s/ C. Manly Molpus  
C. Manly Molpus  
Date: April 15, 2015

Director

/s/ Arthur B. Drogue  
Arthur B. Drogue  
Date: April 15, 2015

Director

/s/ James R. Segreto  
James R. Segreto  
Date: April 15, 2015

Chief Financial Officer,  
Treasurer and Secretary (Principal Financial and Accounting  
Officer)

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

SPAR Group, Inc. and Subsidiaries

White Plains, New York

We have audited the accompanying consolidated balance sheets of SPAR Group, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, equity and cash flows for the years then ended. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in Item 15. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SPAR Group, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

Troy, Michigan

April 15, 2015

F-1

---



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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	<b>\$ 4,382</b>	\$ 2,814
Accounts receivable, net	<b>26,245</b>	21,734
Deferred income taxes	<b>464</b>	456
Prepaid expenses and other current assets	<b>868</b>	642
Total current assets	<b>31,959</b>	25,646
Property and equipment, net	<b>2,175</b>	2,032
Goodwill	<b>1,800</b>	1,800
Intangible assets, net	<b>3,149</b>	2,259
Deferred income taxes	<b>5,134</b>	1,900
Other assets	<b>353</b>	641
Total assets	<b>\$ 44,570</b>	\$ 34,278
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	<b>\$ 4,011</b>	\$ 4,267
Accrued expenses and other current liabilities	<b>8,149</b>	5,798
Accrued expenses due to affiliates	<b>487</b>	560
Deferred income taxes	<b>1,540</b>	—
Customer deposits	<b>659</b>	673
Lines of credit	<b>658</b>	4,338
Total current liabilities	<b>15,504</b>	15,636
Long-term debt	<b>5,855</b>	86
Total liabilities	<b>21,359</b>	15,722
Commitments and contingencies – See Note 6		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares– 2,445,598 Issued and outstanding shares – None – December 31, 2014 and None – December 31, 2013	—	—
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 20,680,717 – December 31, 2014 and December 31, 2013	<b>207</b>	207
	<b>(183 )</b>	<b>(356 )</b>

Edgar Filing: SPAR GROUP INC - Form 10-K

Treasury stock, at cost 121,663 shares – December 31, 2014 and 181,931 shares – December 31, 2013

Additional paid-in capital	<b>15,519</b>	15,339
Accumulated other comprehensive loss	<b>(1,556 )</b>	(1,031 )
Retained earnings	<b>4,770</b>	1,654
Total SPAR Group, Inc. equity	<b>18,757</b>	15,813
Non-controlling interest	<b>4,454</b>	2,743
Total equity	<b>23,211</b>	18,556
Total liabilities and equity	<b>\$ 44,570</b>	\$ 34,278

*See accompanying notes.*

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

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Net revenues	<b>\$122,021</b>	\$111,959
Cost of revenues	<b>91,671</b>	84,361
Gross profit	<b>30,350</b>	27,598
Selling, general and administrative expense	<b>25,308</b>	23,198
Depreciation and amortization	<b>1,753</b>	1,496
Operating income	<b>3,289</b>	2,904
Interest expense	<b>158</b>	171
Other income, net	<b>(292 )</b>	(299 )
Income before income tax expense	<b>3,423</b>	3,032
Income tax benefit	<b>(948 )</b>	(1,118 )
Income from continuing operations	<b>4,371</b>	4,150
Income from discontinued operations	<b>—</b>	98
Net income	<b>4,371</b>	4,248
Net income attributable to non-controlling interest	<b>(1,103 )</b>	(898 )
Net income attributable to SPAR Group, Inc.	<b>\$3,268</b>	\$3,350
Basic income per common share:		
Continuing operations	<b>\$0.16</b>	\$0.16
Discontinued operations	<b>\$—</b>	\$—
Diluted income per common share:		
Continuing operations	<b>\$0.15</b>	\$0.15
Discontinued operations	<b>\$—</b>	\$—
Weighted average common shares – basic	<b>20,578</b>	20,490
Weighted average common shares – diluted	<b>21,830</b>	21,734
Net income	<b>\$4,371</b>	\$4,248
Other comprehensive loss:		
Foreign currency translation adjustments	<b>(525 )</b>	(649 )
Comprehensive income	<b>3,846</b>	3,599
Comprehensive income attributable to non-controlling interest	<b>(1,103 )</b>	(898 )

Comprehensive income attributable to SPAR Group, Inc.	<b>\$2,743</b>	\$2,701
---	----------------	---------

*See accompanying notes.*

F-3

---

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

	Common Stock		Treasury Stock		Additional Paid-In	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Non-Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount	Capital				
Balance at January 1, 2013	20,470	\$ 205	14	\$ (26 )	\$ 14,738	\$ (382 )	\$ (1,696 )	\$ 1,896	\$ 14,735
Share-based compensation	25	—	—	—	538	—	—	—	538
Exercise of stock options	186	2	—	—	122	—	—	—	124
Sale of non-controlling interest in subsidiaries	—	—	—	—	—	—	—	20	20
Purchase of non-controlling interest in joint venture	—	—	—	—	3	—	—	(123 )	(120 )
Other changes to non-controlling interest	—	—	—	—	—	—	—	52	52
Purchase of treasury shares	—	—	200	(392 )	—	—	—	—	(392 )
Reissued treasury shares	—	—	(32 )	62	(62 )	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(649 )	—	—	(649 )
Net income	—	—	—	—	—	—	3,350	898	4,248
Balance at December 31, 2013	20,681	207	182	(356 )	15,339	(1,031 )	1,654	2,743	18,556
Share-based compensation	—	—	—	—	655	—	—	—	655
Exercise of stock options	—	—	(95 )	187	(133 )	—	—	—	54
Change in non-controlling interest related to business acquisition	—	—	—	—	—	—	—	720	720
	—	—	—	—	—	—	—	(112 )	(112 )

Other changes to non-controlling interest									
Net cash settlement of stock options	—	—	—	—	(187 )	—	(152 )	—	(339 )
Purchase of treasury shares	—	—	115	(169 )	—	—	—	—	(169 )
Reissued treasury shares – RSUs	—	—	(80 )	155	(155 )	—	—	—	—
Other comprehensive loss	—	—	—	—	—	(525 )	—	—	(525 )
Net income	—	—	—	—	—	—	3,268	1,103	4,371
<b>Balance at December 31, 2014</b>	<b>20,681</b>	<b>\$ 207</b>	<b>122</b>	<b>\$ (183 )</b>	<b>\$ 15,519</b>	<b>\$ (1,556 )</b>	<b>\$ 4,770</b>	<b>\$ 4,454</b>	<b>\$ 23,211</b>

*See accompanying notes.*

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

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>		
Net income	<b>\$4,371</b>	<b>\$4,248</b>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	<b>1,753</b>	<b>1,496</b>
Bad debt expense, net of recoveries	<b>115</b>	<b>73</b>
Deferred income tax benefit	<b>(1,702)</b>	<b>(2,162)</b>
Share based compensation	<b>655</b>	<b>538</b>
Changes in operating assets and liabilities, net of business acquisitions and disposition:		
Accounts receivable	<b>(4,789)</b>	<b>(488 )</b>
Prepaid expenses and other assets	<b>(313 )</b>	<b>(638 )</b>
Accounts payable	<b>(256 )</b>	<b>90</b>
Accrued expenses, other current liabilities and customer deposits	<b>2,263</b>	<b>(279 )</b>
Net cash provided by operating activities	<b>2,097</b>	<b>2,878</b>
<b>Investing activities</b>		
Purchases of property and equipment and capitalized software	<b>(1,326)</b>	<b>(1,299)</b>
Sale of Romanian subsidiary	<b>—</b>	<b>65</b>
Purchase of MFI Business	<b>—</b>	<b>(1,300)</b>
Purchase of India Preceptor subsidiary	<b>—</b>	<b>(21 )</b>
Partners' investment in subsidiaries	<b>—</b>	<b>20</b>
Purchase of Unilink	<b>(375 )</b>	<b>—</b>
Net cash used in investing activities	<b>(1,701)</b>	<b>(2,535)</b>
<b>Financing activities</b>		
Net borrowing on lines of credit	<b>2,222</b>	<b>1,909</b>
Proceeds from stock options exercised	<b>54</b>	<b>124</b>
Net cash settlement of stock options	<b>(339 )</b>	<b>—</b>
Payments on term debt	<b>(24 )</b>	<b>(27 )</b>
Payments on capital lease obligations	<b>(109 )</b>	<b>(189 )</b>
Purchase of treasury shares	<b>(169 )</b>	<b>(392 )</b>
Distribution to local investor	<b>(110 )</b>	<b>—</b>
Payment of notes to seller	<b>—</b>	<b>(200 )</b>
Net cash provided by financing activities	<b>1,525</b>	<b>1,225</b>
Effect of foreign exchange rate changes on cash	<b>(353 )</b>	<b>(546 )</b>
Net change in cash and cash equivalents	<b>1,568</b>	<b>1,022</b>
Cash and cash equivalents at beginning of year	<b>2,814</b>	<b>1,792</b>
Cash and cash equivalents at end of year	<b>\$4,382</b>	<b>\$2,814</b>
<b>Supplemental disclosure of cash flows information</b>		

Interest paid	<b>\$120</b>	\$168
Income taxes paid	<b>\$445</b>	\$399
<b>Supplemental disclosure of non-cash financing activities</b>		
Fair value of contingent Unilink consideration	<b>\$375</b>	\$–
Increase in non-controlling interest attributable to acquisition of Unilink subsidiary	<b>\$720</b>	\$–

*See accompanying notes.*

F-5

---



SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

***1. Business and Organization***

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

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

The Company operates in 9 countries and divides its operations into two reportable segments: its Domestic Division, which provides those services in the United States of America since certain of its predecessors were formed in 1979, and its International Division, which began operations in May 2001 and provides similar merchandising, marketing, audit and in-store event staffing services in Japan, Canada, South Africa, India, China, Australia, Mexico and Turkey.

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

The Company's Domestic Division provides nationwide merchandising and other marketing services throughout the United States of America primarily on behalf of consumer product manufacturers and retailers at mass merchandisers,

office supply, grocery, drug store, home improvement, independent, convenience and electronics stores. Included in its clients are home entertainment, general merchandise, health and beauty care, consumer goods and food products companies.

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

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

In September 2012, the Company, through its subsidiary in South Africa (SGRP Meridian), entered into a joint venture agreement to expand its operations in South Africa. SGRP Meridian owns a 51% ownership interest in the new company; CMR Meridian (Pty) Ltd. ("CMR-Meridian"). (See Note 10 to the Consolidated Financial Statements – *Related Party Transactions*).

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

In June 2011, the Company sold 49% of its interest in its Indian subsidiary to KROGNOS Integrated Marketing Services Private Limited. In March 2013, the Company purchased a 51% interest in a new subsidiary in India, Preceptor Marketing Services Private Limited, which began operations in March 2013.

In August 2013, the Company sold its 51% ownership in its active Romania subsidiary to SPAR InfoTech, Inc. (See Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*). The Company continues to have one Romanian subsidiary that is 100% owned and is inactive.

Currently the Company owns two subsidiaries in China. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned. In July 2011, the Company, through its active subsidiary in China (SPAR Shanghai), entered into a joint venture agreement to expand its operations in China. SPAR Shanghai has a 75.5% ownership interest in the new company; SPAR DSI Human Resource Company. In August 2014, the Company, through its subsidiary in Hong Kong, SPAR China Ltd., purchased certain business assets, fixed assets and merchandising teams of three companies in China (collectively Unilink). As consideration for the purchase, Unilink is paid in cash and 20% ownership in SPAR Shanghai, leaving SPAR with a 51% ownership interest in SPAR Shanghai.

In November 2011, the Company started a new 51% owned subsidiary to compete in this important market. (See Note 10 to the Consolidated Financial Statements – *Related-Party Transactions*).

In September 2012, the Company established a new subsidiary, National Merchandising Services, LLC, ("NMS") 51% owned by the Company, with its principal office in Georgia. In March 2013, the Company purchased general merchandising service and certain in-store audit service businesses from Market Force Information, Inc. ("MFI").

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation***

The Company consolidates its 100%-owned subsidiaries and all of its 51%-owned joint venture subsidiaries in accordance with the provisions required by the Consolidation Topic 810 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). All significant intercompany accounts and transactions have been eliminated.

*Accounting for Joint Venture Subsidiaries*

For the Company's less than wholly owned subsidiaries, the Company first analyzes to determine if a joint venture subsidiary is a variable interest entity (a "VIE") in accordance with ASC 810 and if so, whether the Company is the primary beneficiary requiring consolidation. A VIE is an entity that has (i) insufficient equity to permit it to finance its activities without additional subordinated financial support or (ii) equity holders that lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary, which is the entity that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that potentially could be significant to the entity. Variable interests in a VIE are contractual, ownership, or other financial interests in a VIE that change with changes in the fair value of the VIE's net assets. The Company continuously re-assesses at each level of the joint venture whether the entity is (i) a VIE, and (ii) if the Company is the primary beneficiary of the VIE. If it was determined that an entity in which the Company holds an interest qualified as a VIE and the Company was the primary beneficiary, it would be consolidated.

Based on the Company's analysis for each of its 51% owned joint ventures, the Company has determined that each is a VIE and that Company is the primary beneficiary. While the Company owns 51% of the equity interest in these subsidiaries while the other 49% is owned by local unrelated third parties, the joint venture agreements with those third parties generally provide them with equal voting rights. Accordingly, the Company consolidates each joint venture under the VIE rules and reflects the 49% interests in the consolidated financial statements as non-controlling interests. The Company records these non-controlling interests at their initial fair value, adjusting the basis prospectively for their share of the respective consolidated investments' net income or loss or equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the non-controlling interest holder based on its economic ownership percentage.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States ("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. Actual results could differ from those estimates.

***Cash Equivalents***

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

***Concentration of Credit Risk***

The Company maintains cash balances with high quality financial institutions and periodically evaluates the creditworthiness of such institutions and believes that the Company is not exposed to significant credit risk. Cash balances may be in excess of the amounts insured by the Federal Deposit Insurance Corporation.

***Revenue Recognition***

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

#### ***Unbilled Accounts Receivable***

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

#### ***Doubtful Accounts and Credit Risks***

The Company continually monitors the collectability of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$259,000 and \$122,000 at December 31, 2014, and 2013, respectively. Bad debt expense was \$115,000 and \$73,000 for the years ended December 31, 2014 and 2013, respectively.

#### ***Property and Equipment and Depreciation***

Property and equipment, including leasehold improvements, are stated at cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease term, using the straight-line method. Maintenance and minor repairs are charged to expense as incurred. Depreciation expense for the years ended December 31, 2014 and 2013 (including amortization of capitalized software as described below) was \$1.2 million and \$1.0 million, respectively.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

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

The Company capitalized \$1,082,000 and \$1,010,000 of costs related to software developed for internal use in 2014 and 2013, respectively, and recognized approximately \$895,000 and \$681,000 of amortization of capitalized software for the years ended December 31, 2014 and 2013, respectively.

### ***Impairment of Long-Lived Assets***

The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of the Company's property and equipment and intangible assets subjected to amortization may not be recoverable. When indicators of potential impairment exist, the Company assesses the recoverability of the assets by estimating whether the Company will recover its carrying value through the undiscounted future cash flows generated by the use of the asset and its eventual disposition. Based on this analysis, if the Company does not believe that it will be able to recover the carrying value of the asset, the Company records an impairment loss to the extent that the carrying value exceeds the estimated fair value of the asset. If any assumptions, projections or estimates regarding any asset change in the future, the Company may have to record an impairment to reduce the net book value of such individual asset.

### ***Goodwill***

Goodwill consists of the cost in excess of the fair value of the acquired net assets of the Company's subsidiaries. Goodwill is subject to annual impairment tests and interim impairment tests, if impairment indicators are present. The impairment tests require the Company to first assess qualitative factors to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. The Company is not required to calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. If the qualitative assessment indicates a potential impairment, the Company performs the two step quantitative impairment test. Step one of the two step impairment test is to compare the fair value of the reporting unit with the reporting unit's carrying amount including goodwill. If the test indicates that the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss shall be recognized in an amount equal to that excess. The Company has determined that it has two reporting units, and that a two-step quantitative goodwill impairment test was not necessary, as of December 31, 2014 and 2013. Based on the qualitative assessment, the Company did not identify any indication of impairment of its goodwill as of December 31, 2014 and 2013.

#### ***Accounting for Share Based Compensation***

The Company measures all employee share-based compensation awards using a fair value method and records the related expense in the financial statements over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are realized from the exercise of stock options and are reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations. For each award that has a graded vesting schedule, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. Share based employee compensation expense for the years ended December 31, 2014 and 2013 was \$655,000 and \$538,000, respectively.



SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

### ***Fair Value Measurements***

Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The generally accepted accounting principles fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 – Prices or valuation techniques where little or no market data is available that requires inputs that are significant to the fair value measurement and unobservable.

If the inputs used to measure the fair value fall within different levels of the hierarchy, the fair value is determined based upon the lowest level input that is significant to the fair value measurement. Whenever possible, the Company uses quoted market prices to determine fair value. In the absence of quoted market prices, the Company uses independent sources and data to determine fair value. Due to their short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximated their fair values at December 31, 2014 and 2013. Outstanding indebtedness as of December 31, 2014 and 2013 approximates its fair value due to its market variable interest rate.

### ***Accounting for Income Taxes***

Income tax provisions and benefits are made for taxes currently payable or refundable, and for deferred income taxes arising from future tax consequences of events that were recognized in the Company's financial statements or tax returns and tax credit carry forwards. The effects of income taxes are measured based on enacted tax laws and rates applicable to periods in which the differences are expected to reverse. If necessary, a valuation allowance is established to reduce deferred income tax assets to an amount that will more likely than not be realized.

The calculation of income taxes involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step involves evaluating the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step involves estimating and measuring the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as the Company has to determine the probability of various possible outcomes. Our evaluation of uncertain tax positions is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

### ***Net Income Per Share***

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

### ***Translation of Foreign Currencies***

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

### ***New Accounting Pronouncements***

#### ***April 2015***

The FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs". ASU 2015-03 modifies the requirements for reporting debt issuance costs. Under the amendments in ASU 2015-03, debt issuance costs related to a recognized debt liability will be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. ASU 2015-03 shall be applied retrospectively for periods beginning on or after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of its pending adoption of ASU 2015-03 on its consolidated financial statements.

#### ***May 2014***

The FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on its consolidated financial statements and has not yet determined the method by which the standard will be adopted in 2017.

**April 2014**

The FASB issued ASU No. 2014-08, "Presentation of Financial Statements and Property, Plant and Equipment; Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 modifies the requirements for reporting discontinued operations. Under the amendments in ASU 2014-08, the definition of discontinued operation has been modified to only include those disposals of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 shall be applied prospectively for periods beginning on or after December 15, 2014, with early adoption permitted. The Company adopted ASU 2014-08 for the quarter ended March 31, 2014. The Company has adopted this standard on a prospective basis for transactions that have occurred after the adoption date. The adoption of ASU 2014-08 did not have a material effect on the Company's financial position or results of operations.

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

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Accounts receivable, net, consists of the following:		
Trade	<b>\$20,667</b>	\$18,497
Unbilled	<b>4,548</b>	3,269
Non-trade	<b>1,289</b>	90
	<b>26,504</b>	21,856
Less allowance for doubtful accounts	<b>(259 )</b>	(122 )
	<b>\$26,245</b>	\$21,734

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Property and equipment consists of the following:		
Equipment	<b>\$8,562</b>	\$8,419
Furniture and fixtures	<b>650</b>	603
Leasehold improvements	<b>263</b>	250
Capitalized software development costs	<b>7,037</b>	5,991
	<b>16,512</b>	15,263
Less accumulated depreciation and amortization	<b>(14,337)</b>	(13,231)
	<b>\$2,175</b>	\$2,032

	<b>United States</b>	<b>International</b>	<b>Total</b>
Goodwill:			
Balance January 1, 2013	\$1,180	\$ 612	\$1,792
Purchases of Subsidiaries	8	—	8
Balance December 31, 2013	1,188	612	1,800

Purchases of Subsidiaries	–	–	–
Balance December 31, 2014	\$ 1,188	\$ 612	\$ 1,800

F-11

---

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

	<b>December 31,</b>	
Intangible assets consist of the following:	<b>2014</b>	<b>2013</b>
Customer contracts and lists	<b>\$4,507</b>	\$3,047
Less accumulated amortization	<b>(1,358)</b>	(788 )
	<b>\$3,149</b>	\$2,259

The Company is amortizing its customer contracts and lists of \$4.5 million on a straight line basis over lives ranging from 3 to 10 years. Amortization expense for the years ended December 31, 2014 and 2013 was approximately \$570,000 and \$452,000, respectively. The annual amortization for each of the following years succeeding December 31, 2014, are summarized as follows:

Year	Amount
2015	\$ 598
2016	529
2017	529
2018	298
2019	265
Thereafter	930
Total	\$ 3,149

	<b>December 31,</b>	
Accrued expenses and other current liabilities:	<b>2014</b>	<b>2013</b>
Taxes payable	<b>\$2,340</b>	\$1,714
Accrued salaries	<b>1,616</b>	709
Loans from domestic and international local investors (1)	<b>1,475</b>	1,104
Contingent liabilities, incentive for consulting fees	<b>617</b>	305
Accrued accounting and legal expenses	<b>295</b>	283
Uncertain tax position reserves	<b>152</b>	132
Capital lease obligations	<b>—</b>	109

Other	<b>1,654</b>	1,442
Accrued expenses and other current liabilities	<b>\$8,149</b>	\$5,798

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

#### **4. Credit Facilities**

##### **Sterling Credit Facility:**

SGRP and certain of its US and Canadian subsidiaries (namely SPAR Marketing Force, Inc., SPAR National Assembly Services, Inc., SPAR Group International, Inc., SPAR Trademarks, Inc., SPAR Acquisition, Inc., SPAR Canada, Inc.), SPAR Canada Company ("SCC"), and SPAR Wings & Ink Company ("SWI") (together with SGRP, SCC and SWI, each a "Borrower"), are parties to a Revolving Loan and Security Agreement dated July 6, 2010, as amended in June 2011, July 2012, January 2013, July 2013, October 2013 and June 2014 (as amended, the "Sterling Loan Agreement"), with Sterling National Bank (the "Lender"), and their Secured Revolving Loan Note in the amended maximum principal amounts of \$7.5 million (see below) to Sterling National Bank (as amended by all loan amendments, the "Sterling Note"), to document and govern their credit facility with the Lender (including such agreement and note, the "Sterling Credit Facility"). The Sterling Credit Facility currently is scheduled to expire and the Borrowers' loans thereunder will become due on July 6, 2016 (with no early termination fee).

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

Revolving Loans of up to \$7.5 million are available to the Borrowers under the Sterling Credit Facility based upon the borrowing base formula defined in the Sterling Loan Agreement (principally 85% of "eligible" US and Canadian accounts receivable less certain reserves). The Sterling Credit Facility is secured by substantially all of the assets of the Borrowers (other than SGRP's non-Canadian foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Credit Facilities (continued)**

The Sterling Loan Agreement contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments. At December 31, 2014, the Company was in compliance with such covenants.

The amendment to the Sterling Loan Agreement dated as of July 1, 2013, among other things, extended the scheduled term of the Sterling Credit Facility to July 6, 2016 (with no early termination fee), and eliminated the requirement for a "closed lockbox" so that collections no longer automatically pay down the loans under the Sterling Loan Agreement. As of January 1, 2014, the lockbox account at Sterling National Bank was closed and as of that date, all remittances from customers are going directly into the Company's main bank account. Therefore, the Sterling Credit Facility is now classified as long term debt.

As a result of the October 30, 2013, Amendment to the Sterling Loan Agreement, the Company's Canadian subsidiaries, SCC and SWI, were added as Borrowers, their receivables are now included in the Company's borrowing base and pledged to Sterling, and advances are available to those Canadian borrowers under the Sterling Credit Facility. SCC has retired its existing credit facility with the Royal Bank of Canada and replaced it by becoming a borrower under the Sterling Credit Facility.

On June 19, 2014, the Sterling Loan Agreement was further amended to increase the maximum principal amount of the Secured Revolving Loan Note to \$7.5 million (effective as of July 1, 2014), to substitute a new \$7.5 million note from the Borrowers for the old notes, and to remove SWI as a borrower, as this entity was merged into SCC as of January 1, 2014.

**International Credit Facilities:**



SPARFACTS Australia Pty. Ltd., has a secured line of credit facility with Oxford Funding Pty Ltd. for \$1.2 million (Australian) or approximately \$1.0 million (based upon the exchange rate at December 31, 2014). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The agreement technically expired on October 31, 2012, but is being extended from month to month at the Company's request. SPARFACTS is in the process of renegotiating new financing.

On March 7, 2011, the Japanese subsidiary, SPAR FM Japan, Inc., a wholly owned subsidiary, secured a term loan with Mizuho Bank in the amount of 20.0 million Yen (Japanese), or approximately \$166,000. The loan is payable in monthly installments of 238,000 Yen or \$2,000 at an interest rate of 0.1% per annum with a maturity date of February 28, 2018. The outstanding balance at December 31, 2014, was approximately 9.1 million Yen or \$75,000, of which \$51,000 is long term and \$24,000 is short term (based upon the exchange rate at December 31, 2014).

The China Unilink subsidiary secured a loan with China Construction Bank in the amount of 1.4 million Chinese Yuan Renminbi. The loan is collateralized with the personal property of one of the minority shareholders of Unilink. The loan has an interest rate of 7.2% per annum and a maturity date of January 25, 2015, at which time the full amount outstanding is to be paid in full. The maturity date of the loan was extended subsequent to December 31, 2014, to February 11, 2016. Based upon the exchange rate at December 31, 2014, the balance was approximately \$228,000.

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

	December 31, 2014	Interest Rate <sup>1</sup>	December 31, 2013	Interest Rate <sup>2</sup>
<b><u>Credit Facilities Loan Balance:</u></b>				
United States	\$ 5,804	2.8%	\$ 3,615	2.8%
Australia	406	7.1%	696	7.0%
China	228	7.2%	-	-
	\$ 6,438		\$ 4,311	

**Other Debt Facility:**

Japan Term Loan	\$ 75	0.1%	\$ 113	0.1%
-----------------	-------	------	--------	------

	December 31, 2014	December 31, 2013
<b><u>Unused Availability:</u></b>		
United States	\$ 1,696	\$ 2,885
Australia	573	368
	\$ 2,269	\$ 3,253

(1) Based on interest rate at December 31, 2014

(2) Based on interest rate at December 31, 2013

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

F-13

---

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

**5. Income Taxes**

Income before income taxes is summarized as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Domestic	<b>\$1,265</b>	\$1,050
Foreign	<b>2,158</b>	1,982
Total:	<b>\$3,423</b>	\$3,032

The income tax benefit is summarized as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Current:		
Federal	<b>\$15</b>	\$(2 )
Foreign	<b>623</b>	845
State	<b>116</b>	201
Deferred:		
Federal	<b>(1,525)</b>	(1,700)
Foreign	<b>(8 )</b>	(262 )
State	<b>(169 )</b>	(200 )
Net benefit	<b>\$(948 )</b>	\$(1,118)

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

	Year Ended December 31,			
	2014	Rate	2013	Rate
Provision for income taxes at federal statutory rate	<b>\$1,164</b>	34.00 %	\$1,031	34.00%
State income taxes, net of federal benefit	<b>37</b>	1.08 %	47	1.55%
Permanent differences	<b>(79 )</b>	(2.31 )%	226	7.45%
Change in valuation allowance	<b>(1,900)</b>	(55.51)%	(2,348)	(77.43%)
Foreign tax rate differential	<b>(161 )</b>	(4.70 )%	(91 )	(2.99% )
Other	<b>(9 )</b>	(0.26 )%	17	0.55%
Net benefit	<b>\$(948 )</b>	(27.70)%	\$(1,118)	(36.87%)

F-14

---

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

**5. Income Taxes (continued)**

Deferred taxes consist of the following (in thousands):	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Deferred tax assets:		
Net operating loss carry forwards	<b>\$3,163</b>	\$3,218
Deferred revenue	<b>157</b>	100
Allowance for doubtful accounts and other receivable	<b>80</b>	26
Share-based compensation expense	<b>604</b>	578
Foreign subsidiaries	<b>464</b>	456
Depreciation	<b>174</b>	345
Acquisition costs	<b>–</b>	51
Other	<b>166</b>	176
Valuation allowance	<b>–</b>	(1,900)
Total deferred tax assets	<b>4,808</b>	3,050
Deferred tax liabilities:		
Goodwill	<b>128</b>	134
Foreign subsidiaries	<b>–</b>	9
Capitalized software development costs	<b>622</b>	551
Total deferred tax liabilities	<b>750</b>	694
Net deferred taxes	<b>\$4,058</b>	\$2,356

At December 31, 2014, and December 31, 2013, the Company has Federal and State NOL carryforwards of \$8.4 million and \$8.5 million, respectively, which if unused will expire in years 2017 through 2029.

Approximately \$2.3 million of the NOLs were incurred prior to the acquisition of PIA Merchandising Services, Inc. in 1999. The acquisition resulted in a change of ownership under Internal Revenue Code ("IRC") section 382 and placed a limit on the amount of pre-acquisition NOLs that may be used each year to reduce taxable income. The annual limitation is \$657,500.

As of December 31, 2013, the Company's deferred tax assets were primarily the result of U.S. net operating loss carryforwards. A valuation allowance of \$1.9 million was recorded against its gross deferred tax asset balance as of December 31, 2013 on the basis of management's reassessment of the amount of its deferred tax assets that were more likely than not to be realized. As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of December 31, 2014, the Company achieved four years of cumulative pre-tax income in the U.S. federal tax jurisdiction, management determined that sufficient positive evidence existed as of December 31, 2014, to conclude that it is more likely than not that additional deferred taxes of \$1.9 million are realizable, and therefore, reduced the valuation allowance accordingly.

The Company does not provide currently for U.S. income taxes on the undistributed earnings of its profitable foreign subsidiaries (which are approximately \$1.6 million as of December 31, 2014), since, at the present time, management expects any earnings to be reinvested in the foreign subsidiaries and not distributed. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes, which could potentially be offset by foreign tax credits. Distribution of those earnings can also subject the Company to related withholding taxes payable to various non-U.S. jurisdictions. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculations.

A reconciliation of the beginning and ending amount of uncertain tax position reserves is as follows (in thousands):

	<b>Year Ended December 31, 2014 2013</b>	
Beginning balance	<b>\$102</b>	\$73
Additions for tax provisions of prior years	<b>11</b>	29
Ending balance	<b>\$113</b>	\$102

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

**5. Income Taxes (continued)**

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

Details of the Company's tax reserves at December 31, 2014, are outlined in the table below (in thousands):

	Taxes	Interest	Penalty	Total Tax Liability
Domestic				
State	\$ 113	\$ 30	\$ 9	\$ 152
Federal	—	—	—	—
International	—	—	—	—
Total reserve	\$ 113	\$ 30	\$ 9	\$ 152

In management's view, the Company's tax reserves at December 31, 2014, for potential domestic state tax liabilities were sufficient. The Company has evaluated the tax liabilities of its international subsidiaries and does not believe a reserve is necessary at this time.

SPAR and its subsidiaries file numerous consolidated, combined and separate company income tax returns in the U.S. Federal jurisdiction and in many U.S. states and foreign jurisdictions. With few exceptions, SPAR is subject to U.S. Federal, state and local income tax examinations for the years 2010 through the present. However, tax authorities have the ability to review years prior to the position taken by the Company to the extent that SPAR utilized tax attributes carried forward from those prior years.

**6. Commitments and Contingencies**

***Lease Commitments***

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately \$1,155,000 and \$1,144,000 for the years ended December 31, 2014 and 2013, respectively. Equipment lease expense was approximately \$262,000 and \$228,000 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

Year	Amount
2015	\$ 1,049
2016	623
2017	406
2018	336
2019	196
Thereafter	234
Total	\$ 2,844

***Legal Matters***

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

***7. Treasury Stock***

Pursuant to the SPAR Group, Inc., 2012 Stock Repurchase Program (the "Repurchase Program"), as approved by SGRP's Audit Committee and adopted by its Board of Directors on August 8, 2012, and ratified on November 8, 2012, under the Repurchase Program, SGRP may repurchase shares of its common stock through August 8, 2015, but not more than 500,000 shares in total, and those repurchases would be made from time to time in the open market and through privately-negotiated transactions, subject to general market and other conditions. SGRP does not intend to repurchase any shares in the market during any blackout period applicable to its officers and directors under the SPAR Group, Inc. Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information As Adopted, Restated, Effective and Dated as of May 1, 2004, and As Further Amended Through March 10, 2011 (other than purchases that would otherwise be permitted under the circumstances for anyone covered by such policy). As of December 31, 2014, 332,235 shares have been repurchased under this program. It should be noted that 4,000 shares were utilized for the Employee Stock Purchase Plan, leaving a total of 121,663 shares of Treasury Stock at December 31, 2014. The Company anticipates continuing its Repurchase Program throughout 2015.



F-16

---

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Preferred Stock**

SGRP's certificate of incorporation authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. The Company issued 554,402 of SGRP shares to affiliated retirement plans which were all converted into common shares in 2011 (including dividends earned thereon), leaving 2,445,598 shares of remaining authorized preferred stock. At December 31, 2014, no shares of SGRP Series A Preferred Stock were issued and outstanding.

**9. Retirement Plans**

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible domestic employees. The Company made contributions of \$93,000 and \$79,000 for the years ended December 31, 2014 and 2013, respectively.

**10. Related-Party Transactions**

SGRP's policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Senior Executives and Employees Amended and Restated (as of) August 1, 2012 (the "Ethics Code"). Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from engaging in any business activity that conflicts with his or her duties to the Company, and directs each "Covered Person" to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any "Approved Activity" (as such terms are defined in the Ethics Code). Examples of violations include (among other things) having any ownership interest in, acting as a director or officer of or otherwise personally benefiting from business with any competitor, customer or vendor of the Company

other than pursuant to any Approved Activity. Approved Activities include (among other things) any contract with an affiliated person (each an "Approved Affiliate Contract") or anything else disclosed to and approved by SGRP's Board of Directors (the "Board"), its Governance Committee or its Audit Committee, as the case may be, as well as the ownership, board, executive and other positions in SBS, SAS, SIT, NMA, NRS, MPT, MCPT, NDS Tanitim, NDS Reklam and others (as defined and described below) held by certain directors, officers or employees of SGRP or their family members. The Company's senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including conflicting relationships and transactions, subject to the review and oversight of SGRP's Governance Committee as provided in clause IV.11 of the Governance Committee's Charter, and SGRP's Audit Committee as provided in clause I.2(1) of the Audit Committee's Charter. The Governance Committee and Audit Committee each consist solely of independent outside directors.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

SPAR Business Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS") and SPAR InfoTech, Inc. ("SIT") are affiliates of SGRP but are not part of the consolidated Company. Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director and the Vice Chairman of the Company and a major stockholder of SGRP, are the sole stockholders of SBS. Mr. Brown is the sole stockholder of SIT. Mr. Brown is a director and officer of SBS and SIT. Mr. Bartels is a director and officer of SAS. During 2014 and 2013 the stockholders of SAS were Mr. Bartels and Mr. Brown, and as of January 1, 2015, Mr. Brown had transferred more than 85% of his ownership to related parties.

SBS provided approximately 81% and 77% of the domestic merchandising specialist field force used by the Company (as a percentage of the total cost for such field force, including field force provided by NRS, as defined below) for the years ended December 31, 2014 and 2013, respectively, and SAS provided approximately 92% and 96% of the direct domestic field administration used by the Company (as a percentage of the total cost for such field administrators) at a total cost for the services of SBS and SAS of approximately \$26 million and \$25 million for the years ended December 31, 2014 and 2013, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, as amended in 2011, the Company received services from SBS through the use of approximately 8,300 field merchandising specialists during the year ended December 31, 2014. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, the Company received administrative services from SAS through the use of 54 full-time national, regional and district administrators during the year ended December 31, 2014. For those services, the Company contracted in the Existing Agreements to pay SBS and SAS on a "Cost Plus Fee" arrangement, which provides that the Company is to pay SBS and SAS for their costs of providing those services plus 4% of such costs (the "Cost Plus Fee"). Those costs include all field expenses of SBS (effectively including net workers compensation insurance expense), all payroll and employment tax expenses of

SAS and all legal and other administrative expenses paid by either of them. The net total Cost Plus Fee earned by SAS and SBS for services rendered was approximately \$974,000 and \$944,000 for the years ended December 31, 2014 and 2013, respectively. In order to obtain and continue its favorable fee arrangement with SBS and SAS, the Company also arranged to provide certain administrative services directly to SBS and SAS without charge, including certain human resource and legal services. The Company believes this arrangement also is more efficient and cost effective. The unaudited value of these services was approximately \$637,000 and \$551,000 for the years ended December 31, 2014 and 2013, respectively.

The service agreements with SBS and SAS were scheduled to automatically renew on December 31, 2013, but in order to prevent such automatic renewal and permit renegotiation after the end of 2013, the Company gave SBS and SAS the required notice of non-renewal under those agreements and from time to time has entered into temporary extension agreements with them to temporarily extend the Existing Agreements to November 30, 2014. The parties have had extensive negotiations for over a year, principally over pricing. The Company has most recently offered to pay reduced Cost Plus Fees of 2%, while SBS has most recently proposed a Cost Plus Fee of 2.97% while making certain other adjustments to reimbursable expenses and previous credits (the net of which would effectively be approximately equal to the annual rates previously paid to SBS by the Company), and SAS has most recently proposed a Cost Plus Fee of 4%. Neither party has accepted the other party's proposals. SAS and SBS have stated their intent to continue to provide their services while negotiations continue. As the extension of the existing agreements expired on November 30, 2014, the potential differences between the Company's proposal and the SBS and SAS proposals became potentially relevant from and after December 1, 2014. The difference in the net expense for SBS and SAS proposals when compared to the Company proposals was approximately \$30,000 and \$6,000 for the one month period ended December 31, 2014.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

No salary reimbursements for Mr. Brown or Mr. Bartels are included in such reimbursable costs or Cost Plus Fee during 2014. However, since SBS and SAS are "Subchapter S" corporations and are owned by Messrs. Brown and Bartels, all income from SBS and SAS is allocated to them.

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 and the sole member and manager of National Retail Source, LLC ("NRS"). Ms. Andrea Burdekin, Mr. Burdekin's wife, is the sole stockholder and a director of NMA and a director of NMS. NRS and NMA are affiliates of the Company but are not consolidated with the Company. NMS commenced operations as of September 1, 2012.

NRS is expected to provide substantially all of the domestic merchandising specialist field force used by NMS. Pursuant to the terms of the Master Field Services Agreement dated as of August 1, 2013 (the "NRS Services Agreement"), NMS will receive merchandising services from NRS through the use of approximately 738 field merchandising specialists. Prior to that date, NMS received such merchandising services from NMA pursuant to the terms of the substantially similar Field Services Agreement dated as of July 31, 2012, as amended (the "NMA Services Agreement"). For those services, the Company has agreed to reimburse NRS (and NMA before it) for its total costs of providing those services and to pay NRS (and NMA before it) a fee equal to 2% of its total costs (the "Plus 2% Fee"). Those costs include all field and administrative costs and expenses (effectively including net workers compensation insurance expenses) of NRS (and NMA before it) but exclude certain legal and other administrative expenses. Accordingly, no salary reimbursement for Mr. Burdekin or Ms. Burdekin are included in such reimbursable costs or Plus 2% Fee.

NRS (and before that, NMA) provided all of the domestic merchandising specialist field force used by NMS and 8% of all of the domestic merchandising specialist field force used by the Company (as a percentage of the total cost for such field force, including the field force provided by SBS) for both years ended December 31, 2014 and 2013. The total Plus 2% Fee earned by NRS for services rendered was approximately \$44,000 and \$37,000 for the years ended December 31, 2014 and 2013, respectively.

In connection with the approval of those related party agreements with NMA in 2012, the Board approved, based (in part) on the recommendation and approval of its Governance Committee (which is comprised solely of independent directors), the restated Ethics Code. As a result, the newly approved NRS Field Services Agreement is, and the NMA Field Services Agreement and other previously approved affiliate contracts continue to be, Approved Activities under the Ethics Code.

SGRP Meridian (Pty), Ltd. ("Meridian") is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by the following individuals: Mr. Brian Mason, Mr. Garry Bristow, and Mr. Adrian Wingfield. Mr. Mason is President and a director and Mr. Bristow is an officer and director of Meridian. Mr. Mason is also an officer and director and 50% shareholder of Merhold Property Trust ("MPT"). Mr. Mason and Mr. Bristow are both officers and directors and both own 50% of Merhold Cape Property Trust ("MCPT"). MPT owns the building where Meridian is headquartered and also owns two vehicles both of which are subleased to Meridian. MCPT provides a fleet of 126 vehicles to Meridian under a 4 year lease program. These leases are provided to Meridian at local market rates.

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

SGRP NDS Tanitim Ve Danismanlik A.S. ("NDS") is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by Mr. and Ms. Yilmaz. Mr. Yilmaz is President and a director and Ms. Yilmaz is an officer and director of NDS. They are both officers and directors of NDS Tanitim Danismanlik Hizmetleri Gida Tekstil Turizm Pazarlama Ticaret Limited Sirketi ("NDS Tanitim") and NDS Reklam Tanitim Ve Danismanlik Hizmetleri Pazarlama Ticaret Limited Sirketi ("NDS Reklam"). Mr. and Ms. Yilmaz, in total, own 40% of NDS Tanitim and NDS Reklam. NDS Tanitim provides NDS field management services while NDS Reklam provides NDS field merchandising services both at local market rates.

The Company continues to purchase services from SBS, SAS, NRS, MPT, MCPT, NDS Tanitim, and NDS Reklam because it believes the value of services it receives from them are at least as favorable to the Company as it could obtain from non-affiliated providers of similar services. The Company believes it is the largest and most important customer of SBS, SAS, NRS, MPT, MCPT, NDS Tanitim, and NDS Reklam (and from time to time may be their only customer), and accordingly the Company generally has been able to negotiate better terms, receives more personal and responsive service and is more likely to receive credits and other financial accommodations from SBS, SAS, NRS, MPT, MCPT, NDS Tanitim, and NDS Reklam than the Company could reasonably expect to receive from an unrelated service provider who has significant other customers and business. SBS, SAS and NRS affiliate contracts are annually reviewed and approved by SGRP's Audit Committee, as described above. MPT, MCPT, NDS Tanitim, and NDS Reklam affiliate contracts are scheduled to be reviewed and considered for approved by SGRP's Audit Committee at their May 2015 meeting.

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

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Services provided by affiliates:		
Field merchandiser services (SBS)	<b>\$21,848</b>	\$19,716
Field management services (SAS)	<b>\$4,380</b>	\$4,837
Field merchandiser services (NMA and NRS)	<b>\$2,259</b>	\$1,983
Office and vehicle rental (MPT)	<b>\$57</b>	\$62



Edgar Filing: SPAR GROUP INC - Form 10-K

Vehicle rental (MCPT)	<b>\$597</b>	\$ 562
Field management services (NDS Tanitim)	<b>\$44</b>	\$ 32
Field merchandiser services (NDS Reklam)	<b>\$962</b>	\$981
Total services provided by affiliates	<b>\$30,147</b>	\$28,173

Accrued expenses due to affiliates (in thousands):	<b>December</b>	
	<b>31,</b>	
	<b>2014</b>	<b>2013</b>
Total accrued expenses due to affiliates	<b>\$487</b>	\$560

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Effective August 1, 2013, the Company sold its equity interests and working capital investment in its Romanian subsidiary, SPAR Business Ideas Provider S.R.L. ("BIP"), to a Company affiliate, SIT, for a total purchase price of \$348,465. The Company received, at closing, \$187,767 in cash and the balance is payable over 29 months with interest at 6% per annum, recorded as Other Assets on the December 31, 2014 and 2013 consolidated balance sheets. The purchase price was equal to the book value of the Company's interests in BIP. The sale to SIT was approved by the Company's Audit Committee and Board of Directors.

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

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

**11. Stock Based Compensation Plans**

The Company believes that it is desirable to align the interests of its directors, executives, employees and consultants with those of its stockholders through their ownership of shares of Common Stock issued by SGRP ("SGRP Shares"). Although the Company does not require its directors, executives, employees or consultants to own SGRP Shares, the Company believes that it can help achieve this objective by providing long term equity incentives through the issuance to its eligible directors, executives, employees or consultants of options to purchase SGRP Shares and other stock-based awards pursuant to the 2008 Plan (as defined below) and facilitating the purchase of SGRP Shares

at a modest discount by all of its eligible executives, employees and consultants who elect to participate in its Employee or Consultant Stock Purchase Plans (as defined below). In particular, the Company believes that granting stock based awards (including restricted stock and options to purchase SGRP Shares) to such directors, executives, employees and consultants encourages growth in their ownership of SGRP Shares, which in turn leads to the expansion of their stake in the long-term performance and success of the Company.

SGRP has granted stock option and restricted stock awards to its eligible directors, officers and employees and certain employees of its affiliates to purchase SGRP Shares pursuant to the 2008 Stock Compensation Plan (as amended, the "2008 Plan"). SGRP's stockholders approved and adopted the 2008 Plan in May 2008, as the successor to various predecessor stock option plans (each a "Prior Plan") with respect to all new awards issued, and an amendment to the 2008 Plan in May 2009, permitting the discretionary repricing of existing awards. SGRP also has granted stock options that continue to be outstanding under the Prior Plans. Each Prior Plan will continue to be active for the purposes of any remaining outstanding options issued under it for so long as such options are outstanding.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

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

As of December 31, 2014, approximately 1.2 million shares were available for grant under the amended 2008 Plan.

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

Restricted stock, stock options and other stock based awards under the 2008 Plan may be issued from time to time by SGRP in its discretion to the Company's executives and other employees and generally are included in the annual incentive plans of SGRP's executives. Each year the Compensation Committee establishes (with recommendations from management) a budget for the maximum number of SGRP Shares that may be awarded in the applicable year (although Awards to new employees may not be covered by such budget in the Committee's discretion). The Company's management may present recommendations for such awards to the Compensation Committee at any of its regular quarterly meetings, although recently most recommendations have been made at the August meeting other than those for new employees. The Chairman of the Board or the Compensation Committee may make those recommendations respecting the Company's Chief Executive Officer, and the Chief Executive Officer makes those recommendations respecting the Company's other executive and senior officers, as well as for any new officer or employee, and each of those executive officers in turn are allocated potential award shares for their departments and make recommendations respecting those under their supervision (subject to review and approval by the Chief Executive Officer). In recommending to the Compensation Committee the actual number of restricted stock, stock options (and options shares covered) or other stock based Award to be granted to each individual, the person making the recommendation makes an assessment of the individual's contribution to these or decrease in the participant's abilities, responsibilities and performance of his or her duties. The Compensation Committee reviews and discusses managements' recommendations at its meeting and determines whether and to what extent to approve and grant the proposed restricted stock, stock options (and options shares covered) or other stock based Awards to executives, employees and consultants of the Company pursuant to the 2008 Plan.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The stock option Awards issued under the 2008 Plan are typically "nonqualified" (as a tax matter), have a ten (10) year maximum life (term) and vest during the first four years following issuance at the rate of 25% on each anniversary date of their issuance so long as the holder continues to be employed by the Company. Stock-based compensation cost is measured on the grant date, based on the fair value of the stock options Award calculated at that date, and is recognized as compensation expense over the requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model.

Following are the specific valuation assumptions used for options granted in 2013:

**Weighted-average**

Expected volatility	91.36 %
Expected dividend yields	0.0 %
Expected terms (in years)	6.0
Risk-free interest rate	1.62 %
Expected forfeiture rate	5.0 %

Stock option Award activity for the years ended December 31, 2014 and 2013 is summarized below:

		<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value (thousands)</b>
Option Awards	Covered Shares			

Edgar Filing: SPAR GROUP INC - Form 10-K

Outstanding at January 1, 2013	3,061,393	\$ 0.71	6.50	\$ 3,169
Granted in 2013 (1)	793,000	2.02	—	36
Exercised/cancelled	(202,233 )	0.61	—	286
Forfeited or expired	(101,561 )	1.19	—	—
Outstanding at December 31, 2013	3,550,599	\$ 0.99	6.64	\$ 3,577
Exercised/cancelled	(453,522 )	0.53	—	445
Forfeited or expired	(1,750 )	1.01	—	—
Outstanding at December 31, 2014	3,095,327	\$ 1.07	6.39	\$ 1,322
Exercisable at December 31, 2014	2,448,788	\$ 0.84	5.62	\$ 1,259
Vested and expected to vest at December 31, 2014	3,037,422	\$ 1.05	5.84	\$ 1,576

(1) Includes a stock option Award covering 300,000 SGRP Shares issued on December 2, 2013, to Ms. Jill M. Blanchard in connection with her employment on that date as the Company's Chief Executive Officer and President.

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

The following table summarizes information about stock options outstanding at December 31, 2014:

Range of Exercise Prices	Option Awards Outstanding			Option Awards Exercisable	
	Covered Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Covered Shares	Weighted Average Exercise Price
Less than \$1.00	1,519,623	4.58	0.55	1,671,623	\$ 0.55
\$1.00-\$2.00	1,121,204	6.74	1.40	639,774	\$ 1.32
\$2.01-\$4.00	454,500	8.58	2.13	137,391	\$ 2.12
Outstanding at December 31, 2014	3,095,327		1.07	2,448,788	\$ 0.84

The weighted-average grant-date fair value of stock option Awards granted during the year ended December 31, 2013 was \$1.80. The total intrinsic value of stock option Awards exercised during the year ended December 31, 2014 and 2013 was \$445,000 and \$286,000, respectively. The tax benefit, available to the Company, from stock options exercised during the years ended December 31, 2014 and 2013 was approximately \$169,000 and \$109,000, respectively. However, since the Company has NOL's available for the next several years, these tax benefits have not been realized as of this report.

The Company recognized \$511,000 and \$486,000 in stock-based compensation expense relating to stock option Awards during the years ended December 31, 2014 and 2013, respectively. The recognized tax benefit on stock based compensation expense related to stock options during the years ended December 31, 2014 and 2013, was



approximately \$197,000 and \$185,000, respectively.

As of December 31, 2014, total unrecognized stock-based compensation expense related to stock options was \$956,974. This expense is expected to be recognized over a weighted average period of approximately 2.4 years, and will be adjusted for changes in estimated forfeitures.

### ***Restricted Stock***

The restricted stock Awards previously issued under the 2008 Plan vested during the first four years following issuance at the rate of 25% on each anniversary date of their issuance so long as the holder continues to be employed by the Company. Restricted stock granted under the 2008 Plan is measured at fair value on the date of the grant, based on the number of shares granted and the quoted price of the Company's common stock. The shares of stock are issued and value is recognized as compensation expense ratably over the requisite service period which generally is the Award's vesting period. In 2014, the Company issued 91,400 restricted stock Awards to employees and consultants of the company and 16,000 restricted stock Awards to its Directors.

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

The following table summarizes the activity for restricted stock Awards during the years ended December 31, 2014 and 2013:

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value per Share</b>
Unvested at January 1, 2013	105,000	\$ 2.04
Granted	—	—
Vested	(25,000 )	2.09
Forfeited	—	—
Unvested at December 31, 2013	80,000	2.03
Granted	107,400	1.51
Vested	(80,000 )	2.03
Forfeited	—	—
Unvested at December 31, 2014	107,400	\$ 1.51

During the years ended December 31, 2014 and 2013, the Company recognized approximately \$144,000 and \$52,000, respectively, of stock-based compensation expense related to restricted stock. The recognized tax benefit on stock based compensation expense related to restricted stock during the years ended December 31, 2014 and 2013 was approximately \$55,000 and \$20,000, respectively.

During the years ended December 31, 2014 and 2013, the total fair value of restricted stock vested was \$162,400 and \$49,350, respectively.

As of December 31, 2014, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was \$145,705, which is expected to be expensed over a weighted-average period of 3.4 years.

### ***Stock Purchase Plans***

In 2001, SGRP adopted its 2001 Employee Stock Purchase Plan (the "ESP Plan"), which replaced its earlier existing plan, and its 2001 Consultant Stock Purchase Plan (the "CSP Plan"). These plans were each effective as of June 1, 2001. The ESP Plan allows employees of the Company, and the CSP Plan allows employees of the affiliates of the Company to purchase SGRP's Common Stock from SGRP without having to pay any brokerage commissions. On August 8, 2002, SGRP's Board approved a 15% discount for employee purchases of Common Stock under the ESP Plan and recommended that its affiliates pay 15% of the value of the stock purchased as a cash bonus for affiliate consultant purchases of Common Stock under the CSP Plan.

## ***12. Segment Information***

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

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

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

**12. Segment Information (continued)**

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

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue, net:		
United States	\$46,404	\$44,577
International	75,617	67,382
Total revenue	\$122,021	\$111,959
Operating income:		
United States	\$1,349	\$1,086
International	1,940	1,818
Total operating income	\$3,289	\$2,904
Interest expense:		
United States	\$84	\$62
International	74	109
Total interest expense	\$158	\$171
Other expense (income), net:		
United States	—	\$(26 )
International	(292 )	(273 )
Total other expense (income), net	\$(292 )	\$(299 )
Income before income tax (benefit) expense:		
United States	\$1,265	\$1,050
International	2,158	1,982
Total income before income tax (benefit) expense	\$3,423	\$3,032

Income tax (benefit) expense:

Edgar Filing: SPAR GROUP INC - Form 10-K

United States	\$(1,563 )	\$(1,701 )
International	615	583
Total income tax (benefit) expense	\$(948 )	\$(1,118 )

Net income from continuing operations:

United States	\$2,828	\$2,751
International	1,543	1,399
Total net income from continuing operations	\$4,371	\$4,150

Depreciation and amortization:

United States	\$1,294	\$1,171
International	459	325
Total depreciation and amortization	\$1,753	\$1,496

Capital expenditures:

United States	\$1,011	\$1,064
International	315	235
Total capital expenditures	\$1,326	\$1,299

Note: There were no inter-company sales for 2014 or 2013.

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

**12. Segment Information (continued)**

	December 31,	
	2014	2013
Assets:		
United States	\$21,748	\$17,651
International	22,822	16,627
Total assets	\$44,570	\$34,278

**Geographic Data** (in thousands)

	Year Ended December 31,			2013		
	2014					
<u>Net international revenues:</u>		% of consolidated net revenue		% of consolidated net revenue		
Mexico	\$18,923	15.5	%	\$16,127	14.4	%
South Africa	17,695	14.5		16,099	14.4	
China	8,418	6.9		6,334	5.7	
India	7,424	6.1		5,387	4.8	
Japan	7,420	6.1		6,831	6.1	
Canada	7,220	5.9		6,567	5.9	
Australia	6,437	5.3		6,995	6.2	
Turkey	2,080	1.7		3,042	2.7	
Total international revenue	\$75,617	62.0	%	\$67,382	60.2	%

	Years Ended December 31	
	2014	2013
<u>Long lived assets:</u>		
United States	\$9,368	\$6,222
International	3,243	2,410

Total long lived assets **\$12,611** \$8,632

F-27

---

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

***13. Purchase and Sale of Interests in Subsidiaries***

The following contains descriptions of the Company's purchases and sale of interests in its operating subsidiaries during the years ended December 31, 2014 and 2013. In each of the consolidated subsidiaries noted below, the Company made its investment together with an experienced person or company in the local area who is not otherwise affiliated with the Company (each a "Local Investor"). The Company provides its subsidiaries with its proprietary Internet-based technological systems (which include its logistical, communication, scheduling, tracking, reporting and accounting programs) that run on and are developed, managed, maintained and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A. (the Company's "Global Technology Systems"), which are generally phased in over time following acquisition. The Company also provides its subsidiaries with company-wide executive management, administrative support, accounting oversight, procedures and controls (financial and reporting), credit support and corporate codes and policies that apply to each such subsidiary (the Company's "Global Administration", and together with its Global Technology Systems, the Company's "Global Contributions"). The Company also seeks to own a majority (at least 51%) of such a subsidiary's equity while the Local Investor purchases a minority equity interest in it (49% or less). In addition to that equity, a Local Investor provides credit support, certain services and the useful local attention, perspective and relationships of a substantial (although non-controlling) equity owner with a strong financial stake in such subsidiary's success (the "Local Contributions"). The Local Investor also often contributes an existing customer base to the subsidiary in which it invests. The Company, through its various agreements with the applicable Local Investor, has provided for exit strategies that are deemed fair and equitable for both the Company and the Local Investor.

Preceptor (India)

In March 2013, the Company purchased a majority (51%) of the equity interests in Preceptor Marketing Services Private Limited ("Preceptor"), a recently formed Indian corporation, from KROGNOS Integrated Marketing Services Private Limited ("Krognos"), and Preceptor became a new consolidated subsidiary of the Company. The Company also is providing the usual Global Contributions to Preceptor, while Krognos, as the Local Investor, retained the remaining minority (49%) non-controlling interest in Preceptor and is providing the usual Local Contributions. Krognos also is the Local Investor in the Company's existing subsidiary in India, SPAR Krognos Marketing Private Limited. Preceptor enables the Company to service clients not serviced by its other Indian subsidiary. The Company paid \$21,000 for its interest in Preceptor, and Preceptor became a consolidated subsidiary of the Company on March 1, 2013.



Certain MFI Business (USA)

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

The purchase was made pursuant to the Asset Purchase Agreement dated as of March 15, 2013 (the "Purchase Agreement") between MFI, as the seller, and SPAR Marketing Force, Inc. ("SMF"), a consolidated subsidiary of SGRP and its principal domestic operating company. The purchase was completed on March 15, 2013. The Purchase Price under the Purchase Agreement consisted of a cash purchase price of \$1.3 million and the assumption of certain specified liabilities (principally those arising after the closing under the assumed contracts). The Company completed its purchase price valuation analysis and has recorded customer contracts and customer list with a value of approximately \$1.3 million and goodwill of approximately \$8,000 based on its analysis. The customer contracts and customer lists value of \$1.3 million is being amortized on a straight line basis over five years. In addition, SMF entered into a Consulting Services Agreement and a Transition Services Agreement with MFI, under which MFI provided certain services, equipment and facilities for up to one year, and various assignments and other transfer documents.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

China (Unilink)

In July 2014, the Company, through its subsidiary in Hong Kong, SPAR China Ltd., entered into an agreement to purchase certain business assets of the following three companies in China: Shanghai Unilink Marketing Execution and Design Co. Ltd, Shanghai Gold Park Investment Management Co. Ltd, and Beijing Merchandising Sales and Marketing Co. Ltd (collectively Unilink). As consideration for the purchase, Unilink is paid in cash of \$1.1 million and a 20% ownership in SPAR Shanghai at closing, leaving SPAR, Shanghai Wedone Marketing Consulting Co. Ltd (the Local Investor) and Unilink with ownership interests in SPAR Shanghai of 51%, 29% and 20%, respectively. The Company began consolidating operations beginning August 1, 2014.

Of the total purchase price of \$1.46 million, the Company's investment in Unilink represented 51% or \$749,660, of which, \$374,830 was paid in cash and the remaining \$374,830 was recorded as a contingent liability to be paid based on Unilink's future earnings as fully described below. Our Local Investor in Shanghai invested the remaining 49% or a total of \$720,262.

The total contingent liability of \$374,830 (payable at the rate of \$187,415 in each of the next two year periods) is due and payable to Unilink provided Unilink operation income exceeds base earnings of \$235,000 in each of the next two year periods. If this minimum operation earnings is not achieved in each year the payment in that year is not paid to Unilink. The Company is confident that the Unilink business will meet or exceed this minimum operating earnings target and therefore has recorded the additional future payment of \$374,830 as a contingent liability at December 31, 2014. The Company has completed its valuation of the fair value and recorded an intangible asset for its customer list that was valued at \$1,469,922 at December 31, 2014, which is being amortized over ten years.

In addition, if (for each of the next two year periods) the operating earnings of Unilink exceed \$585,000 in each year, SPAR Shanghai agreed to pay a bonus to the sellers of Unilink equal to 50% of the excess operating income over the base of \$585,000. The Company does not expect that the Unilink business will exceed the \$585,000 operating earnings target and, as such, has not recorded this additional future payment as a contingent liability at December 31, 2014.

The following table includes the amount of Unilink's revenue and earnings included in the Company's consolidated statement of income for the year ended December 31, 2014 and a pro forma calculation of the amounts that would have been included in the Company's consolidated statements of income for the years ended December 31, 2014 and 2013 had the Unilink acquisition date been January 1, 2013, instead of August 1, 2014 (in thousands):

	Revenue	Net Income
Actual Unilink from August 1 to December 31, 2014	\$ 3,957	\$ 102
Consolidated supplemental pro forma from January 1 to December 31, 2014	\$ 127,555	\$ 3,475
Consolidated supplemental pro forma from January 1 to December 31, 2013	\$ 119,757	\$ 3,768

## SPAR Group, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

**14. Net Income Per Share**

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

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Numerator:		
Net income attributable to SPAR Group, Inc.	<b>\$3,268</b>	\$3,350
Denominator:		
Shares used in basic net income per share calculation	<b>20,578</b>	20,490
Effect of diluted securities:		
Stock options and unvested restricted shares	<b>1,252</b>	1,244
Shares used in diluted net income per share calculations	<b>21,830</b>	21,734
Basic net income per common share:	<b>\$0.16</b>	\$0.16
Diluted net income per common share:	<b>\$0.15</b>	\$0.15

**15. Discontinued Operations**

Effective August 31, 2013, the Company sold its equity interests and working capital investment in its Romanian subsidiary, SPAR Business Ideas Provider S.R.L. ("BIP"), to a Company affiliate, SPAR InfoTech, Inc. ("SIT"), for a total purchase price of \$348,465. The Company received, at closing, \$187,767 in cash and the balance is payable over 30 months with interest at 6% per annum. The purchase price was equal to the book value of the Company's interests in BIP, which management believes approximates fair value. The sale to SIT was approved by the Company's Audit Committee and Board of Directors.

As a result of the sale, the Romanian operations were reported in the consolidated financial statements of the Company as a discontinued operation. The consolidated statements of cash flows do not separately report the cash flows of the discontinued operations.

F-30

---

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

***15. Discontinued Operations (continued)***

The components of the earnings from discontinued operations for the year ended December 31, 2013, are presented below (in thousands):

Net revenues	\$3,426
Cost of revenues	2,736
Gross profit	690
Selling, general and administrative expenses	562
Depreciation and amortization	1
Operating income	127
Other income	(11 )
Income before provision for income tax expenses	138
Income tax expense	40
Income from discontinued operations	\$98

F-31

---

SPAR Group, Inc. and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

(In thousands)

	<b>Balance at Beginning of Period</b>	<b>(Recovered From)/Charged to Costs and Expenses</b>	<b>Deductions<sup>(1)</sup></b>	<b>Other</b>	<b>Balance at End of Period</b>
Year ended December 31, 2014:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 122	115	42	(22 )	\$ 259
Year ended December 31, 2013:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$ 216	73	62	(105 ) <sup>(2)</sup>	\$ 122

(1)Uncollectible accounts written off, net of recoveries

(2) Represents allowance for doubtful accounts related to disposition of BIP (see Note 16 to the consolidated financial statements – *Discontinued Operations*)