SPAR GROUP INC
Form 10-Q
August 15, 2016

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the second quarterly period ended **June 30, 2016.**

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)

Delaware	33-0684451
State of Incorporation	IRS Employer Identification No.

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

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

On August 8, 2016, there were 20,622,815 shares of Common Stock outstanding.

SPAR Group, Inc.

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PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,027**	$ 5,718
Accounts receivable, net	**23,786**	23,203
Deferred income taxes	**491**	529
Prepaid expenses and other current assets	**861**	661
Total current assets	**30,165**	30,111
Property and equipment, net	**2,468**	2,443
Goodwill	**1,800**	1,800
Intangible assets, net	**2,286**	2,551
Deferred income taxes	**6,513**	5,890
Other assets	**1,871**	611
Total assets	**$ 45,103**	$ 43,406
Liabilities and equity		
Current liabilities:		
Accounts payable	**$ 3,401**	$ 2,984
Accrued expenses and other current liabilities	**6,780**	7,082
Accrued expenses due to affiliates	**491**	78
Deferred income taxes	**2,566**	2,154
Customer deposits	**679**	503
Lines of credit and short-term loans	**506**	476
Total current liabilities	**14,423**	13,277
Long-term debt and other liabilities	**6,322**	5,731
Total liabilities	**20,745**	19,008
Commitments and Contingencies – See Note 8		
Equity:		
SPAR Group, Inc. equity		

Preferred stock, $.01 par value:		
Authorized and available shares– 2,445,598		
Issued and outstanding shares–		
None – June 30, 2016 and December 31, 2015	–	–
Common stock, $.01 par value:		
Authorized shares – 47,000,000		
Issued shares – 20,680,717 – June 30, 2016 and December 31, 2015	**207**	207
Treasury stock, at cost 106,248 shares – June 30, 2016 and 119,695 shares – December 31, 2015	**(149)**	(169)
Additional paid-in capital	**16,037**	15,871
Accumulated other comprehensive loss	**(3,570)**	(2,869)
Retained earnings	**5,805**	5,662
Total SPAR Group, Inc. equity	**18,330**	18,702
Non-controlling interest	**6,028**	5,696
Total equity	**24,358**	24,398
Total liabilities and equity	**$ 45,103**	$ 43,406

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
Net revenues	**$29,732**	$29,467	**$56,343**	$58,733
Cost of revenues	**22,705**	22,299	**43,147**	44,652
Gross profit	**7,027**	7,168	**13,196**	14,081
Selling, general and administrative expense	**5,763**	6,179	**11,277**	12,275
Depreciation and amortization	**484**	476	**972**	944
Operating income	**780**	513	**947**	862
Interest expense	**31**	82	**60**	140
Other (income), net	**(80)**	(33)	**(105)**	(60)
Income before income tax expense	**829**	464	**992**	782
Income tax expense	**226**	200	**231**	351
Net income	**603**	264	**761**	431
Net income attributable to non-controlling interest	**(320)**	(235)	**(618)**	(477)
Net income (loss) attributable to SPAR Group, Inc.	**$283**	$29	**$143**	$(46)
Basic and diluted income per common share:	**$0.01**	$–	**$0.01**	$–
Weighted average common shares – basic	**20,569**	20,568	**20,566**	20,565
Weighted average common shares – diluted	**21,328**	21,572	**21,331**	20,565
Net income	**$603**	$264	**$761**	$431
Other comprehensive (loss):				
Foreign currency translation adjustments	**(213)**	(86)	**(701)**	(750)
Comprehensive income (loss)	**390**	178	**60**	(319)
Comprehensive (income) attributable to non-controlling interest	**(320)**	(235)	**(618)**	(477)
Comprehensive income (loss) attributable to SPAR Group, Inc.	**$70**	$(57)	**$(558)**	$(796)

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Statement of Equity

(unaudited)

(In thousands)

	Common Stock		**Treasury Stock**		**Additional**	**Accumulated Other**		**Non-**	
	Shares	**Amount**	**Shares**	**Amount**	**Paid-In Capital**	**Comprehensive Loss**	**Retained Earnings**	**Controlling Interest**	**Total Equity**
Balance at January 1, 2016	20,681	$ 207	120	$ (169)	$ 15,871	$ (2,869)	$ 5,662	$ 5,696	$ 24,398
Share-based compensation	–	–	–	–	183	–	–	–	183
Reissued treasury shares – RSU's	–	–	(7)	9	(9)	–	–	–	–
Reissued treasury shares – Employee Stock Plan	–	–	(2)	3	(3)	–	–	–	–
Exercise of stock options	–	–	(5)	8	(5)	–	–	–	3
Distributions to non-controlling investors	–	–	–	–	–	–	–	(286)	(286)
Other comprehensive loss	–	–	–	–	–	(701)	–	–	(701)
Net income	–	–	–	–	–	–	143	618	761
Balance at June 30, 2016	**20,681**	**$ 207**	**106**	**$ (149)**	**$ 16,037**	**$ (3,570)**	**$ 5,805**	**$ 6,028**	**$ 24,358**

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)

	Six Months Ended June 30,	
	2016	**2015**
Operating activities		
Net income	**$761**	$431
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**972**	944
Bad debt expense, net of recoveries	**21**	40
Share based compensation	**183**	208
Changes in operating assets and liabilities:		
Accounts receivable	**(578)**	2,737
Prepaid expenses and other assets	**(1,639)**	240
Accounts payable	**429**	(100)
Accrued expenses, other current liabilities and customer deposits	**297**	(855)
Net cash provided by operating activities	**446**	3,645
Investing activities		
Purchases of property and equipment and capitalized software	**(732)**	(905)
Net cash used in investing activities	**(732)**	(905)
Financing activities		
Net borrowing (payments) on lines of credit	**635**	(693)
Proceeds from stock options exercised	**3**	4
Payments on term debt	**(14)**	(12)
Purchase of treasury shares	**–**	(20)
Distribution to non-controlling investors	**(286)**	(41)
Net cash provided by (used in) financing activities	**338**	(762)
Effect of foreign exchange rate changes on cash	**(743)**	(634)
Net change in cash and cash equivalents	**(691)**	1,344
Cash and cash equivalents at beginning of year	**5,718**	4,382
Cash and cash equivalents at end of period	**$5,027**	$5,726
Supplemental disclosure of cash flows information		
Interest paid	**$67**	$142
Income taxes paid	**$123**	$83

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

1. Basis of Presentation

The unaudited, interim condensed consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group"), accompanying this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (this "Quarterly Report"), have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The consolidated balance sheet as of December 31, 2015 has been compiled from the audited balance sheet as of such date. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the SGRP's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on March 30, 2016 (the "2015 Annual Report"), and SGRP's Proxy Statement for its 2016 Annual Meeting of Stockholders as filed with the SEC on April 27, 2016 (the "2016 Proxy Statement"). Particular attention should be given to Items 1 and 1A of the 2015 Annual Report respecting the Company's Business and Risk Factors, respectively, and the following parts of SGRP's 2016 Proxy Statement: (i) *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*, (ii) CORPORATE GOVERNANCE, (iii) EXECUTIVE OFFICERS, COMPENSATION, DIRECTORS AND OTHER INFORMATION and (iv) *EXECUTIVE COMPENSATION, EQUITY AWARDS AND OPTIONS.* The Company's results of operations for the interim period are not necessarily indicative of its operating results for the entire year.

2. Business and Organization

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.

As of June 30, 2016, 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.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

3. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Numerator:				
Net income (loss) attributable to SPAR Group, Inc.	**$ 283**	$ 29	**$ 143**	$ (46)
Denominator:				
Weighted average shares used in basic net income per share calculation	**20,569**	20,568	**20,566**	20,565
Weighted average shares used in diluted net income per share calculation	**21,328**	21,572	**21,331**	20,565
Basic and diluted net income per common share	**$ 0.01**	**$ –**	**$ 0.01**	**$ –**

For the six month period ended June 30, 2015, 1,016,000 vested and non-vested stock options were not included in the calculation because they would have had an anti-dilutive effect.

4. Credit Facilities

Sterling Credit Facility:

SGRP and certain of its US and Canadian subsidiaries, (namely SPAR Marketing Force, Inc., SPAR Assembly & Installation, Inc. (f/k/a SPAR National Assembly Services, Inc.), SPAR Group International, Inc., SPAR Trademarks, Inc., SPAR Acquisition, Inc., SPAR Canada, Inc. and SPAR Canada Company) (together with SGRP, the "Borrowers"), are parties to a Revolving Loan and Security Agreement dated as of July 6, 2010, as amended (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 $8.5 million (see below) to Sterling National Bank (as amended, 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 as amended effective September 28, 2015 currently is scheduled to expire and the Borrowers' loans thereunder will become due on July 6, 2017 (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 (0.5%) 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 $8.5 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 the Company's non-Canadian foreign subsidiaries, certain designated domestic subsidiaries, and those subsidiaries' respective equity and assets).

The amendment to the Sterling Credit Facility effective as of September 28, 2015, among other things, extended the scheduled term of the Sterling Credit Facility to July 6, 2017 (with no early termination fee), increased the maximum principal amounts of Sterling's commitment under the Sterling Loan Agreement to $8.5 million, and provided for the amendment and restatement of the Sterling Note with a new $8.5 million note from the Borrowers in replacement of the old notes and made other changes to its covenant and collateral formulas.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

The Sterling Loan Agreement requires the Borrowers to maintain certain financial covenants, including maintenance by the Borrowers of a minimum combined tangible net worth of $3.4 million and minimum consolidated tangible net worth of $4.8 million, with those figures increasing by at least 50% of combined and consolidated net profit each year, respectively. In addition, the Borrowers must not exceed a maximum combined indebtedness to tangible net worth ratio of 3.0 to 1.0, and consolidated tangible net worth ratio of 4.0 to 1.0 for the Company, and the Borrowers must maintain a minimum fixed charge coverage ratio of 1.5 to1.0. Also, capital expenditures for the Borrowers cannot exceed $2.0 million during any fiscal year, and, on a consolidated basis, the Company's year-end operations may not result in a loss or deficit, as determined in accordance with GAAP. The Company was in compliance with all covenants at June 30, 2016.

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 $893,000 USD (based upon the exchange rate at June 30, 2016). 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 is on a month to month basis at the Company's request. The outstanding balance at June 30, 2016, was approximately $280,000 (Australian) or $208,000 USD (based on the exchange rate at June 30, 2016).

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 approximately 20.0 million Yen (Japanese) or $194,000 USD. The loan is payable in monthly installments of 238,000 Yen or $2,300 USD at an interest rate of 0.1% per annum with a maturity date of February 28, 2018. The outstanding balance at June 30, 2016, was approximately 4.8 million Yen or $46,000 USD (based upon the exchange rate at June 30, 2016).

SPAR Todopromo has secured a line of credit facility with BBVA Bancomer Bank for 5.0 million pesos or approximately $270,000 USD (based upon the exchange rate at June 30, 2016). The revolving line of credit was secured on March 15, 2016 with a contract for 24 months. The variable interest rate is TIIE (Interbank Interest Rate) + 4% which results in an actual interest rate of 8.1% at the end of June. The outstanding balance at June 30, 2016 was 5.0 million pesos or $270,000 USD.

The Company had scheduled future maturities of loans as of June 30, 2016, approximately as follows (dollars in thousands):

	Interest Rate as of June 30, 2016	**July - December 2016**	**2017**	**2018**
Mizuho Bank	0.1%	$ 14	$28	$ 4
Sterling National Bank	3.0%	–	6,304	–
Oxford Funding Pty Ltd.	6.5%	208	–	–
BBVA Bankcomer	8.1%	270	–	–
Total		$ 492	$6,332	$ 4

	June 30, 2016	December 31, 2015
Unused Availability:		
United States	$1,859	$ 1,635
Australia	685	640
Mexico	–	–
Total Unused Availability	$2,544	$ 2,275

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

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

5. Related-Party Transactions

SGRP's policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Senior Executives and Employees Amended and Restated (as of) August 13, 2015 (the "Ethics Code"). The Ethics Code is intended to promote and reward honest, ethical, respectful and professional conduct by each Covered Person (as defined in the Ethics Code in his or her position with the Company anywhere in the world, including (among other things) serving each customer, dealing with each vendor and treating each other with integrity and respect, and behaving honestly, ethically and professionally with each customer, each vendor, each other and the Company. Article II of the Ethics Code specifically prohibits various forms of self-dealing and collusion and Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from engaging in any business activity that conflicts with his or her duties to the Company, and directs each "Covered Person" to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any "Approved Activity" (as such terms are defined in the Ethics Code). Examples of violations include (among other things) having any ownership interest in, acting as a director or officer of or otherwise personally benefiting from business with any competitor, customer or vendor of the Company other than pursuant to any Approved Activity. Approved Activities include (among other things) any contract with an affiliated person (each an "Approved Affiliate Contract") or anything else disclosed to and approved by SGRP's Board of Directors (the "Board"), its Governance Committee or its Audit Committee, as the case may be, as well as the ownership, board, executive and other positions held in and services and other contributions to affiliates of SGRP and its subsidiaries by certain directors, officers or employees of SGRP, any of its subsidiaries or any of their respective family members. The Company's senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including conflicting relationships and transactions, subject to the review and oversight of SGRP's Governance Committee as provided in clause IV.11 of the Governance Committee's Charter, and SGRP's Audit Committee as provided in clause I.2(l) of the Audit Committee's Charter. The Governance Committee and Audit Committee each consist solely of independent outside directors.

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. The stockholders of SAS were Mr. Bartels and Mr. Brown, and as of January 1, 2015, Mr. Brown had transferred all of his ownership to parties related to Mr. Brown, each of whom are considered affiliates of the Company for related party purposes because of their family relationships with Mr. Brown.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

SBS, through the use as needed of up to 5,000 of its available field audit, assembly and other merchandising specialists in the U.S.A., provided approximately 80% and 85% 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 six months ended June 30, 2016 and 2015, respectively, and SAS, through the use of its 50 full-time national, regional and district administrators, provided approximately 92% and 90% of the direct domestic field administration used by the Company (as a percentage of the total cost for such field administrators). In addition to these field service and administration expenses, both SBS and SAS also incur other administrative expenses related to benefit and employment tax expenses of SAS and payroll processing, legal and other administrative expenses paid by either of them. The total cost recorded by the Company for the expenses of SBS and SAS in providing their services to the Company, including the "Cost Plus Fee" arrangement (as defined and discussed below) and other expenses paid directly by the Company on behalf of both SBS and SAS, was $6.4 million and $6.5 million for the three months ended June 30, 2016 and 2015, respectively, and $12.5 million and $13.3 million, for the six months ended June 30, 2016 and 2015, respectively.

Pursuant to the terms of the Amended and Restated Field Service Agreement with SBS dated as of January 1, 2004, as amended in 2011, and the Amended and Restated Field Management Agreement with SAS dated as of January 1, 2004 (each an "Prior Agreement"), defined reimbursable expenses and established the "Cost Plus Fee" arrangement where the Company paid SBS and SAS for their costs of providing those services plus a fixed percentage of such reimbursable expenses (the "Cost Plus Fee"). The parties have had negotiations respecting replacement agreements since the Prior Agreements expired on November 30, 2014. The Company and SBS have agreed in principle to a Cost Plus Fee to 2.96% of SBS's reimbursable expenses, which include its workers compensation and general liability insurance expenses. However, SBS has agreed to give the Company a credit for workers compensation, equal to SBS's costs in obtaining such insurance. This agreement went into effect on January 1, 2015, and was applicable for the six month periods ended June 30, 2016 and 2015. A new SBS agreement is being prepared, which will be subject to contractual terms and provisions reasonably acceptable to the parties ("Pending Agreement").

On June 14, 2016, SAS and SMF entered into a new Field Administration Agreement (the "SAS Agreement"), a copy of was filed with the Company's Current Report on Form 8-K as filed with the SEC on June 20, 2016. In order to provide continuity with SAS' Prior Agreement, the SAS Agreement is effective and governs the relationship of the parties as of December 1, 2014, and amends, restates and completely replaces SAS' Prior Agreement. The SAS Agreement more clearly defines reimbursable expenses, exclusions and procedures and continues the indemnifications and releases provided by SAS' Prior Agreement (which indemnifications and releases were and are comparable to those applicable to SGRP's directors and executive officers under its By-Laws and applicable law). Significantly, the SAS Agreement reduced the Cost Plus Fee from 4% to 2% effective as of June 1, 2016.

No salary reimbursements for Mr. Brown or Mr. Bartels have been included in such reimbursable expenses or Cost Plus Fee, as such salary reimbursements were not permitted under the Prior Agreements, have not been included in the approved 2016 SAS budget and have not been authorized for SAS or SBS by the Audit Committee (as required under related party transaction rules) since those agreements ended. However, since SBS is a "Subchapter S" corporation and owned by Messrs. Brown and Bartels, all income from SBS is allocated to them, and since SAS is a "Subchapter S" corporation and owned by Mr. Bartels and relatives of Mr. Brown, all income from SAS is allocated to them.

SGRP's Audit Committee has approved the SAS Agreement pursuant to its specific duty and responsibility to review and approve the overall fairness of all material related-party transactions, as more fully provided above in this Note 5.

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.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

NRS provided a substantial amount of the domestic merchandising specialist field force used by NMS during 2015. Pursuant to the terms of the Master Field Services Agreement dated as of August 1, 2013 (the "NRS Services Agreement"), NMS received merchandising services from NRS through the use of field merchandising specialists during 2015. For those services, the Company had agreed to reimburse NRS for its total costs of providing those services and to pay NRS a fee equal to 2% of its total costs (the "Plus 2% Fee"). Those costs included all field and administrative costs and expenses (effectively including workers compensation insurance expenses) of NRS but exclude certain legal and other administrative expenses. Accordingly, no salary reimbursement for Mr. Burdekin or Ms. Burdekin were included in such reimbursable costs or Plus 2% Fee.

In 2015, NRS provided a substantial amount of the domestic merchandising specialist field force used by NMS and 4% of all of the domestic merchandising specialist field force used by the Company for the six months ended June 30, 2015. The total Plus 2% Fee earned by NRS for services rendered was approximately $11,000 for the six months ended June 30, 2015. As of December 2015, NMS no longer uses NRS but uses field merchandising services from a non-affiliated third-party provider, but NMS could once again use NRS in the future.

SGRP Meridian (Pty), Ltd. ("Meridian") is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by the following individuals: Mr. Brian Mason, Mr. Garry Bristow, and Mr. Adrian Wingfield. Mr. Mason is President and a director and Mr. Bristow is an officer and director of Meridian. Mr. Mason is also an officer and director and 50% shareholder of Merhold Property Trust ("MPT"). Mr. Mason and Mr. Bristow are both officers and directors and both own 50% of Merhold Cape Property Trust ("MCPT"). Mr. Mason, Mr. Bristow and Mr. Wingfield are all officers and own 46.7%, 20% and 33.3%, respectively of Merhold Holding Trust ("MHT") which provides similar services like MPT. 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 included in the summary table below.

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. Medet Yilmaz and Ms. Nurgül 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 provided NDS field administration services while NDS Reklam provided NDS field merchandising services both at local market rates through May 2015 at which time NDS assumed these service responsibilities.

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

The Company continues to purchase services from SBS, SAS, NRS, MPT, MCPT, MHT, NDS Tanitim, NDS Reklam and CON 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, MHT, NDS Tanitim, NDS Reklam and CON (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, MHT, NDS Tanitim, NDS Reklam and CON 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 and arrangements are annually reviewed and considered for approval by SGRP's Audit Committee, subject to the ongoing negotiations as described above.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

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

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2016	**2015**	**2016**	**2015**
Services provided by affiliates:				
Field merchandiser and other expenses* (SBS)	**$5,390**	$5,337	**$10,337**	$11,012
Field administration and other expenses* (SAS)	**$989**	$1,140	**$2,127**	$2,253
Field merchandiser expenses* (NMA and NRS)	**$–**	$323	**$–**	$567
Office and vehicle rental expenses (MPT)	**$12**	$18	**$24**	$29
Vehicle rental expenses (MCPT)	**$194**	$361	**$373**	$560
Office and vehicle rental expenses (MHT)	**$26**	$26	**$51**	$50
Field administration expenses* (NDS Tanitim)	**$–**	$6	**$–**	$15
Field merchandiser expenses* (NDS Reklam)	**$–**	$47	**$–**	$117
Consulting and administrative services (CON)	**$83**	$95	**$167**	$190
Total services provided by affiliates	**$6,694**	$7,353	**$13,079**	$14,793

* Includes all overhead expense, applicable markup and in the case of SBS, legal costs of $88,699 and $143,463 for the three month periods ended June 30, 2016 and 2015, respectively, and $442,915 and $267,335 for the six month periods ended June 30, 2016, and 2015, respectively.

Accrued expenses due to affiliates (in thousands):	**June 30, 2016**	**December 31, 2015**
Total accrued expenses due to affiliates	**$491**	$ 78

In July 1999, SPAR Marketing Force, Inc. ("SMF"), SBS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and had the right to unilaterally license and exploit their "Business Manager" Internet job scheduling software (which had been jointly developed by such parties), and all related improvements, revisions, developments and documentation from time to time voluntarily made or procured by any of them at its own expense. Business Manager and its other proprietary software and applications are used by the Company for (among other things) the scheduling, tracking, coordination and reporting of its merchandising and marketing services and are accessible via the Internet or other applicable telecommunication network by the authorized representatives of the Company and its clients through their respective computers and mobile devices. In addition, SPAR Trademarks, Inc. ("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.

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 for its field merchandising specialists that require such insurance coverage 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.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

6. Preferred Stock

SGRP's certificate of incorporation authorizes it to issue 3,000,000 shares of preferred stock with a par value of $0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. The Company issued 554,402 of SGRP shares to affiliated retirement plans which were all converted into common shares in 2011 (including dividends earned thereon), leaving 2,445,598 shares of remaining authorized preferred stock. At June 30, 2016, no shares of SGRP Series A Preferred Stock were issued and outstanding.

7. Stock-Based Compensation and Other Plans

SGRP has granted restricted stock and stock option awards to its eligible directors, officers and employees and certain employees of its affiliates respecting shares of Common Stock issued by SGRP ("SGRP Shares") pursuant to SGRP's 2008 Stock Compensation Plan (as amended, the "2008 Plan"), which was approved by SGRP's stockholders in May of 2008 and 2009. The 2008 Plan provides for the granting of restricted SGRP shares, stock options to purchase SGRP shares (either incentive or nonqualified), and restricted stock units, stock appreciation rights and other awards based on SGRP shares ("Awards") to SGRP Directors and the Company's specified executives, employees and consultants (which are employees of certain of its affiliates), although to date SGRP has not issued any permissible form of Award other than stock option, restricted share awards, and performance stock units. As of June 30, 2016, approximately 1.1 million SGRP shares were available for Award grants under the amended 2008 Plan. In the second quarter, there were 10,000 options awarded to a director and 100,000 options awarded to the new President of the International Division.

The company recognized $70,000 and $89,000 in stock-based compensation expense relating to stock option awards during the three month periods ended June 30, 2016 and 2015, respectively. The tax benefit available from stock based compensation expense related to stock option during the three months ended June 30, 2016 and 2015 was approximately $27,000 and $34,000 respectively. The Company recognized $151,000 and $187,000 in stock-based compensation expense relating to stock option Awards during the six month periods ended June 30, 2016 and 2015, respectively. The tax benefit, available to the Company, from stock based compensation expense related to stock options during the six months ended June 30, 2016 and 2015 was approximately $57,000 and $71,000, respectively. However, since the Company has NOL's available for the next several years, these tax benefits have not been realized as of this report. As of June 30, 2016, total unrecognized stock-based compensation expense related to stock options was $445,000.

During the three months ended June 30, 2016 and 2015, the Company recognized approximately $18,000 and $11,000, respectively of stock based compensation expense related to restricted stock. The tax benefit available to the Company from stock based compensation expense related to restricted stock during the three months ended June 30, 2016 and 2015 was approximately $7,000 and $4,000, respectively. During the six months ended June 30, 2016 and 2015, the Company recognized approximately $32,000 and $21,000, respectively, of stock-based compensation expense related to restricted stock. The tax benefit, available to the Company, from stock based compensation expense related to restricted stock during the six months ended June 30, 2016 and 2015 was approximately $12,000 and $8,000, respectively. However, since the Company has NOL's available for the next several years, these tax benefits have not been realized as of this report. As of June 30, 2016, total unrecognized stock-based compensation expense related to unvested restricted stock Awards was $214,000.

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

8. Commitments and Contingencies

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 other 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.

9. 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 Condensed and Consolidated Financial Statements

(unaudited) (continued)

Management evaluates performance as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Revenue:				
United States	**$11,184**	$11,105	**$20,936**	$22,077
International	**18,548**	18,362	**35,407**	36,656
Total revenue	**$29,732**	$29,467	**$56,343**	$58,733
Operating income:				
United States	**$362**	$317	**$64**	$244
International	**418**	196	**883**	618
Total operating income	**$780**	$513	**$947**	$862
Interest expense:				
United States	**$27**	$20	**$52**	$41
International	**4**	62	**8**	99
Total interest expense	**$31**	$82	**$60**	$140
Other (income), net:				
United States	**$–**	$–	**$–**	$–
International	**(80)**	(33)	**(105)**	(60)
Total other (income), net	**$(80)**	$(33)	**$(105)**	$(60)
Income before income tax expense:				
United States	**$335**	$297	**$12**	$203
International	**494**	167	**980**	579
Total income before income tax expense	**$829**	$464	**$992**	$782
Income tax expense:				
United States	**$123**	$(9)	**$(88)**	$(9)
International	**103**	209	**319**	360
Total income tax expense	**$226**	$200	**$231**	$351
Net income (loss):				
United States	**$212**	$306	**$100**	$212
International	**391**	(42)	**661**	219

Total net income	**$603**	$264	**$761**	$431
Depreciation and amortization:				
United States	**$336**	$342	**$679**	$661
International	**148**	134	**293**	283
Total depreciation and amortization	**$484**	$476	**$972**	$944
Capital expenditures:				
United States	**$262**	$211	**$506**	$705
International	**99**	111	**226**	200
Total capital expenditures	**$361**	$322	**$732**	$905

Note: There were no inter-company sales for the six months ended June 30, 2016 or 2015.

	June 30, 2016	**December 31, 2015**
Assets:		
United States	**$21,680**	$ 21,799
International	**23,423**	21,607
Total assets	**$45,103**	$ 43,406

SPAR Group, Inc. and Subsidiaries

Notes to Condensed and Consolidated Financial Statements

(unaudited) (continued)

Geographic Data (in thousands)

	Three Months Ended June 30,						Six Months Ended June 30,					
	2016			2015			**2016**			2015		
International revenue:		% of consolidated net revenue			% of consolidated net revenue			% of consolidated net revenue			% of consolidated net revenue	
Mexico	**$5,106**	**17.2**	**%**	$3,933	13.3	%	**$10,105**	**17.9**	**%**	$8,114	13.8	
South Africa	**4,721**	**15.9**		5,330	18.1		**8,935**	**15.9**		10,221	17.4	
China	**2,882**	**9.7**		3,487	11.8		**5,617**	**10.0**		6,515	11.1	
Canada	**1,871**	**6.3**		1,249	4.2		**3,129**	**5.6**		2,805	4.8	
Japan	**1,765**	**5.9**		1,400	4.8		**3,358**	**6.0**		2,601	4.4	
India	**1,376**	**4.6**		1,705	5.8		**2,680**	**4.8**		3,616	6.2	
Australia	**755**	**2.5**		1,142	3.9		**1,414**	**2.5**		2,487	4.2	
Turkey	**72**	**0.2**		116	0.4		**169**	**0.3**		297	0.5	
Total international revenue	**$18,548**	**62.3**	**%**	$18,362	62.3	%	**$35,407**	**63.0**	**%**	$36,656	62.4	%

	June 30, 2016	**December 31, 2015**
Long lived assets:		
United States	**$10,994**	$ 10,147
International	**3,944**	3,148
Total long lived assets	**$14,938**	$ 13,295

SPAR Group, Inc. and Subsidiaries

Item 2. Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources

Forward-Looking Statements

This Quarterly Report on Form 10-Q for the six months ended June 30, 2016 (this "Quarterly Report"), contains "forward-looking statements" made by SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company") and was filed on August 15, 2016, by SGRP with the Securities and Exchange Commission (the "SEC"). There also are "forward looking statements" contained in SGRP's Annual Report on Form 10-K for its fiscal year ended December 31, 2015 (as filed, the "Annual Report"), as filed with the SEC on March 30, 2016, in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on May 19, 2016 (as filed, the "Proxy Statement"), which SGRP filed with the SEC on April 27, 2016, and SGRP's Current Reports on Form 8-K and other reports and statements as and when filed with the SEC (including this Quarterly Report, the Annual Report and the Proxy Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, collectively, "Securities Laws").

The forward-looking statements made by the Company in this Quarterly Report may include (without limitation) any expectations, guidance or other information respecting the pursuit or achievement of the Company's five corporate objectives (growth, customer value, employee development, productivity & efficiency, and earnings per share), building upon the Company's strong foundation, leveraging compatible global opportunities, improving on the value we already deliver to customers, our growing client base, continuing balance sheet strength, customer contract expansion, growing revenues and becoming profitable through organic growth and acquisitions, attracting new business that will increase SPAR Group's revenues, improving product mix, continuing to maintain or reduce costs and consummating any transactions. The Company's forward-looking statements also include, in particular and without limitation, those made in the "Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources" in this Quarterly Report, and those made in "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report. 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 (and not place undue reliance on) the Company's forward-looking statements, risk factors and the other risks, cautions and information made, contained or noted in or incorporated by reference into this Quarterly Report, the Annual Report, the Proxy Statement and the other applicable SEC Reports that could

cause the Company's actual performance or condition (including its assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition to differ materially from the performance or condition planned, intended, anticipated, estimated or otherwise expected by the Company (collectively, "expectations") and described in the information in the Company's forward-looking and other statements, whether express or implied. Although the Company believes them to be reasonable, those expectations involve known and unknown risks, uncertainties and other unpredictable factors (many of which are beyond the Company's control) that could cause those expectations to fail to occur or be realized or such actual performance or condition to be materially and adversely different from the Company's expectations. 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. Accordingly, the Company cannot assure you that its expectations 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, any of which could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.

You should carefully review the risk factors described in the Annual Report (See Item 1A – Risk Factors) and any other risks, cautions or information made, contained or noted in or incorporated by reference into this Quarterly Report, the Annual Report, the Proxy Statement or 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.

SPAR Group, Inc. and Subsidiaries

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.

GENERAL

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

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

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

SPAR Group, Inc. and Subsidiaries

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 provide these services to retailers, manufacturers and other businesses around the world more effectively and efficiently than other available alternatives.

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

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

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

The Company's Domestic and International Geographic Segments:

The Company provides similar merchandising and marketing services throughout the world, operating within two reportable segments, its Domestic and International Divisions. The Company tracks and reports certain financial information separately for these two segments using the same metrics. The primary measurement utilized by management is operating profit level, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two segments, which includes their respective net revenues and operating income for each of the three and six months ended June 30, 2016 and 2015, and their respective assets as of June 30, 2016 and December 31, 2015, is provided above in Note 9 to the Company's Condensed Consolidated Financial Statements – *Segment Information*.

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

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

SPAR Group, Inc. and Subsidiaries

Critical Accounting Policies

There were no material changes during the six months ended June 30, 2016, to the Company's critical accounting policies as reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the SEC on March 30, 2016.

Results of Operations

<u>Three months ended June 30, 2016, compared to three months ended June 30, 2015</u>

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

	Three Months Ended June 30,			
	2016		**2015**	
	$	**%**	**$**	**%**
Net revenues	**$29,732**	100.0%	**$29,467**	100.0%
Cost of revenues	**22,705**	76.4	**22,299**	75.7
Gross profit	**7,027**	23.6	**7,168**	24.3
Selling, general & administrative expense	**5,763**	19.4	**6,179**	21.0
Depreciation & amortization	**484**	1.6	**476**	1.6
Operating income	**780**	2.6	**513**	1.7
Interest expense, net	**31**	0.1	**82**	0.2
Other (income) expense, net	**(80)**	(0.3)	**(33)**	(0.1)
Income before income taxes	**829**	2.8	**464**	1.6
Income tax expense	**226**	0.8	**200**	0.7
Net income	**603**	2.0	**264**	0.9
Net income attributable to non-controlling interest	**(320)**	(1.1)	**(235)**	(0.8)
Net income attributable to SPAR Group, Inc.	**$283**	0.9%	**$29**	0.1%

Net Revenues

Net revenues for the three months ended June 30, 2016, were $29.7 million, compared to $29.5 million for the three months ended June 30, 2015, an increase of $200,000 or 1%. The increase is primarily attributable to our international segment.

Domestic net revenues totaled $11.2 million in the three months ended June 30, 2016, approximately equal to the $11.1 million for the same period in 2015.

International net revenues totaled $18.5 million for the three months ended June 30, 2016, compared to $18.4 million for the same period in 2015, an increase of $100,000 or 1%. The increase in net revenues was primarily due to higher revenue in Mexico, Canada and Japan, partially offset by decreased revenue in South Africa, China, Australia, India and Turkey. Actual in-country revenue increased by $2.4 million but was offset by negative foreign currency impact of $2.3 million year over year.

Cost of Revenues

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 76.4% of its net revenues for the three months ended June 30, 2016, and 75.7% of its net revenues for the three months ended June 30, 2015.

SPAR Group, Inc. and Subsidiaries

Domestic cost of revenues was 69.5% of net revenues for the three months ended June 30, 2016, and 68.4% of net revenues for the three months ended June 30, 2015. The increase in cost of revenues as a percentage of net revenues of 1.1 percentage points was due primarily to an unfavorable mix of project and annuity work compared to the same period last year. For the three months ended June 30, 2016 and 2015, approximately 81% and 83%, respectively, of the Company's domestic cost of revenues resulted from in-store merchandiser specialist, on-site assembly technician and field administration services, purchased from certain of the Company's affiliates, SPAR Business Services, Inc. ("SBS"), and SPAR Administrative Services, Inc. ("SAS"), respectively. For the three months ended June 30, 2015, approximately 4% of the Company's domestic cost of revenues resulted from in-store merchandiser specialist services purchased from one of the Company's other affiliates, National Retail Source, LLC ("NRS"). As of December 2015, the Company no longer uses NRS, but could again in the future (See Note 5 to the Condensed Consolidated Financial Statements - *Related-Party Transactions*).

Internationally, the cost of revenues increased to 80.5% of net revenues for the three months ended June 30, 2016, compared to 80.1% of net revenues for the three months ended June 30, 2015. The cost of revenue increase of 0.4 percentage points was primarily due to a mix of higher cost margin business in South Africa, Mexico and Japan, partially offset by a mix of lower cost margin business in China and Canada.

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 $5.8 million and $6.2 million for the three months ended June 30, 2016 and 2015, respectively.

Domestic selling, general and administrative expenses totaled $2.7 million for three months ended June 30, 2016, compared to $2.8 million for the three months ended June 30, 2015. The decrease of approximately $100,000 was primarily due to implemented cost savings.

International selling, general and administrative expenses totaled $3.1 million for the three months ended June 30, 2016, compared to $3.4 million for the same period in 2015. The decrease of approximately $300,000 was primarily attributable to cost reductions in Australia and China.

Depreciation and Amortization

Depreciation and amortization charges totaled $484,000 for the three months ended June 30, 2016, and $476,000 for the same period in 2015.

Interest Expense

The Company's net interest expense was $31,000 and $82,000 for the three months ended June 30, 2016 and 2015, respectively. The decrease was primarily due to increased interest income in South Africa.

Other Income

Other income totaled $80,000 and $33,000 for the three months ended June 30, 2016 and 2015, respectively.

Income Taxes

The income tax provision totaled $226,000 for the three months ended June 30, 2016 and $200,000 for the three months ended June 30, 2015.

SPAR Group, Inc. and Subsidiaries

Non-controlling Interest

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in allocation of income of $320,000 and $235,000 to the non-controlling shareholders for the three months ended June 30, 2016 and 2015, respectively.

Net Income

The Company reported net income of $283,000 for the three months ended June 30, 2016, or $0.01 per diluted share, compared to a net income of $29,000, or $0.00 per diluted share, for the corresponding period last year.

Six months ended June 30, 2016, compared to six months ended June 30, 2015

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

	Six Months Ended June 30,			
	2016		2015	
	$	%	$	%
Net revenues	**$56,343**	100.0%	**$58,733**	100.0%
Cost of revenues	**43,147**	76.6	**44,652**	76.0
Gross profit	**13,196**	23.4	**14,081**	24.0
Selling, general & administrative expense	**11,277**	20.0	**12,275**	20.9
Depreciation & amortization	**972**	1.7	**944**	1.6
Operating income	**947**	1.7	**862**	1.5
Interest expense, net	**60**	0.1	**140**	0.2
Other (income) expense, net	**(105)**	(0.2)	**(60)**	(0.1)
Income before income taxes	**992**	1.8	**782**	1.4
Income tax expense	**231**	0.4	**351**	0.6
Net income	**761**	1.4	**431**	0.8
Net income attributable to non-controlling interest	**618**	1.1	**477**	0.8
Net income (loss) attributable to SPAR Group, Inc.	**$143**	0.3 %	**$(46)**	0.0 %

Net Revenues

Net revenues for the six months ended June 30, 2016, were $56.3 million, compared to $58.7 million for the six months ended June 30, 2015, a decrease of $2.4 million or 4%. The decline is directly attributable to the negative $5.2 million impact due to foreign currency translation year over year and impacted by other factors discussed below.

Domestic net revenues totaled $20.9 million in the six months ended June 30, 2016, compared to $22.1 million for the same period in 2015. The change is due to lower project and annuity work compared to the same period last year.

International net revenues totaled $35.4 million for the six months ended June 30, 2016, compared to $36.6 million for the same period in 2015, a decrease of $1.2 million or 3%. The decrease in net revenues was primarily due to lower revenue in South Africa, Australia, India, China and Turkey, partially offset by increased revenue in Mexico, Japan and Canada. Actual in-country revenue increased by $4.0 million but was offset by a negative foreign currency impact of $5.2 million year over year.

SPAR Group, Inc. and Subsidiaries

Cost of Revenues

The Company's cost of revenues consists of its on-site labor and field administration fees, travel and other direct labor-related expenses and was 76.6% of its net revenues for the six months ended June 30, 2016, and 76.0% of its net revenues for the six months ended June 30, 2015.

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Domestic cost of revenues was 70.4% of net revenues for the six months ended June 30, 2016, and 68.8% of net revenues for the six months ended June 30, 2015. The increase in cost of revenues as a percentage of net revenues of 1.6 percentage points was due primarily to an unfavorable mix of project and annuity work compared to the same period last year. For the six months ended June 30, 2016 and 2015, approximately 82% and 86%, respectively, of the Company's domestic cost of revenues resulted from in-store merchandiser specialist, on-site assembly technician and field administration services purchased from certain of the Company's affiliates, SPAR Business Services, Inc. ("SBS"), and SPAR Administrative Services, Inc. ("SAS"), respectively. For the six months ended June 30, 2015, approximately 4% of the Company's domestic cost of revenues resulted from in-store merchandiser specialist services purchased from certain of the Company's other affiliates, National Retail Source, LLC ("NRS"). As of December 2015, the Company no longer uses NRS, but could again in the future (See Note 5 to the Condensed Consolidated Financial Statements - *Related-Party Transactions*).

Internationally, the cost of revenues decreased to 80.2% of net revenues for the six months ended June 30, 2016, compared to 80.4% of net revenues for the six months ended June 30, 2015. The cost of revenue decrease of 0.2 percentage points was primarily due to a mix of lower cost margin business in China and Canada, partially offset by a mix of higher cost margin business in South Africa, Mexico and Japan.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of the Company include its corporate overhead, project management, information technology, executive compensation, human resources, legal and accounting expenses. Selling, general and administrative expenses were approximately $11.3 million and $12.3 million for the six months ended June 30, 2016 and 2015, respectively.

Domestic selling, general and administrative expenses totaled $5.5 million for six months ended June 30, 2016, compared to $6.0 million for the six months ended June 30, 2015. The decrease of approximately $500,000 was primarily due to implemented cost savings.

International selling, general and administrative expenses totaled $5.8 million for the six months ended June 30, 2016, compared to $6.3 million for the same period in 2015. The decrease of approximately $500,000 was primarily attributable to cost savings in Australia and China, partially offset by increases in Japan.

Depreciation and Amortization

Depreciation and amortization charges totaled $972,000 for the six months ended June 30, 2016, and $944,000 for the same period in 2015.

Interest Expense

The Company's net interest expense was $60,000 and $140,000 for the six months ended June 30, 2016 and 2015, respectively. The decrease is primarily due to increased interest income in South Africa.

Other Income

Other income totaled $105,000 and $60,000 for the six months ended June 30, 2016 and 2015, respectively.

Income Taxes

The income tax provision totaled $231,000 for the six months ended June 30, 2016 and $351,000 for the six months ended June 30, 2015.

SPAR Group, Inc. and Subsidiaries

Non-controlling Interest

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in allocation of income of $618,000 and $477,000 to the non-controlling shareholders for the six months ended June 30, 2016 and 2015, respectively.

Net Income (Loss)

The Company reported net income of $143,000 for the six months ended June 30, 2016, or $0.01 per diluted share, compared to a net loss of $46,000, or $0.00 per diluted share, for the corresponding period last year.

Liquidity and Capital Resources

In the six months ended June 30, 2016, the Company had a net income before non-controlling interest of $761,000.

Net cash provided by operating activities was $446,000 and $3.6 million for the six months ended June 30, 2016 and 2015, respectively. The net cash provided by operating activities was primarily due to cash-impacting earnings and increases in accounts payable and accrued expenses, partially offset by increases in prepaid expenses and other assets, and accounts receivable.

Net cash provided by investing activities for the six months ended June 30, 2016, and June 30, 2015, was approximately $732,000 and $905,000, respectively. The net cash used in investing activities in 2016 was due to fixed asset additions.

Net cash provided by financing activities for the six months ended June 30, 2016 was approximately $338,000, compared to $762,000 used in financing activities for the six months ended June 30, 2015. Net cash provided by financing activities was primarily a result of net borrowing on lines of credit, partially offset by a distribution to the non-controlling investors in South Africa.

The above activity and the impact of foreign exchange rate changes resulted in a decrease in cash and cash equivalents for the six months ended June 30, 2016 of $700,000.

At June 30, 2016, the Company had net working capital of $15.7 million, as compared to net working capital of $16.8 million at December 31, 2015. The Company's current ratio was 2.1 at June 30, 2016, compared to 2.3 at December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's accounting policies for financial instruments and disclosures relating to financial instruments require that the Company's consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and lines of credit. The Company carries current assets and liabilities at their stated or face amounts in its consolidated financial statements, as the Company believes those amounts approximate the fair value for these items because of the relatively short period of time between origination of the asset or liability and their expected realization or payment. The Company monitors the risks associated with asset and liability positions, as well as interest rates. The Company's investment policy objectives require the preservation and safety of the principal, and the maximization of the return on investment based upon its safety and liquidity objectives.

The Company is exposed to market risk related to the variable interest rate on its lines of credit, both in its United States subsidiaries (*i.e.*, the Domestic Division) and in its International (non-U.S.) subsidiaries (*i.e.*, the International Division). At June 30, 2016, the Company's outstanding lines of credit and other debt totaled approximately $6.6 million, as noted in the table below (in thousands):

Location	Variable Interest Rate (1)	US Dollars (2)
United States	3.0%	$ 6,304
International	0.1% - 8.1%	524
		$ 6,828

(1) Based on interest rate at June 30, 2016.
(2) Based on exchange rate at June 30, 2016.

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SPAR Group, Inc. and Subsidiaries

The Company has foreign currency exposure associated with its international subsidiaries. In both 2016 and 2015, these exposures are primarily concentrated in the South African Rand, the Canadian Dollar, the Mexican Peso, the Australian Dollar, the Japanese Yen, and the Chinese Yuan.

Item 4. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

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

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (2013)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of June 30, 2016.

Management's Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's first two quarters of its 2016 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SPAR Group, Inc. and Subsidiaries

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Company is a party to various legal actions and administrative proceedings arising in the normal course of business. See Note 8 to the Condensed Consolidated Financial Statements – *Commitments and Contingencies.*

Item 1A. Risk Factors

Existing Risk Factors

Various risk factors applicable to the Company and its businesses are described in Item 1A under the caption "Risk Factors" in SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on March 30, 2016 (the "2015 Annual Report"), which risk factors are incorporated by reference into this Quarterly Report. There have been no material changes in the Company's risk factors since those reports.

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

Item 2(a): The Company approved an extension on their previously reported Stock Repurchase Plan until August 2018 and increased the total amount that could be purchased to 532,000 shares.

Item 2(b): Not applicable

Item 2(c): Not applicable

Item 3. Defaults upon Senior Securities

Item 3(a): Defaults under Indebtedness: None.

Item 3(b): Defaults under Preferred Stock: None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

10.1	Waiver letter from Sterling National Bank, dated as of May 16, 2016, but effective as of March 31, 2016, as filed herewith.
31.1	Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
31.2	Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
32.1	Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
32.2	Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation

101.DEF* XBRL Taxonomy Extension Definition

101.LAB* XBRL Taxonomy Extension Labels

101.PRE* XBRL Taxonomy Extension Presentation

* 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.

SPAR Group, Inc. and Subsidiaries

SIGNATURES

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

Date: August 15, 2016	SPAR Group, Inc., Registrant
	By: /s/ James R. Segreto James R. Segreto Chief Financial Officer, Treasurer, Secretary and duly authorized signatory