

SPAR GROUP INC
Form 10-K
March 30, 2016
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, 2015**
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 or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

333 Westchester Avenue, Suite 204, White Plains, New York 10604
(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

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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, 2015, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$1.30.

The number of shares of the Registrant's Common Stock outstanding as of March 25, 2016, was 20,564,347 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 19, 2016, are incorporated by reference into Part III of this Form 10-K.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

This Annual Report on Form 10-K for the year ended December 31, 2015 (this "Annual 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 March 30, 2016, by SGRP with the Securities and Exchange Commission (the "SEC"). There also are "forward looking statements" contained in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on or about May 19, 2016 (the "Proxy Statement"), which SGRP expects to file with the SEC on or about April 25, 2016, and SGRP's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and statements as and when filed with the SEC (including this 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 Annual 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 "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this 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 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 believe s 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 this 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 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.

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, dollar, 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.

The primary place to carry out merchandising continues to be in physical retail outlets. According to a 2015 Frost & Sullivan report, by 2025 physical stores will still represent 81% of \$23 trillion in global retail sales, which translates to \$7 trillion in dollar growth over the next 10-year period.

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

Most manufacturers and retailers have been, and SPAR Group believes they will continue, outsourcing their merchandising and marketing service needs to third parties capable of operating at a lower cost by (among other things) serving multiple manufacturers simultaneously. The Company also believes that it is well positioned, as a domestic and international merchandising 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 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 proprietary Internet, digital and mobile 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, distributors and retailers at mass merchandisers, office supply, grocery, drug store, dollar, independent, convenience, toy, home improvement and electronics stores in their respective territories. SPAR

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Group's clients include the makers and distributors of general merchandise, health and beauty care, consumer goods, home improvement, home entertainment, 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:

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% ¹	Shanghai, China
Mexico	August 2011	51	% Mexico City, Mexico
Turkey	November 2011	51	% Istanbul, Turkey

In August 2014, the Company, through its subsidiary in Hong Kong, SPAR China Ltd., in conjunction with its minority partner in SPAR Shanghai, purchased certain business assets, fixed assets and merchandising teams of three companies in China (collectively Unilink). As consideration for the purchase, Unilink was paid in cash and 20% ownership in SPAR Shanghai. SGRP's ownership interest in SPAR Shanghai remained at 51%.

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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, 2015 and 2014, and their respective assets as of December 31, 2015 and 2014, 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, digital and mobile-based software, is key to providing clients with a high level of client service while maintaining efficient, lower 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 working to strengthen the senior executive relationships between the Company and its clients, is executing a marketing plan to expand the Company's presence in media and client channels, and is receiving and responding to an increasing number of requests for proposals ("RFPs") from potential and 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 collaborations 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, digital and mobile technologies accessed through computers or mobile devices (which include its logistical, communication, scheduling, tracking, reporting and accounting programs and applications) that improve the productivity of the Company's merchandising specialists and assembly technicians, and provide timely data to its clients. The Company's merchandising specialists and assembly technicians use smartphones, tablets, laptops, personal computers and Interactive Voice Response ("IVR") technology to report (through the Internet or telecommunication network) 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 and 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 the Company's merchandising specialists and assembly technicians to communicate work assignment completion information via the Internet or other telecommunication infrastructure by using, among other things, smartphones, laptops 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 reported status of merchandising projects in real-time. This tracking technology also allows the Company to schedule the Company's merchandising specialists and assembly technicians more efficiently, quickly quantify the status and benefits of its services to clients, rapidly respond to clients' needs and rapidly implement programs.

The Company intends to continue to utilize its Internet, digital and mobile based technologies (accessed through computers or mobile devices) to enhance the Company's efficiency and ability to provide real-time data to its clients as reported to the Company, as well as, maximize the speed of communication with logistical deployment of and reporting from the Company's 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 the clients' merchandising and marketing expenditures on sales and profits. The Company (together with certain of its affiliates) has developed and owns proprietary Internet, digital and mobile based software and applications (accessed through computers or mobile devices) that allows the Company to communicate with field management, schedule the store-specific field operations more efficiently, receive information, incorporate, 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, digital and mobile based technologies give 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 acquisition 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 acquisition 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, digital and telecommunication based technological systems (which include its logistical, communication, scheduling, tracking, reporting and accounting programs and applications) 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 are accessible through computers and mobile devices by the local representatives of the Company and its clients in order to enhance local operations, give the Company an important marketing distinction and advantage over its competitors (such as real-time access to field 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 for its worldwide operations through its 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. See *Leveraging and Improving on the Company's Technological Strengths*, above.

Another key to the Company's international and 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 use of Global Technology Systems, which use in the case of new acquisitions is 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) and to have a majority of the members of such subsidiary's board of directors. 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 operating 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 was 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.

For the above, see 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 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 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, dollar, home improvement, convenience, 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
- 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, in-store product demonstrations and assisted sales in 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:

Mystery Shopping - Calling and visiting 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. Marketing efforts concentrate on enhancing SPAR's position as an industry leader, promoting its key advantages, strengthening its industry presence and supporting sales. 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, 2015 and 2014.

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, the ability to execute specific client priorities rapidly and consistently over a wide geographic area, and the ability to ideate and operate as a retail business partner delivering value above the base services. The Company believes that its current structure favorably addresses these factors and establishes it as a leader in many retailer and manufacturer verticals. 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, digital and mobile based software and applications, 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 17,100 people in 2015. Today, the Company operates in 9 countries that encompass approximately 50% of the total world population.

During 2015, the Company's Domestic Division employed a labor force of 203 people. As of December 31, 2015, there were 166 full-time employees and 37 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, deploy and administer 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 and NRS furnished approximately 8,000 merchandising specialists and assembly technicians (all of whom are engaged by SBS and NRS) and 57 field administrators (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, 2015, the Company's International Division's labor force consisted of approximately 761 people. There were 698 full-time and 63 part-time employees engaged locally by our foreign subsidiaries in their respective international operations. The International Division's field force consisted of approximately 8,100 merchandising specialists engaged locally by our foreign subsidiaries in their respective international operations.

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.

You should carefully consider (and not place undue reliance on) the Company's risk factors, forward-looking statements and the other risks, cautions and information made, contained or noted in or incorporated by reference into this Annual Report, the Proxy Statement and the other applicable SEC Reports (as defined at the beginning of Item 1, above) 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 below and any other risks, cautions or information made, contained or noted in or incorporated by reference into this 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.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 to reduce fixed operation expenses and concentrate internal staff on customer service and sales. 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

Dependence on Retailers with Physical Stores

Retailers with physical store locations are facing increasing consolidation and competition from virtual stores on the internet. Some retailers with physical stores have failed, others are struggling, and others are merging in this highly competitive environment. Although the Company's merchandising services help physical retailers in successfully competing against 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 2015 and 2014. 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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, 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

Reliance on the Internet and Third Party Vendors

The Company relies on its Internet, digital and mobile based systems for (among other things) the scheduling, tracking, coordination and reporting of its merchandising and marketing services. Systems can experience, high traffic as well as increased attacks by hackers and other saboteurs. To the extent that systems experience increased numbers of users, frequency of use, increased bandwidth requirements of users, or Internet attacks, there can be no assurance that the Company's technological systems and external third party Internet and telecommunication infrastructure will continue to be able to support the demands placed on them by this continued growth or negative events. The Company relies on third-party vendors to provide its Internet and telecommunication network access and other services used in its business, and the Company has no control over such third-party providers. Any protracted disruption 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 services by certain domestic affiliates, namely SPAR Business Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and to the extent it resumes providing field services to the Company, National Retail Source, LLC ("NRS"), and by 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 had provided, and in the future could again provide, 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. As of December 2015, NMS no longer uses NRS and instead uses field merchandising services from a non-affiliated third-party provider. SBS provides a majority of all of the other domestic field merchandising and assembly services used by the Company other than NMS (88% of the domestic field expenses in 2015, excluding NMS field expenses), and SAS provides substantially all of the other domestic field administrative services used by the Company (92% of the domestic field administrative expense in 2015, 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. Subsequently, SBS and the Company agreed to change the cost plus rate to 2.96% and eliminate certain previous credits, effective January 1, 2015. Services were provided to NMS by NRS 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 such merchandisers generally provide greater flexibility and quality as a result of their independence and lower total costs, that each complies with applicable legal requirements for the individuals and companies with whom it contracts, and that the appropriateness of its treatment of such independent merchandisers has been routinely subject to challenge (both currently and historically) by various states. The expenses of defending those challenges under the Prior Agreements were, and under the current negotiations of the Pending Agreements may continue to be, part of the total costs of SBS in providing its services that are 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 (if providing services) will succeed in defending any such challenge, and an adverse determination could increase its costs of doing business that are borne by the Company.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

Potential Conflicts in Services Provided by Affiliates

SBS and SAS are affiliates (but not subsidiaries) of SGRP. SBS is owned 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. SAS is owned by Mr. Bartels and certain relatives of Mr. Brown (each of whom are considered affiliates of the Company for related party purposes). 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. As of December 2015, NMS no longer uses NRS but uses field merchandising services from a non-affiliated third-party provider. 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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, 2015, the sale price of SGRP Common Stock fluctuated from \$0.90 to \$2.23 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 55.1% 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 31.4% (or 7.0 million shares) of SGRP Common Stock, and Mr. William H. Bartels, who beneficially owns approximately 23.8% (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, 2015 (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, the Company or its 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 33.8%; Mr. Bartels beneficially owns approximately 25.6%; and they have approximately 59.4% beneficial ownership in the aggregate of the SGRP Common Stock, which amounts were calculated using total ownership on a non-diluted basis (20.6 million shares) and their individual beneficial ownerships (7.0 million shares and 5.3 million shares, respectively) at December 31, 2015. 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 approval or disapproval of acquisitions, mergers, conflicts of interest and all other matters that must 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. The Local Investors also may wish to conduct the local business differently than desired by the Company. 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. Most 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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

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 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), whether actual or as planned, intended, anticipated, estimated or otherwise expected.

Risks Associated with Foreign Currency

The Company also has foreign currency exposure associated with its international subsidiaries. In 2015, these foreign currency exposures were 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.

If any developments should