SPAR GROUP INC
Form 10-Q
November 19, 2018

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the third quarterly period ended **September 30, 2018.**

OR

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

Commission file number: 0-27408

SPAR Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

Yes No

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

Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)	Smaller Reporting Company
	Emerging Growth Company

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

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

On November 14, 2018, there were 20,657,919 shares of Common Stock outstanding.

SPAR Group, Inc.

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PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2018 (Unaudited)	**December 31, 2017**
Assets		
Current assets:		
Cash and cash equivalents	**$ 6,988**	$ 8,827
Accounts receivable, net	**46,783**	35,964
Prepaid expenses and other current assets	**2,964**	2,031
Total current assets	**56,735**	46,822
Property and equipment, net	**2,902**	2,712
Goodwill	**3,783**	1,836
Intangible assets, net	**3,449**	1,634
Deferred income taxes	**2,562**	3,055
Other assets	**1,736**	1,929
Total assets	**$ 71,167**	$ 57,988
Liabilities and equity		
Current liabilities:		
Accounts payable	**$ 9,542**	$ 7,341
Accrued expenses and other current liabilities	**17,778**	13,581
Due to affiliates	**5,114**	3,026
Customer incentives and deposits	**499**	1,539
Lines of credit and short-term loans	**9,635**	6,839
Total current liabilities	**42,568**	32,326
Long-term debt and other liabilities	**3,220**	107
Total liabilities	**45,788**	32,433
Commitments and Contingencies – See Note 9		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, $.01 par value:	–	–

Authorized and available shares– 2,445,598		
Issued and outstanding shares–		
None – September 30, 2018, and December 31, 2017		
Common stock, $.01 par value:		
Authorized shares – 47,000,000	**208**	207
Issued shares –		
20,680,717 – September 30, 2018, and December 31, 2017		
Treasury stock, at cost		
22,798 shares – September 30, 2018, and	**(26)**	(115)
104,398 shares – December 31, 2017		
Additional paid-in capital	**16,275**	16,271
Accumulated other comprehensive loss	**(3,518)**	(1,690)
Retained earnings	**3,945**	4,977
Total SPAR Group, Inc. equity	**16,884**	19,650
Non-controlling interest	**8,495**	5,905
Total equity	**25,379**	25,555
Total liabilities and equity	**$ 71,167**	$ 57,988

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Income (Loss) and Comprehensive (Loss) Income

(unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net revenues	**$58,388**	$48,752	**$172,191**	$131,361
Cost of revenues	**46,546**	39,960	**140,154**	105,563
Gross profit	**11,842**	8,792	**32,037**	25,798
Selling, general and administrative expense	**8,996**	7,477	**26,650**	21,988
Settlement and other charges	**–**	–	**1,975**	–
Depreciation and amortization	**522**	487	**1,595**	1,526
Operating income	**2,324**	828	**1,817**	2,284
Interest expense	**333**	110	**886**	117
Other (income), net	**(109)**	(78)	**(413)**	(275)
Income before income tax expense	**2,100**	796	**1,344**	2,442
Income tax expense	**419**	210	**335**	907
Net income	**1,681**	586	**1,009**	1,535
Net income attributable to non-controlling interest	**(1,060)**	(340)	**(2,027)**	(1,189)
Net income (loss) attributable to SPAR Group, Inc.	**$621**	$246	**$(1,018)**	$346
Basic and diluted income (loss) per common share:	**$0.03**	$0.01	**$(0.05)**	$0.02
Weighted average common shares – basic	**20,654**	20,602	**20,650**	20,633
Weighted average common shares – diluted	**21,320**	21,320	**20,650**	21,331
Net income	**$1,681**	$586	**$1,009**	$1,535
Other comprehensive (loss) income:				
Foreign currency translation adjustments	**(2,782)**	(61)	**(3,462)**	681
Comprehensive (loss) income	**(1,101)**	525	**(2,453)**	2,216
Comprehensive loss (income) attributable to non-controlling interest	**269**	(318)	**(393)**	(1,523)
Comprehensive (loss) income attributable to SPAR Group, Inc.	**$(832)**	$207	**$(2,846)**	$693

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Statement of Equity

(unaudited)

(In thousands)

	Common Stock		**Treasury Stock**		**Additional Paid-In Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Non-Controlling Interest**	**Total Equity**
	Shares	**Amount**	**Shares**	**Amount**					
Balance at January 1, 2018	20,681	$ 207	104	$ (115)	$ 16,271	$ (1,690)	$ 4,977	$ 5,905	$ 25,555
Share-based compensation	–	–	–	–	139	–	–	–	139
Exercise of stock options	–	1	(75)	79	(132)	–	–	–	(52)
Re-issue treasury shares - RSU's	–	–	(6)	10	(3)	–	–	–	7
Non-controlling interest related to Resource Plus acquisition	–	–	–	–	–	–	–	2,648	2,648
Other changes	–	–	–	–	–	–	(14)	(451)	(465)
Other comprehensive income	–	–	–	–	–	(1,828)	–	(1,634)	(3,462)
Net (loss) income	–	–	–	–	–	–	(1,018)	2,027	1,009
Balance at September 30, 2018	**20,681**	**$ 208**	**23**	**$ (26)**	**$ 16,275**	**$ (3,518)**	**$ 3,945**	**$ 8,495**	**$ 25,379**

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)

	Nine Months Ended September 30, 2018	2017
Operating activities		
Net income	**$1,009**	$1,535
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,595**	1,526
Bad debt expense, net of recoveries	**105**	93
Share based compensation	**139**	178
Changes in operating assets and liabilities:		
Accounts receivable	**(7,850)**	(3,250)
Prepaid expenses and other assets	**(154)**	(583)
Accounts payable	**2,094**	2,234
Accrued expenses, other current liabilities and customer incentives and deposits	**835**	4,679
Net cash (used in) provided by operating activities	**(2,227)**	6,412
Investing activities		
Purchases of property and equipment and capitalized software	**(1,340)**	(1,046)
Purchase of Resource Plus subsidiary, net of cash acquired	**767**	–
Net cash used in investing activities	**(573)**	(1,046)
Financing activities		
Net (payments) borrowing on lines of credit	**4,894**	(2,953)
Payments related to stock options exercised	**(52)**	8
Payments on term debt	**–**	(543)
Payments on capital lease obligations	**(55)**	(15)
Purchase of treasury shares	**–**	(121)
Distribution to non-controlling investors	**(463)**	(2,101)
Net cash provided by (used in) financing activities	**4,324**	(5,725)
Effect of foreign exchange rate changes on cash	**(3,363)**	697
Net change in cash and cash equivalents	**(1,839)**	338
Cash and cash equivalents at beginning of year	**8,827**	7,324
Cash and cash equivalents at end of period	**$6,988**	$7,662

Supplemental disclosure of cash flows information:

Interest paid	**$694**	$216
Income taxes paid	**$259**	$247
Supplemental disclosure of non-cash investing and financing activities:		
Increase in non-controlling interest attributable to Resource Plus acquisition	**$2,648**	$–
Deferred purchase price	**$2,300**	$–
Debt assumed through the Resource Plus acquisition	**$865**	$–

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

The unaudited, interim condensed consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group"), accompanying this Quarterly Report on Form 10-Q for the third quarter ended September 30, 2018 (this "Quarterly Report"), have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The consolidated balance sheet as of December 31, 2017, has been prepared from the Company's audited consolidated balance sheet as of such date. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the SGRP's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission (the "SEC") on April 2, 2018 (the "2017 Annual Report"), SGRP's Proxy Statement for its 2018 Annual Meeting of Stockholders as filed with the SEC on April 18, 2018 (the "2018 Proxy Statement"). Particular attention should be given to Items 1 and 1A of the 2017 Annual Report respecting the Company's Business and Risk Factors, respectively, and the following parts of SGRP's 2018 Proxy Statement: (i) *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*, (ii) *CORPORATE GOVERNANCE*, (iii) *EXECUTIVE COMPENSATION, DIRECTORS AND OTHER INFORMATION* and (iv) *EXECUTIVE COMPENSATION, EQUITY AWARDS AND OPTIONS.* The Company's results of operations for the interim period are not necessarily indicative of its operating results for the entire year. Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements. The Company adopted ASU 2014-09 with a date of the initial application of January 1, 2018. As a result, the Company changed its accounting policy for revenue recognition as detailed below.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers." Topic 606 supersedes the revenue recognition requirements in Topic 605 “Revenue Recognition” (Topic 605) and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method with the impact upon adoption not significant.

The Company records revenue from contracts with it customers through the execution of Master Service Agreements (MSAs) that are effectuated through individual Statements of Work (SOW) (collectively, "Contracts"). The MSAs generally define the financial, service, and communication obligations between the client and SPAR while the SOWs state the project objective, scope of work, time frame, rate and driver in which SPAR will be paid. Only when the MSA and SOW are combined, can all five revenue standard criteria be met. The Company integrates a series of tasks promised within these Contracts into a bundle of services that represent the combined performance obligation of Merchandising Services. Such Merchandising Services are performed over the duration of the SOW. Most Merchandising Services are performed on a daily, weekly or monthly basis. Revenue from Merchandising Services are recognized as the services are performed based on a rate per driver basis (per hour, store visit or unit stocked) with services delivered as they are consumed.

All of the Company’s Contracts with customers have a duration of one year or less, with over 90% being completed in less than 30-days, and revenue is recognized as services are performed. Given the nature of the Company’s business, how the Contracts are structured and how the Company is compensated the Company has elected the right-to-invoice practical expedient allowed under the revenue standard.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. The Company is continuing to evaluate the Tax Act and its requirements, as well as its application to the business and its impact on the effective tax rate.

The Company is applying the guidance to address the accounting for income taxes under accounting standards in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. Accounting standards provide a reasonable "measurement period" not to exceed twelve months from the date of enactment to complete the accounting of these provisional estimates. As disclosed in the Company's Annual report on Form 10-K for the fiscal year ended December 31, 2017, two material provisional estimates that impacted the Company were the U.S. statutory rate reduction and the one-time transition tax. These amounts are considered provisional because they use reasonable estimates of which tax returns have not been filed and because estimated amounts may be impacted by future regulatory and accounting guidance if and when issued.

For the first nine months of 2018, there were no significant changes to the Company's provisional estimates of the income tax effects reflected in 2017 for the changes in tax law and tax rate from the enactment of the Tax Act. The impact of tax law changes on the Company's financial statements could differ from its reasonable estimates due to further analysis of the new law, regulatory guidance, technical corrections, legislation, or guidance under U.S. generally accepted accounting principles. If significant changes occur, the Company will provide updated information in connection with future regulatory filings or the Company will adjust these provisional amounts as further information becomes available and as we refine our calculations.

For the first nine months of 2018, the Company's effective tax rate was favorably impacted by the reduction in the U.S. statutory tax rate due to the enactment of the Tax Act. This favorable impact was partially offset by certain base broadening provisions of the Tax Act. In the first nine months of 2018, the Company's effective tax rate was 23.8%, as compared to 35.8% in the first nine months of 2017.

Accounting standards require that all tax positions be analyzed using a two-step approach. The first step requires an entity to determine if a tax position is more-likely- than-not to be sustained upon examination. In the second step, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis, that is more-likely-than-not to be realized upon ultimate settlement. In the first nine months of 2018, the Company reduced its liability by $9,000. As of September 30, 2018, the Company had accrued approximately $158,000 for unrecognized tax benefits. In accordance with applicable accounting standards, the Company's deferred tax asset as of September 30, 2018 reflects a reduction for $40,000 of these unrecognized tax benefits.

2. Business and Organization

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

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

As of September 30, 2018, the Company operates in 10 countries and divides its operations into two reportable segments: its Domestic Division, which has provided services in the United States of America since certain of its predecessors were formed in 1979, and its International Division, which began operations in May 2001 and provides similar merchandising, marketing, audit, assembly and in-store event staffing services in Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

3. Settlement and Other Charges

During the nine month period ended September 30, 2018, the Company recorded approximately $2.0 million of one-time charges relating to the following:

On June 7, 2018, SGRP entered into mediation with the plaintiff's counsel in the SBS Clothier Litigation in order to settle any potential future liability for any possible judgment in that case. After extensive discussions, SGRP reached a settlement and entered into a memorandum of settlement agreement, which is subject to court approval and not likely to become final until several months into 2019 if and when the settlement is approved by the court. If approved, SGRP will pay a maximum settlement amount of $1.3 million, payable in four equal annual installments that commence 30 days after the settlement becomes final. The Company believes that it will be approved by the Court and therefore has recorded this charge to its financial statements in the respective reporting period. See Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies* -- *Legal Matters*, below.

Since November 2017, SMF has been in negotiations with SBS and SAS for reimbursement and security agreements to document, confirm and secure advances and repayment obligations for Affinity Insurance security deposits, which advances by SMF to SAS and SBS total approximately $675,000. Although SBS and SAS had verbally accepted those agreements in principal, the negotiations have ended with their refusal to allow fully perfected first priority security interests in the Cash Collateral and SAS's policies with and equity interests in Affinity and their demands for post-termination payments and offsets potentially larger than the Cash Collateral.

Given the unwillingness of SBS and SAS to document, confirm and secure those advances and repayment obligations and the resulting material risk of non-payment by them to the Company, the Company has recorded a reserve for the full $675,000 in such receivables during the nine month period ended September 30, 2018. See Note 6 – *Related-Party Transactions – Affinity Insurance*, below.

4. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	**2017**	**2018**	**2017**
Numerator:				
Net income (loss) attributable to SPAR Group, Inc.	**$621**	$246	**$(1,018)**	$346
Denominator:				
Weighted average shares used in basic net income per share calculation	**20,654**	20,602	**20,650**	20,633
Weighted average shares used in diluted net income per share calculation	**21,320**	21,320	**20,650**	21,331
Basic and diluted net income (loss) per common share	**$0.03**	$0.01	**$(0.05)**	$0.02

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

5. Credit Facilities and Other Debt

PNC Credit Facility:

On January 16, 2018, the Company repaid and replaced its credit facility with a new secured revolving credit facility in the United States and Canada (as amended the "PNC Credit Facility") with PNC Bank, National Association ("PNC").

In order to obtain, document and govern the new PNC Credit Facility: SGRP and certain of its direct and indirect subsidiaries in the United States and Canada, namely SPAR Marketing Force ("SMF"), Inc., SPAR Assembly & Installation, Inc., and SPAR Canada Company (each, a "PNC Borrower" and collectively, the "PNC Borrowers"), and SPAR Canada, Inc., SPAR Acquisition, Inc., SPAR Group International, Inc., and SPAR Trademarks, Inc. (together with SGRP, each a "PNC Guarantor" and collectively, the "PNC Guarantors), entered into a Loan Agreement with PNC dated as of January 16, 2018 (the "PNC Loan Agreement"); the PNC Borrowers issued their $9 million Committed Line Of Credit Note to PNC dated January 16, 2018 (the "Original PNC Note"), which evidences the PNC Borrowers' loans and other obligations to PNC; the PNC Guarantors entered into a Guaranty and Suretyship Agreement with PNC dated as of January 16, 2018 (the "PNC Guaranty"), which guaranties the PNC Borrowers' loans and other obligations to PNC; and the PNC Borrowers and PNC Guarantors (each, a "PNC Loan Party" and collectively, the "PNC Loan Parties") entered into a Security Agreement with PNC dated as of January 16, 2018 (the "PNC Security Agreement"), which secures the obligations of the PNC Loan Parties to PNC with pledges of substantially all of the assets of the PNC Loan Parties (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

On January 16, 2018, the Company drew down an initial advance under the PNC Credit Facility of approximately $7.6 million, which was used to repay the existing credit facility.

An amendment to the PNC Credit Facility dated as of July 3, 2018, among other things, increased the maximum principal amount of the Revolving Loans to $9.5 million.

The PNC Note currently requires the PNC Borrowers to pay interest on the loans thereunder equal to (A) the Daily LIBOR Rate (as defined therein) per annum, plus (B) two hundred fifty basis points (2.50%). On September 30, 2018, the aggregate interest rate under that formula was 4.756% per annum, and the outstanding loan balance was $8.2 million.

Revolving loans of up to $9.5 million are available to the Company under the PNC Credit Facility based upon the borrowing base formula defined in the PNC Loan Agreement (principally 85% of "eligible" accounts receivable less certain reserves) rendering a maximum borrowing amount of $9.1 million as of September 30, 2018.

The PNC Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the PNC Loan Parties, including, maintaining a minimum Tangible Net Worth of $13.4 million and limits on capital expenditures and other investments.

On September 30, 2018, the PNC Loan Parties were not in compliance with the minimum Tangible Net Worth covenant, however PNC Bank issued a waiver for the reporting period. However, there can be no assurances that the Company will not be in violation of certain covenants in the future and should the Company be in violation; there can be no assurances that PNC will issue waivers for any future violations.

Subsequent to September 30, 2018, the Company is currently experiencing an unusually tight cash flow position and PNC has expressed a concern that even though the Company’s current discounted collateral value is in excess of $11.3 million they are not willing to extend the maximum borrowing capacity above the current $9.5 million limit. PNC has agreed to evaluate on a case by case basis funding its field specialist payments and Company payroll and related taxes until these short-term concerns are resolved by year end. In the meantime, the Company will be looking to secure a more traditional Asset Based Lending facility to take advantage of its excess collateral and thereby providing support for future growth expectations. Based on these current conditions the Company has reclassified its PNC credit facility as short-term debt for the period ended September 30, 2018. The Company believes it has adequate working capital and the ability to obtain alternate financing in order to work through these short term concerns.

***Fifth Third Credit* Facility:**

On January 9, 2018, the Company completed its acquisition of a 51% interest in its new subsidiaries, Resource Plus, Inc., and related companies (collectively, "Resource Plus"). See Note 11 to the Company's Condensed Consolidated Financial Statements – *Purchase of Interests in Subsidiaries – Resource Plus Acquisition*, below. When acquired, Resource Plus was a party to a revolving line of credit facility it secured on May 23, 2016, (the "Fifth Third Credit Facility") from Fifth Third Bank for $3.5 million, which was scheduled to expire on May 23, 2018. Effective April 11, 2018, the term of the Fifth Third Credit Facility was extended and is currently scheduled to become due on April 23, 2020. As there are no provisions (other than defaults) requiring the paydown of the loan until April 23, 2020, the amounts are classified as long-term debt.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

Revolving loans of up to $3.5 million are available to Resource Plus under the Fifth Third Credit Facility based upon the borrowing base formula defined in the agreement (principally 80% of "eligible" accounts receivable less certain reserves). As of September 30, 2018, the outstanding balance was $682,000. The Fifth Third Credit Facility is secured by substantially all assets of Resource Plus.

The Fifth Third Credit Facility currently requires Resource Plus to pay interest on the loans thereunder equal to (A) the Daily LIBOR Rate (as defined in the agreement) per annum, plus (B) two hundred fifty basis points (2.50%). On September 30, 2018, the aggregate interest rate under that formula was 4.725% per annum.

***Other Debt*:**

Effective with the closing of the Resource Plus acquisition, the Company entered into promissory notes with the sellers totaling $2.7 million. The notes are payable in annual installments at various amounts due on December 31st of each year starting with December 31, 2018 and continuing through December 31, 2023. As such these notes are classified as both short term and long term for the appropriate amounts.

International Credit Facilities:

SPARFACTS Australia Pty. Ltd. has a secured line of credit facility with National Australia Bank, effective October 31, 2017, for $800,000 (Australian) or approximately $578,000 USD (based upon the exchange rate at September 30, 2018). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The outstanding balance with National Australia Bank as of September 30, 2018 was $554,000 (Australian) or $400,000 USD and is due on demand.

SPAR Todopromo has obtained a temporary, interest bearing working capital loan from a shareholder for a maximum amount of 4.5 million Mexican Pesos or approximately $241,000 USD (based upon the exchange rate at September 30, 2018) effective September 14, 2018. The effective annual interest rate is 7.75%. The outstanding balance at September 30, 2018 was 3.0 million Mexican Pesos or approximately $161,000 USD. The loan was paid in full on

October 2, 2018 after receiving payment for services rendered in the ordinary course of business.

SPAR Todopromo has secured a line of credit facility with BBVA Bancomer Bank for 5.0 million Mexican Pesos or approximately $267,000 USD (based upon the exchange rate at September 30, 2018). The revolving line of credit was secured on March 15, 2016, and originally expired March 2018. The facility has been amended to extend the terms to March 2020. The variable interest rate is TIIE (Interbank Interest Rate) +4%, which resulted in an annual interest rate of 12.11% as of September 30, 2018. The outstanding balance at September 30, 2018 was 3.2 million Mexican Pesos or approximately $171,000 USD.

On November 29, 2016, SPAR Brazil established a line of credit facility with Itau Bank for 4.0 million Brazilian Real or approximately $987,000 USD (based upon the exchange rate at September 30, 2018). The facility provides for borrowing with no formal guarantees. The agreement is from month to month at the Company's request. As of September 30, 2018, there was no outstanding balance.

On December 26, 2016, SPAR Brazil secured a line of credit facility with Daycoval Bank for 5.0 million Brazilian Real or approximately $1.2 million USD (based upon the exchange rate at September 30, 2018). The facility provides for borrowing based upon a formula, as defined in the agreement (principally 80% of eligible accounts receivable less certain deductions). The agreement is from month to month at the Company's request. As of September 30, 2018, 2.0 million Brazilian Real or $483,000 USD was outstanding.

On May 29, 2018, SPAR Brazil established a line of credit facility with Banco Bradesco for 1.2 million Brazilian Real or approximately $296,000 USD (based upon the exchange rate at September 30, 2018). The facility provides for borrowing with no formal guarantees. The agreement expires on November 29, 2019. The outstanding balance at September 30, 2018, was approximately 168,000 Brazilian Real or approximately $41,000 USD.

On May 25, 2018, SPAR Brazil established a temporary line of credit facility with Banco Safra for 3.0 million Brazilian Real or approximately $741,000 USD (based upon the exchange rate at September 30, 2018). The agreement was from month to month at the Company's request. As of September 30, 2018, there was no outstanding balance and the loan was closed.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

The Company had scheduled future maturities of loans as of September 30, 2018, approximately as follows (dollars in thousands):

	Interest Rate as of September 30, 2018		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
USA - PNC Bank	4.756%		$8,217	$–	$–	**$–**	**$–**	**$–**
USA – Fifth Third Bank	4.725%		**–**	–	682	**–**	**–**	**–**
USA – Resource Plus Seller Notes	1.85%		333	333	334	300	300	1,100
Australia - National Australia Bank	6.6%		400	–	**–**	**–**	**–**	**–**
Mexico – Bancomer and shareholder	7.75 –	12.11%	161	–	171	**–**	**–**	**–**
Brazil – Various Banks	11.04–	14.28%	524	–	–	**–**	**–**	**–**
Total			$9,635	$333	$1,187	$300	$300	$1,100

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

	September 30, 2018	December 31, 2017
<u>Unused Availability:</u>		
United States	$ 3,694	$ 3,530
Australia	178	731
Mexico	177	254
Brazil	1,994	1,554
Total Unused Availability	$ 6,043	$ 6,069

Management believes that based upon the continuation of the Company's existing credit facilities, projected results of operations, vendor payment requirements and other financing available to the Company (including amounts due to affiliates), sources of cash availability while extremely tight through the balance of the year, should be manageable and sufficient to support ongoing operations into next year as the Company pursues a more traditional Asset Based Lending facility. However, delays in collection of receivables due from any of the Company's major clients, or a significant reduction in business from such clients, and possible litigation expenses could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations. See Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies – Legal Matters*, below.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

6. Related-Party Transactions

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

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

In addition, in order to (among other things) assist the Board and the Audit Committee in connection with an overall review of the Company's related party transactions and certain worker classification-related litigation matters, in April 2017 the Board formed a special subcommittee of the Audit Committee (the "Special Subcommittee") to (among other things) review the structure, documentation, fairness, conflicts, fidelity, appropriateness, and practices respecting each of the relationships and transactions discussed in this Note.

The Special Subcommittee engaged Morrison Valuation & Forensic Services, LLC ("Morrison"), to perform a third-party financial evaluation of certain domestic related party relationships and transactions (principally with SAS and SBS of the Company, which included the review of certain financial records of the Company (but not those of its affiliates)) and discussions with management of the Company. Their task included (among other things) the identification and mapping of and apparent purposes for and benefits from cash flows between the Company and its affiliates. Morrison identified a number of transactions between the parties, while not material, were inefficient, time consuming and of limited business value to the parties. They included expense reimbursement for indirect charges for supply purchases, corporate vendor service cost and use of corporate credit cards in the payment of vendor services. These inefficiencies have largely resolved themselves since the relationship with SAS and SBS has ended and others have been and will continue to be addressed by the Company. The Special Subcommittee also engaged Holland & Knight to provide ongoing legal advice on related party issues, and Paul Hastings to provide ongoing legal advice on independent contractor classification issues (including the SBS Clothier Case). See Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies – Legal Matters*, below.

The Special Committee also has been involved in the review of the Proposed Amendments to SGRP's By-Laws and the By-Laws Action and 225 Action (see Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies -- Legal Matters*, below).

The Company is currently unable to predict the remaining duration and final results of this review by the Special Subcommittee.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

Domestic Related Party Services:

SPAR Business Services, Inc. ("SBS"), SPAR Administrative Services, Inc. ("SAS"), and SPAR InfoTech, Inc. (" Infotech "), have provided services from time to time to the Company and are related parties and affiliates of SGRP, but are not under the control or part of the consolidated Company. SBS is an affiliate because it is owned by Robert G. Brown and William H. Bartels. SAS is an affiliate because it is owned by William H. Bartels and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Infotech is an affiliate because it is owned by Robert G. Brown and certain relatives of Robert G. Brown or entities controlled by them (each of whom are considered affiliates of the Company for related party purposes). Mr. Brown and Mr. Bartels are the Majority Stockholders (see below) and founders of SGRP, Mr. Brown was Chairman and an officer and director of SGRP through May 3, 3018 (when he retired), and Mr. Bartels was and continues to be Vice Chairman and a director and officer of SGRP. Mr. Brown and Mr. Bartels also have been and are stockholders, directors and executive officers of various other affiliates of SGRP.

Through July 27, 2018, the Company executed the services it provides to its domestic clients primarily through field merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), substantially all of whom had been independent contractors provided by SBS, and administers those services through local, regional, district and other personnel (each a "Field Administrator"), substantially all of whom had been provided by SAS. The Company paid $15.4 million and $19.6 million during the nine months ended September 30, 2018 and 2017, respectively, to SBS for its provision as needed of approximately 3,900 of SBS's available Field Specialists in the U.S.A. (which amounted to approximately 36% and 75% of the Company's total domestic Field Specialist expense for the nine months ended September 30, 2018 and 2017, respectively). The Company paid $2.7 million and $3.2 million for the nine months ended September 30, 2018 and 2017, respectively, to SAS for its provision of its 54 and 60 full-time regional and district administrators (which amounted to approximately 68% and 90% of the Company's total domestic field administrative service cost for the nine months ended September 30, 2018 and 2017). In addition to these field service and administration expenses, SAS also incurred other administrative expenses related to benefit and employment tax expenses of SAS and payroll processing, legal and other administrative expenses and SBS incurred expenses for processing vendor payments, legal defense and other administrative expenses (but those expenses were only reimbursed by SGRP to the extent approved by the Company as described below). The total cost recorded by the Company for the expenses of SBS and SAS in providing their services to the Company, including the "Cost Plus Fee" arrangement (as defined and discussed below) and other expenses paid directly by the Company on behalf of and invoiced to SBS and SAS, was $18.2 million and $22.8 million, for the nine months ended September 30, 2018 and 2017, respectively.

The terms of the Amended and Restated Field Service Agreement with SBS dated as of January 1, 2004, as amended in 2011, and the Amended and Restated Field Management Agreement with SAS dated as of January 1, 2004 (each a "Prior Agreement"), defined reimbursable expenses and established a "Cost Plus Fee" arrangement where the Company paid SBS and SAS for their costs of providing those services plus a fixed percentage of such reimbursable expenses (the "Cost Plus Fee"). The parties have had negotiations respecting replacement agreements since the Prior Agreements expired on November 30, 2014. As further described below, a new Field Administration Agreement was entered into with SAS in 2016.

The Company and SBS had agreed to an arrangement for a revised Cost Plus Fee equal to 2.96% of the Field Specialists costs and certain other approved reimbursable expenses incurred by SBS in performing services for the Company, subject to certain offsetting credits. This arrangement went into effect on and had applied since December 1, 2014. The Company had offered a new agreement to SBS confirming that reimbursable expenses were subject to review and approval by the Company, but SBS had rejected that proposal.

Due to (among other things) the Clothier Determination and the ongoing proceedings against SBS, which could have had a material adverse effect on SBS's ability to provide future services needed by the Company, and the Company's location of an independent third party company who would provide comparable services on substantially better terms, on May 23, 2018, the Company gave a termination notice to SBS specifying on or before August 15, 2018, as the end of the Service Term. The actual termination of services occurred on July 27, 2018, and the Company has engaged that independent third party company to replace those services formerly provided by SBS.

Even though the Company had paid SBS for all services provided through that date, SBS notified the Company that there may not be sufficient funds in their bank accounts to honor all payments they had made to their Field Specialists. Based on this notice, the Company withheld approximately $125,000 of final mark-up compensation due SBS and had been making payments, on a daily basis, into the SBS bank account designated for Field Specialist payments to insure all SBS Field Specialists that had provided services to the Company are properly compensated for those services. The $125,000 has been completely exhausted and the Company was required to fund an additional $11,000 to cover these duplicate Field Specialist payments. The Company believes that there may be checks for Field Service payments for as much as an additional $120,000 that the Company believes may not be honored by SBS. The Company has made plans to ensure that all of the current Field Specialists are properly paid and is exploring its legal options for recovery of all duplicate payments it is making on SBS’s behalf.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

The Company has reached a non-exclusive agreement with an independent third-party vendor to provide substantially all of the domestic Field Specialist services used by the Company. The Company transitioned to such new vendor during July 2018, and such transition was virtually unnoticeable to the Company's clients.

No SBS compensation to any officer, director or other related party had been reimbursed or approved to date by the Company, and no such compensation reimbursements were made or approved under SBS's Prior Agreement. This is not a restriction on SBS since SBS is not controlled by the Company and may pay any compensation to any person that SBS desires out of its own funds. However, SBS had in the past invoiced the Company for certain such compensation payments, but the Company had rejected those invoices as non-reimbursable expenses. Since SBS is a "Subchapter S" corporation, all income from SBS is allocated to its stockholders (see above).

The appropriateness of SBS's treatment of its Field Specialists as independent contractors had been periodically subject to legal challenge (both currently and historically) by various states and others, SBS's expenses of defending those challenges and other proceedings had historically been reimbursed by the Company under SBS's Prior Agreement, and SBS's expenses of defending those challenges and other proceedings were reimbursed by the Company for the nine months ended September 30, 2018 and 2017 (in the amounts of $105,000 and $218,000, respectively), after determination (on a case by case basis) that those defense expenses were costs of providing services to the Company.

On May 15, 2017, the Company advised SBS that, since there was no currently effective comprehensive written services agreement with SBS, the Company would continue to review and decide each request by SBS for reimbursement of its legal defense expenses (including appeals) on a case-by-case basis in its discretion, including the relative costs and benefits to the Company. SBS has disputed the right of the Company and SGRP's Audit Committee to review and decide the appropriateness of the reimbursement of any of those related party defense and other expense reimbursements.

On June 13, 2018, the Company gave SBS notice that it would no longer reimburse any such expenses as a result of SGRP's separate settlement of the Clothier Case.

As provided in SBS's Prior Agreement, the Company is not obligated or liable, and the Company has not otherwise agreed and does not currently intend, to reimburse SBS for any judgment or similar amount (including any damages, settlement, or related tax, penalty, or interest) in any legal challenge or other proceeding against or involving SBS, and the Company does not believe it has ever done so (other than in insignificant nuisance amounts).

There can be no assurance that SBS will be able to satisfy any such judgment or similar amount resulting from any adverse legal determination. In addition, SBS may claim that the Company is somehow liable for any such judgment or similar amount imposed against SBS and pursue that claim with litigation, there can be no assurance that someone else will not claim that the Company is liable (under applicable law, through reimbursement or indemnification, or otherwise) for any such judgment or similar amount imposed against SBS, and there can be no assurance that the Company will be able to successfully defend any claim. Any imposition of liability on the Company for any such amount could have a material adverse effect on the Company or its performance or condition (including its assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition), whether actual or as planned, intended, anticipated, estimated or otherwise expected. See Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies* -- *Legal Matters*, below.

Current material and potentially material legal proceedings impacting the Company are described in Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies – Legal Matters*, below. These descriptions are based on an independent review by the Company and do not reflect the views of SBS, its management or its counsel. SBS continues to claim that the Company is somehow liable to reimburse SBS for its expenses in those proceedings.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited) (continued)

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

On May 7, 2018, the Company gave a termination notice to SAS specifying July 31, 2018, as the end of the Service Term under (and as defined in) SAS Agreement. The Company has reached a non-exclusive agreement with an independent third party vendor to provide substantially all of the domestic Field Administrators used by the Company. The Company transitioned to such new vendor during July 2018, and it was virtually unnoticeable to the Company's clients.

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

No SAS compensation to any officer, director or other related party (other than to Mr. Peter W. Brown, a related party as noted below, pursuant to previously approved budgets) had been reimbursed or approved to date by the Company, and no such compensation reimbursements were made or approved under SAS's Prior Agreement. This is not a restriction on SAS since SAS is not controlled by the Company and may pay any compensation to any person that SAS desires out of its own funds. Since SAS is a "Subchapter S" corporation, all income from SAS is allocated to its stockholders (see above).

Although neither SBS nor SAS has provided any services to the Company after their terminations described above, effective on or before July 31, 2018, they have apparently continued to operate and claim that the Company owes them for all of their post-termination expenses in perpetuity. For August and September, SBS has invoiced the Company for approximately $105,000, and SAS has invoiced the Company for approximately $42,000. All such invoices have been rejected by the Company. The Company has determined that it is not obligated to reimburse any such post-termination expense (other than for potentially reimbursing mutually approved reasonable short term ordinary course transition expenses in previously allowed categories needed by SAS to wind down its business, if any), and that such a payment would be an impermissible gift to a related party under applicable law, which determinations have been supported by SGRP's Audit Committee. The SBS invoices included legal expenses for its continuing defense in the Clothier Case even though SGRP on June 13, 2018, gave SBS notice that it would no longer reimburse any such expenses as a result of SGRP's separate settlement of the Clothier Case. The Company expects that SBS and SAS will use every available means to attempt to collect reimbursement in perpetuity from the Company for all of their post-termination expense, including repeated litigation in the event that the SGRP prevails in the By-Laws Action or 225 Action (see Note 9 to the Company's Condensed Consolidated Financial Statements – *Commitments and Contingencies -- Legal Matters*, below).

Peter W. Brown was appointed as a Director on the SGRP Board as of May 3, 2018, replacing Mr. Robert G. Brown upon his retirement from the Board and Company at that date. He is not considered independent because Peter Brown an affiliate and related party in respect of SGRP and was proposed by Mr. Robert G. Brown to represent the Brown family interests. He worked for and is a stockholder of SAS (see above) and certain of its affiliates, he is the nephew of Mr. Robert G. Brown (a current significant stockholder of SGRP and SGRP's former Chairman and director), he is a director of SPAR Brasil Serviços de Merchandising e Tecnologia S.A., a Brazilian corporation ("SPAR BSMT") and owns Earth Investments LLC, ("EILLC"), which owns 10% interest in the SGRP's Brazilian subsidiary. Peter W. Brown was an official observer at the meetings of SGRP's Board from 2014 through December 2016. Peter W. Brown also is, and since 2013 has been, a director of Affinity Insurance, Ltd (see Affinity Insurance, below).

National Merchandising Services, LLC ("NMS"), is a consolidated domestic subsidiary of the Company and is owned jointly by SGRP through its indirect ownership of 51% of the NMS membership interests and by National Merchandising of America, Inc. ("NMA"), through its ownership of the other 49% of the NMS membership interests. Mr. Edward Burdekin is the Chief Executive Officer and President and a director of NMS and also is an executive officer and director of NMA. Ms. Andrea Burdekin, Mr. Burdekin's wife, is the sole stockholder and a director of NMA and a director of NMS. NMA is an affiliate of the Company but is not under the control of or consolidated with the Company.

Resource Plus, Inc. ("RPI"), is a consolidated domestic subsidiary of the Company and is owned jointly by SGRP through its indirect ownership of 51% of the RPI membership interests and by Mr. Richard Justus through his ownership of the other 49% of the RPI membership interests. (See Note 11 to the Company's Condensed Consolidated Financial Statements – *Purchase of Interest in Subsidiaries*, below).

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(unaudited) (continued)

International Related Party Services:

SGRP Meridian (Pty), Ltd. ("Meridian") is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by the following individuals: Mr. Brian Mason, Mr. Garry Bristow, and Mr. Adrian Wingfield. Mr. Mason is President and a director and Mr. Bristow is an officer and director of Meridian. Mr. Mason is also an officer and director and 50% shareholder of Merhold Property Trust ("MPT"). Mr. Mason and Mr. Bristow are both officers and directors and both own 50% of Merhold Cape Property Trust ("MCPT"). Mr. Mason, Mr. Bristow and Mr. Wingfield are all officers and own 46.7%, 20% and 33.3%, respectively of Merhold Holding Trust ("MHT") which provides similar services like MPT. MPT owns the building where Meridian is headquartered and also owns 20 vehicles all of which are subleased to Meridian. MCPT provides a fleet of 172 vehicles to Meridian under a 4 year lease program. These leases are provided to Meridian at local market rates included in the summary table below.

SPAR Todopromo is a consolidated international subsidiary of the Company and is owned 51% by SGRP and 49% by the following individuals: Mr. Juan F. Medina Domenzain, Juan Medina Staines, Julia Cesar Hernandez Vanegas, and Jorge Medina Staines. Mr. Juan F. Medina Domenzain is an officer and director of SPAR Todopromo and is also majority shareholder (90%) of CONAPAD ("CON") which supplied administrative and operational consulting support to SPAR Todopromo in 2016.

In August 2016, Mr. Juan F. Medina Domenzain ("JFMD"), partner in SPAR Todopromo, purchased the warehouse that was being leased by SPAR Todopromo. The lease expires on December 31, 2020.

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

Summary of Related Party Transactions:

The Company believes it is the largest and most important customer of SBS, SAS, MPT, MCPT, MHT, CON, JFMD and KMSA (and from time to time may be their only customer), and accordingly the Company generally has been able to negotiate better terms, receives more personal and responsive service and is more likely to receive credits and other financial accommodations from SBS, SAS, MPT, MCPT, MHT, CON, JFMD and KMSA than the Company could reasonably expect to receive from an unrelated service provider who has significant other customers and business. SBS, SAS and other material affiliate contracts and arrangements are annually reviewed and considered for approval by SGRP's Audit Committee, subject to the ongoing negotiations with SBS as described above.

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

	Three Months Ended		**Nine Months Ended**	
	September 30,		**September 30,**	
	2018	**2017**	**2018**	**2017**
Services provided by affiliates:				
Field merchandiser and other expenses (SBS)	**$2,063**	$6,788	**$15,353**	$19,593
Field administration and other expenses (SAS)	**475**	1,044	**2,738**	3,178
Office and vehicle rental expenses (MPT)	**15**	30	**44**	46
Vehicle rental expenses (MCPT)	**292**	579	**839**	870
Office and vehicle rental expenses (MHT)	**53**	85	**142**	126
Consulting and administrative services (CON)	**49**	61	**160**	181
Legal Services (KMSA)	**40**	31	**93**	79
Warehousing rental (JFMD)	**13**	13	**37**	38
Total services provided by affiliates	**$3,000**	$8,631	**$19,406**	$24,111

* Includes substantially all overhead (in the case of SAS and SBS), or related overhead, plus any applicable markup.

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Notes to Consolidated Financial Statements

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Due to affiliates consists of the following (in thousands):	**September 30, 2018**	**December 31, 2017**
Loans from local investors:(1)		
Australia	**$ 231**	$ 250
Mexico	**1,001**	1,001
Brazil	**139**	139
China	**2,941**	719
South Africa	**16**	24
Resource Plus	**731**	–
Accrued Expenses due to affiliates:		
SBS/SAS	**55**	893
Total due to affiliates	**$ 5,114**	$ 3,026

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

Affinity Insurance:

In addition to the above, through August 1, 2018, SAS purchased insurance coverage from Affinity Insurance, Ltd. ("Affinity") for worker compensation, casualty and property insurance risk for itself, for SBS on behalf of its Field Specialists that require such insurance coverage (all who do not provide their own), and for the Company. SAS owns a minority (less than 1%) of the common stock in Affinity. Based on informal arrangements between the parties, the Affinity insurance premiums for such coverage were ultimately charged (through SAS) for their fair share of the costs of that insurance to SMF, SAS (which then charges the Company) and SBS. Since August 1, 2018, the new independent vendor providing the Company's Field Administrators also is a member of and provided such insurance through Affinity for itself and on behalf of the Field Specialists that require such insurance coverage (if they do not provide their own), and the Company is obtaining its own such insurance through Affinity (in which it is also now a member).

In addition to those required periodic premiums, Affinity also requires payment of cash collateral deposits ("Cash Collateral"), and Cash Collateral amounts are initially determined and from time to time re-determined (upward or downward) by Affinity. From 2013 through August 1, 2018, SAS deposited Cash Collateral with Affinity that now totals approximately $965,000; approximately $379,000 of that Cash Collateral was allocable to SBS and approximately $296,000 of that Cash Collateral was allocable to SMF and the balance of approximately $290,000 was allocated to other affiliates of the Company. The Cash Collateral deposits allocable to SBS have been paid by SAS on behalf of SBS, SAS received advances to make such payments from SBS, and SBS in turn received advances to make such payments from SMF. $675,000 of the Cash Collateral deposits allocable to SAS have been paid with advances to make such payments from SMF. The Cash Collateral deposits allocable to SMF have been paid by SAS on behalf of SMF, and SAS received advances to make such payments from SMF. At the time those advances by the Company to SAS and SBS were not specifically disclosed by Mr. Robert G. Brown (then SGRP executive Chairman) or Mr. William H. Bartels (SGRP Vice Chairman then and now) to or approved by the Audit Committee or Board (as a related party transaction or otherwise), and at the time Mr. Brown and Mr. Bartels were the sole owners and executives of SAS and SBS. In addition to funding such Cash Collateral, the Company believes that it has provided (after 1999) all of the funds for all premium payments to and equity investments in Affinity and that the Company may be owed related amounts by SAS, SBS and their affiliates.

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Notes to Consolidated Financial Statements

(unaudited) (continued)

Affinity from time to time may (in the case of a downward adjustment in such periodic premiums or the Cash Collateral) make refunds, rebates or other returns of such periodic premiums and Cash Collateral deposits to SAS for the benefit of itself, SBS and SMF (as returned, "Affinity Returns"). The Company believes that SAS is obligated to return to SMF any and all Affinity Returns allocable to SMF in repayment of the corresponding advances from SMF and allocable to SAS in repayment of the corresponding advances from SMF. The Company also believes that SAS is obligated to return to SBS, and SBS is obligated to return to SMF, any and all Affinity Returns allocable to SBS in repayment of the corresponding advances. The Company believes that SBS and SAS will have limited operations after August 1, 2018, that the litigation and likely resulting financial difficulties facing SBS are significant, and that without adequate security, those circumstances puts such repayments to the Company at a material risk.

Since November 2017, SMF has been in negotiations with SBS and SAS (respectively represented by Robert G. Brown and William H. Bartels, who together own over 59% of SGRP's common stock) for reimbursement and security agreements to document, confirm and secure those advances and repayment obligations, which advances total approximately $675,000. Although SBS and SAS had orally accepted those agreements in principal, the negotiations have recently broken down over their refusal to allow fully perfected first priority security interests in the Cash Collateral and SAS's policies with and equity interests in Affinity and their demands for post-termination payments and offsets potentially larger than the Cash Collateral.

Given the unwillingness of SBS and SAS (respectively represented by Robert G. Brown and William H. Bartels, who together own over 59% of SGRP’s common stock) to document, confirm and secure those advances and repayment obligations and the resulting material risk of non-payment by them to the Company, the Company has recorded a reserve for the full $675,000 in such receivables in the nine months ended September 30, 2018, and the Company is exploring its legal options for recovering the Affinity Returns from SAS and SBS. Se