

SPAR GROUP INC
Form 10-K
March 31, 2014

**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, 2013**
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, 2013, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$17,317,000.

The number of shares of the Registrant's Common Stock outstanding as of March 15, 2014, was 20,534,473 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 15, 2014, 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

There are "forward-looking statements" contained in this Annual Report on Form 10-K (this "Annual Report") of SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 15, 2014 (as filed, the "2014 Proxy Statement", which SGRP plans to file with the SEC pursuant to Regulation 14 A in April of 2014, but not later than 120 days after the end of the Company's 2013 fiscal year), and the Company's other filings under applicable law with the SEC (including this Annual Report and the 2014 Proxy Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, collectively, "Securities Laws". The Company's forward-looking statements include, in particular and without limitation, the discussions in this Annual Report under the headings "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar words or variations or negatives of those words.

You should carefully consider all forward-looking statements, risk factors and the other risks, cautions and information noted in this Annual Report, the 2014 Proxy Statement and the Company's SEC Reports that could cause the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition to differ materially from those anticipated by the Company and described in the information in the Company's forward-looking statements, whether express or implied, as the Company's anticipations are based upon the Company's plans, intentions, expectations and estimates and (although the Company believe them to be reasonable) involve known and unknown risks, uncertainties and other factors that could cause them to fail to occur or be realized or to be materially and adversely different from those the Company anticipated.

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

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

factors, many of which are beyond its control. The Company's forward-looking statements, risk factors and other risks, cautions and information (whether contained in this Annual Report, the 2014 Proxy Statement or any other applicable SEC Report) are based on the information currently available to the Company and speak only as of the date specifically referenced, or if no date is referenced, then as of December 31, 2013, in the case of this Annual Report or the 2014 Proxy Statement or the last day of the period covered by any other applicable SEC Report. New risks and uncertainties arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Over time, the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievements, results, risks or condition will likely differ from those expressed or implied by the Company's forward-looking statements, and such difference could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.

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

Item 1. Business

THE COMPANY'S BUSINESS GENERALLY

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides its merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug store, independent, convenience, toy, home improvement and electronics stores. The Company also provides furniture and other product assembly services in stores, homes and offices. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May of 2001. The Company currently does business in 9 countries that encompass approximately 47% 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, providing on-site audit and in-store event staffing services and providing product assembly services in stores, homes and offices. Other merchandising services include whole store or departmental product sets or resets, including new store openings, new product launches and in-store demonstrations, special seasonal or promotional merchandising, focused product support and product recalls. The Company continues to seek to expand its merchandising, assembly and marketing services business throughout the world.

An Overview of the Merchandising and Marketing Services Industry

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

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

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

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

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

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

The Company's Domestic and International Segments:

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

Each of the Company's divisions provides merchandising and other marketing services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug store chains, convenience, home improvement and grocery stores in their respective territories. SPAR Group's clients include the makers and distributors of general merchandise, health and beauty care, consumer goods, home improvement, home entertainment, 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 47% of the total world population.

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

In September 2012, the Company, through its subsidiary in South Africa (SGRP Meridian), entered into a joint venture agreement to expand its operations in South Africa. SGRP Meridian owns a 51% ownership interest in the new company; CMR Meridian (Pty) Ltd. ("CMR-Meridian").

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

In August 2013, the Company sold its 51% ownership in Romania in its active Romania subsidiary to SPAR InfoTech, Inc. (see Note 11 to the Consolidated Financial Statements – *Related-Party Transactions*). The Company continues to have one Romanian subsidiary that is 100% owned and is inactive. Also in May 2012, the Company sold its 51% ownership in one of its other Romania subsidiaries, SPAR City S.R.L, to its original Local Investor. Currently the Company owns two subsidiaries in China. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned. In July 2011, the Company, through its active subsidiary in China (SPAR Shanghai), entered into a joint venture agreement to expand its operations in China. SPAR Shanghai has a 75.5% ownership interest in the new company; SPAR DSI Human Resource Company.

In August 2011, the Company sold its 51% ownership in its original subsidiary in Turkey to its original Local Investor, and in November 2011 the Company started a new 51% owned subsidiary to compete in this important market.

In September 2012, the Company established a new subsidiary, National Merchandising Services, LLC, ("NMS") 651% owned by the Company, with its principal office in Georgia. In March 2013, the Company purchased general merchandising service and certain in-store audit service businesses from Market Force Information, Inc. ("MFI").

Financial Information about the Company's Domestic and International Segments

The Company provides similar merchandising and marketing services throughout the world, operating within two reportable segments, its domestic and international divisions (as described above). The Company tracks and reports certain financial information separately for these two segments using the same metrics. The primary measurement utilized by management is operating profit level, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two segments, which includes their respective net revenues and operating income for each of the years ended December 31, 2013 and 2012, and their respective assets as of December 31, 2013 and 2012, is provided in Note 13 to the Company's Consolidated Financial Statements – *Segment Information*.

THE COMPANY'S BUSINESS STRATEGIES

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

Increasing the Company's Sales Efforts:

The Company is seeking to increase revenues by increasing sales to its current clients, as well as establishing long-term relationships with new clients, many of which currently use other merchandising companies for various reasons. 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 Merchandising Services Segments.

Developing New Services:

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

Leveraging and Improving on the Company's Technological Strengths:

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

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

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

The Company believes that it can continue to improve, modify and adapt its technology to support merchandising and other marketing services for additional clients and projects in the United States and in foreign markets. The Company also believes that its proprietary Internet-based, wireless and other software technology gives it a competitive advantage in the marketplace. The Company's technology systems are developed, operated, managed, maintained and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A.

Acquisition Strategies and Strategic Acquisitions:

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

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

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

The Company also has expanded its acquisition strategy to, on occasion, purchase a local international consolidated subsidiary through another local international consolidated subsidiary in the same country, which most recently occurred in September 2012 as the Company expanded its merchandising service business in South Africa through its acquisition of a majority of the equity interests in CMR Meridian (Pty) Ltd. (see below).

In September 2012, the Company made a domestic acquisition that also used its international strategy of seeking a minority (*i.e.*, non-controlling) non-affiliated Local Investor for the Company's new consolidated subsidiary in Georgia, U.S.A. As with most of its international counterparts, the Company acquired a 51% interest in National Merchandising Services, LLC, a newly formed Nevada limited liability company ("NMS"), and provided and provides its usual Global Contributions, and since then NMS has been a part of the Company's consolidated financial statements. NMS provides merchandising services in the U.S.A. to multiple Fortune 500 companies previously supplied by its Local Investor. The Local Investor in this case is National Merchandising of America, Inc., a Georgia corporation ("NMA"), which owns a 49% interest in NMS and will provide field merchandising services to NMS pursuant to a Field Services Agreement with NMS. In addition, NMA contributed substantially all of its customers to NMS and provided and provides the usual Local Contributions.

In September 2012, the Company's existing local consolidated subsidiary in South Africa, SGRP Meridian (Pty) Ltd. ("SGRP Meridian"), acquired a majority (51%) of the equity interests in CMR Meridian (Pty) Ltd. ("CMR-Meridian"), while the Company provided and provides its usual Global Contributions. Combined Manufacturers National (Pty) Ltd ("CMR") acquired the remaining minority (49%) non-controlling interest in CMR-Meridian as its Local Investor, contributed substantially all of its customers to CMR-Meridian and provided the usual Local Contributions. SGRP Meridian and CMR-Meridian are both included in the Company's consolidated

financial statements. CMR-Meridian initiated operations on October 1, 2012.

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

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

For each of the above, see generally Item 1 - *The Company's Domestic and International Segments*, above, Item 1A - *Dependence Upon and Cost of Services Provided by Affiliates, Potential Conflicts in Services Provided by Affiliates, Risks Associated with International and Domestic Subsidiaries, Risks of Having Material Local Investors in International and Domestic Subsidiaries, Risks Associated with Foreign Currency and Risks Associated with International Business*, below, Item 13 - *Certain Relationships and Related Transactions, and Director Independence*, below, and Note 11 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 Noncontrolling Interests*, and Note 13 to the Consolidated Financial Statements - *Segment Information*, below.

DESCRIPTIONS OF THE COMPANY'S SERVICES

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

The Company's operations are currently divided into two segments: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Company's domestic division provides merchandising and marketing services, furniture and other product assembly services, audit services, technology services and marketing research to manufacturers, distributors and retailers in the United States. Those services are primarily performed in mass merchandisers, office supply, grocery, drug store, home improvement, independent, convenience 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 47% 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 various manufacturers and distributors. These services are performed for multiple manufacturers and distributors, including, in some cases, manufacturers and distributors whose products are in the same product category. Syndicated services may include activities such as:

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

Dedicated Services:

Dedicated services consist of merchandising and marketing services, generally as described above, which are performed for a specific retailer or manufacturer by a dedicated organization, 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, fitness equipment and many other products in stores, homes and offices. The Company performs ongoing routed coverage at retail locations to ensure that furniture and other product lines are well displayed and maintained, and building any new items or replacement items, as required. In addition, the Company provides in-home and in-office assembly to customers who purchase their product from retailers, whether in store, online or through catalog sales.

In-Store Event Staffing Services:

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

Retail Compliance and Price Audit Services:

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

- Validate store promotions
- Confirm P-O-G
- layout
- Audit compliance with corporate branding and signage

- Verify product placement, displays, POS materials, etc.
- Collect inventory levels and out-of-stock status
- Providing 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
- Powerful Analytics
 - o Highlight immediate pricing challenges and opportunities
 - o Track pricing trends over time
 - o Analyze impact of promotional pricing
 - o Identify solutions by channel, geography, price range, category, etc.

Other Marketing Services:

Other marketing services performed by the Company include:

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

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

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

THE COMPANY'S SALES AND MARKETING

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

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

The Company's marketing and sales efforts within its International Merchandising Services 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, 2013 and 2012.

THE COMPANY'S COMPETITION

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

THE COMPANY'S TRADEMARKS

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

THE COMPANY'S LABOR FORCE

Worldwide the Company utilized a labor force of approximately 19,000 people in 2013. Today, the Company operates in 9 countries that encompass approximately 47% of the total world population.

During 2013, the Company's Domestic Merchandising Services Division employ a labor force of 259 people. As of December 31, 2013, there were 204 full-time employees and 55 part-time employees engaged in domestic operations. The Company's Domestic Merchandising Services Division utilized the services of its affiliate, SPAR Administrative Services, Inc. ("SAS"), to schedule and deploy the field force of merchandising specialists and assembly technicians, which consists of field merchandising specialists furnished by SPAR Business Services, Inc. ("SBS"), and National Retail Source, Inc. ("NRS"), as well as the Company's domestic field employees. (See Item 13 – *Certain Relationships and Related Transactions and Director Independence*, below, and Note 11 to the Consolidated Financial Statements – *Related-Party Transactions*, below.) SBS, SAS and NRS furnished approximately 10,700 merchandising specialists

and assembly technicians (all of whom are engaged by SBS and NRS) and 51 field managers (all of whom were employed by SAS), respectively. The Company, SBS, SAS and NRS consider their relations with their respective employees and field merchandising specialists to be good.

As of December 31, 2013, the Company's International Merchandising Services Division's labor force consisted of approximately 754 people. There were 684 full-time and 70 part-time employees engaged in international operations. The International Merchandising Services Division's field force consisted of approximately 7,100 merchandising specialists.

Item 1A. Risk Factors

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

The Company has described the risk factors that it currently consider material based on its best estimates respecting those risk factors, the Company's current and future 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, the likelihood of those risks developing into actual events and the likely impact of those events on them, which all involve and include "forward-looking statements" within the meaning of applicable Securities Law (as discussed above). The Company also may be facing additional risks individually, and the Company's industry or the economy may be facing additional risks, whether domestically or internationally, that are currently unknown to the Company, that are more material or otherwise different than the Company currently believes, or that the Company may have incorrectly analyzed (whether as to the nature or likelihood of such risks or their potential effect). There also may be risks that you (as a potential investor or trader) would recognize or consider more likely or material than the Company does.

Any of the risk factors or other cautionary statements described in this Annual Report or any other SEC Report, or any other event or circumstance bearing risk or harm, could at any time arise, become applicable, change or worsen (as the case may be) and materially and adversely affect the Company or any of its assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition.

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

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

Dependence on Largest Customer and Large Retail Chains

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

Dependence on Trend Towards Outsourcing

The business and growth of the Company depends in large part on the continued trend toward outsourcing of merchandising and marketing services, which the Company believes has resulted from the consolidation of retailers and manufacturers, as well as the desire to seek outsourcing specialists and reduce fixed operation expenses. There can be no assurance that this trend in outsourcing will continue, as companies may elect to perform such services internally. A significant change in the direction of this trend generally, or a trend in the retail, manufacturing or business services industry not to use, or to reduce the use of, outsourced marketing services such as those provided by

the Company, could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company or its estimated or desired assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

Dependence on Retailers with Physical Stores

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

Failure to Successfully Compete

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

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

Risks of Losses and Financial Covenant Violations

In the past, the Company occasionally suffered operating losses. As a result of those losses and related effects, the Company had repeated technical violations of certain covenants in the Company's prior domestic credit facility, which its lender periodically waived for fees rather than permanently resetting them to realistically achievable levels. However, the Company changed its domestic lenders in July 2010 and entered into a new credit facility with financial covenants that the Company believe 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 2013 and 2012. See Item 7 – *Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources*, below, and Note 5 to Consolidated Financial Statements - *Credit Facilities*, below.

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

Variability of Operating Results and Uncertainty in Client Revenue

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

Risks of Unprofitable Services

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

Failure to Develop New Services

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

Inability to Identify, Acquire and Successfully Integrate Acquisitions

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

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

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

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

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

Reliance on the Internet and Third Party Vendors

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

Economic and Retail Uncertainty

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

Risks Associated with Furniture and Other Related Assembly Services

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

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

Risks Associated with Audit Services

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

Dependence Upon and Cost of Services Provided by Affiliates

The success of the Company's domestic business is dependent upon the successful execution of its field merchandising, assembly and management services by SPAR Business Services, Inc., formerly known as SPAR Marketing Services, Inc., and SMS ("SBS"), SPAR Administrative Services, Inc., formerly known as SPAR Management Services, Inc., and SMSI ("SAS"), and National Retail Source, LLC ("NRS"), each of which is an affiliate, but not a subsidiary, of the Company, and none of which is consolidated in the Company's consolidated financial statements. NRS provides substantially all of the field merchandising and management services used by National Merchandising Services, LLC ("NMS"), which is a subsidiary of SGRP and part of the Company, and has done so since August 1, 2013 (prior to which those services were provided by NRS's affiliate of National Merchandising of America, Inc.). SBS provides substantially all of the other domestic field merchandising and assembly services used by the Company other than NMS (89% of the domestic field merchandising and assembly expenses in 2013, excluding NMS field expenses), and SAS provides substantially all of the other domestic field management services used by the Company (94% of the domestic field management expense in 2013, excluding NMS field expenses). Services are 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 are cancelable on 60 days' notice prior to December 31 of each year or with 180 days' notice at any other time. Those service agreements with SBS and SAS were scheduled to automatically renew on December 31, 2013, but in order to prevent such automatic renewal and permit renegotiation after the end of 2013, the Company has given SBS and SAS the required notice of non-renewal under those agreements and has entered into agreements with them temporarily extending those agreements to March 31, 2014. Services are provided to NMS by NMA at rates equal to their total cost (with certain exclusions) plus two percent pursuant to a contract that is cancelable on 60 days' prior notice at any time after December 31, 2013. See *Potential Conflicts in Services Provided by Affiliates*, below, Item 13 – *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 11 to the Consolidated Financial Statements – *Related-Party Transactions*, below.

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

Potential Conflicts in Services Provided by Affiliates

SBS and SAS are affiliates (but not subsidiaries) of SGRP and are owned solely by Mr. Robert G. Brown, founder, director, Chairman and a significant stockholder of the Company, and Mr. William H. Bartels, founder, director, Vice Chairman and a significant stockholder of the Company. Mr. Brown and Mr. Bartels are also stockholders, directors and executive officers of various other affiliates of SGRP. NRS is an affiliate (but not a subsidiary) of NMS, and NMS is a consolidated subsidiary of SGRP. Mr. Edward Burdekin is the Chief Executive Officer and President and a director of both NRS and NMS, NRS is owned by Mr. Burdekin, NMA is owned by Andrea H. Burdekin (Mr. Burdekin's wife), and NMA owns 49% of the membership units in NMS. SGRP owns the other 51% of the membership units in NMS. In the event of any dispute in the business relationships between the Company and one or more of SBS, SAS or NRS, it is possible that Messrs. Brown, Bartels or Burdekin may have one or more conflicts of interest with respect to those relationships and could cause one or more of SBS, SAS or NRS to renegotiate or cancel their approved affiliate contracts with the Company or otherwise act in a way that is not in the Company's best interests. See *Dependence Upon and Cost of Services Provided by Affiliates*, above, Item 13 – *Certain Relationships and Related Transactions*, and *Director Independence*, below, and Note 11 to the Consolidated Financial Statements – *Related-Party Transactions*, below.

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

Risks of Common Stock Ownership

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

Risks related to the Company's Preferred Stock

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

Risks of Illiquidity in SGRP Common Stock

The market price of the Company's common stock has historically experienced and may continue to experience significant volatility. During the year ended December 31, 2013, the sale price of SGRP Common Stock fluctuated from \$1.61 to \$3.36 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 57.8% of the Company's voting stock and potential control by the Company's co-founders (who also are directors and executive officers of the Company), Mr. Robert G. Brown, who beneficially owns approximately 33.3% (or 7.3 million shares) of SGRP Common Stock, and Mr. William H. Bartels, who beneficially owns approximately 24.5% (or 5.4 million shares) of SGRP Common Stock, which amounts were calculated using total beneficial ownership (15.6 million shares) and their individual beneficial ownerships at December 31, 2013 (including all shares then beneficially owned under currently exercisable warrants and vested options), as more fully described above and below;

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

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

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

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

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

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

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

The Company's co-founders, Mr. Robert G. Brown and Mr. William H. Bartels are directors, executive officers (Chairman and Vice-Chairman, respectively) and significant stockholders of the Company. Mr. Brown beneficially owns approximately 33.3%; Mr. Bartels beneficially owns approximately 24.5%; and they own approximately 57.8% in the aggregate of the SGRP Common Stock, which amounts were calculated using total beneficial ownership (15.6 million shares) and their individual beneficial ownerships (7.3 million shares and 5.4 million shares, respectively) at December 31, 2013. 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 of directors, the approval of mergers and all other matters that must or may be approved by the Company's stockholders. In any event, Mr. Brown and Mr. Bartels continue to have significant influence over the Company's business and operations and the outcome of the Company's corporate actions, including those involving stockholder approvals. The interests of any significant stockholder may be different from time to time from, and potentially in conflict with, the interests of other stockholders, and ownership concentration could delay or prevent a change in the Company's control or otherwise discourage the Company's potential acquisition by another person, any of which could cause the market price of the SGRP Common Stock to decline and that decline could be significant.

Risks of Dilution

The Company may issue stock options and award restricted stock to directors, officers, employees and consultants in the future at Common Stock per-share exercise prices below the price you may have paid. In addition, the Company may issue shares of SGRP Common Stock in the future in furtherance of the Company's acquisitions or development of businesses or assets. Each of those and other issuances of SGRP Common Stock could have a dilutive effect on the value of your shares, depending on the price the Company is paid (or the value of the assets or business acquired) for such shares, market conditions at the time and other factors.

Risks of a Nasdaq Delisting

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

Risks of Having Material Local Investors in International and Domestic Subsidiaries

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

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

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

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

Risks Associated with International and Domestic Subsidiaries

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

Risks Associated with Foreign Currency

The Company also has foreign currency exposure associated with its international subsidiaries. In 2013, these foreign currency exposures are primarily concentrated in the Australian Dollar, Canadian Dollar, Mexican Peso, South African Rand 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;
- Local laws and business practices that favor local competition;
- Dependence on local vendors;
- Multiple, conflicting and changing governmental laws and regulations;
- Potentially adverse tax consequences;
- Local accounting principles, practices and procedures and limited familiarity with US generally accepted accounting principles ("GAAP");
- Foreign currency exchange rate fluctuations;
- Communication barriers, including those arising from language, culture, custom and time zones; and
- Supervisory challenges arising from distance, physical absences and such communication barriers.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

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

DOMESTIC:

White Plains,
NY
(Corporate
Headquarters)
Auburn Hills,
MI (Regional
Office,
Warehouse
and Central
Computer
Operations)

Albany, New
York (Audit
operations)

INTERNATIONAL:

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company's Capital Stock Generally:

SGRP's certificate of incorporation authorizes it to issue 47,000,000 shares of common stock with a par value of \$0.01 per share (the "SGRP Common Stock"), which all have the same voting, dividend and liquidation rights. SGRP Common Stock is traded on the Nasdaq Capital Market ("Nasdaq") under the symbol "SGRP". On December 31, 2013, the SGRP Common Stock closing price was \$1.98 per share; there were 20,498,786 shares of SGRP Common Stock issued and outstanding in the aggregate (which does not include Treasury Shares), which had an aggregate market value of \$40.6 million; there were 15,629,549 shares of SGRP Common Stock beneficially owned in the aggregate, which beneficial ownership included all shares then beneficially owned under currently exercisable vested options; there were 14,419,627 shares (or approximately 65.7%) of SGRP Common Stock beneficially owned by the officers, directors and affiliates of SGRP in the aggregate, which affiliated ownership included shares then beneficially owned under currently exercisable vested options and had an aggregate market value of \$28.6 million; and there were 6,308,777 shares (or approximately 28.8%) of SGRP Common Stock beneficially owned by non-affiliates of the Company in the aggregate (*i.e.*, SGRP's public float), which float included shares then beneficially owned under currently exercisable warrants and vested options and had an aggregate market value of \$12.5 million. See Item 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*, below.

SGRP's certificate of incorporation also authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which preferred shares have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. 554,402 shares of SGRP Series A preferred stock were purchased in 2008 by affiliates of the Company and surrendered in 2011 for conversion into Common Stock and retirement of such preferred shares. See Item 13 – *Certain Relationships and Related Transactions, and Director Independence*, below, and Note 11 to the Consolidated Financial Statements – *Related-Party Transactions*, below. After such retirement, 2,445,598 shares of SGRP Series A Preferred Stock remain authorized and available for issuance, which available amount could be further reduced by further issuance and subsequent retirement or conversion of such shares or by amendment to facilitate the creation of any other SGRP Preferred Series. At December 31, 2013, no shares of SGRP Series A Preferred Stock were issued and outstanding.

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

Price Range of Common Stock

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

	2013		2012	
	High	Low	High	Low
First Quarter	\$2.25	\$1.61	\$1.38	\$0.89
Second Quarter	3.36	1.62	1.40	1.10
Third Quarter	2.80	1.68	2.30	1.09
Fourth Quarter	2.08	1.63	2.30	1.65

Dividends

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

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased	(d) Maximum number of shares that may yet be purchased
May 2013	14,802	\$ 1.90	32,491	467,509
June 2013	27,774	1.99	60,265	439,735
August 2013	43,476	1.87	103,741	396,259
September 2013	32,680	1.94	136,421	363,579
October 2013	20,676	1.92	157,097	342,903
November 2013	28,068	1.85	185,165	314,835
December 2013	32,524	1.97	217,689	282,311
Total Purchased 2013	200,000	\$ 1.92		

(a) Current year only.

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

(c) Total shares purchased under SPAR Group, Inc., 2012 Stock Repurchase Agreement. Shares repurchased prior to 2013 were 17,689.

There were no such affiliated purchasers during that period.

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

SGRP Common Stock Issuances

SGRP did not issue any SGRP Common Stock during 2012 or 2013 other than: (i) pursuant to its existing registered stock compensation and stock purchase plans (See Note 12 to the Consolidated Financial Statements– *Stock Based Compensation*); and (ii) the issuance of 99,789 shares of SGRP Common Stock to NMA as compensation for the formation of NMS, LLC, which shares have not been registered under the Securities Act or other securities laws, as they were made in a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act.

SGRP Common Stock Offering and S-3 Registration Statement

The Company has filed with the SEC and it has approved a registration statement on Form S-3 (as amended, the "2011 S-3 Registration Statement") for the sale of SGRP Common Stock to the public, which became effective on April 8, 2011. Upon amendment of the 2011 S-3 Registration Statement to update its contents and reflect the terms of particular sales, the Company will be permitted to sell a maximum of 2,000,000 shares for its benefit and the selling stockholders, Mr. Brown and Mr. Bartels, will be permitted to sell a maximum of 500,000 shares each for their respective benefit under the 2011 S-3 Registration Statement (which maximums could be increased by amendment and payment of the requisite fees). Based on the SGRP Common Stock beneficially owned by the Company's non-affiliates (*i.e.*, its public float) and the SGRP Common Stock Price of \$1.98 per share on December 31, 2013, the Company will be permitted under the applicable S-3 rules to sales of approximately \$4.2 million in proceeds (or 2.1 million shares) at that price, and the maximum sales by Mr. Brown and Mr. Bartels will be proportionally increased accordingly. An increase in its public float or a discounted offering sale price would permit the Company to sell more of its Common Stock under the 2011 S-3 Registration Statement. Certain updates to the 2011 S-3 Registration Statement may be required in order to sell shares thereunder.

Item 6. Selected Financial Data

Not applicable.

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

There are "forward-looking statements" contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations", in "Business" and "Risk Factors" and elsewhere in this Annual Report, the 2014 Proxy Statement and the Company's other SEC Reports. "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, collectively, "Securities Laws"). You can identify forward-looking statements in such information by the Company's use of terms such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar words or variations or negatives of those words.

You should carefully consider all forward-looking statements, risk factors and the other risks and cautions and information noted in this Annual Report, 2014 Proxy Statement and the Company's other SEC Reports that could cause the Company's actual assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results, risks or condition to differ materially from those anticipated by the Company and described in the information in the Company's forward-looking statements, whether express or implied, as the Company's anticipations are based upon the Company's plans, intentions, expectations and estimates and (although the Company believe them to be reasonable) involve known and unknown risks, uncertainties and other factors that could cause them to fail to occur or be realized or to be materially and adversely different from those the Company anticipated.

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

You should not place undue reliance on the Company's forward-looking statements and similar information because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond its control. The Company's forward-looking statements, risk factors and other risks, cautions and information (whether contained in this Annual Report, the 2014 Proxy Statement or any other applicable SEC Report) are based on the information currently available to the Company and speak only as of the date specifically referenced, or if no date is referenced, then as of December 31, 2013, in the case of this Annual Report or the 2014 Proxy Statement or the last day of the period covered by any other applicable SEC Report. New

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

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

Overview

SPAR Group, Inc. ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug store, home improvement, independent, convenience and electronics stores, as well as providing furniture and other product assembly services in stores, homes and offices. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May 2001. Today the Company operates in 9 countries that encompass approximately 47% of the total world population through operations in the United States, Canada, Japan, South Africa, India, China, Australia, Mexico and Turkey.

Critical Accounting Policies & Estimates

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

Impairment of Long-Lived Assets

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

Accounting for Joint Venture Subsidiaries

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

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

Revenue Recognition

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

Doubtful Accounts and Credit Risks

The Company continually monitors the collectability of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$122,000 and \$216,000 at December 31, 2013, and 2012, respectively. Bad debt expense was \$73,000 and \$72,000 for the years ended December 31, 2013 and 2012, respectively.

Internal Use Software Development Costs

The Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the

Company's software development projects. Capitalized software development costs are amortized over three years on a straight-line basis.

The Company capitalized \$1,010,000 and \$824,000 of costs related to software developed for internal use in 2013 and 2012, respectively, and recognized approximately \$705,000 and \$638,000 of amortization of capitalized software for the years ended December 31, 2013 and 2012, respectively.

Results of Operations

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

	Year Ended December 31,			
	2013	%	2012	%
Net revenues	\$112.0	100.0%	\$98.6	100.0%
Cost of revenues	84.4	75.3	72.2	73.2
Selling, general & administrative expense	23.2	20.7	21.3	21.6
Depreciation & amortization	1.5	1.4	1.2	1.2
Interest expense, net	0.1	0.1	0.1	0.1
Other (income) expense, net	(0.3)	(0.3)	(0.1)	(0.1)
Income before income taxes	3.1	2.8	3.9	4.0
Income tax (benefit) expense	(1.1)	(1.0)	0.5	0.5
Income from continuing operations	4.2	3.8	3.4	3.5
Income from discontinued operations	0.1	—	—	—
Net income	4.3	3.8	3.4	3.5
Net income attributable to non-controlling interest	0.9	0.8	0.5	0.5
Net income attributable to SPAR Group, Inc.	\$3.4	3.0 %	\$2.9	3.0 %

Results of operations for the year ended December 31, 2013, compared to the year ended December 31, 2012

Net Revenues

Net revenues for the year ended December 31, 2013, were \$112.0 million compared to \$98.6 million for the year ended December 31, 2012, an increase of \$13.4 million or 13.6%.

Domestic net revenues totaled \$44.6 million in the year ended December 31, 2013, compared to \$43.1 million for the same period in 2012. Domestic net revenues increased by \$1.5 million or 3.4% primarily attributable to continued growth from the Company's syndicated services and assembly businesses, increased project work and the acquisition of a competitive company in 2013.

International net revenues totaled \$67.4 million for the year ended December 31, 2013, compared to \$55.5 million for the year ended December 31, 2012, an increase of \$11.9 million or 21.5%. The increase in 2013 international net revenues was primarily due to South Africa (\$6.2 million), India (\$3.4 million) and China (\$2.1 million).

Cost of Revenues

The Company's cost of revenues consists of its in-store labor and field management wages, related benefits, travel and other direct labor-related expenses and was 75.3% of net revenues for the year ended December 31, 2013, compared to 73.2% of net revenues for the year ended December 31, 2012.

Domestic cost of revenues was 68.4% of domestic net revenues for the year ended December 31, 2013, and 67.6% of domestic net revenues for the year ended December 31, 2012. The minor increase in domestic cost of revenues as a percentage of domestic net revenues of 0.8 percentage points was due primarily to an unfavorable mix within both syndicated and project work compared to the prior year. Approximately 90% and 86% of the Company's domestic cost of revenues in the year ended December 31, 2013 and 2012, respectively, resulted from in-store merchandiser specialist and field management services purchased from certain of the Company's affiliates, SPAR Business Services, Inc. ("SBS"), and SPAR Administrative Services, Inc. ("SAS"), (See Item 13 - *Certain Relationships and Related Transactions, and Director Independence*, below, and Note 11 to the Consolidated Financial Statements - *Related-Party Transactions*).

Internationally, cost of revenue as a percent of net revenue increased to 80.0% of international net revenues for the year ended December 31, 2013, compared to 77.6% of international net revenues for the year ended December 31, 2012. The international cost of revenue percentage increase of 2.4 percentage points was primarily due to higher cost business in the markets in South Africa, India, Turkey and Mexico.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of the Company include its corporate overhead, project management, information technology, executive compensation, human resources, legal and accounting expenses. Selling, general and administrative expenses were approximately \$23.2 million and \$21.3 million for the years ended December 31, 2013 and 2012, respectively.

Domestic selling, general and administrative expenses totaled \$11.8 million for the year ended December 31, 2013 compared to \$9.8 million for the year ended December 31, 2012. The increase of approximately \$2.0 million was due primarily to payroll related expenses, legal and accounting services, as well as expenses from the newly acquired merchandising company.

International selling, general and administrative expenses totaled \$11.4 million for the year ended December 31, 2013 compared to \$11.5 million for the year ended December 31, 2012. The decrease of approximately \$0.1 million was primarily attributable to cost savings implemented in the South Africa subsidiary, partially offset by increased expenses in Canada.

Depreciation and Amortization

Depreciation and amortization expenses totaled \$1.5 million for the year ended December 31, 2013 compared to \$1.2 million for the year ended December 31, 2012. The increase was primarily due to higher capital expenditures in 2013 related to software development compared to prior year.

Interest Expense

The Company's interest expense was \$171,000 and \$127,000 for the years ended December 31, 2013 and 2012, respectively. The increase in interest expense was directly attributable to increased borrowing compared to 2012.

Income Taxes

The income tax provision for the years ended December 31, 2013 and 2012 was a benefit of \$1.1 million and an expense of \$459,000, respectively. The tax benefit in 2013 of \$1.1 million was a direct result of the Company's decision to reverse \$1.9 million or 50% of its valuation allowance at December 31, 2013, partially offset by domestic state taxes and for tax provisions related to certain international profits. The Company recognized minimum federal tax provisions in 2012 as the Company utilized operating loss carry forwards in 2012, which were previously offset by valuation allowances.

As of December 31, 2013, the Company's deferred tax assets were primarily the result of U.S. net operating loss carryforwards. A valuation allowance of \$1.9 million and \$4.2 million was recorded against its gross deferred tax asset balance as of December 31, 2013, and December 31, 2012, respectively. For the years ended December 31, 2013, and December 31, 2012, the Company recorded a net valuation allowance release of \$1.9 million and \$0, respectively, on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of December 31, 2013, the Company achieved three years of cumulative pre-tax income in the U.S. federal tax jurisdiction, management determined that sufficient positive evidence existed as of December 31, 2013, to conclude that it is more likely than not that additional deferred taxes of \$1.9 million are realizable, and therefore, reduced the valuation allowance accordingly.

At December 31, 2013, and December 31, 2012, the Company has NOL carryforwards of \$8.5 million and \$9.6 million, respectively, which if unused will expire in years 2017 through 2029.

Non-controlling Interest

Net operating profits from the non-controlling interests, relating to the Company's 51% owned subsidiaries, resulted in a reduction of net income attributable to SPAR Group, Inc. of \$898,000 and \$521,000 for the years ended December 31, 2013 and 2012, respectively.

Net Income

The Company reported a net income attributable to SPAR Group, Inc. of \$3.4 million for the year ended December 31, 2013, or \$0.15 per diluted share, compared to a net income of \$2.9 million for the year ended December 31, 2012, or \$0.14 per diluted share, based on diluted shares outstanding of 21.7 million and 21.6 million at December 31, 2013, and 2012, respectively.

Off Balance Sheet Arrangements

None.

Liquidity and Capital Resources

For the years ended December 31, 2013 and 2012, the Company had net income before non-controlling interest of \$4.2 million and \$3.5 million, respectively.

Net cash provided by operating activities was \$2.9 million for the year ended December 31, 2013 compared to \$3.2 million in 2012. Net income during 2013 was partially offset by increases in accounts receivable and prepaid and other current assets and a decrease in accrued expenses.

Net cash used in investing activities for the year ended December 31, 2013 and 2012, was approximately \$2.5 million and \$1.2 million, respectively. The net cash used in investing activities during 2013 was primarily a result of the purchase of the MFI business and fixed asset additions.

Net cash provided by financing activities for the year ended December 31, 2013 was approximately \$1.2 million compared to cash used of \$1.7 million in 2012. Net cash provided by financing activities during 2013 was primarily a result of increased borrowing on lines of credit, partially offset by payments on capital leases and purchases of treasury shares.

The above activity and the impact of foreign exchange rate changes resulted in an increase in cash and cash equivalents for the year ended December 31, 2013 of \$1.0 million.

At December 31, 2013, the Company had net working capital of \$10.0 million, as compared to net working capital of \$9.7 million at December 31, 2012. The Company's current ratio was 1.6 and 1.7 at December 31, 2013, and December 31, 2012, respectively.

Credit Facilities:

The Company is a party to various domestic and international credit facilities. See Note 5 to Consolidated Financial Statements – *Credit Facilities*, below.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Consolidated Financial Statements and Supplementary Data

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

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

During 2013, the Company changed its principal independent registered public accountant as noted in its current report on Form 8-K/A as filed with SEC on November 5, 2013.

Item 9A. Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

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

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (1992)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2013.

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

Management's Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's fourth quarter of its 2013 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 15, 2014, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2014, but not later than 120 days after the end of the Company's 2013 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

Item 11. Executive Compensation

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 15, 2014, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2014, but not later than 120 days after the end of the Company's 2013 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 15, 2014, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2014, but not later than 120 days after the end of the Company's 2013 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

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

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 15, 2014, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2014, but not later than 120 days after the end of the Company's 2013 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

Item 14. Principal Accountant Fees and Services

Reference is made to the information set forth in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders currently scheduled to be held on May 15, 2014, as and when filed with the SEC (which SGRP plans to file pursuant to Regulation 14A in April of 2014, but not later than 120 days after the end of the Company's 2013 fiscal year), which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections in such Proxy Statement entitled "PROPOSAL 3 - ADVISORY VOTE ON EXECUTIVE COMPENSATION", "PROPOSAL 4 - ADVISORY VOTE ON THE FREQUENCY THAT THE CORPORATION HOLDS THE ADVISORY VOTE ON EXECUTIVE COMPENSATION", and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

PART IV

Item 15. Exhibits and Financial Statement Schedule

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

Reports of Independent Registered Public Accounting Firms

BDO USA, LLP	F-1
Rehmann Robson	F-2
Gossler, Sociedad Civil, Member Crowe Horwath International	F-3
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Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2013 and 2012	F-6
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Consolidated Statements of Equity for the years ended December 31, 2013 and 2012	F-7
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Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012	F-8
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Notes to Consolidated Financial Statements	F-9
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2. Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts for the two years ended December 31, 2013	F-34
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3. Exhibits

Exhibit Description

Number

- 3.1 Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name of PIA Merchandising Services, Inc.), as amended ("SGRP"), incorporated by reference to SGRP's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1"), and the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes SGRP's name to SPAR Group, Inc.), (incorporated by reference to Exhibit 3.1 to SGRP's Quarterly Report on Form 10-Q for the 3rd Quarter ended September 30, 1999).
- 3.2 Amended and Restated By-Laws of SPAR Group, Inc., as adopted on May 18, 2004, as amended through August 6, 2013 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 3.3 Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.4 Charter of the Compensation Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.5 Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).

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

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

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

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

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- Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).
- 10.18 Joint Venture Agreement dated as of March 29, 2006, by and between FACE AND COSMETIC TRADING SERVICES PTY LIMITED and SPAR International, Ltd., respecting the Company's subsidiary in Australia (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.19 Joint Venture Shareholders Agreement between Friedshelf 401 (Proprietary) Limited, SPAR Group International, Inc., Derek O'Brien, Brian Mason, SMD Meridian CC, Meridian Sales & Mnrechandisign (Western Cape) CC, Retail Consumer Marketing CC, Merhold Holding Trust in respect of SGRP Meridian (Proprietary) Limited, dated as of June 25, 2004, respecting SGRP's consolidated subsidiary in South Africa (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.20 Joint Venture Agreement dated as of September 3, 2012, by and between Combined Manufacturers National (Pty) Ltd and SGRP Meridian (Pty) Ltd, respecting SGRP's additional consolidated subsidiary in South Africa (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013).

- 10.21 Joint Venture Agreement dated as of August 2, 2011, by and among Todopromo, S.A. de C.V., Sepeme, S.A. de C.V., Top Promoservicios, S.A. de C.V., Conapad, S.C., Mr. Juan Francisco Medina Domenzain, Mr. Juan Francisco Medina Staines, Mr. Jorge Carlos Medina Staines, Mr. Julio Cesar Hernandez Vanegas, and SPAR Group International, Inc., respecting SGRP's consolidated subsidiary in Mexico (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013).
- 10.22 Joint Venture Agreement dated as of August 30, 2012, by and between National Merchandising of America, Inc., a Georgia corporation, SPAR NMS Holdings, Inc., a Nevada corporation and consolidated subsidiary of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 10.23 Field Services Agreement dated as of September 1, 2012, between National Merchandising of America, Inc., a Georgia corporation, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 10.24 Asset Purchase Agreement dated as of March 15, 2013, between Market Force Information, Inc., a Delaware corporation, and SPAR Marketing Force, Inc., a Nevada corporation and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on March 20, 2013).
- 10.25 Master Field Services Agreement dated as of August 1, 2013, between National Retail Source, LLC, a Georgia limited liability company and affiliate of SGRP, and National Merchandising Services, LLC, a Nevada limited liability company and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 10.26 Share Purchase Agreement (respecting equity and debt interests in SPAR Business Ideas Provider S.R.L.) dated as of August 31, 2013, between SPAR InfoTech, Inc. ("SIT"), a Nevada corporation and affiliate of SGRP, and SPAR International Ltd. ("SPAR Cayman"), a Cayman Islands corporation and consolidated subsidiary of SGRP (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 10.27 Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Sterling Loan Agreement"), by and among SGRP, and certain of its direct and indirect subsidiaries, namely SPAR Incentive Marketing, Inc., PIA Merchandising Co., Inc., Pivotal Sales Company, National Assembly Services, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc. and SPAR, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "SPAR Sterling Borrowers"), and Sterling National Bank, as Agent (the "Sterling Agent"), and Sterling National Bank and Cornerstone Bank, as lenders (collectively, the "Sterling Lenders") (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.28 Secured Revolving Loan Note in the original maximum principal amount of \$5,000,000 issued by the SPAR Sterling Borrowers to Sterling National Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form

8-K, as filed with the SEC on July 12, 2010).

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

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

10.31 Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of September 1, 2011, and effective as of June 1, 2011, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent and confirmed by Robert G. Brown and William H. Bartels as guarantors (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 21, 2012).

- 10.32 Second Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated and effective as of July 1, 2012, among the SPAR Sterling Borrowers, the Sterling Lenders (including Cornerstone as a departing Lender), and the Sterling Agent (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on August 10, 2012).
- 10.33 Third Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents dated as of February 8, 2013, and effective as of January 1, 2013, among the SPAR Sterling Borrowers, the Sterling Lenders and the Sterling Agent (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on April 2, 2013).
- 10.34 Fourth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, effective as of July 1, 2013, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., and SPAR Marketing Force, Inc., as "Borrower" (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 15, 2013).
- 10.35 Fifth Agreement of Amendment to Revolving Loan and Security Agreement And Other Documents, dated and effective as of October 30, 2013, by and among Sterling National Bank, as "Lender" and "Agent", and SPAR Group, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., and SPAR Marketing Force, Inc., each as an original "Borrower", and SPAR Canada, Inc., SPAR Canada Company and SPAR Wings & Ink Company, each as a "Borrower" newly added to such loan agreement by such amendment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, as filed with the SEC on November 14, 2013).
- 10.36 Confirmation of Credit Facilities Letter by Royal Bank of Canada in favor of SPAR Canada Company dated as of October 17, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.37 General Security Agreement by SPAR Canada Company in favor of Royal Bank of Canada dated as of October 20, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.38 Waiver Letter and Amendment by and between Royal Bank of Canada Company, dated as of March 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 31, 2008).
- 10.39 Letter of Offer dated September 29, 2011, and General Business Factoring Agreement (undated) between Oxford Funding Pty Ltd and SPARfacts Pty Ltd (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on April 2, 2013).
- 14.1 Code of Ethical Conduct for the Directors, Senior Executives and Employees, of SPAR Group, Inc., Amended and Restated (as of) August 1, 2012 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q, as filed with the SEC on November 9, 2012).
- 14.2 Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information, as amended and restated on May 1, 2004, and as further amended through March 10,

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2011 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 15, 2011).

- 21.1 List of Subsidiaries (as filed herewith).
- 23.1 Consent of BDO USA, LLP (as filed herewith).
- 23.2 Consent of Rehmann Robson (as filed herewith).
- 23.3 Consent of Gossler, Sociedad Civil, Member Crowe Horwath International (as filed herewith).
- 23.4 Consent of BDO South Africa, Inc. (as filed herewith).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).

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

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

101.INS* XBRL Instance

101.SCH* XBRL
Taxonomy
Extension
Schema

101.CAL* XBRL
Taxonomy
Extension
Calculation

101.DEF* XBRL
Taxonomy
Extension
Definition

101.LAB* XBRL
Taxonomy
Extension
Labels

101.PRE* XBRL
Taxonomy
Extension
Presentation

* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the

Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

SPAR Group, Inc.

By: /s/ Jill Blanchard
Jill Blanchard
Chief Executive
Officer

Date: March 31,
2014

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

SIGNATURE	TITLE
<u>/s/ Jill Blanchard</u> Jill Blanchard Date: March 31, 2014	Chief Executive Officer and Director
<u>/s/ Robert G. Brown</u> Robert G. Brown Date: March 31, 2014	Chairman of the Board and Director
<u>/s/ William H. Bartels</u> William H. Bartels Date: March 31, 2014	Vice Chairman and Director
<u>/s/ Jack W. Partridge</u> Jack W. Partridge Date: March 31, 2014	Director
<u>/s/ Lorrence T. Kellar</u>	Director

Lorrence T. Kellar
Date: March 31, 2014

/s/ C. Manly Molpus Director
C. Manly Molpus
Date: March 31, 2014

/s/ Arthur B. Drogue Director
Arthur B. Drogue
Date: March 31, 2014

/s/ James R. Segreto Chief Financial Officer,
James R. Segreto Treasurer and Secretary (Principal Financial and Accounting Officer)
Date: March 31, 2014

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

SPAR Group, Inc. and Subsidiaries

White Plains, New York

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

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

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

Also, in our opinion, the 2013 information in the financial statement schedule, when considered in relation to the 2013 basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP

Troy, Michigan

March 31, 2014

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

SPAR Group, Inc. and Subsidiaries

White Plains, New York

We have audited the accompanying consolidated balance sheet of SPAR Group, Inc. and Subsidiaries as of December 31, 2012, and the related consolidated statements of income and comprehensive income, equity, and cash flows for the year ended December 31, 2012. Our audit also included the financial statement schedule for the year as listed in the index at Item 15. SPAR Group, Inc. and Subsidiaries' management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of SPAR TODOPROMO, SAPI, de CV, a subsidiary, or SGRP Meridian (Pty) Ltd., a subsidiary, as of and for the year ended December 31, 2012. These statements reflect total assets constituting 24% of consolidated total assets as of December 31, 2012, and total revenues constituting 24% of total consolidated revenue for the year then ended. Such financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SPAR TODOPROMO, SAPI, de CV and SGRP Meridian (Pty) Ltd. for 2012 is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors for 2012, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPAR Group, Inc. and Subsidiaries as of December 31, 2012, and the consolidated results of its operations and its cash flows for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial schedule for the year, when considered in relation to the consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

/s/ Rehmann Robson

Troy, Michigan

April 1, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SPAR TODOPROMO, SAPI, de CV

We have audited the accompanying balance sheet of SPAR TODOPROMO, SAPI, de CV, as of December 31, 2012 and the related statements of income, equity, and cash flows for the year then ended. SPAR TODOPROMO, SAPI, de CV's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SPAR TODOPROMO, SAPI, de CV, as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in United States of America.

/s/ Gossler, Sociedad Civil, Member Crowe Horwath International

Mexico City, Mexico

March 1, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SGRP Meridian (Pty) Ltd.

We have audited the accompanying consolidated balance sheet of SGRP Meridian (Pty) Ltd., as of December 31, 2012 and the related consolidated statements of income and comprehensive income, equity, and cash flows for the year then ended. SGRP Meridian (Pty) Ltd.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SGRP Meridian (Pty) Ltd., as of December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in United States of America.

/s/ BDO South Africa, Inc.

Umhlanga, South Africa

March 4, 2013

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

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,814	\$ 1,792
Accounts receivable, net	21,734	21,414
Deferred income taxes	456	194
Prepaid expenses and other current assets	642	596
Total current assets	25,646	23,996
Property and equipment, net	2,032	1,777
Goodwill	1,800	1,792
Intangible assets, net	2,259	1,468
Deferred income taxes	1,900	-
Other assets	641	237
Total assets	\$ 34,278	\$ 29,270
Liabilities and equity		
Current liabilities:		
Accounts payable	\$ 4,267	\$ 4,177
Accrued expenses and other current liabilities	5,854	6,729
Accrued expenses due to affiliates	560	705
Customer deposits	673	263
Lines of credit	4,311	2,393
Total current liabilities	15,665	14,267
Long-term debt and other liabilities	57	268
Total liabilities	15,722	14,535
Commitments and Contingencies – See Note 7		
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares– 2,445,598 Issued and outstanding shares- None - December 31, 2013 and None - December 31, 2012	–	–
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued shares – 20,680,717 – December 31, 2013 and 20,469,471 – December 31, 2012	207	205
Treasury stock, at cost 181,931 shares – December 31, 2013 and 13,018 shares – December 31, 2012	(356)	(26)
Additional paid-in capital	15,339	14,738

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Accumulated other comprehensive loss	(1,031)	(382)
Retained earnings (deficit)	1,654	(1,696)
Total SPAR Group, Inc. equity	15,813	12,839
Non-controlling interest	2,743	1,896
Total Equity	18,556	14,735
Total liabilities and equity	\$ 34,278	\$ 29,270
<i>See accompanying notes.</i>		

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

	Year Ended December 31,	
	2013	2012
Net revenues	\$111,959	\$98,551
Cost of revenues	84,361	72,169
Gross profit	27,598	26,382
Selling, general and administrative expense	23,198	21,306
Depreciation and amortization	1,496	1,157
Operating income	2,904	3,919
Interest expense	171	127
Other expense (income), net	(299)	(116)
Income before income tax expense	3,032	3,908
Income tax (benefit) expense	(1,118)	459
Income from continuing operations	4,150	3,449
Income from discontinued operations	98	2
Net income	4,248	3,451
Net income attributable to non-controlling interest	(898)	(521)
Net income attributable to SPAR Group, Inc.	\$3,350	\$2,930
Basic income per common share:		
Continuing operations	\$0.16	\$0.14
Discontinued operations	\$-	\$-
Diluted income per common share:		
Continuing operations	\$0.15	\$0.14
Discontinued operations	\$-	\$-
Weighted average common shares – basic	20,490	20,240
Weighted average common shares – diluted	21,734	21,606
Net income	\$4,248	\$3,451
Other comprehensive loss:		
Foreign currency translation adjustments	(649)	(210)
Comprehensive income	3,599	3,241

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Comprehensive income attributable to non-controlling interest	(898)	(521)
Comprehensive income attributable to SPAR Group, Inc.	\$2,701		\$2,720	

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Equity

(In thousands)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance at January 1, 2012	20,103	\$ 201	—	\$—	\$ 13,940	\$ (172)	\$(4,626)	\$ 1,070	\$ 10,413
Share-based compensation	20	—	—	—	517	—	—	—	517
Issuance of shares for purchase of joint venture	100	1	—	—	164	—	—	—	165
Exercise of stock options	247	3	—	—	134	—	—	—	137
Sale of non-controlling interest in subsidiaries	—	—	—	—	—	—	—	368	368
Other changes to non-controlling interest	—	—	—	—	—	—	—	(63)	(63)
Other changes to paid-in capital	—	—	—	—	(17)	—	—	—	(17)
Purchase of treasury shares	—	—	18	(35)	—	—	—	—	(35)
Reissued treasury shares	—	—	(4)	9	—	—	—	—	9
Other comprehensive loss	—	—	—	—	—	(210)	—	—	(210)
Net income	—	—	—	—	—	—	2,930	521	3,451
Balance at December 31, 2012	20,470	205	14	(26)	14,738	(382)	(1,696)	1,896	14,735
Share-based compensation	25	—	—	—	538	—	—	—	538
Exercise of stock options	186	2	—	—	122	—	—	—	124
Sale of non-controlling interest in subsidiaries	—	—	—	—	—	—	—	20	20
Purchase of non-controlling interest in joint venture	—	—	—	—	3	—	—	(123)	(120)
Other changes to non-controlling interest	—	—	—	—	—	—	—	52	52

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Purchase of treasury shares	-	-	200	(392)	-	-	-	-	(392)
Reissued treasury shares	-	-	(32)	62	(62)	-	-	--	-
Other comprehensive loss	-	-	-	-	-	(649)	-	-	(649)
Net income	-	-	-	-	-	-	3,350	898	4,248
Balance at December 31, 2013	20,681	\$ 207	182	\$ (356)	\$ 15,339	\$ (1,031)	\$ 1,654	\$ 2,743	\$ 18,556

See accompanying notes.

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

	Year Ended December 31,	
	2013	2012
Operating activities		
Net income	\$4,248	\$3,451
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,496	1,157
Bad debt expense, net of recoveries	73	72
Deferred income tax expense (benefit)	(2,162)	(194)
Share based compensation	538	517
Changes in operating assets and liabilities, net of business acquisitions and disposition:		
Accounts receivable	(488)	(6,030)
Prepaid expenses and other assets	(638)	219
Accounts payable	90	2,358
Accrued expenses, other current liabilities and customer deposits	(279)	1,663
Net cash provided by operating activities	2,878	3,213
Investing activities		
Purchases of property and equipment and capitalized software	(1,299)	(998)
Sale of Romanian subsidiary	65	-
Purchase of MFI Business	(1,300)	-
Partners' investment in subsidiaries	20	305
Purchase of India Preceptor subsidiary	(21)	-
Purchase of NMS, LLC	-	(400)
Purchase of CMR South Africa	-	(73)
Purchase of Romanian subsidiary	-	(60)
Net cash used in investing activities	(2,535)	(1,226)
Financing activities		
Net borrowing (payments) on lines of credit	1,909	(1,224)
Proceeds from stock options exercised	124	137
Payments on term debt	(27)	(33)
Payments on capital lease obligations	(189)	(218)
Purchase of treasury shares	(392)	(35)
Payment of seller notes	(200)	(300)
Net cash provided by (used in) financing activities	1,225	(1,673)
Effect of foreign exchange rate changes on cash	(546)	(227)
Net change in cash and cash equivalents	1,022	87
Cash and cash equivalents at beginning of year	1,792	1,705

Cash and cash equivalents at end of year	\$2,814	\$1,792
Supplemental disclosure of cash flows information		
Interest paid	\$168	\$151
Income taxes paid	\$399	\$472
Supplemental disclosure of non-cash financing activities		
Liabilities related to acquisition of Mexican subsidiary	\$-	\$235
Liabilities related to acquisition of Turkish subsidiary	\$-	\$206
Liabilities related to acquisition of NMS, LLC	\$-	\$294
Liabilities related to South African subsidiary	\$-	\$154
Acquisition of equipment through capital lease	\$-	\$253
Stock issuance related to acquisition of NMS, LLC	\$-	\$165
Conversion of Mexico subsidiary loan to equity	\$-	\$232

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Business and Organization

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

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

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

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

The Company's Domestic Merchandising Services Division provides nationwide merchandising and other marketing services throughout the United States of America primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, office supply, grocery, drug store, home improvement, independent, convenience and electronics stores. Included in its clients are home entertainment, general merchandise, health and beauty care,

consumer goods and food products companies.

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

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

In September 2012, the Company, through its subsidiary in South Africa (SGRP Meridian), entered into a joint venture agreement to expand its operations in South Africa. SGRP Meridian owns a 51% ownership interest in the new company; CMR Meridian (Pty) Ltd. ("CMR-Meridian").

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Business and Organization (continued)

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

In August 2013, the Company sold its 51% ownership in Romania in its active Romania subsidiary to SPAR InfoTech, Inc. (see Note 11 to the Consolidated Financial Statements – *Related-Party Transactions*). The Company continues to have one Romanian subsidiary that is 100% owned and is inactive. Also in May 2012, the Company sold its 51% ownership in one of its other Romania subsidiaries, SPAR City S.R.L, to its original Local Investor.

Currently the Company owns two subsidiaries in China. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned. In July 2011, the Company, through its active subsidiary in China (SPAR Shanghai), entered into a joint venture agreement to expand its operations in China. SPAR Shanghai has a 75.5% ownership interest in the new company; SPAR DSI Human Resource Company.

In August 2011, the Company sold its 51% ownership in its original subsidiary in Turkey to its original Local Investor, and in November 2011 the Company started a new 51% owned subsidiary to compete in this important market.

In September 2012, the Company established a new subsidiary, National Merchandising Services, LLC, ("NMS") 651% owned by the Company, with its principal office in Georgia. In March 2013, the Company purchased general merchandising service and certain in-store audit service businesses from Market Force Information, Inc. ("MFI").

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Accounting for Joint Venture Subsidiaries

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

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the amounts disclosed for contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Cash Equivalents

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

Concentration of Credit Risk

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

Revenue Recognition

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

Unbilled Accounts Receivable

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

Doubtful Accounts and Credit Risks

The Company continually monitors the collectability of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$122,000 and \$216,000 at December 31, 2013, and 2012, respectively. Bad debt expense was \$73,000 and \$72,000 for the years ended December 31, 2013 and 2012, respectively.

Property and Equipment and Depreciation

Property and equipment, including leasehold improvements, are stated at cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease term, using the straight-line method. Maintenance and minor repairs are charged to expense as incurred. Depreciation expense for the years ended December 31, 2013 and 2012 (including amortization of capitalized software as described below) was \$1.0 million and \$985,000, respectively.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Internal Use Software Development Costs

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

The Company capitalized \$1,010,000 and \$824,000 of costs related to software developed for internal use in 2013 and 2012, respectively, and recognized approximately \$681,000 and \$638,000 of amortization of capitalized software for the years ended December 31, 2013 and 2012, respectively.

Impairment of Long-Lived Assets

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

Goodwill

Goodwill consists of the cost in excess of the fair value of the acquired net assets of the Company's subsidiaries. Goodwill is subject to annual impairment tests and interim impairment tests, if impairment indicators are present. The impairment tests require the Company to first assess qualitative factors to determine whether it is necessary to perform a two-step quantitative goodwill impairment test. The Company is not required to calculate the fair value of a reporting unit unless it determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. If the qualitative assessment indicates a potential impairment, the Company performs the two step quantitative impairment test. Step one of the two step impairment test is to compare the fair value of the reporting unit with the reporting unit's carrying amount including goodwill. If the test indicates that the fair value is less than the carrying value, then step two is required to compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss shall be recognized in an amount equal to that excess. If impairment is found to have occurred, a corresponding charge will be recorded. The Company has determined that it has two reporting units, and that a two-step quantitative goodwill impairment test was not necessary, as of December 31, 2013 and 2012. Based on the qualitative assessment, the Company did not identify any indication of impairment of its goodwill as of December 31, 2013 and 2012.

Accounting for Share Based Compensation

The Company measures all employee share-based compensation awards using a fair value method and records the related expense in the financial statements over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits are realized from the exercise of stock options and are reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations. For each award that has a graded vesting schedule, the Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award. Share based employee compensation expense for the years ended December 31, 2013 and 2012 was \$538,000 and \$517,000, respectively.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

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

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

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

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

If the inputs used to measure the fair value fall within different levels of the hierarchy, the fair value is determined based upon the lowest level input that is significant to the fair value measurement. Whenever possible, the Company uses quoted market prices to determine fair value. In the absence of quoted market prices, the Company uses independent sources and data to determine fair value. Due to their short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximated their fair values at December 31, 2013 and 2012. Outstanding indebtedness as of December 31, 2013 and 2012 approximates its fair value due to its market variable interest rate.

Accounting for Income Taxes

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

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

Net Income Per Share

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

Translation of Foreign Currencies

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)**Recent Accounting Pronouncements Not Yet Adopted**

There has been no issued accounting guidance not yet adopted by the Company that it believes is material or potentially material to the Company's consolidated financial statements.

3. Capital Lease Obligations

As of December 31, 2013, the Company has three outstanding capital lease obligations with interest rates ranging from 4.5% to 7.0%. The related capital lease assets balances are detailed below (in thousands):

Start Date:	Original Cost	Accumulated Amortization	Net Book Value at December 31, 2013
June, 2011	\$ 140	121	19
January, 2012	253	168	85
	\$ 393	\$ 289	\$ 104

Annual future minimum lease payments required under the leases, together with the present value as of December 31, 2013, are as follows (in thousands):

Year Ending December 31,	Amount
2014	\$ 113
Less amount representing interest	(4)
Present value of net minimum lease payments, included within accrued expenses and other current liabilities	109

4. Supplemental Balance Sheet Information (in thousands)

	December 31,	
Accounts receivable, net, consists of the following:	2013	2012
Trade	\$18,497	\$18,011
Unbilled	3,269	3,577
Non-trade	90	42
	21,856	21,630
Less allowance for doubtful accounts	(122)	(216)
	\$21,734	\$21,414

	December 31,	
Property and equipment consists of the following:	2013	2012
Equipment	\$8,419	\$8,366
Furniture and fixtures	603	570
Leasehold improvements	250	250
Capitalized software development costs		