

SPAR GROUP INC
Form 10-K
April 17, 2017

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, 2016**

OR

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

Commission file number 0-27408

SPAR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0684451

(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

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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

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 whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) YES NO

Indicate by check mark 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, 2016, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$7,389,940.

The number of shares of the Registrant's Common Stock outstanding as of April 3, 2017, was 20,655,840 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2017 Annual Meeting of Stockholders scheduled to be held on May 18, 2017, which will be subsequently filed with the Securities and Exchange Commission 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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Forward-Looking Statements

This Annual Report on Form 10-K for the year ended December 31, 2016 (this "Annual Report"), contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, made by, or respecting, SPAR Group, Inc. ("SGRP") and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"). There also are "forward-looking statements" contained in SGRP's definitive Proxy Statement respecting its Annual Meeting of Stockholders to be held on or about May 18, 2017 (the "Proxy Statement"), which SGRP expects to file on or about April 28, 2017, with the Securities and Exchange Commission (the "SEC"), and SGRP's Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports and statements as and when filed with the SEC (including this Annual Report and the Proxy Statement, each a "SEC Report"). "Forward-looking statements" are defined in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other applicable federal and state securities laws, rules and regulations, as amended (together with the Securities Act and Exchange Act, the "Securities Laws").

All statements (other than those that are purely historical) are forward-looking statements. Words such as "may," "will," "expect," "intend," "believe," "estimate," "anticipate," "continue," "plan," "project," or the negative of these terms or other similar expressions also identify forward-looking statements. Forward-looking statements made by the Company in this Annual Report may include (without limitation) statements regarding: risks, uncertainties, cautions, circumstances and other factors ("Risks"); and plans, intentions, expectations, guidance or other information respecting the pursuit or achievement of the Company's five corporate objectives (growth, customer value, employee development, greater productivity & efficiency, and increased earnings per share), building upon the Company's strong foundation, leveraging compatible global opportunities, growing the Company's client base and contracts, continuing to strengthen its balance sheet, growing revenues and improving profitability through organic growth, new business development and strategic acquisitions, and continuing to control costs. The Company's forward-looking statements also include (without limitation) those made in this Annual Report in "Business", "Risk Factors", "Legal Proceedings", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Directors, Executive Officers and Corporate Governance", "Executive Compensation", "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters", and "Certain Relationships and Related Transactions, and Director Independence".

You should carefully review and consider the Company's forward-looking statements (including all risk factors and other cautions and uncertainties) and other information made, contained or noted in or incorporated by reference into this Annual Report, the Proxy Statement and the other applicable SEC Reports, but you should not place undue reliance on any of them. The results, actions, levels of activity, performance, achievements or condition of the Company (including its affiliates, assets, business, clients, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, performance, prospects, sales, strategies, taxation or other achievement, results, risks, trends or condition) and other events and circumstances planned, intended, anticipated, estimated or otherwise expected by the Company (collectively, "Expectations"), and our forward-looking statements (including all Risks) and other information reflect the Company's current views about future events and circumstances. Although the Company believes those Expectations and views are reasonable, the results, actions, levels of activity, performance, achievements or condition of the Company or other

events and circumstances may differ materially from our Expectations and views, and they cannot be assured or guaranteed by the Company, since they are subject to Risks and other assumptions, changes in circumstances and unpredictable events (many of which are beyond the Company's control). In addition, new Risks arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Accordingly, the Company cannot assure you that its Expectations will be achieved in whole or in part, that it has identified all potential Risks, or that it can successfully avoid or mitigate such Risks in whole or in part, any of which could be significant and materially adverse to the Company and the value of your investment in the Company's Common Stock.

These forward-looking statements reflect the Company's Expectations, views, Risks and assumptions only as of the date of this Annual Report, and the Company does not intend, assume any obligation, or promise to publicly update or revise any forward-looking statements (including any Risks or Expectations) or other information (in whole or in part), whether as a result of new information, new or worsening Risks or uncertainties, changed circumstances, future events, recognition, or otherwise.

PART I

Item 1. Business

THE COMPANY'S BUSINESS GENERALLY

SPAR Group, Inc., a Delaware corporation incorporated in 1995 ("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 merchandise, office supply, grocery, drug, dollar, independent, convenience, toy, home improvement, and electronics stores. The Company also provides furniture and other product assembly services in stores, homes and offices. The Company has supplied these services in the United States since certain of its predecessors were formed in 1979 and internationally since the Company acquired its first international subsidiary in Japan in May 2001. The Company currently does business in 10 countries that encompass approximately 50% of the total world population through its operations in the United States, Australia, Brazil, Canada, China, India, Japan, Mexico, South Africa, and Turkey.

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, demonstrating or promoting a product, providing on-site audit and in-store event staffing services and providing product assembly services in stores, homes and offices. Other merchandising services include whole store or departmental product sets or resets, including new store openings, new product launches and in-store demonstrations, special seasonal or promotional merchandising, focused product support and product recalls. The Company continues to seek to expand its merchandising, assembly and marketing services business throughout the world.

An Overview of the Merchandising and Marketing Services Industry:

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

merchandising and marketing services add value to retailers, manufacturers and other businesses and enhance sales by making a product more visible and more available to consumers.

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

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

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

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

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

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

The Company's Domestic and International Segments:

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

Each of the Company's divisions provides merchandising and other marketing services primarily on behalf of consumer product manufacturers, distributors and retailers at mass merchandise, office supply, grocery, drug, dollar, independent, convenience, toy, home improvement and electronics 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 10 territories around the world (listed in the table below) that encompass approximately 50% of the total world population.

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

<u>Primary Territory</u>	<u>Date</u> <u>Established</u>	<u>SGRP</u> <u>Percentage</u> <u>Ownership</u>	<u>Principal Office Location</u>
United States of America	1979	100 %	White Plains, New York, United States of America
Japan	May 2001	100 %	Tokyo, Japan
Canada	June 2003	100 %	Vaughan, Ontario, Canada
South Africa	April 2004	51 %	Durban, South Africa
India	April 2004	51 %	New Delhi, India
Australia	April 2006	51 %	Melbourne, Australia
China	March 2010	51 %	Shanghai, China
Mexico	August 2011	51 %	Mexico City, Mexico
Turkey	November 2011	51 %	Istanbul, Turkey
Brazil ¹	September 2016	51 %	Sao Paulo, Brazil

1 In September 2016, the Company established a new joint venture subsidiary in Brazil, see Note 13 to the Company's Consolidated Financial Statements – *Purchase of Interests in Subsidiaries*. This new subsidiary purchased stock in two Brazilian companies – New Momentum, Ltda. and New Momentum Servicos Temporarios Ltda.

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, 2016 and 2015, and their respective assets as of December 31, 2016 and 2015, is provided in Note 12 to the Company's Consolidated Financial Statements – *Segment Information*.

The Company's Business Strategies

As the marketing services industry continues to expand both in the United States and internationally, many large retailers and manufacturers are outsourcing their merchandising and marketing service needs to third-party providers. The Company believes that offering marketing services on a national and global basis will provide it with a competitive advantage. Moreover, the Company believes that successful use of and continuous improvements to a sophisticated technology infrastructure, including the Company's proprietary global Internet, digital and telecommunication-based technological systems (including servers and other hardware) and its logistical, communication, scheduling, tracking, reporting and accounting software and applications (the "Global Technology Systems"), is key to providing clients with a high level of client service while maintaining efficient, lower cost operations. The Global Technology System uses proprietary software and applications of the Company as well as software (including operating system, office, exchange, data base and server programs) licensed and hardware purchased or leased from third parties and Internet and telecommunication services provided by third parties. The Global Technology System can be accessed through the computers or mobile devices of its authorized personnel and clients and allows the Company to communicate with field management, schedule the store-specific field operations more efficiently, receive information, incorporate, quantify the benefits of its services to clients faster, respond to clients' needs quickly and implement client programs rapidly. The Company's objective is to continue to expand international retail merchandising and marketing services by pursuing its operating and growth strategy, as described below.

Increasing the Company's Sales Efforts:

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

Improving the Company's Operating Efficiencies:

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

Developing New Services:

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

Leveraging and Improving on the Company's Technological Strengths:

The Company believes that providing merchandising and marketing services in a timely, accurate and efficient manner, as well as delivering timely, accurate and useful reports to its clients, are key components that are and will continue to be critical to the Company's success. The Company's Global Technology Systems improve the productivity of the Company's merchandising, auditing, assembly and other field personnel (each a "Field Specialist"), and provide timely data to its clients. The Company's Field Specialists use smartphones, tablets, laptops, and personal computers to report (through the Internet or telecommunication network) the status of each store or client product they service into the Company's Global Technology Systems. Field Specialists report on a variety of issues such as store conditions and status of client products (e.g. out of stocks, inventory, display placement) or they may scan and process new orders for certain products.

The Company's Global Technology Systems include an automated labor tracking system for the Company's Field Specialists to communicate work assignment completion information (via the Internet or other telecommunication infrastructure) by using, among other things, smartphones, laptops and personal computers, cellular telephones or landlines. This tracking system enables the Company to report hours and other completion information for each work assignment on a daily basis and provides the Company with daily, detailed tracking of work completion. This information is analyzed and displayed in a variety of reports that can be accessed by both the Company and its clients via a secure website. These reports can depict the reported status of merchandising projects in real-time. This tracking technology also allows the Company to schedule the Company's Field Specialists more efficiently, quickly quantify the status and benefits of its services to clients, rapidly respond to clients' needs and rapidly implement programs.

Industry sources indicate that clients are increasingly relying on merchandising and marketing service providers to supply rapid, value-added information regarding the results of the clients' merchandising and marketing expenditures on sales and profits. The Company intends to continue to utilize its Global Technology Systems to enhance the Company's efficiency and ability to provide real-time data to its clients as reported to the Company, as well as, maximize the speed of communication with logistical deployment of and reporting from the Company's Field Specialists. The Global Technology System can be accessed through the computers or mobile devices of its authorized personnel and clients and allows the Company to communicate with field management, schedule the store-specific field operations more efficiently, receive information, incorporate, quantify the benefits of its services to clients faster, respond to clients' needs quickly and implement client programs rapidly.

The Company 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 Global Technology Systems give it a competitive advantage in the marketplace worldwide. The Company has successfully modified and is currently utilizing certain of its software applications in the operation of its International Division. The Company's Global Technology Systems are developed, operated, managed, maintained, and controlled from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A. The scheduling, tracking and reporting software currently included in the Company's Global Technology Systems were co-developed and are co-owned by the Company and certain of its affiliates and maintained and further developed and improved by the Company at its own expense. See Item 13 – *Certain Relationships and Related Transactions, and Director Independence*, and Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - Other Related Party Transactions and Arrangements*, below.

Acquisition Strategies and Strategic Acquisitions:

The Company is seeking to acquire businesses or make other arrangements with companies that offer similar merchandising or marketing services both in the United States and worldwide. The Company believes that increasing its industry expertise, further developing and refining its technology systems, adding services, and increasing its geographic breadth and local market depth will allow it to service its clients more efficiently and cost effectively. Through such acquisition strategies, the Company may realize additional operating and revenue synergies and may leverage existing relationships with manufacturers, retailers and other businesses to capitalize on cross-selling opportunities. However, there can be no assurance that any of the acquisition strategies will occur or whether, if completed, the integration of the acquired businesses will be successful or the anticipated efficiencies and cross-selling opportunities will occur. See Item 1 - Business - *The Company's Domestic and International Segments*, above.

One key to the Company's domestic and international expansion strategy is its emphasis on developing, maintaining, improving, deploying and marketing its Global Technology Systems that run on and are developed, managed, maintained and controlled worldwide from the Company's information and technology control center in Auburn Hills, Michigan, U.S.A. The Company's Global Technology Systems are accessible through computers and mobile devices by the local representatives of the Company and its clients in order to enhance local operations, give the Company an important marketing distinction and advantage over its competitors (such as real-time access to field reporting), and provide the Company with a technological means to exercise its supervision and control over its subsidiaries, both domestic and international. The Company provides access to its Global Technology Systems for its worldwide operations through its control center on a real-time basis 24/7/365. In addition, this strategy is strengthened internationally by the Company's internally developed translation software, which allows its current and future programs included in its Global Technology Systems to be available in any language for any market in which it currently operates or desires to enter in the future. See Item 1 - Business - *Leveraging and Improving on the Company's Technological Strengths*, above, and *The Company's Trademarks*, below.

Another key to the Company's international and domestic expansion is its strategy of seeking a minority (*i.e.*, non-controlling) investor that is experienced (directly or through its principals) in the local area and not otherwise affiliated with the Company (each a "Local Investor") for each new consolidated joint venture subsidiary acquired by the Company. The Company supervision and control over each such consolidated subsidiary is strengthened through its subsidiary documentation and the use of its Global Technology Systems. 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), 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). Since 2014 the Company has sought (in the governing documents for each new acquisitions or reorganization) to have a majority of the members of such subsidiary's board of directors, to have all quorums and matters decided by a simple majority of its equity or directors, and to have such subsidiary agree to be bound by the Company's financial and reporting controls and procedures, ethics code, and other corporate codes and policies. In addition to its equity participation, a Local Investor provides 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 and a seasoned operating infrastructure as additional Local Contributions to the subsidiary in which it invests. As of the date of this Annual Report, National Merchandising Services, LLC, 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 - *Risk Factors - 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*, Item 13 – *Certain Relationships and Related Transactions, and Director Independence - International Related Party Services and Related Party Transactions and Arrangements in the Brazil Acquisition*, Note 2 to the Company's Consolidated Financial Statements – *Summary of Significant Accounting Policies: Principles of Consolidation, Accounting for Joint Venture Subsidiaries*, Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - International Related Party Services and Related Party Transactions and Arrangements in the Brazil Acquisition*, and Note 13 to the Company's Consolidated Financial Statements – *Purchase and Sale of Interests in Subsidiaries*, below.

In September 2016, the Company, through its subsidiary in the Cayman Islands, SPAR International Ltd., entered into an agreement to purchase the equity shares (called "quotas") in New Momentum Ltda. and New Momentum Serviços Temporários Ltda., each a Brazilian limitada from Interservice Publicidade Sociedade Ltda., a Brazilian limitada, Momentum Promoções Ltda., a Brazilian limitada, and IPG Nederland B.V., a Netherlands company. The Company consolidated its Brazil operations beginning on September 14, 2016. See Item 13 – *Certain Relationships and Related Transactions, and Director Independence - International Related Party Services and Related Party Transactions and Arrangements in the Brazil Acquisition*, Note 10 to the Company's Consolidated Financial Statements – *Related Party Transactions - International Related Party Services and Related Party Transactions and Arrangements in the Brazil Acquisition*, and Note 13 to the Company's Consolidated Financial Statements – *Purchase and Sale of Interests in Subsidiaries*, below.

Descriptions Of The Company's Services

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

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

Syndicated Services:

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

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

Dedicated Services:

Dedicated services consist of merchandising and marketing services, generally as described above, which are performed for a specific retailer or manufacturer by a dedicated organization, sometimes including a management

team working exclusively for that retailer or manufacturer. These services include many of the above activities detailed in syndicated services, as well as, new store set-ups, store remodels and fixture installations. These services are primarily based on agreed-upon rates and fixed management fees.

Project Services:

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

Assembly Services:

The Company's assembly services are initiated by