

SPAR GROUP INC  
Form 10-Q  
May 11, 2012

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the first quarterly period ended March 31, 2012.

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  
State of Incorporation

33-0684451  
IRS Employer Identification No.

560 White Plains Road, Suite 210, Tarrytown, New York 10591  
(Address of principal executive offices, including zip code)

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

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

Yes  No

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

Yes  No

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

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller Reporting Company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

On March 31, 2012, there were 20,130,918 shares of Common Stock outstanding.

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SPAR Group, Inc.

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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## SPAR Group, Inc. and Subsidiaries

## Consolidated Balance Sheets

(In thousands, except share and per share data)

	March 31, 2012 (unaudited)	December 31, 2011 (note)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,666	\$ 1,705
Accounts receivable, net	14,673	15,461
Prepaid expenses and other current assets	860	801
Total current assets	17,199	17,967
Property and equipment, net	1,771	1,523
Goodwill	1,148	1,148
Intangibles	677	705
Other assets	195	178
Total assets	\$ 20,990	\$ 21,521
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 3,401	\$ 1,819
Accrued expenses and other current liabilities	3,423	4,039
Accrued expenses due to affiliates	1,551	1,092
Customer deposits	217	183
Lines of credit	972	3,641
Total current liabilities	9,564	10,774
Long-term debt and other liabilities	438	334
Total liabilities	10,002	11,108
<b>Equity:</b>		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value:		
Authorized and available shares—		
2,245,598 Issued and outstanding shares —		
none — March 31, 2012 and none —		
December 31, 2011	—	—
Common stock, \$.01 par value:	201	201
Authorized shares — 47,000,000 Issued		
and outstanding shares — 20,130,918 —		
March 31, 2012 and 20,103,043 —		

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December 31, 2011		
Additional paid-in capital	14,098	13,940
Accumulated other comprehensive loss	(214 )	(172 )
Accumulated deficit	(4,319 )	(4,626 )
Total SPAR Group, Inc. equity	9,766	9,343
Non-controlling interest	1,222	1,070
Total liabilities and equity	\$ 20,990	\$ 21,521

Note: The Balance Sheet at December 31, 2011, is excerpted from the consolidated audited financial statements as of that date but does not include certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.

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

	Three Months Ended March 31,	
	2012	2011
Net revenues	\$ 21,047	\$ 16,418
Cost of revenues	15,278	11,186
Gross profit	5,769	5,232
Selling, general and administrative expenses	5,022	4,573
Depreciation and amortization	277	262
Operating income	470	397
Interest expense	51	81
Other (income) expense	(82	) 9
Income before provision for income taxes	501	307
Provision for income taxes	42	24
Net income	459	283
Net income attributable to the non-controlling interest	(152	) (30
Net income attributable to SPAR Group, Inc.	\$ 307	\$ 253
Basic/diluted net income per common share:		
Net income - basic	\$ 0.02	\$0.01
Net income - diluted	\$ 0.01	\$0.01
Weighted average common shares – basic	20,117	19,639
Weighted average common shares – diluted	21,467	21,347
Net income	459	283
Other comprehensive income:		
Foreign currency translation adjustments	(42	) 23
Comprehensive income	\$ 417	306

See accompanying notes.

SPAR Group, Inc. and Subsidiaries  
 Consolidated Statement of Equity  
 (unaudited)  
 (In thousands)

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Gain	Non- Controlling Interest	Total Equity
Balance at December 31, 2011	20,103	\$ 201	\$ 13,940	\$ (4,626 )	\$ (172 )	\$ 1,070	\$ 10,413
Issuance of stock options and restricted shares to employees and non-employees for services	20		153				153
Exercise of options	8		5	–	–	–	5
Comprehensive loss:	–	–	–	–	(42 )	–	(42 )
Net income				307	–	152	459
Balance at March 31, 2012	20,131	\$ 201	\$ 14,098	\$ (4,319 )	\$ (214 )	\$ 1,222	\$ 10,988

See accompanying notes.

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

	Three Months Ended March 31,	
	2012	2011
<b>Operating activities</b>		
Net income	\$459	\$283
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>		
Depreciation & Amortization	277	262
Share based compensation	153	55
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	792	1,759
Prepaid expenses and other assets	(76 )	501
Accounts payable	1,582	(266 )
Accrued expenses, other liabilities and customer deposits	(215 )	(348 )
<b>Net cash provided by operating activities</b>	<b>2,972</b>	<b>2,246</b>
<b>Investing activities</b>		
Purchases of property and equipment and capitalized software	(239 )	(188 )
<b>Financing activities</b>		
Net payments on lines of credit	(2,675 )	(1,269 )
Proceeds from options exercised	5	14
Proceeds from term debt	–	244
Payments on term debt	(9 )	(503 )
Payments on capital lease obligations	(53 )	(20 )
<b>Net cash used in financing activities</b>	<b>(2,732 )</b>	<b>(1,534 )</b>
Effects of foreign exchange rate on cash	(40 )	26
<b>Net change in cash and cash equivalents</b>	<b>(39 )</b>	<b>550</b>
Cash and cash equivalents at beginning of period	1,705	923
Cash and cash equivalents at end of period	\$1,666	\$1,473
<b>Supplemental disclosure of cash flows information</b>		
Interest paid	\$55	\$57
Taxes paid	\$13	\$105
<b>Supplemental disclosure of non-cash financing activities</b>		
Preferred stock converted to common stock at par	\$–	\$6
Acquisition of equipment through capital leases	\$253	\$–

See accompanying notes.



SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited)

1. Basis of Presentation

The accompanying unaudited, consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the Company's Annual Report for 2011 on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (the "SEC") on March 21, 2012 (the Company's "Annual Report"). The Company's results of operations for the interim periods are not necessarily indicative of its operating results for the entire year.

2. Business and Organization

The SPAR Group 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, furniture and other product assembly services, Radio Frequency Identification ("RFID") 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, independent, convenience, electronics, toy and specialty 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, special seasonal or promotional merchandising, focused product support and product recalls. The Company also provides RFID services, technology services and marketing research services.

In order to cultivate foreign markets and expand the Company's merchandising and marketing services business outside of the United States, modify the necessary systems and implement its business model worldwide, and insure a consistent approach to its merchandising and marketing efforts worldwide, and even though it operates in a single business segment (merchandising and marketing services), the Company has 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, (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.

Today the Company operates in 10 countries that encompass approximately 47% of the total world population. Although it operates in a single business segment (merchandising and marketing services), the Company currently divides its operations for marketing, administrative and other purposes into two geographic divisions: 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 services and in-store event staffing services in Japan, Canada, South Africa, India, Romania, China, Australia, Mexico and Turkey. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

3. Earnings Per Share

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

	Three Months Ended March 31,	
	2012	2011
<b>Numerator:</b>		
Net income	\$ 307	\$ 253
<b>Denominator:</b>		
Shares used in basic net income per share calculation	20,117	19,639
<b>Effect of diluted securities:</b>		
Employee stock options	1,350	1,708
Shares used in diluted net income per common share calculation	21,467	21,347
Basic net income per common share	\$ 0.02	\$ 0.01
Diluted net income per common share	\$ 0.01	\$ 0.01

4. Credit Facilities

Domestic Credit Facility ("Sterling Credit Facility"):

SGRP and certain of its domestic subsidiaries, namely SPAR Marketing Force, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Trademarks, Inc., and SPAR Acquisition, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "Borrowers"), entered into a Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Loan Agreement"), with Sterling National Bank and Cornerstone Bank as the lenders (the "Lenders"), and issued their Secured Revolving Loan Notes in the original maximum principal amounts of \$5.0 million to Sterling National Bank and \$1.5 million to Cornerstone Bank (the "Notes"), to document and govern its new credit facility with them (the "Sterling Credit Facility"). In June 2011, the Lenders agreed to: (1) reduce the personal guarantee limits to the amounts noted below, and (2) extend the maturity of the Sterling Credit Facility until July 2013.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, have provided personal guarantees of the Sterling Credit Facility totaling \$1,250,000 pursuant to their Limited Continuing Guaranty in favor of the Lenders dated as of July 6, 2010, as amended in June 2011 (the "Limited Guaranty").

Revolving Loans of up to \$6.5 million are available to the Borrowers under the Sterling Credit Facility based upon the borrowing base formula defined in the Loan Agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Sterling Credit Facility is secured by substantially all of the assets of the Borrowers (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

The basic interest rate under the Sterling Credit Facility is equal to the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time plus one and one-half (1.50%) percent per annum, which automatically changes with each change in such rate.

Due to the requirement to maintain a lock box arrangement with the Agent and the Lenders' ability to invoke a subjective acceleration clause at its discretion, borrowings under the Sterling Credit Facility will be classified as current.

The Sterling Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments. At March 31, 2012, the Company was in compliance with such covenants and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants in the future, and should the Company be in violation, there can be no assurances that the Lenders will issue waivers for any future violations.

International Credit Facilities:

In October 2011, the Australian subsidiary, SPARFACTS Australia Pty. Ltd., entered into a credit facility with Oxford Funding Pty. Ltd. for \$1.2 million (Australian) or approximately \$1.3 million (based upon the exchange rate at March 31, 2012).

SPAR Canada Company, a wholly owned subsidiary, has a secured credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$750,000 (Canadian) or approximately \$752,000 (based upon the exchange rate at March 31, 2012). The Demand Operating Loan provides for borrowing based upon a formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions) and a minimum total debt to tangible net worth covenant. The Company was in compliance with the minimum total debt to tangible net worth covenant under this line of credit at March 31, 2012.

On March 7, 2011, the Japanese subsidiary, SPAR FM Japan, Inc., a wholly owned subsidiary, secured a term loan with Mizuho Bank in the amount of 20 million Japanese Yen, or approximately \$244,000. The loan is payable in monthly installments of 238,000 Yen (or approximately \$2,900 based upon the exchange rate at March 31, 2012) at an interest rate of 0.1% per annum with a maturity date of February 28, 2018.



SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

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

	March 31, 2012	Average Interest Rate		December 31, 2011	Average Interest Rate	
<b>Credit Facilities Loan Balance:</b>						
United States	\$ 678	4.75	%	\$ 2,621	4.75	%
Australia	13	10.35	%	402	10.38	%
Canada	281	4.00	%	618	4.00	%
	\$ 972			\$ 3,641		

**Other Debt Facility:**

Japan Term Loan	\$ 206	0.1	%	\$ 227	0.1	%
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**Unused Availability:**

United States	\$ 3,890			\$ 2,671		
Australia	1,233			818		
Canada	471			118		
	\$ 5,594			\$ 3,607		

The Company's international model is to join forces with local investors experienced with merchandising services and combine their knowledge of their local markets with the Company's proprietary software and expertise in the merchandising and marketing business. In 2001, the Company established its first international subsidiary and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, South Africa, India, Romania, China, Australia, Mexico and Turkey.

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 twelve months. However, international losses, 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.

5. Capital Lease Obligations

The Company has five outstanding capital lease obligations. The related capital lease assets balances are detailed below (in thousands):

Start Date:	Original Cost	Accumulated Depreciation	Net Book Value at March 31, 2012
July 2010	\$ 215	\$ 120	\$ 95
November 2010	48	23	25
June 2011	140	35	105

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January 1, 2012	224	19	205
January 1, 2012	29	2	27
	\$ 656	\$ 199	\$ 457

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SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

Annual future minimum lease payments required under the leases, together with the present value as of March 31, 2012, are as follows (in thousands):

Year Ending December 31,	Amount
2012	\$ 183
2013	201
2014	113
	497
Less amount representing interest	40
Present value of net minimum lease payments included with other liabilities	\$ 457

#### 6. Related-Party Transactions

SGRP's policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Senior Executives and Employees Dated (as of) May 1, 2004 (the "Ethics Code"). Article V of the Ethics Code generally prohibits each "Covered Person" (including SGRP's officers and directors) from engaging in any business activity that conflicts with his or her duties to the Company, and directs each "Covered Person" to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any "Approved Activity" (as such terms are defined in the Ethics Code). Examples of violations include (among other things) having any ownership interest in, acting as a director or officer of or otherwise personally benefiting from business with any customer or vendor of the Company other than pursuant to any Approved Activity. Approved Activities include (among other things) anything disclosed to and approved by the Board, the Governance Committee or the Audit Committee, as the case may be, as well as the ownership, board and executive positions held by certain executive officers in SMS and SMSI (as defined and described below). The Company's senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including conflicting relationships and transactions, subject to the review and oversight of SGRP's Governance Committee as provided in clause IV.11 of the Governance Charter, and its Audit Committee as provided in clause I.2(1) of the Audit Charter. The Governance Committee and Audit Committee each consist solely of independent outside directors.

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

Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director and the Vice Chairman of the Company and a major stockholder of SGRP, are executive officers and the sole stockholders and directors of SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI"), and



SPAR InfoTech, Inc. ("SIT").

SMS and SMSI provided approximately 99% of the domestic merchandising specialist field force used by the Company for both the three months ended March 31, 2012 and 2011, and approximately 93% and 94% of the domestic field management used by the Company at a total cost of approximately \$5.7 million and \$5.5 million for the three months ended March 31, 2012 and 2011, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, as amended (the "Field Services Agreement"), in 2011, the Company received merchandising services from SMS through the use of approximately 7,300 field merchandising specialists. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, in 2011, the Company received management services from SMSI through the use of 54 full-time national, regional and district managers. For those services, the Company has agreed to reimburse SMS and SMSI for their total costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective total costs (the "Plus Compensation"). Those costs include all field expenses of SMS, all payroll and employment tax expenses of SMSI and all legal and other administrative expenses paid by either of them. The total Plus Compensation earned by SMS and SMSI for services rendered was approximately \$213,000 and \$212,000 for the three months ended March 31, 2012 and 2011, respectively. The Company also provides certain administrative services directly to SMS and SMSI, without charge, for accounting, human resource and legal services, which the Company believes is more efficient if paid directly, and would otherwise have been subject to cost plus reimbursement. The value of these services was approximately \$104,000 and \$90,000 for the three months ended March 31, 2012 and 2011, respectively.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

The Company continues to purchase services from SMS and SMSI because it believes the terms it receives from them are at least as favorable to the Company as it could obtain from non-affiliated providers of similar services. The Company believes it is the largest and most important customer of SMS and SMSI (and from time to time may be their only customer), and accordingly the Company is able to negotiate better terms, receives more personal and responsive service and is more likely to receive credits and other financial accommodations from its affiliates than the Company could reasonably expect to receive from an unrelated service provider who has significant other customers and business. The Company periodically engages an outside firm to conduct a survey of fees and rates charged by comparable national labor sourcing firms to serve as a comparison to the rates charged by such affiliates, and expects to repeat that survey during 2012. The most recent such survey showed that the rates negotiated with the Affiliates are in fact slightly less than those charged by unrelated vendors providing similar services. The Company's cost of revenue would have increased by at least \$171,000 and \$166,000 for the three months ended March 31, 2012 and 2011, respectively, if the Company would have instead used an unaffiliated entity to provide comparable services at the surveyed rates. All affiliate contracts are reviewed and approved by SGRP's Audit Committee, as described below. See also Dependence Upon and Cost of Services Provided by Affiliates and Potential Conflicts in Services Provided by Affiliates in Item 1A (Risk Factors) in SGRP's 2011 Annual Report.

The Company has been advised that Messrs. Brown and Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations and are owned by Messrs. Brown and Bartels, all income from SMS and SMSI is allocated to them.

In July 2008, the Company, through SPAR Marketing Force, Inc. ("SMF"), entered into a new Master Lease Agreement with SMS, and in July and September of 2008 entered into new separate operating leases with SMS pursuant to Equipment Leasing Schedules under that Master Lease Agreement. Each operating lease had a 36 month term and representations, covenants and defaults customary for the leasing industry. The leases were for handheld computers to be used by field merchandisers in the performance of various merchandising and marketing services in the United States and had a total monthly payment of \$11,067. These handheld computers had an original purchase price of \$401,188. The monthly payments were based upon a lease factor of 3.1%. As of September 2011, these lease agreements expired and were paid in full. In addition, SMS has granted SMF continued use of the equipment at no additional charge to ensure continued compliance with the Field Services Agreement noted above. The Company estimates that the value of the handheld computers is approximately \$2,000 to \$4,000 per month.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

The following transactions occurred between the Company and the above affiliates (in thousands):

	Three Months Ended March 31,	
	2012	2011
<b>Services provided by affiliates:</b>		
Field merchandiser services (SMS)	\$ 4,609	\$ 4,388
Field management services (SMSI)	\$ 1,090	\$ 1,124
Handheld computer leases (SMS)	\$ -	\$ 33
<b>Total services provided by affiliates</b>	<b>\$ 5,699</b>	<b>\$ 5,545</b>
Accrued expenses due to affiliates (in thousands):	March 31,	December 31,
	2012	2011
<b>Total accrued expenses due to affiliates</b>	<b>\$ 1,551</b>	<b>\$ 1,092</b>

In July 1999, SMF, SMS and SIT entered into a perpetual software ownership agreement providing that each party independently owned an undivided share of and had the right to unilaterally license and exploit their "Business Manager" Internet job scheduling software (which had been jointly developed by such parties), and all related improvements, revisions, developments and documentation from time to time voluntarily made or procured by any of them at its own expense. In addition, SPAR Trademarks, Inc. ("STM"), SMS and SIT entered into separate perpetual trademark licensing agreements whereby STM has granted non-exclusive royalty-free licenses to SIT and SMS (and through them to their commonly controlled subsidiaries and affiliates by sublicenses, including SMSI) for their continued use of the name "SPAR" and certain other trademarks and related rights of STM, a wholly owned subsidiary of SGRP. SMS and SMSI provide services to the Company, as described above, and SIT no longer provides services to the Company and does not compete with the Company.

Through arrangements with the Company, SMS and SMSI participate in various benefit plans, insurance policies and similar group purchases by the Company, for which the Company charges them their allocable shares of the costs of those group items and the actual costs of all items paid specifically for them. All such transactions between the Company and the above affiliates are paid and/or collected by the Company in the normal course of business. As an accommodation, the Company also provides certain accounting, human resource and similar administrative services to SIT and certain other affiliates of Robert G. Brown and William H. Bartels, at a nominal cost.

In addition to the above, SMSI purchases insurance coverage for worker compensation, casualty and property insurance risk for itself, SMS and the Company from Affinity Insurance, Ltd. ("Affinity"). SMSI owns minority (less than 1%) equity interest in Affinity, and Mr. Robert G. Brown is a director of Affinity. The Affinity insurance premiums for such coverage are ultimately charged to SMSI, SMS and the Company based on the proportion of their respective insurable interests.

On December 31, 2010, there were 338,801 shares of SGRP's Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include Robert G. Brown (who is a co-founder, director, executive officer and significant shareholder of SGRP), and there were 215,601 shares of SGRP's Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include William H. Bartels (who also is a

co-founder, director, executive officer and significant shareholder of SGRP), which shares collectively constituted all of the outstanding shares of Series A Preferred Stock issued by SGRP. Those shares were originally purchased pursuant to subscription agreements on March 31, 2008, and September 24, 2008, at the closing Nasdaq bid price of SGRP's Common Stock for the preceding trading day, which was \$1.12 per share for the March purchases and \$0.86 per share for the September purchases. Each share of SGRP's Series A Preferred Stock could be converted into one share of SGRP's Common Stock (at the rate of one to one), at the option of the holder and without further consideration, and accumulated dividends at the rate of ten percent per annum. SGRP's Audit Committee and Board of Directors each reviewed and unanimously approved this transaction, including the pricing, conversion and other terms of the Preferred Stock and the affiliated relationship of the parties. The offer, sale and conversion of such Preferred Stock were not registered under the Securities Act or other securities laws, as they were a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
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On or before March 10, 2011, Mr. Brown and Mr. Bartels, as trustees of those plans, each had requested that their plan's preferred shares be converted into SGRP's Common Stock in accordance with its terms, and in order to facilitate conversion of those shares by payment of all accrued and unpaid dividends, on March 10, 2011, SGRP's Board of Directors (i) fixed March 10, 2011, as the applicable record date for determination of the holders of the SGRP's Series A Preferred Stock eligible to receive such dividends, (ii) declared a dividend on such SGRP's Series A Preferred Stock equal to the accrued and unpaid dividends thereon, payable in shares of SGRP's Common Stock valued at their market value (\$2.34 per share) on such record date, and (iii) authorized the issuance of the shares of SGRP's Common Stock necessary to effect such conversion (554,402 shares) and accrued dividend payment (54,584 shares) in consideration of the preferred shares surrendered and the accrued dividends thereby satisfied. As a result of such conversions and stock dividends, on March 11, 2011, Mr. Brown's plans received 372,158 shares of SGRP's Common Stock (33,357 shares of which were for accrued dividends) and Mr. Bartels' plan received 236,828 shares of SGRP's Common Stock (21,227 shares of which were for accrued dividends).

In the event of any material dispute in the business relationships between the Company and SMS, SMSI, or SIT, it is possible that Messrs. Brown or Bartels may have one or more conflicts of interest with respect to these relationships and such dispute could have a material adverse effect on the Company.

#### 7. Preferred Stock

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 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. After the Series A Preferred Stock conversion described in Note 6, above, 2,445,598 shares of SGRP Series A Preferred Stock remained authorized and available for issuance under SGRP's certificate of incorporation and Certificate of Designation of Series "A" Preferred Stock. The number of shares authorized by such designation could, however, be reduced by amendment or redemption to facilitate the creation of other SGRP Preferred Series.

#### 8. Stock-Based Compensation

SGRP currently grants options to its eligible directors, officers and employees and certain employees of its affiliates to purchase shares of Common Stock issued by SGRP ("SGRP Shares") pursuant to its 2008 Stock Compensation Plan, (as amended, the "2008 Plan"). SGRP also has granted stock options that continue to be outstanding under its predecessor, the 2000 stock option plan ("2000 Plan"). The 2000 Plan will continue to be outstanding for the purposes of any remaining outstanding options issued under it for so long as such options are outstanding. As described below, SGRP has the authority to issue other types of stock-based awards under the 2008 Plan, but (except for restricted stock award described below) to date it has not done so.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

The Company believes that it is desirable to align the interests of SGRP's directors, executives, employees and consultants with those of its stockholders through their ownership of SGRP Shares. Although the Company does not require its directors, executives, employees or consultants to own SGRP Shares, the Corporation believes that it can help achieve this objective by providing long term equity incentives through the issuance to its directors, executives, employees or consultants of options to purchase SGRP Shares and other stock-based awards pursuant to the 2008 Plan (as described below) and facilitating the purchase of SGRP Shares at a modest discount by all of its executives, employees and consultants who elect to participate in its Employee Stock Purchase Plan (as defined below). In particular, the Company believes that the award of options to purchase SGRP Shares to such directors, executives, employees and consultants encourages growth in their ownership of SGRP Shares, which in turn leads to the expansion of their stake in the long-term performance and success of the Company.

SGRP's stockholders approved and adopted the 2008 Plan in May of 2008, as the successor to the 2000 Plan with respect to all new options issued, and an amendment to the 2008 Plan in May of 2009, permitting the discretionary repricing described below. The 2008 Plan provides for the granting of either incentive or nonqualified stock options to purchase SGRP Shares, restricted SGRP Shares, and restricted stock units, stock appreciation rights and other awards based on SGRP Shares ("Awards") to SGRP Directors and the Company's specified executives, employees and consultants (which are employees of certain of its affiliates), although to date SGRP has not issued any permissible form of award other than stock options. Unless terminated sooner as provided therein, the 2008 Plan will terminate on May 28, 2018, which is ten years from the 2008 Plan Effective Date, and no further Awards may be made under it. However, any existing Awards made prior to such termination will continue in accordance with their respective terms and will continue to be governed by the 2008 Plan. Stock options granted under the 2008 Plan have a maximum term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders (whose terms are limited to a maximum of five years), and SGRP has generally issued options having maximum terms.

The 2008 Plan limits the number of SGRP Shares that may be covered by Awards ("Outstanding Covered Shares") to 5,600,000 SGRP Shares in the aggregate (the "Maximum Covered Shares"), which Outstanding Covered Shares for this purpose consist of the sum of (i) the SGRP Shares covered by all Awards issued under the 2008 Plan on or after May 29, 2008 ("New Awards"), plus (ii) and the SGRP Shares covered by all stock options issued at any time under the 2000 Plan or 1995 Plan to the extent they were still outstanding on May 29, 2008 ("Continuing Awards"). SGRP Shares covered by New Awards or Continuing Awards that expire, lapse, terminate, are forfeited, become void or otherwise cease to exist (other than as a result of exercise) are no longer Outstanding Covered Shares, are added back to remaining availability under the Maximum Covered Shares and thus become available for New Award grants, while those SGRP Shares covered by exercised New Awards or Continuing Awards continue to be Outstanding Covered Shares and are not added back to, and thus continue to reduce, the remaining availability under the Maximum Covered Shares under the 2008 Plan. The Outstanding Covered Shares and Maximum Covered Shares (as well as the SGRP Shares covered by a particular Award) are all subject to certain adjustments that may be made by the Compensation Committee upon the occurrence of certain changes in the Corporation's capitalization or structure as provided in the 2008 Plan. Except for the adjustments described above, an increase in the Maximum Covered Shares requires the consent of the SGRP stockholders under the terms of the 2008 Plan and Exchange Rules.

The 2008 Plan (as amended in 2009) gives SGRP's Compensation Committee the full authority and complete flexibility from time to time to designate and modify (in its discretion) one or more of the outstanding awards (including their exercise and base prices and other components and terms) to (among other things) restore their intended values and incentives to their holders. However, the exercise price, base value or similar component (if equal to SGRP's full stock price at issuance) of any award cannot be lowered to an amount that is less than the Fair Market

Value (as defined in the 2008 Plan) on the date of the applicable modification, and no modification can adversely affect an awardee's rights or obligations under an award without the awardee's consent. No further consent of SGRP's stockholders is required for any repricing or other modification of any outstanding or other award under the 2008 Plan, including those previously issued under predecessor plans. Awards have only been repriced once to date pursuant to this authority. In 2009, SGRP's Compensation Committee approved an offer to exchange and reprice stock options covering 2.1 million shares of SGRP's Common Stock, and outstanding stock options were voluntarily surrendered by and repriced for eighty-one of SGRP's eligible officers, employees and consultants and five of its directors, who received new option contracts to purchase an aggregate of 1,788,304 shares of SGRP's Common Stock in exchange for their old options. For details of such offer, please see SGRP's Offer to Exchange Certain Outstanding Stock Options, as described below.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
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Stock options and other stock based awards under the 2008 Plan may be issued from time to time by SGRP in its discretion to the Company's executives and other employees and generally are included in the annual incentive plans of SGRP's executives. The Company's management may present recommendations for such awards to the Compensation Committee at any of its regular quarterly meetings, although recently most recommendations have been made at the August meeting. The Chairman of the Board or the Compensation Committee may make those recommendations respecting Mr. Raymond, Mr. Raymond as Chief Executive Officer makes those recommendations respecting Mr. Segreto, Ms. Belzer and Ms. Franco, as well as for any new officer, and each of those executives in turn are allocated potential option shares for their departments and make recommendations respecting those under their supervision (subject to review and approval by Mr. Raymond). In recommending to the Compensation Committee the actual number of options (and options shares covered) to be granted to each individual, the person making the recommendation makes an assessment of the individual's contribution to the Company's overall performance, the individual's successful completion of a special project, and any significant increase or decrease in the participant's abilities, responsibilities and performance of his or her duties. The Compensation Committee reviews and discusses managements' recommendations at its meeting and determines whether and to what extent to approve and grant the proposed stock option or other stock based awards to executives and employees of the Company pursuant to the 2008 Plan.

The stock options issued under the 2008 Plan are typically "nonqualified" (as a tax matter), have a ten (10) year maximum life (term) and vest during the first four years following issuance at the rate of 25% on each anniversary date of their issuance. The Company accounts for its employee and affiliate employee stock option expense as compensation expense in the Company's financial statements when the stock options are granted, as now required by applicable accounting principles. Share-based compensation cost is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model.

Based upon the Black-Scholes calculation, share-based compensation expense related to employee and non-employee stock option grants totaled \$108,000 and \$55,000 for the three months ended March 31, 2012 and 2011, respectively. The unamortized expense as of March 31, 2012, was approximately \$720,000 employee and non-employee outstanding stock option grants. The impact of the total share-based compensation expense on basic/diluted earnings per share was less than half a cent for both the three months ended March 31, 2012 and 2011.

On March 10, 2011, SGRP's Compensation Committee authorized an award of 100,000 shares of restricted SGRP common stock as additional compensation to Gary S. Raymond, the Company's Chief Executive Officer and President. The restricted shares vest 20,000 shares a year over the next five (5) year, starting on March 10, 2012 and continuing through March 10, 2016, provided Mr. Raymond continues to be so employed by the Company on the applicable vesting date. In March 2012, the Company issued the first 20,000 restricted common shares to Mr. Raymond. If Mr. Raymond leaves such employment, he will lose his right to receive any unvested shares. The compensation expense related to these restricted shares will be amortized, by the Company, over the five (5) year vesting period that started on April 1, 2011. The Company recorded compensation expense of \$11,064 for the three months ended March 31, 2012. The unamortized expense as of March 31, 2012 was approximately \$177,000.

In 2001, SGRP adopted its 2001 Employee Stock Purchase Plan (the "ESP Plan"), which replaced its earlier existing plan, and its 2001 Consultant Stock Purchase Plan (the "CSP Plan"). These plans were each effective as of June 1, 2001. The ESP Plan allows employees of the Company, and the CSP Plan allows employees of the affiliates of the Company (See - Transactions with Related Persons, Promoters and Certain Control Persons, above), to purchase



SGRP's Common Stock from SGRP without having to pay any brokerage commissions. On August 8, 2002, SGRP's Board approved a 15% discount for employee purchases of Common Stock under the ESP Plan and recommended that its affiliates pay 15% of the value of the stock purchased as a cash bonus for affiliate consultant purchases of Common Stock under the CSP Plan.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

For more information respecting the Company's stock option and compensation plans, please see "Stock Compensation Plans" in SGRP's Proxy Statement for its 2012 meeting of stockholders as filed with the SEC on April 25, 2012.

9. Customer Deposits

Customer deposits at March 31, 2012, were \$217,000 (\$102,000 from domestic operations and \$115,000 from international operations) compared to \$183,000 at December 31, 2011 (\$188,000 from domestic operations and \$(5,000) from international operations).

10. Commitments and Contingencies

Legal Matters

The Company is a party to various legal actions and administrative proceedings arising in the normal course of business. In addition, the Company is involved in various other legal actions and administrative proceedings through its contractual obligation to pay SMS's costs (as part of the total costs of SMS borne by the Company - see Note 6, Related Party Transactions, above). In the opinion of the Company's management, disposition of these 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.

11. Geographic Data

The Company operates in the same single business segment (e.g., merchandising and marketing services) in both its Domestic Merchandising Services Division and its International Merchandising Services Division. The Company uses the same metrics to measure the performance of both its domestic and international divisions. The primary measurement utilized by management is operating profits, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into its local markets in an effort to improve market share and continued expansion efforts. Set forth below are summaries (in thousands) of the Company's net revenues from its United States subsidiaries (i.e., the Domestic Merchandising Services Division) and from its international (non-U.S.) subsidiaries (i.e., the International Merchandising Services Division), net revenue from certain international subsidiaries as a percent of consolidated net revenue, operating income (loss) and long lived assets by geographic area for 2012 and 2011, respectively:

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

	Three Months Ended March 31,	
	2012	2011
Net revenues:		
United States	\$ 9,285	\$ 9,521
International	11,762	6,897
Total net revenues	\$ 21,047	\$ 16,418

	Three Months Ended March 31,		2011			
	2012					
		% of consolidated net revenue		% of consolidated net revenue		
Net revenues international:						
Mexico	\$ 3,243	15.4 %	\$ –	– %		
South Africa	1,915	9.1	632	3.8		
Australia	1,464	7.0	2,103	12.8		
Canada	1,438	6.8	1,494	9.1		
Japan	1,272	6.0	773	4.7		
China	865	4.1	1,027	6.3		
All Others	1,565	7.5	868	5.3		
Total international revenue	\$ 11,762	55.9 %	\$ 6,897	42.0 %		

	Three Months Ended March 31,	
	2012	2011
Operating income (loss):		
United States	\$ 332	\$ 591
International	138	(194 )
Total operating income	\$ 470	\$ 397

	March 31,	December 31,
	2012	2011
Long lived assets:		
United States	\$ 2,416	\$ 2,169
International	1,375	1,385
Total long lived assets	\$ 3,791	\$ 3,554

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
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## 12. Supplemental Balance Sheet Information (in thousands)

	March 31, 2012	December 31, 2011
Accounts receivable, net, consists of the following:		
Trade	\$ 10,938	\$ 11,806
Unbilled	3,407	3,309
Non-trade	399	403
	14,744	15,518
Less allowance for doubtful accounts	71	57
Accounts receivable, net	\$ 14,673	\$ 15,461

	March 31, 2012	December 31, 2011
Property and equipment, net, consists of the following:		
Equipment	\$ 8,174	\$ 7,866
Furniture and fixtures	545	543
Leasehold improvements	250	250
Capitalized software development costs	4,448	4,261
	13,417	12,920
Less accumulated depreciation and amortization	11,646	11,397
Property and equipment, net	\$ 1,771	\$ 1,523

	March 31, 2012	December 31, 2011
Intangible assets consist of the following:		
Customer contracts and lists	\$ 874	\$ 869
Less accumulated amortization	197	164
	\$ 677	\$ 705

The Company is amortizing the customer contracts of \$874,000 on a straight line basis between 5 and 10 years. Amortization expense for the three months ending March 31, 2012 and for the year ended December 31, 2011 was approximately \$33,000 and \$100,000, respectively.

	March 31, 2012	December 31, 2011
Accrued expenses and other current liabilities consist of the following:		
Accrued salaries payable	\$ 747	\$ 1,005
Accrued accounting and legal expense	233	285
Other	2,443	2,749
Accrued expenses and other current liabilities	\$ 3,423	\$ 4,039



SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
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### 13. Foreign Currency Rate Fluctuations

The Company has foreign currency exposure with its international subsidiaries. In both 2012 and 2011, these exposures are primarily concentrated in the Australian Dollar, Canadian Dollar, Mexican Peso, South African Rand, Japanese Yen and Chinese Yuan. Total international assets were \$10 million and total liabilities were \$7.6 million based on exchange rates at March 31, 2012. International revenues for the three months ended March 31, 2012 and 2011 were \$11.8 million and \$6.9 million, respectively. The international division reported net income of approximately \$44,000 and net loss of \$247,000 for the three months ended March 31, 2012 and 2011, respectively.

### 14. Interest Rate Fluctuations

The Company is exposed to market risk related to the variable interest rate on its lines of credit, both in its United States subsidiaries (i.e., the Domestic Merchandising Services Division) and in its International (non-U.S.) subsidiaries (i.e., the International Merchandising Services Division). At March 31, 2012, the Company's outstanding lines of credit and other debt totaled approximately \$1.2 million, as noted in the table below (in thousands):

Location	Variable Interest Rate (1)	US Dollars (2)
United States	4.75	% \$ 678
International	0.01% -10.35	% 500
		\$ 1,178

(1) Based on interest rate at March 31, 2012.

(2) Based on exchange rate at March 31, 2012.

Based on the 2012 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact pre-tax earnings and cash flows for the three months ended March 31, 2012 by approximately \$4,600.

### 15. Recently Issued Accounting Standards

In 2012 we adopted the provisions of ASU No. 2011-05, "Comprehensive Income." This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareholders' equity. The provisions of this ASU were applied retrospectively.

In September 2011, the FASB issued ASU No. 2011-07, "Goodwill and Other Intangible Assets". This ASU is intended to simplify goodwill impairment testing by adding a qualitative review step to assess whether the required quantitative impairment analysis that exists today is necessary. The amended guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amended guidance is effective beginning in 2012, however, with earlier adoption permitted. The Company decided to early-adopt the

updated guidance to its 2011 annual impairment test and it did not have a significant impact on the Company's consolidated financial statements.

SPAR Group, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(unaudited) (continued)

16. Taxes

In July 2006, the FASB issued an interpretation, Accounting for Uncertainty in Income Taxes, now codified as ASC Topic 740, which detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Tax positions must meet a more-likely-than-not recognition threshold and requires that interest and penalties that the tax law requires to be paid on the underpayment of taxes should be accrued on the difference between the amount claimed or expected to be claimed on the return and the tax benefit recognized in the financial statements. The Company's policy is to record this interest and penalties as additional tax expense. The Company's tax reserves at March 31, 2012 and December 31, 2011 totaled \$65,000 for potential domestic state tax and federal tax liabilities.

SPAR and its subsidiaries file numerous consolidated, combined and separate company income tax returns in the U.S. Federal jurisdiction and in many U.S. state and foreign jurisdictions. With few exceptions, SPAR is subject to U.S. Federal, state and local income tax examinations for the years 2008 through the present. However, tax authorities have the ability to review years prior to the position taken by the Company to the extent that SPAR utilized tax attributes carried forward from those prior years.

17. Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

18. Subsequent Event

In May 2012, the Company sold its 51% interest in its subsidiary in Romania, SPAR CITY S.R.L. to that subsidiary's local investor for approximately \$120,000.



SPAR Group, Inc. and Subsidiaries

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

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q for the three months ended March 31, 2012 (this "Quarterly Report"), of SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), include "forward-looking statements" within the meaning of 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 together with the Securities Act, the "Securities Laws"), including, in particular and without limitation, the discussions respecting net revenues from significant clients, significant chain work and international joint ventures, federal taxes and net operating loss carry forwards, commencement of operations and future funding of international joint ventures, credit facilities and covenant compliance, cost savings initiatives, liquidity and sources of cash availability in this "Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources". Such forward looking statements also are included in SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission (the "SEC") on March 21, 2012 (its "Annual Report"), including (without limitation) the statements contained in the discussions 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 such information and the other risks and cautions noted in this Quarterly Report, the Company's Annual Report and the Company's other filings under applicable Securities Laws (including this Quarterly Report and the Company's Annual Report, each a "SEC Report") 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 and best 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 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 in this Quarterly Report and the Company's Annual Report (See Item 1A – Risk Factors) and any other cautionary statements contained or incorporated by reference in this Quarterly Report, the Company's Annual Report or other SEC Report. All forward-looking and other statements attributable to the Company or persons acting on its behalf are expressly subject to and qualified by all such risk factors and other cautionary statements.

You should not place undue reliance on the Company's forward-looking statements 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 are based on the information currently available to it and speak only as of March 31, 2012 (in the case of this Quarterly Report), December 31, 2011 (in the case of the Company's Annual Report) or other referenced date or, in the case of forward-looking statements contained in or incorporated by reference from another SEC Report, as of the date of or other date referenced in the SEC Report that includes such

statement. 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.

SPAR Group, Inc. and Subsidiaries

The Company does not intend or promise, and the Company expressly disclaims any obligation, to publicly update or revise any forward-looking statements, risk factors or other 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.

GENERAL

SPAR Group, Inc., (“SGRP”), and its subsidiaries (together with SGRP, the “SPAR Group” or the “Company”), is a diversified international merchandising and marketing services company and provides a broad array of services worldwide to help companies improve their sales, operating efficiency and profits at retail locations. The Company provides its merchandising and other marketing services to manufacturers, distributors and retailers worldwide, primarily in mass merchandisers, office supply, grocery, drug, independent, convenience, electronics, toy and specialty stores. The Company also provides furniture and other product assembly services in stores, homes and offices. The Company has supplied these project and product 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. Today the Company currently operates in 10 countries that encompass approximately 47% of the total world population through operations in the United States, Canada, Japan, South Africa, India, Romania, China, Australia, Mexico 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, 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, 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 is 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, 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.

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.

## SPAR Group, Inc. and Subsidiaries

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 and smart phone-based technology and business model worldwide.

### The Company's Domestic and International Geographic Divisions:

In order to cultivate foreign markets and expand the Company's merchandising and marketing services business outside of the United States, modify the necessary systems and implement its business model worldwide, and insure a consistent approach to its merchandising and marketing efforts worldwide, and even though it operates in a single business segment (merchandising and marketing services), the Company has 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, (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 these divisions provides merchandising and other marketing services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug store chains, convenience, office supply, toy, specialty and grocery stores in their respective territories. SPAR Group Inc.'s clients include the makers and distributors of home entertainment, general merchandise, health and beauty care, consumer goods 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. Today 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 47% of the total world population.



## SPAR Group, Inc. and Subsidiaries

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%	Tarrytown, New York, United States of America
Japan	May 2001	100%	Osaka, Japan
Canada	June 2003	100%	Toronto, Canada
South Africa	April 2004	51%	Durban, South Africa
India	April 2004	51%	New Delhi, India
Australia	April 2006	51%	Melbourne, Australia
Romania	July 2009	51%*	Bucharest, Romania
China	March 2010	51%**	Shanghai, China
Mexico	August 2010	51%	Mexico City, Mexico
Turkey	August 2011	51%***	Istanbul, Turkey

\* Currently the Company owns two subsidiaries in Romania. One subsidiary is 100% owned and is inactive, and the second subsidiary, acquired in July 2009, is 51% owned.

\*\* 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 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.

One key to the Company's international expansion strategy is its internally developed capability to translate all of its current and future proprietary Internet-based logistical, communications, scheduling, tracking and reporting software applications into any language for any market in which it operates or would like to enter. Through the Company's IT operations currently located in the facilities in Auburn Hills, Michigan, it provides worldwide access to the Company's proprietary logistical, communications, scheduling, tracking and reporting software to its entire operations worldwide on a 24/7/365 basis.

Another key to the Company's international strategy is its policy of seeking a material investor in a new subsidiary in an international location who is an experienced person or company in the local country who is not otherwise affiliated with the Company (each a "Local Investor"). The Company generally seeks to own at least 51% of a foreign subsidiary. As of the date of this Quarterly Report, the Company owns 100% of the equity of its international subsidiaries in Canada and Japan. A Local Investor provides equity, credit support and certain services to each international subsidiary not wholly owned by the Company, as well as the useful local attention, perspective and relationships of an equity owner with a strong financial stake in such subsidiary's success. The Company provides executive management and support to each foreign subsidiary as well its operational backbone (and the Company's

procedures and controls) through its proprietary Internet-based logistical, communications, scheduling, tracking, reporting and accounting programs. (See Item 1A in SGRP's Annual Report, Risks of Having Material Local Investors in International Subsidiaries.)



SPAR Group, Inc. and Subsidiaries

The Company operates in the same single business segment (e.g., merchandising and marketing services) in both its domestic and international divisions, and the Company tracks and reports certain financial information separately for each of those divisions, as described above. The Company measures the performance of its domestic and international divisions and subsidiaries using the same metrics. The primary measurement utilized by management is operating 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 its local markets in an effort to improve its market share and continued expansion efforts. Certain financial information regarding each of the Company's two geographic divisions, which includes their respective net revenues and operating income (loss) for each of the three months ended March 31, 2012, and March 31, 2011, and their respective long-lived assets at March 31, 2012, and December 31, 2011, are provided in Note 11, above.

Critical Accounting Policies

There were no material changes during the three months ended March 31, 2012, to the Company's critical accounting policies as reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the SEC on March 21, 2012.

## SPAR Group, Inc. and Subsidiaries

## Results of Operations

Three months ended March 31, 2012, compared to three months ended March 31, 2011

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

	Three Months Ended March 31,		2011	
	2012			
	\$	%	\$	%
Net revenues	\$ 21,047	100.0 %	\$ 16,418	100.0 %
Cost of revenues	15,278	72.6	11,186	68.1
Selling, general & administrative expense	5,022	23.9	4,573	27.9
Depreciation & amortization	277	1.3	262	1.6
Interest expense	51	0.2	81	0.5
Other (income) expense	(82 )	(0.4 )	9	0.1
Income before income taxes	501	2.4	307	1.8
Provision for income taxes	42	0.2	24	0.1
Net income	459	2.2	283	1.7
Net income attributable to non-controlling interest	(152 )	0.7	(30 )	0.2
Net income attributable to Spar Group, Inc.	\$ 307	1.5 %	\$ 253	1.5 %

## Net Revenues

Net revenues for the three months ended March 31, 2012, were \$21 million, compared to \$16.4 million for the three months ended March 31, 2011, an increase of \$4.6 million or 28%.

Domestic net revenues totaled \$9.3 million in the three months ended March 31, 2012, compared to \$9.5 million for the same period in 2011. Domestic net revenues decreased by approximately \$200,000, which was primarily due to lower project work in the first quarter of 2012 compared to a year ago.

International net revenues totaled \$11.8 million for the three months ended March 31, 2012, compared to \$6.9 million for the same period in 2011, an increase of \$4.9 million or 71%. The increase in 2012 international net revenues was primarily due to incremental revenue from the new subsidiaries in Mexico of \$3.2 million and Turkey of \$820,000, in addition to strong performances in South Africa of \$1.3 million resulting from a new client in the general merchandising category and in Japan of \$500,000, which was partially offset by lower revenue in Australia of \$640,000, China of \$160,000 and India of 100,000 due to their respective losses of key clients.

## 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 72.6% of its net revenues for the three months ended March 31, 2012 and 68.1% of its net revenues for the three months ended March 31, 2011.

Domestic cost of revenues was 68.1% of net revenues for the three months ended March 31, 2012, and 65.6% of net revenues for the three months ended March 31, 2011. The increase in cost of revenues as a percentage of net revenues was 2.5% due primarily to an unfavorable mix of syndicated and project work compared to last year. Approximately 91% and 89% of the Company's domestic cost of revenues in the three months ended March 31, 2012 and 2011, respectively, resulted from in-store merchandiser specialist and field management services purchased from certain of the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (See - Note 6 - Related-Party Transactions).

## SPAR Group, Inc. and Subsidiaries

Internationally, the cost of revenues increased to 76.1% of net revenues for the three months ended March 31, 2012, compared to 71.6% of net revenues for the three months ended March 31, 2011. The cost of revenue percentage increase of 4.5% was primarily due to higher cost margin business in 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 \$5.0 million and \$4.6 million for the three months ended March 31, 2012 and 2011.

Domestic selling, general and administrative expenses totaled \$2.4 million for both the three months ended March 31, 2012 and 2011.

International selling, general and administrative expenses totaled \$2.6 million for the three months ended March 31, 2012, compared to \$2.1 million for the same period in 2011. The increase of approximately \$500,000 was primarily attributable to the new subsidiaries in Mexico and Turkey.

### Depreciation and Amortization

Depreciation and amortization charges totaled \$277,000 for the three months ended March 31, 2012, and \$262,000 for the same period in 2011.

### Interest Expense

The Company's net interest expense was \$51,000 and \$81,000 for the three months ended March 31, 2012 and 2011, respectively. The decrease in interest expense is directly attributable to reduced borrowings.

### Other (Income) Expense

Other income totaled \$82,000 for the three months ended March 31, 2012 and other expense was \$9,000 for the same period in 2011.

### Income Taxes

The income tax provision totaled \$42,000 and \$24,000 for the three months ended March 31, 2012 and 2011, respectively. The tax provision resulted primarily from domestic state taxes and for tax provisions related to certain international profits. The Company recognizes minimum federal tax provisions as the Company anticipates utilizing operating loss carry forwards in 2012.

### Non-controlling Interest

Net operating profits from the non-controlling interest, from the Company's 51% owned subsidiaries, resulted in a reduction of net income of \$152,000 for the three months ended March 31, 2012 compared to a reduction of net income of \$30,000 for the three months ended March 31, 2011.

### Net Income

The Company reported a net income of \$307,000 for the three months ended March 31, 2012, or \$0.01 per diluted share, compared to a net income of \$253,000, or \$0.01 per diluted share, for the corresponding period last year.

SPAR Group, Inc. and Subsidiaries

Liquidity and Capital Resources

In the three months ended March 31, 2012, the Company had net income before non-controlling interest of \$459,000.

Net cash provided by operating activities was \$3 million and \$2.2 million for the three months ended March 31, 2012 and 2011, respectively. The net cash provided by operating activities was primarily due to reported net income, a reduction in accounts receivable and an increase in accounts payable.

Net cash used in investing activities for the three months ended March 31, 2012, and March 31, 2011, was approximately \$239,000 and \$188,000, respectively. The net cash used in investing activities was primarily a result of fixed asset additions.

Net cash used in financing activities for the three months ended March 31, 2012 and March 31, 2011, was approximately \$2.7 million and \$1.5 million, respectively. Net cash used in financing activities was primarily a result of payments on lines of credit.

The above activity resulted in a decrease in cash and cash equivalents for the three months ended March 31, 2012, of \$39,000.

At March 31, 2012, the Company had working capital of \$7.6 million, as compared to working capital of \$7.2 million at December 31, 2011. The Company's current ratio was 1.8 and 1.7 at March 31, 2012 and December 31, 2011, respectively.

Domestic Credit Facility ("Sterling Credit Facility"):

SGRP and certain of its domestic subsidiaries, namely SPAR Marketing Force, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Trademarks, Inc., and SPAR Acquisition, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the "Borrowers"), entered into a Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Loan Agreement"), with Sterling National Bank and Cornerstone Bank as the lenders (the "Lenders"), and issued their Secured Revolving Loan Notes in the original maximum principal amounts of \$5.0 million to Sterling National Bank and \$1.5 million to Cornerstone Bank (the "Notes"), to document and govern its new credit facility with them (the "Sterling Credit Facility"). In June 2011, the Lenders agreed to: (1) reduce the personal guarantee limits to the amounts noted below, and (2) extend the maturity of the Sterling Credit Facility until July 2013.

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, have provided personal guarantees of the Sterling Credit Facility totaling \$1,250,000 pursuant to their Limited Continuing Guaranty in favor of the Lenders dated as of July 6, 2010, as amended in June 2011 (the "Limited Guaranty").

Revolving Loans of up to \$6.5 million are available to the Borrowers under the Sterling Credit Facility based upon the borrowing base formula defined in the Loan Agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Sterling Credit Facility is secured by substantially all of the assets of the Borrowers (other than SGRP's foreign subsidiaries, certain designated domestic subsidiaries, and their respective equity and assets).

The basic interest rate under the Sterling Credit Facility is equal to the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time plus one and one-half (1.50%) percent per annum, which automatically

changes with each change in such rate.

Due to the requirement to maintain a lock box arrangement with the Agent and the Lenders' ability to invoke a subjective acceleration clause at its discretion, borrowings under the Sterling Credit Facility will be classified as current.

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## SPAR Group, Inc. and Subsidiaries

The Sterling Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments. At March 31, 2012, the Company was in compliance with such covenants and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants in the future, and should the Company be in violation, there can be no assurances that the Lenders will issue waivers for any future violations.

## International Credit Facilities:

In October 2011, the Australian subsidiary, SPARFACTS Australia Pty. Ltd., entered into a credit facility with Oxford Funding Pty. Ltd. for \$1.2 million (Australian) or approximately \$1.3 million (based upon the exchange rate at March 31, 2012).

SPAR Canada Company, a wholly owned subsidiary, has a secured credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$750,000 (Canadian) or approximately \$752,000 (based upon the exchange rate at March 31, 2012). The Demand Operating Loan provides for borrowing based upon a formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions) and a minimum total debt to tangible net worth covenant. The Company was in compliance with the minimum total debt to tangible net worth covenant under this line of credit at March 31, 2012.

On March 7, 2011, the Japanese subsidiary, SPAR FM Japan, Inc., a wholly owned subsidiary, secured a term loan with Mizuho Bank in the amount of 20 million Japanese Yen, or approximately \$244,000. The loan is payable in monthly installments of 238,000 Yen (or approximately \$2,900 based upon the exchange rate at March 31, 2012) at an interest rate of 0.1% per annum with a maturity date of February 28, 2018.

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

	March 31, 2012	Average Interest Rate		December 31, 2011	Average Interest Rate	
<b>Credit Facilities Loan Balance:</b>						
United States	\$ 678	4.75	%	\$ 2,621	4.75	%
Australia	13	10.35	%	402	10.38	%
Canada	281	4.00	%	618	4.00	%
	\$ 972			\$ 3,641		
<b>Other Debt Facility:</b>						
Japan Term Loan	\$ 206	0.1	%	\$ 227	0.1	%
<b>Unused Availability:</b>						
United States	\$ 3,890			\$ 2,671		
Australia	1,233			818		
Canada	471			118		
	\$ 5,594			\$ 3,607		

The Company's international model is to join forces with local investors experienced with merchandising services and combine their knowledge of their local markets with the Company's proprietary software and expertise in the merchandising and marketing business. In 2001, the Company established its first international subsidiary and has



continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, South Africa, India, Romania, China, Australia, Mexico and Turkey.

## SPAR Group, Inc. and Subsidiaries

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 twelve months. However, international losses, 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.

## Certain Contractual Obligations

The following table contains a summary of certain of the Company's contractual obligations by category as of March 31, 2012 (in thousands)

Contractual Obligations	Period in which payments are due				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 1,178	\$ 1,007	\$ 70	\$ 70	\$ 31
Capital Lease Obligations	497	233	264	—	—
Operating Lease Obligations	2,273	875	1,126	272	—
Total	\$ 3,948	\$ 2,115	\$ 1,460	\$ 342	\$ 31

## SPAR Group, Inc. and Subsidiaries

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

The Company is exposed to market risk related to the variable interest rate on its lines of credit, both in its United States subsidiaries (i.e., the Domestic Merchandising Services Division) and in its International (non-U.S.) subsidiaries (i.e., the International Merchandising Services Division). At March 31, 2012, the Company's outstanding lines of credit and other debt totaled approximately \$1.2 million, as noted in the table below (in thousands):

Location	Variable Interest Rate (1)	US Dollars (2)
United States	4.75	% \$ 678
International	0.1% -10.35	% 500
		\$ 1,178

(1) Based on interest rate at March 31, 2012.

(2) Based on exchange rate at March 31, 2012.

Based on the 2012 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact pre-tax earnings and cash flows for the three months ended March 31, 2012, by approximately \$4,600.

The Company has foreign currency exposure with its international subsidiaries. In both 2012 and 2011, these exposures are primarily concentrated in the Australian Dollar, Canadian Dollar, Mexican Peso, South African Rand, Japanese Yen and Chinese Yuan. Total International assets were \$10 million and total liabilities were \$7.6 million based on exchange rates at March 31, 2012. International revenues for the three months ended March 31, 2012 and 2011 were \$11.8 million and \$6.9 million, respectively. The international division reported net losses of approximately \$44,000 and \$247,000 for the three months ended March 31, 2012 and 2011, respectively.

## Item 4. Controls and Procedures

## Management's Report on Internal Control Over Financial Reporting

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

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (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 March 31, 2012.

SPAR Group, Inc. and Subsidiaries

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 Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's first quarter of its 2012 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SPAR Group, Inc. and Subsidiaries

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

The Company is a party to various legal actions and administrative proceedings arising in the normal course of business. In addition, the Company is involved in various other legal actions and administrative proceedings through its contractual obligation to pay SMS's costs (as part of the total costs of SMS borne by the Company - see Note 6, Related Party Transactions, above). In the opinion of the Company's management, disposition of these 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 1A. Risk Factors

#### Existing Risk Factors

SGRP's Annual Report describes various risk factors applicable to the Company and its businesses in Item 1A under the caption "Risk Factors", which risk factors are incorporated by reference into this Quarterly Report. There have been no material changes in the Company's risk factors since the Company's Annual Report for 2011 on Form 10-K, as filed with the SEC on March 21, 2012.

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

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

### Item 3. Defaults upon Senior Securities

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

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

### Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

### Item 5. Other Information

Not applicable.

SPAR Group, Inc. and Subsidiaries

Item 6. Exhibits

- 31.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 31.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.

101.INS\* XBRL Instance

101.SCH\* XBRL Taxonomy Extension Schema

101.CAL\* XBRL Taxonomy Extension Calculation

101.DEF\* XBRL Taxonomy Extension Definition

101.LAB\* XBRL Taxonomy Extension Labels

101.PRE\* XBRL Taxonomy Extension Presentation

\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SPAR Group, Inc. and Subsidiaries

SIGNATURES

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

Date: May 11, 2012

SPAR Group, Inc., Registrant

By: /s/ James R. Segreto  
James R. Segreto  
Chief Financial Officer, Treasurer, Secretary  
and duly authorized signatory