

SPAR GROUP INC
Form 10-Q
August 14, 2009

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 second quarterly period ended **June 30, 2009**.

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

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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

(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 June 30, 2009, there were 19,139,365 shares of Common Stock outstanding.

SPAR Group, Inc.

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PART I: FINANCIAL INFORMATION**Item 1. Financial Statements****SPAR Group, Inc.**

Consolidated Balance Sheets

(In thousands, except share and per share data)

| | June 30, 2009 | December 31, 2008 |
|--|--------------------------|------------------------------|
| | (Unaudited) | (Note) |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,466 | \$ 1,685 |
| Accounts receivable, net | 10,751 | 13,110 |
| Prepaid expenses and other current assets | 1,048 | 1,446 |
| Total current assets | 13,265 | 16,241 |
| Property and equipment, net | 1,641 | 1,803 |
| Goodwill | 798 | 798 |
| Other assets | 1,908 | 1,806 |
| Total assets | \$ 17,612 | \$ 20,648 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,454 | \$ 4,491 |
| Accrued expenses and other current liabilities | 3,350 | 4,911 |
| Accrued expenses due to affiliates | 1,533 | 1,398 |
| Customer deposits | 538 | 582 |
| Lines of credit | 3,825 | 5,494 |
| Total current liabilities | 13,700 | 16,876 |
| Long-term liabilities | 24 | 105 |
| Total liabilities | 13,724 | 16,981 |
| Commitments and contingencies (Note – 9) | | |
| Equity: | | |
| SPAR Group, Inc. Equity | | |
| Preferred stock, \$.01 par value: | | |
| Authorized shares – 3,000,000 | | |
| Issued and outstanding shares – | | |
| 554,402 – June 30 2009 | | |
| 554,402 – December 31, 2008 | 6 | 6 |
| Common stock, \$.01 par value: | | |
| Authorized shares – 47,000,000 | | |

| | | |
|--------------------------------------|------------------|-----------|
| Issued and outstanding shares – | | |
| 19,139,365 – June 30, 2009 | | |
| 19,139,365 – December 31, 2008 | 191 | 191 |
| Treasury stock | (1) | (1) |
| Additional paid-in capital | 12,918 | 12,821 |
| Accumulated other comprehensive loss | (236) | (361) |
| Accumulated deficit | (9,436) | (9,477) |
| Total SPAR Group, Inc. equity | 3,442 | 3,179 |
| Non-controlling interest | 446 | 488 |
| Total liabilities and equity | \$ 17,612 | \$ 20,648 |

Note: The Balance Sheet at December 31, 2008, is an excerpt from the audited financial statements at 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.

Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net revenues | \$ 13,478 | \$ 18,910 | \$ 28,649 | \$ 36,364 |
| Cost of revenues | 9,310 | 13,719 | 20,383 | 26,203 |
| Gross profit | 4,168 | 5,191 | 8,266 | 10,161 |
| Selling, general and administrative expenses | 3,888 | 4,510 | 7,856 | 9,168 |
| Depreciation and amortization | 267 | 221 | 529 | 429 |
| Operating income (loss) | 13 | 460 | (119) | 564 |
| Interest expense | 45 | 81 | 106 | 162 |
| Other (income) expense | (255) | 521 | (442) | 564 |
| Income (loss) before provision for income taxes | 223 | (142) | 217 | (162) |
| Provision for income taxes (benefit) | 73 | (185) | 222 | (21) |
| Net income (loss) | 150 | 43 | (5) | (141) |
| (Income) loss attributable to the non-controlling interest | (86) | 40 | (46) | 106 |
| Net income (loss) attributable to SPAR Group, Inc. | \$ 236 | \$ 3 | \$ 41 | \$ (247) |
| Basic/diluted net income (loss) per common share: | | | | |
| Net income (loss)- basic and | \$ 0.01 | \$ - | \$ - | \$ (0.01) |

diluted

| | | | | |
|--|---------------|--------|---------------|--------|
| Weighted average common shares – basic | 19,139 | 19,133 | 19,139 | 19,123 |
| Weighted average common shares-diluted | 19,183 | 19,133 | 19,183 | 19,123 |

See accompanying notes.

SPAR Group, Inc.

Consolidated Statements of Cash Flows

(unaudited)(In thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2009 | 2008 |
| Operating activities | | |
| Net cash provided by operating activities | \$ 1,772 | \$ 2,274 |
| Investing activities | | |
| Purchases of property and equipment and capitalized software | (367) | (225) |
| Financing activities | | |
| Net payments on lines of credit | (1,668) | (990) |
| Other long-term liabilities | (81) | (68) |
| Proceeds from employee stock purchase plan and options exercised | – | 34 |
| Net cash used in financing activities | (1,749) | (1,024) |
| Translation gain (loss) | 125 | (26) |
| Net change in cash and cash equivalents | (219) | 999 |
| Cash and cash equivalents at beginning of period | 1,685 | 1,246 |
| Cash and cash equivalents at end of period | \$ 1,466 | \$ 2,245 |
| Supplemental disclosure of cash flows information | | |
| Interest paid | \$ 128 | \$ 147 |
| Taxes paid | \$ – | \$ 9 |

The Company issued preferred stock in the first quarter of 2008. Upon issuance of the preferred shares the accrued expenses due to affiliates was reduced by \$100,000.

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 2008 on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission (the “SEC”) on April 15, 2009, (the “Company’s Annual Report for 2008 on Form 10-K”). 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 Company is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides in-store event staffing, radio frequency identification (“RFID”) services, technology services and marketing research.

Today the Company operates in 13 countries whose population represents approximately 48% of the total world population. The Company’s operations are currently divided into two divisions: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Domestic Merchandising Services Division provides merchandising and marketing services, RFID services, technology services and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, drug store chains and convenience and grocery stores. The International Merchandising Services Division was established in July 2000 and through its subsidiaries, the Company currently provides similar merchandising, marketing services and in-store event staffing in Japan, Canada, Turkey, South Africa, India, Romania, China, Lithuania, Latvia, Estonia, Australia and New Zealand.

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

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 June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| Net income | | | | |
| (loss) | \$ 236 | \$ 3 | \$ 41 | \$ (247) |
| Denominator: | | | | |
| Shares used in basic net loss per share calculation | 19,139 | 19,133 | 19,139 | 19,123 |
| Effect of diluted securities: | | | | |
| Employee stock options | 44 | – | 44 | – |
| Shares used in diluted net loss per share calculation | 19,183 | 19,137 | 19,183 | 19,137 |
| Basic and diluted net loss per common share | \$ 0.01 | \$ – | \$ – | \$ (0.01) |

4. Lines of Credit

In January 2003, the Company (other than SGRP's foreign subsidiaries) and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provides for a \$7.0 million revolving line of credit. In March 2007, the credit facility was amended to, among other things, delay the Minimum Fixed Coverage ratio until the fourth quarter 2007, establish an EBITDA covenant and increase

the interest rate by 0.25% beginning March 28, 2007. In May 2007, the credit facility was amended to provide for an availability reserve of \$500,000. In August 2007, the credit facility was further amended to reduce the availability reserve to \$250,000 until November 30, 2007. On November 16, 2007, Webster amended the credit facility to extend the availability reserve of \$250,000 indefinitely and to reduce the revolving line of credit from \$7.0 to \$5.0 million. In February 2008, the Credit Facility was amended to establish monthly EBITDA covenants until September 30, 2008, and to set a Fixed Charge Coverage Ratio covenant for the year ended December 31, 2008. In January 2009, the Credit Facility was amended to extend the agreement until March 15, 2009, adjust the interest rate to the greater of 5%, the Alternative Base Rate plus 1% or the 30 day LIBOR plus 2.75% and to increase the limit on the capital expenditures to \$1.3 million. In March 2009, the Credit Facility was further amended to extend the maturity until March 15, 2010, extend the monthly Fixed Charge Coverage Ratio covenant until March 15, 2010, and reset the limit on capital expenditures to \$800,000.

Borrowings are based upon a borrowing base formula as defined in the agreement (principally 85% of “eligible” domestic accounts receivable less certain reserves). The Credit Facility is secured by all of the assets of the Company’s domestic subsidiaries. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments.

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 Credit Facility totaling \$1.0 million.

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(unaudited)

The basic interest rate under the Credit Facility is the greater of i) Webster's "Alternative Base Rate" plus 1.0% per annum, which automatically changes with each change made by Webster in such Alternative Base Rate, ii) LIBOR plus 2.75% per annum, or iii) the minimum rate imposed by Webster of 5% per annum. The actual average interest rate under the Credit Facility was 5% per annum for the six months ended June 30, 2009. The Credit Facility is secured by substantially all of the assets of the Company (other than SGRP's foreign subsidiaries and their assets).

The domestic revolving loan balances outstanding under the Credit Facility were approximately \$3.0 million and \$4.0 million at June 30, 2009 and December 31, 2008, respectively. As of June 30, 2009, the Company had unused availability under the Credit Facility of \$48,000 out of the remaining maximum \$2.0 million unused revolving line of credit.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at June 30, 2009 and December 31, 2008, in accordance with EITF 95-22, Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement.

The Webster Credit Facility contains certain restrictive covenants. At June 30, 2009, the Company was in compliance with the 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 Webster will issue waivers for any future violations.

The Japanese subsidiary SPAR FM Japan, Inc. has line of credit agreements totaling 100 million Yen or approximately \$1.0 million (based upon the exchange rate at June 30, 2009). There were no outstanding balances under the line of credit agreements at June 30, 2009. The outstanding balance at December 31, 2008 was approximately 100 million Yen, or approximately \$1.1 million (based upon the exchange rate at that date). In addition, the Japanese subsidiary had cash balances totaling 113 million Yen, or approximately \$1.2 million (based upon the exchange rate at June 30, 2009) and 105 million Yen, or approximately \$1.2 million (based upon the exchange rate at December 31, 2008) at June 30, 2009 and December 31, 2008, respectively. The average interest rate was 2.3% per annum for the six months ended June 30, 2009.

In 2008, the Australian subsidiary, SPARFACTS Australia Pty. Ltd., entered into a revolving line of credit arrangement with Commonwealth Bank of Australia (CBA) for \$2.0 million (Australian), or approximately \$1.6 million (based upon the exchange rate at June 30, 2009). At June 30, 2009, SPARFACTS Australia Pty. Ltd. had \$469,000 (Australian) or \$377,000 outstanding under the line of credit and at December 31, 2008, SPARFACTS Australia Pty. Ltd. had \$1.4 million (Australian), or approximately \$1.0 million, outstanding under the line of credit (based upon the exchange rate at those dates). The average interest rate was 9.5% per annum for the six months ended June 30, 2009.

On October 20, 2006, SPAR Canada Company, a wholly owned subsidiary, entered into 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 \$649,000 (based upon the exchange rate at June 30, 2009). 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. On March 28, 2008, Royal Bank of Canada amended the secured credit agreement to reduce the maximum borrowing of \$500,000 (Canadian) however, in October 2008; Royal Bank of Canada reinstated the loan limit to \$750,000 (Canadian). The outstanding balances under the line of credit agreement were \$540,000 (Canadian) or \$467,000 and \$691,000 (Canadian) or \$565,000 at June 30, 2009 and December 31, 2008, respectively (based upon the exchange rate at those dates). The average interest rate was 3.3% per annum for the six months ended June 30, 2009.

5. Capital Lease Obligations

In 2007, the Company capitalized certain equipment leases. The economic substance of the leases is such that the Company is financing the acquisition of the assets through the leases. The equipment has a cost of \$582,000,

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

accumulated depreciation of \$427,000 and a net book value of \$155,000 at June 30, 2009. The accumulated depreciation and net book value as of December 31, 2008, was \$330,000 and \$252,000, respectively.

Annual future minimum lease payments required under the leases, together with their present value as of June 30, 2009, are as follows (in thousands):

| Year Ending <u>December 31:</u> | Amount |
|--|--------|
| 2009 | \$ 119 |
| 2010 | 102 |
| | 221 |
| Less amount representing interest | 34 |
| Present value of net minimum lease payments | 187 |
| Less current portion included with other current liabilities | 163 |
| Long-term portion included with other long-term liabilities | \$ 24 |

6. Related-Party Transactions

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, 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 99% of the Company’s domestic merchandising specialists field force for both the six months ended June 30, 2009 and 2008, respectively, and they also provided 87% and 84% of the Company’s domestic field management, at a total cost to the Company of approximately \$6.9 million and \$9.9 million for the six months ended June 30, 2009 and 2008, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, as amended on September 24, 2008 (the “Field Services Agreement”), SMS provides merchandising services to the Company through the use of approximately 4,000 of its field force of merchandising specialists. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, SMSI provides 52 full-time national, regional and district managers to the Company. For those services, the Company has agreed to reimburse SMS and SMSI for all of their costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective costs (the “Plus Compensation”). SMS and the Company agreed to provide a temporary price concession by lowering the Plus Compensation rate by one percentage point, from 4% to 3%, effective January 1, 2009, continuing through December 31, 2009, at which time the Plus Compensation rate will be re-instated to 4%. The total Plus Compensation (3% of the costs of SMS and SMSI for 2009 and 4% for 2008) earned by SMS and SMSI for services rendered was approximately \$194,000 and \$378,000 for the six months ended June 30, 2009, and 2008, respectively. 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, they benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services purchased by the Company at a total cost of \$301,000 and \$359,000 for the six months ended June 30, 2009 and 2008, respectively. SIT provided approximately 11,400 and 12,000 hours of Internet computer programming services to the Company for the six months ended June 30, 2009 and 2008, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of September 15, 2007, SIT continues to provide programming services to the Company for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. The average hourly billing rate was \$26.26 and \$29.92 for the six months ended June 30, 2009 and 2008, respectively. The Company has been

SPAR Group, Inc. and Subsidiaries
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(unaudited)

advised that no hourly charges or business expenses for Messrs. Brown and Bartels were charged to the Company by SIT for the six months ended June 30, 2009 and 2008, respectively. However, since SIT is a “Subchapter S” corporation and is owned by Messrs. Brown and Bartels, they benefit from any income of such company allocated to them.

In addition, through arrangements with the Company, SMS, SMSI and SIT 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 transactions between the Company and the above affiliates are paid and/or collected by the Company in the normal course of business.

In November 2004 and January 2005 and as amended in May 2005, the Company entered into separate operating lease agreements between SMS and the Company’s wholly-owned subsidiaries, SPAR Marketing Force, Inc. (“SMF”) and SPAR Canada Company (“SPAR Canada”).

By March 31, 2008, all of the operating leases noted above had expired. Both SMF and SPAR Canada elected to notify SMS of their intention to continue to lease the equipment for an additional twelve month period. On September 24, 2008, SMS entered into a Bill of Sale and Lease Termination agreement with SMF and SPAR Canada, pursuant to which the parties terminated those leases and SMF purchased from SMS the equipment SMF leased under its existing equipment lease pursuant to its option there under and the equipment SPAR Canada leased under its existing equipment lease (with SPAR Canada’s consent), for a total purchase price of \$500,000 (the fair market value of the hand held computer units so purchased). SGRP’s Audit Committee and Board of Directors each reviewed and approved this affiliated transaction, including (without limitation) the terms of the Bill of Sale and the affiliated relationship of the parties.

In July 2008, the Company (through 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 has a 36 month term and representations, covenants and defaults customary for the leasing industry and substantially the same as those in the SMS leases in 2004 and 2005. The leases are for a total of 240 handheld computers to be used by field merchandisers in the performance of various merchandising and marketing services in the United States and have a total monthly payment of \$11,067. These handheld computers had an original purchase price of \$401,188. The monthly payments are based upon a lease factor of 3.1%.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Services provided by affiliates: | \$ 2,818 | \$ 4,480 | \$ 5,218 | \$ 7,921 |

Merchandising
services (SMS)

Field
management
services (SMSI)

| | | | | | | | |
|----|------------|----|-----|----|--------------|----|-------|
| \$ | 766 | \$ | 934 | \$ | 1,635 | \$ | 1,930 |
|----|------------|----|-----|----|--------------|----|-------|

Handheld
computer leases
(SMS)

| | | | | | | | |
|----|-----------|----|---|----|-----------|----|---|
| \$ | 33 | \$ | - | \$ | 66 | \$ | 7 |
|----|-----------|----|---|----|-----------|----|---|

Internet and
software
program
consulting
services (SIT)

| | | | | | | | |
|----|------------|----|-----|----|------------|----|-----|
| \$ | 140 | \$ | 171 | \$ | 301 | \$ | 359 |
|----|------------|----|-----|----|------------|----|-----|

**June 30,
2009**

**December 31,
2008**

Total accrued expenses due to
affiliates

| | | | |
|----|--------------|----|-------|
| \$ | 1,533 | \$ | 1,398 |
|----|--------------|----|-------|

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

In July 1999, SMF, SMS and SIT entered into a 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 made or procured by any of them. In addition, SPAR Trademarks, Inc. ("STM"), SMS and SIT entered into separate 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 through SMS) for their continued use of the name "SPAR" and certain other trademarks and related rights transferred to STM, a wholly owned subsidiary of SGRP.

On March 31, 2008, and September 24, 2008, the pension plans of Mr. Brown and Mr. Bartels purchased an aggregate of 554,402 shares of SGRP's Series A Preferred Stock (which are convertible without further consideration into shares of SGRP's common stock on a one-for-one basis at the request of the holders) from SGRP at the market prices for SGRP's common stock at such purchase times (see Note 16 - Preferred Stock).

In addition to the above, through the services of Affinity Insurance, Ltd. ("Affinity"), the Company purchases insurance coverage for its casualty and property insurance risk. The Company's Chairman and Vice Chairman own, through SMSI, a minority (less than 1 %) equity interest in Affinity.

SGRP's Audit Committee periodically reviews and has approved all of the related party relationships and transactions described above. As required by its Charter and the Company's Code of Ethical Conduct, the Audit Committee reviews each material related party transaction for its overall fairness, which review includes (without limitation) the costs and benefit to the Company, the other terms of the transactions, and the affiliated relationship of the parties.

7. Stock-Based Compensation

SGRP grants options to purchase shares of common stock issued by SGRP to its directors, officers, employees and certain employees of its affiliates pursuant to its 2008 Stock Compensation Plan, as amended (the "2008 Plan"), and has granted stock options under various predecessor plans that continue to be outstanding. SGRP has the authority to issue other types of stock-based awards under the 2008 Plan, but to date has not done so. Under SFAS No. 123(R), 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. 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. The fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

Based upon the Black-Scholes calculation, share-based compensation expense related to employee stock option grants totaled \$73,000 and \$85,000 for the six months ended June 30, 2009 and 2008, respectively. Compensation expense related to non-employee stock option grants awarded to the employees of the Company's affiliates was \$22,000 and \$48,000 for the six months ended June 30, 2009 and 2008, respectively. The unamortized expense as of June 30, 2009,

was approximately \$294,000 and \$22,000 for employee and non-employee outstanding stock option grants, respectively. The impact of the total share-based compensation expense on basic/diluted earnings per share was \$0.01 for both the six months ended June 30, 2009 and 2008, respectively.

At the 2009 annual meeting on May 28, 2009, the stockholders of SGRP approved an amendment (the “Repricing Amendment”) to the 2008 Plan that gives the Compensation Committee of SGRP’s Board of Directors (the “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 stock options or other awards (including their exercise prices and other terms) to (among other things) restore their intended values and incentives to their holders. No further consent of SGRP’s stockholders is required for any repricing or other modification of any award pursuant to the Repricing Amendment. However, no

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

modification can adversely affect an awardee's rights or obligations under an award without the awardee's consent. The Repricing Amendment permits changes in all outstanding stock options and other awards, including those previously issued under predecessor plans.

On August 6, 2009, in order to restore the intended value and incentives under SGRP's outstanding stock options as permitted by the Repricing Amendment, the Compensation Committee and Board approved a plan to offer to its employees, officers, directors, consultants and retirees the opportunity to surrender options on approximately 2.1 million shares of the Corporation's common stock in exchange for repriced replacement options in the same amount as the surrendered option shares except for those surrendered by outside directors (who will receive fewer replacement shares as described below).

The replacement options were granted at that meeting conditioned on (among other things) the completion of the required documentation, its filing with the SEC, and the option holder's voluntary participation and surrender of selected existing option contracts and the option holder's continuing to be an employee, officer, consultant or retiree at the time of such issuance. In accordance with the 2008 Plan, the exercise price for the replacement options is \$0.40, which was the closing sale price on August 6, 2009 (the date of grant in accordance with the 2008 Plan and past practice). SGRP is in the process of preparing and filing the required documentation with the SEC.

Replacement options for employees, officers, consultants and retirees will vest over four (4) years (which currently is the case with any new options issued to them), and the participants will not receive any credit for past vesting of the surrendered options. If the program receives 100% participation by all eligible option holders, and they do not terminate their relationship with the Company during the vesting period (other than through retirement), it is expected that the maximum incremental compensation expense to the Company will be approximately \$90,000 (based on current Black-Scholes computation factors), which will be recognized ratably over the vesting period from August 7, 2009, to August 6, 2013.

Replacement options for current and retired outside directors, priced and conditioned as described above will vest immediately (which currently is the case with any new options issued to them). However, the Compensation Committee insisted that the exchange rate for outside directors be less than one replacement option share for each surrendered option share to endeavor to avoid any resulting incremental expense to the Company. The replacement options will vest immediately (which currently is the case with any new options issued to them). It is expected that there will be no incremental expense to the Company from the participation in the repricing exchange by any outside director or retiree, whether or not all participate.

8. Customer Deposits

Customer deposits at June 30, 2009, were \$538,000 (\$52,000 from domestic operations and \$486,000 from international operations) compared to \$582,000 at December 31, 2008 (\$156,000 from domestic operations and \$426,000 from international operations).

9. Commitments and Contingencies

International Commitments

The Company's international business model is to partner with local merchandising companies and combine the Company's proprietary software and expertise in the merchandising and marketing services business with their partner's knowledge of the local market. Since 2000, the Company has expanded its international presence to Japan, Canada, Turkey, South Africa, India, Romania, China, Lithuania, Latvia, Estonia, Australia, and New Zealand. Today the Company operates in 13 countries whose population represents approximately 48% of the total world population.

Certain of these international subsidiaries are profitable, while others are operating at a loss. In the event certain subsidiaries have continued losses, the Company may be required to make additional cash infusions into those subsidiaries.

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Legal Matters

Safeway Inc. (“Safeway”) filed a Complaint against PIA Merchandising Co., Inc. (“PIA Co.”), a wholly owned subsidiary of SPAR Group, Inc. (“SGRP”), Pivotal Sales Company (“Pivotal”), a wholly-owned subsidiary of PIA Co., and SGRP in Alameda County Superior Court, case no. 2001028498 on October 24, 2001. Safeway’s claims, as subsequently amended, alleged causes of action for breach of contract and breach of implied contract. PIA Co. and Pivotal filed cross-claims against Safeway on or about March 21, 2002, and amended them on or about October 15, 2002, alleging causes of action by PIA Co. and Pivotal against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment. Trial commenced in March 2006.

On May 26, 2006, the jury in this case returned a verdict resulting in a net award of \$1,307,700 to Pivotal, a SGRP subsidiary. This net award is to be paid by Safeway and resulted from separate jury findings that awarded damages to those SGRP subsidiaries on certain claims and damages to Safeway on other claims. In particular, the jury awarded damages to Pivotal of \$5,760,879 for Safeway’s interference with Pivotal’s contractual relationships with third party manufacturers and also awarded \$782,400 to Pivotal and PIA Co. for Safeway’s breach of contract with those SGRP subsidiaries. The jury awarded damages to Safeway of \$5,235,579 for breach of contract by SGRP and those SGRP subsidiaries. Judgment was entered in favor of Pivotal on August 14, 2006 for \$1,307,700. Both sides filed post trial motions but all post trial motions were denied. Notices of Appeal were thereafter filed by both Safeway and Pivotal/PIA/SGRP. Pivotal/PIA/SGRP is seeking to have Safeway’s award overturned, thereby increasing the award to Pivotal by over \$5 million. Safeway is seeking to have overturned the \$5,760,879 award against it for interference with contractual relationships. With the appeals pending, the parties participated in a mediation of the dispute, but it was not successful in resolving the matter. Accordingly, the appeals are proceeding.

Briefing on the appeals commenced in the second quarter of 2008, and the case was fully briefed by April 2009. An oral argument hearing date will be assigned by the California Court of Appeal. The appellate process in the Court of Appeal is expected to last until late 2009. The Company has recorded the net \$1.3 million judgment award in other assets.

In addition to the above, the Company is a party to various other legal actions and administrative proceedings arising in the normal course of business. In the opinion of the Company’s management, disposition of these other matters are not anticipated to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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10. Geographic Data

A summary of the Company's net revenues, operating income (loss) and long lived assets by geographic area for the six months ended June 30, 2009 and 2008, respectively, and at June 30, 2009 and 2008, respectively, are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| <u>Net revenues:</u> | | | | |
| United States | \$ 6,740 | \$ 8,897 | \$ 12,401 | \$ 16,340 |
| International | 6,738 | 10,013 | 16,248 | 20,024 |
| Total net revenues | \$ 13,478 | \$ 18,910 | \$ 28,649 | \$ 36,364 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| <u>Operating income (loss):</u> | | | | |
| United States | \$ 332 | \$ 317 | \$ 73 | \$ 84 |
| International | (319) | 143 | (192) | 480 |
| Total operating income (loss) | \$ 13 | \$ 460 | \$ (119) | \$ 564 |

| | June 30, | December 31, |
|----------------------------------|-----------------|---------------------|
| | 2009 | 2008 |
| <u>Long lived assets:</u> | | |
| United States | \$ 3,990 | \$ 4,070 |
| International | 357 | 337 |
| Total long lived assets | \$ 4,347 | \$ 4,407 |

International revenues disclosed above were based upon revenues reported by the Company's nine international subsidiaries. The Japan subsidiary contributed 16.3% and 14.7% of the consolidated net revenues of the Company for the three months ended June 30, 2009 and 2008, respectively, and 20.2% and 16.9% of the Company's net revenues for the six months ended June 30, 2009 and 2008, respectively. The Canadian subsidiary contributed 7.1% and 12.0% of the consolidated net revenues of the Company for the three months ended June 30, 2009 and 2008, respectively, and 10.2% and 11.1% of the Company's net revenues for the six months ended June 30, 2009 and 2008, respectively. The Australian subsidiary contributed 7.6% and 10.9% of the consolidated net revenues of the Company for the three months ended June 30, 2009 and 2008, respectively, and 8.2% and 11.2% of the Company's net revenues for the six months ended June 30, 2009 and 2008, respectively. The India subsidiary contributed 10.8% and 6.2% of the consolidated net revenues of the Company for the three months ended June 30, 2009 and 2008, respectively, and 9.9% and 6.3% of the Company's net revenues for the six months ended June 30, 2009 and 2008, respectively. Each of the remaining five foreign subsidiaries contributed, in total, 8.2% and 9.3% of the consolidated net revenue of the Company for the three months ended June 30, 2009 and 2008, and 8.3% and 9.6% for the six months ended June 30, 2009 and 2008.

During 2008 and 2009 the Company has been involved in various discussions regarding its ownership position in the Company's Japan subsidiary. At the SPAR Board meetings in March and August 2009 the Board approved, in principal, a change in the ownership of its Japan subsidiary provided the terms and conditions to be negotiated would be favorable to the Company.

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Negotiations continue and the Company is currently assessing its options in 2009 under the various alternatives that are available to it, including those based on the existing joint venture agreement. As of this filing on Form 10-Q, no formal decisions related to a purchase or sale of the Company's share in the Japan subsidiary have been finalized.

11. Supplemental Balance Sheet Information

| | June 30, 2009 | December 31, 2008 |
|---|--------------------------|------------------------------|
| Accounts receivable, net, consists of the following (in thousands): | | |
| Trade | \$ 6,687 | \$ 9,895 |
| Unbilled | 3,470 | 2,964 |
| Non-trade | 905 | 543 |
| | 11,062 | 13,402 |
| Less allowance for doubtful accounts | (311) | (292) |
| Accounts receivable, net | \$ 10,751 | \$ 13,110 |

| | June 30, 2009 | December 31, 2008 |
|--|--------------------------|------------------------------|
| Property and equipment, net, consists of the following (in thousands): | | |
| Equipment | \$ 7,498 | \$ 7,423 |
| Furniture and fixtures | 556 | 555 |
| Leasehold improvements | 246 | 245 |
| Capitalized software development costs | 2,588 | 2,278 |
| | 10,888 | 10,501 |
| Less accumulated depreciation and amortization | 9,247 | 8,698 |
| Property and equipment, net | \$ 1,641 | \$ 1,803 |

| | June 30, 2009 | December 31, 2008 |
|---|--------------------------|------------------------------|
| Accrued expenses and other current liabilities consist of the following (in thousands): | | |
| Taxes payable | \$ 479 | \$ 1,061 |
| Accrued accounting and legal expense | 265 | 277 |
| Accrued salaries payable | 675 | 622 |
| Other | 1,931 | 2,951 |
| Accrued expenses and other current liabilities | \$ 3,350 | \$ 4,911 |

12. Foreign Currency Rate Fluctuations

The Company has foreign currency exposure with its international subsidiaries. In both 2009 and 2008, these exposures are primarily concentrated in the Japanese Yen, Australian Dollar and Canadian Dollar. International revenues for the six months ended June 30, 2009 and 2008 were \$16.2 million and \$20.0 million, respectively. The international division reported a net (loss) income of approximately \$(403,000) and \$257,000 for the six months ended June 30, 2009 and 2008, respectively.

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In those countries where the Company had risk for foreign currency exposure, the total assets were \$4.7 million and total liabilities were \$3.9 million based on exchange rates at June 30, 2009.

13. Interest Rate Fluctuations

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At June 30, 2009, the Company's outstanding lines of credit totaled approximately \$3.8 million, as noted in the table below (in thousands):

| Location | Variable Interest Rate ⁽¹⁾ | US Dollars ⁽²⁾ |
|---------------|---------------------------------------|---------------------------|
| United States | 5.0% | \$ 2,980 |
| International | 3.3% - 9.5% | 845 |
| | | \$ 3,825 |

(1) Based on interest rate at June 30, 2009.

(2) Based on exchange rate at June 30, 2009.

Based on the 2009 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 six months ended June 30, 2009 by approximately \$19,000.

14. Recently Issued Accounting Standards

In June 2008, the FASB ratified FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities," which addresses whether instruments granted in share-based payment awards are participating securities prior to vesting and, therefore, must be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, "Earnings per Share." FSP No. EITF 03-6-1 requires that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend-equivalents be treated as participating securities in calculating earnings per share. FSP No. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and shall be applied retrospectively to all prior periods. There was no material impact from this statement on the Company's financial condition and results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS 165"), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company adopted SFAS 165 effective April 1, 2009 and has evaluated subsequent events after the balance sheet date of June 30, 2009 through August 14, 2009, the date the financial statements were issued.

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 168, “The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162” (“SFAS 168”). SFAS 168 establishes the FASB Standards Accounting Codification (“Codification”) as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. The only other source of authoritative GAAP is the rules and interpretive releases of the SEC which only apply to SEC registrants. The Codification will supersede all the existing non-SEC accounting and reporting standards upon its effective date. Since the issuance of the Codification is not intended to change or alter existing GAAP, adoption of this statement will not have an impact on the Company’s financial position or results of operations, but will change the way in which GAAP is referenced in the Company’s financial statements. SFAS 168 is effective for interim and annual reporting periods ending after September 15, 2009.

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15. Taxes

In July 2006, the FASB issued FASB interpretation No. 48 (“FIN 48”), Accounting for Uncertainty in Income Taxes. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions upon initial adoption of the Interpretation. FIN 48 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.

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 2004 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.

The Company adopted the provisions of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes, on January 1, 2007. In management’s view, the Company’s tax reserves at June 30, 2009, totaling \$120,000 for potential domestic state tax and federal tax liabilities were sufficient to meet the requirements of FIN 48.

| | | |
|---------------------------------|----|---------|
| Balance at January 1, 2009 | \$ | 115,000 |
| Additions to state tax position | | 5,000 |
| Balance at June 30, 2009 | \$ | 120,000 |

16. Preferred Stock

On March 28, 2008, SGRP filed a “Certificate of Designation of Series “A” Preferred Stock of SPAR Group, Inc.” (the “Preferred Designation”), creating a series of 3,000,000 shares of Preferred Stock designated as “Series A Preferred Stock” with a par value of \$0.01 per share (the “Preferred Stock”), which designation had been approved by SGRP’s Board of Directors (the “Board”) on March 27, 2008.

The Preferred Designation provides that each share of Preferred Stock is to be issued at a value equal to the closing bid price of SGRP’s common stock (the “Common Stock”) immediately preceding the day SGRP and the purchaser(s) entered into a binding commitment to issue and acquire Preferred Stock. The Preferred Stock will accrue a 10% dividend payable in either cash (when permitted by law and Nasdaq and authorized by the Board) or common stock when authorized by the Board (valued at the current market price of a share of common stock at the time paid but not less than the initial purchase price of a share of such preferred). All accrued and unpaid dividends and potential dividends must be paid to the holders of the Preferred Stock before any dividends can be paid to the holders of the

Common Stock. The face value (purchase price) of the Preferred Stock and all accrued and unpaid dividends and potential dividends must be paid to the holders of the Preferred Stock before any liquidating distributions can be made to the holders of the Common Stock. The consent of all of the holders of the Preferred Stock is required for SGRP to make any changes in the Preferred Designation or issue any other class of preferred stock senior to or pari passu with the Preferred Stock.

The Preferred Stock is redeemable, at the discretion of SGRP only, for a cash redemption price equal to its face value (purchase price) plus all accrued and unpaid dividends and potential dividends. Each share of Preferred Stock is convertible into one share of Common Stock at the rate of one to one at the option of the holder, which option would be exercisable for so long as the Preferred Stock is outstanding (even if SGRP has elected to redeem). Such a conversion also requires that SGRP satisfy all accrued and unpaid dividends and potential dividends at the same time. The Preferred Stock votes with the Common Stock (no class voting) and have voting rights equal to one vote per share of Preferred Stock.

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On March 31, 2008, SGRP, Mr. Brown, Mr. Bartels and SPAR Management Services, Inc. (“SMSI”), an affiliate of SGRP wholly-owned by Mr. Brown and Mr. Bartels (who are officers, directors and significant shareholders of SGRP), entered into a Subscription Agreement to issue and purchase 89,286 shares of Preferred Stock at \$1.12 per share (the closing bid price of SGRP’s Common Stock for the most recent trading day available immediately preceding such agreement date) at a cost of \$100,000, in return for (among other things) cash or the reduction of an equivalent debt owed by the Company to SMSI. That agreement listed Mr. Brown and Mr. Bartels as the purchasers of such Preferred Stock rather than listing SMSI as the record purchaser of such Preferred Stock and Mr. Brown and Mr. Bartels as prospective indirect (i.e., beneficial) owners for the benefit of certain non-Company benefit plans in which either Mr. Brown or Mr. Bartels are the trustee and principal beneficiary. On September 30, 2008, SGRP, Mr. Brown, Mr. Bartels and SMSI entered into an Amended and Restated Series A Preferred Stock Subscription Agreement effective as of March 31, 2008 (the “Restated Subscription Agreement”), to more accurately reflect the parties’ intentions that SMSI would pay for and acquire record ownership of those shares. SGRP’s Audit Committee and Board of Directors each reviewed and approved this affiliated transaction, including (without limitation) the terms of the Restated Subscription Agreement and the affiliated relationship of the parties. The offer and sale of such Preferred Stock have not been 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.

Effective September 24, 2008, SGRP and the pension plans of Mr. Brown and Mr. Bartels, SP/R Inc. Defined Benefit Pension Plan, acting through Robert G. Brown, its Trustee, WHB Services, Inc. Defined Benefit Trust, acting through William H. Bartels, its Trustee, and WHB Services, Inc. Investment Savings Trust, acting through William H. Bartels, its Trustee, entered into another agreement to issue and purchase an additional 465,116 shares of preferred stock at \$0.86 per share (the closing bid price of SGRP’s Common Stock for the most recent trading day available preceding such agreement date). Mr. Brown’s pension plan acquired 284,237 preferred shares at cost of \$244,444 and Mr. Bartels’ pension plans acquired 180,879 preferred shares at a cost of \$155,556. SGRP’s Audit Committee and Board of Directors each reviewed and unanimously approved this transaction, including the terms of the Preferred Stock and the affiliated relationship of the parties. The offer and sale of such Preferred Stock have not been 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.

17. Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 presentation.

18. Subsequent Events

The Company has taken two actions in the Romanian market. First, in July 2009, the Company purchased the remaining 49% ownership in the Company’s Romanian subsidiary, which currently has minimal operations, at a cost of \$1.00, and the Company is currently assessing ongoing business opportunities for this subsidiary. Then on August 6, 2009, the Board of Directors and its Audit Committee approved, in principal, the purchase of 51% ownership in S.C. SPAR City S.R.L., a Romanian marketing services company, from SPAR InfoTech, Inc., an affiliated company (“SIT”) (see Note 6, Related-Party Transactions), for a cost of \$61,876, which was the fair market value of SIT’s interest

in the company as of June 30, 2009. The purchase by the Company of SIT's 51% ownership in such new Romanian subsidiary has been approved verbally by the minority shareholder of such subsidiary, but such change in majority ownership must be approved in writing and documented. It is expected that such acquisition will be effective as of July 1, 2009, for purposes of the consolidation of the new Romanian subsidiary into the Company's financial statements.

Today the Company operates in 13 countries whose population represents approximately 48% of the total world population. The Company's operations are currently divided into two divisions: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Domestic Merchandising Services Division provides merchandising and marketing services, radio frequency identification services ("RFID"), technology services and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, drug store chains and convenience and grocery stores. The International Merchandising Services Division was established in July 2000 and through its subsidiaries, the Company currently provides similar merchandising, marketing services and in-store event staffing in Japan, Canada, Turkey, South Africa, India, Romania, China, Lithuania, Latvia, Estonia, Australia and New Zealand.

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Domestic Merchandising Services Division

The Company's Domestic Merchandising Services Division provides nationwide merchandising and other marketing services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug store chains and grocery stores. Included in its clients are home entertainment, general merchandise, health and beauty care, consumer goods and food product companies in the United States.

Merchandising and marketing services primarily consist of regularly scheduled dedicated routed services and special projects provided at the store level for a specific retailer or single or multiple manufacturers or distributors. Services also include stand-alone large-scale implementations. These services may include sales enhancing activities such as ensuring that client products authorized for distribution are in stock and on the shelf, adding new products that are approved for distribution but not presently on the shelf, setting category shelves in accordance with approved store schematics, ensuring that shelf tags are in place, checking for the overall salability of client products and setting new and promotional items and placing and/or removing point of purchase and other related media advertising. Specific in-store services can be initiated by retailers or manufacturers or distributors, and include new store openings and existing store resets, re-merchandising, remodels and category implementations, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. The Company also provides in-store product demonstrations, in-store product sampling and other in-store event staffing services, RFID services, technology services and marketing research services.

International Merchandising Services Division

In July 2000, the Company established its International Merchandising Services Division, operating through a wholly owned subsidiary, SPAR Group International, Inc. ("SGI"), to focus on expanding its merchandising, marketing services and in-store event staffing business worldwide. Currently, the Company's international subsidiaries are as follows:

| Headquarter Location | Ownership Percentage | Date Established |
|-------------------------|----------------------|---------------------|
| Osaka, Japan | 50% | May 2001 |
| Toronto, Canada | 100% | June 2003 |
| Istanbul, Turkey* | 51% | July 2003 |
| Durban, South Africa | 51% | April 2004 |
| New Delhi, India | 51% | April 2004 |
| Bucharest, Romania** | 51% | December 2004 |
| Hong Kong, China | 50% | February 2005 |
| Siauliai, Lithuania | 51% | September 2005 |
| Melbourne, Australia | 51% | April 2006 |

* The Company's Turkish subsidiary currently has minimal operations, and the Company is currently assessing ongoing business opportunities for this subsidiary.

** In July 2009, the Company acquired the remaining 49% ownership in its Romanian subsidiary at a cost of \$1.00, and in August 2009 commenced the acquisition as of July 1, 2009, of a 51% interest in another Romanian merchandising services company. See Note 18 – Subsequent Events, above.

Critical Accounting Policies

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There were no material changes during the six months ended June 30, 2009, to the Company's critical accounting policies as reported in the Company's Annual Report for 2008 on Form 10-K.

SPAR Group, Inc. and Subsidiaries

Results of Operations

Three months ended June 30, 2009, compared to three months ended June 30, 2008

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).

| | 2009 | | Three Months Ended June 30, 2008 | | Increase/ (decrease) |
|--|-----------|--------|-------------------------------------|--------|-------------------------|
| | \$ | % | \$ | % | |
| Net revenues | \$ 13,478 | 100.0% | \$ 18,910 | 100.0% | (28.7)% |
| Cost of revenues | 9,310 | 69.1 | 13,719 | 72.5 | (32.1) |
| Selling, general & administrative expense | 3,888 | 28.8 | 4,510 | 23.8 | (13.8) |
| Depreciation and amortization | 267 | 2.0 | 221 | 1.2 | 21.1 |
| Interest expense | 45 | 0.3 | 81 | 0.4 | (44.0) |
| Other (income) expense | (255) | (1.8) | 521 | 2.8 | – |
| Income (loss) before income taxes | 223 | 1.6 | (142) | (0.8) | – |
| Provision for income taxes (benefit) | 73 | 1.0 | (185) | (1.0) | – |
| Net income before non-controlling interest | 150 | 1.1 | 43 | 0.2 | – |
| Net (income) loss attributable to non-controlling interest | (86) | 0.6 | 40 | 0.2 | – |
| Net income attributable to Spar Group, Inc. | \$ 236 | 1.7% | \$ 3 | 0.0% | – |

Net Revenues

Net revenues for the three months ended June 30, 2009, were \$13.5 million, compared to \$18.9 million for the three months ended June 30, 2008, a decrease of \$5.4 million or 28.7%.

International net revenues totaled \$6.7 million for the three months ended June 30, 2009, compared to \$10.0 million for the same period in 2008, a decrease of \$3.3 million or 32.7%. The decrease in 2009 international net revenues was primarily due to a reduction in non-recurring project revenue in both; Canada \$1.3 million and Australia \$1.0 million, as well as revenue decreases in Japan \$572,000 and Turkey \$433,000.

Domestic net revenues totaled \$6.8 million in the three months ended June 30, 2009, compared to \$8.9 million for the same period in 2008. Domestic net revenues decreased \$2.1 million due to the reported bankruptcy and eventual liquidations of a major electronics retailer and by a reduction of some non-recurring project work, partially offset by increased project revenue from new client business.

Approximately 8.3% of the Company's net revenues for the three months ended June 30, 2008, resulted from merchandising services performed for manufacturers and other clients at Circuit City Stores, Inc. ("Circuit City"). Circuit City filed for protection under the U.S. Bankruptcy Code in November 2008 and in early 2009, closed its stores and liquidated its assets. The receivables related to Circuit City have been appropriately reserved in the allowance for doubtful accounts.

Cost of Revenues

Cost of revenues consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues was 69.1% of net revenues for the three months ended June 30, 2009 and 72.5% for the three months ended June 30, 2008.

Internationally, the cost of revenues increased to 75.1% of net revenues for the three months ended June 30, 2009 compared to 73.9% of net revenues for the three months ended June 30, 2008. The international cost of revenues percentage increase of 1.2% was primarily attributed to a higher mix of cost margin business in Canada.

SPAR Group, Inc. and Subsidiaries

Domestic cost of revenues was 63.1% of net revenues for the three months ended June 30, 2009 and 71.1% of net revenues for the three months ended June 30, 2008. The decrease in cost of revenues as a percentage of net revenues of 8.0% was due to a favorable mix of business and reductions in field costs.

Approximately 84.3% and 86.0% of the Company's domestic cost of revenues in the three months ended June 30, 2009 and 2008, 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).

Selling, General and Administrative Expenses

Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resources, and legal and accounting expenses. As a result of continuing efforts to reduce such expenses, selling, general and administrative expenses decreased by \$622,000, or 13.8%, for the three months ended June 30, 2009, to \$3.9 million compared to \$4.5 million for the same period in 2008.

International selling, general and administrative expenses totaled \$2.0 million for the three months ended June 30, 2009, compared to \$2.5 million for the same period in 2008. The \$479,000 decrease in international selling, general and administrative expenses was primarily due to expense reductions in Canada of \$237,000, Australia of \$151,000 and corporate international development spending of \$116,000.

Domestic selling, general and administrative expenses totaled \$1.9 million for the three months ended June 30, 2009, compared to \$2.0 million for the same period in 2008. The decrease in domestic selling, general and administrative expenses of \$145,000 was primarily due to a reduction in salary related expenses.

Depreciation and Amortization

Depreciation and amortization charges for the three months ended June 30, 2009, totaled \$267,000 and \$221,000 for the same period in 2008. The increase was primarily driven by increased capitalization of internally developed software.

Interest Expense

Interest expense decreased 44.0% to \$45,000 from \$81,000 for the three months ended June 30, 2009 and 2008, respectively. The decrease was primarily due to decreases in borrowings in the domestic division as well as decreases in interest rates in both the domestic and international divisions.

Other (Income) Expense

Other income totaled \$255,000 compared with other expense of \$521,000 for the three months ended June 30, 2009 and 2008, respectively. Included in the 2009 second quarter results was \$285,000 resulting from a credit for prior legal expenses. Included in other expense for the three months ended June 30, 2008, was approximately \$458,000 for non-recurring legal cost.

Income Taxes

Income tax provision for the three months ended June 30, 2009 was \$73,000 resulting primarily from tax provisions related to international profits. Domestic income taxes for the three months ended June 30, 2009, were approximately \$15,000 for domestic state taxes. There were no tax provisions for federal tax as the Company provides a valuation allowance against any deferred benefits arising from operating loss carry forwards. Income tax benefit for the three months ended June 30, 2008, was \$185,000 resulting primarily from a FIN 48 adjustment from international operations.

SPAR Group, Inc. and Subsidiaries

Non-controlling Interest

Non-controlling interest income of approximately \$(86,000) and expense of approximately \$40,000 resulted from the net operating profits and losses of the Company's 51% and 50% owned subsidiaries for the three months ended June 30, 2009 and 2008, respectively.

Net Income (Loss)

The Company reported a net income of \$236,000 for the three months ended June 30, 2009, or \$0.01 per share, compared to a net income of \$3,000, or \$0.00 per share, for the corresponding period last year.

SPAR Group, Inc. and Subsidiaries

Results of Operations

Six months ended June 30, 2009, compared to six months ended June 30, 2008

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).

| | 2009 | | Six Months Ended June 30, 2008 | | Increase/ (decrease) |
|--|-----------|--------|-----------------------------------|--------|-------------------------|
| | \$ | % | \$ | % | |
| Net revenues | \$ 28,649 | 100.0% | \$ 36,364 | 100.0% | (21.2)% |
| Cost of revenues | 20,383 | 71.2 | 26,203 | 72.1 | (22.2) |
| Selling, general & administrative expense | 7,856 | 27.4 | 9,168 | 25.2 | (14.3) |
| Depreciation and amortization | 529 | 1.8 | 429 | 1.2 | 23.5 |
| Interest expense | 106 | 0.4 | 162 | 0.4 | (34.7) |
| Other (income) expense | (442) | (1.5) | 564 | 1.6 | - |
| Income (loss) before income taxes | 217 | 0.7 | (162) | (0.5) | - |
| Provision for income taxes (benefit) | 222 | 0.8 | (21) | (0.1) | - |
| Net loss before non-controlling interest | (5) | (0.1) | (141) | (0.4) | - |
| Net (income) loss attributable to non-controlling interest | (46) | (0.2) | 106 | 0.3 | - |
| Net income (loss) attributable to Spar Group, Inc. | \$ 41 | 0.1% | \$ (247) | (0.7)% | - |

Net Revenues

Net revenues for the six months ended June 30, 2009, were \$28.6 million, compared to \$36.4 million for the six months ended June 30, 2008, a decrease of \$7.7 million or 21.2%.

International net revenues totaled \$16.2 million for the six months ended June 30, 2009, compared to \$20.0 million for the same period in 2008, a decrease of \$3.8 million or 18.9%. The decrease in 2009 international net revenues was primarily due to net revenue decreases in the following countries; Australia \$1.7 million, Canada \$1.1 million, Turkey \$746,000, Japan \$361,000, South Africa \$292,000; and was partially offset by a net revenue increase in India of \$553,000.

Domestic net revenues totaled \$12.4 million in the six months ended June 30, 2009, compared to \$16.4 million for the same period in 2008. Domestic net revenues decreased \$4.0 million due to the reported bankruptcy and eventual liquidations of a major electronics retailer and by a reduction of some non-recurring project work, partially offset by

increased project revenue from new client business.

Approximately 8.8% of the Company's net revenues for the six months ended June 30, 2008, resulted from merchandising services performed for manufacturers and other clients at Circuit City Stores, Inc. ("Circuit City"). Circuit City filed for protection under the U.S. Bankruptcy Code in November 2008 and in early 2009, closed its stores and liquidated its assets. The receivables related to Circuit City have been appropriately reserved in the allowance for doubtful accounts.

Cost of Revenues

Cost of revenues consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues was 71.1% of net revenues for the six months ended June 30, 2009 and 72.1% for the six months ended June 30, 2008.

Internationally, the cost of revenues increased to 76.7% of net revenues for the six months ended June 30, 2009, compared to 74.2% of net revenues for the six months ended June 30, 2008. The international cost of revenues

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percentage increase of 2.5% was primarily attributed to a mix of higher cost margin business in Canada and South Africa.

Domestic cost of revenues was 63.9% of net revenues for the six months ended June 30, 2009, and 69.4% of net revenues for the six months ended June 30, 2008. The decrease in cost of revenues as a percentage of net revenues of 5.5% was due to a favorable mix of business.

Approximately 86.5% and 87.0% of the Company's domestic cost of revenues in the six months ended June 30, 2009 and 2008, 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. ("SMST"), respectively (see Note 6 - Related-Party Transactions).

Selling, General and Administrative Expenses

Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resources, and legal and accounting expenses. As a result of continuing efforts to reduce such expenses, selling, general and administrative expenses decreased by \$1.3 million, or 14.3%, for the six months ended June 30, 2009, to \$7.9 million compared to \$9.2 million for the same period in 2008.

International selling, general and administrative expenses totaled \$4.0 million for the six months ended June 30, 2009, compared to \$4.7 million for the same period in 2008. The \$700,000 decrease in international selling, general and administrative expenses was primarily due to expense reductions to offset lost project revenue in Australia of \$334,000, Canada \$272,000 and corporate international development spending of \$123,000.

Domestic selling, general and administrative expenses totaled \$3.9 million for the six months ended June 30, 2009, compared to \$4.5 million for the same period in 2008. The decrease in domestic selling, general and administrative expenses of \$608,000 was primarily due to a reduction in salary related expenses \$417,000 and reduced legal expenses \$191,000.

Depreciation and Amortization

Depreciation and amortization charges for the six months ended June 30, 2009, totaled \$529,000 and were comparable to \$429,000 for the same period in 2008. The increase was primarily driven by increased capitalization of internally developed software.

Interest Expense

Interest expense decreased 34.7% to \$106,000 from \$162,000 for the six months ended June 30, 2009 and 2008, respectively. The decrease was primarily due to decreases in borrowings in the domestic division as well as decreases in interest rates in both the domestic and international divisions.

Other (Income) Expense

Other income totaled \$442,000 compared with other expense of \$564,000 for the six months ended June 30, 2009 and 2008, respectively. Included in other income for the six months ended June 30, 2009, was approximately \$265,000 resulting from a favorable judgment in a legal action and \$285,000 for a credit from prior legal expenses. Included in other expense for the six months ended June 30, 2009, was approximately \$458,000 for non-recurring legal cost.

Income Taxes

Income tax provision for the six months ended June 30, 2009, was \$222,000 resulting primarily from tax provisions related to international profits. Domestic income taxes for the six months ended June 30, 2009, were approximately \$30,000 for domestic state taxes. There were no tax provisions for federal tax as the Company provides a valuation allowance against any deferred benefits arising from operating loss carry forwards. Income tax

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benefit for the six months ended June 30, 2008 was approximately \$21,000 resulting from a FIN 48 adjustment from international operations.

Non-controlling Interest

Non-controlling interest income of approximately \$(46,000) and expense of approximately \$106,000 resulted from the net operating losses and profits of the Company's 51% and 50% owned subsidiaries for the six months ended June 30, 2009 and 2008, respectively.

Net Income (Loss)

The Company reported a net income of \$41,000 for the six months ended June 30, 2009, or \$0.00 per share, compared to a net loss of \$247,000, or (\$0.01) per share, for the corresponding period last year.

Liquidity and Capital Resources

In the six months ended June 30, 2009, the Company had net income of \$41,000.

Net cash provided by operating activities was \$1.8 million and \$2.3 million for the six months ended June 30, 2009 and 2008, respectively.

Net cash used in investing activities for the six months ended June 30, 2009, and June 30, 2008, was approximately \$367,000 and \$225,000, respectively. The increase in net cash used in investing activities was a result of increased investment in software development costs.

Net cash used in financing activities for the six months ended June 30, 2009 and 2008, was approximately \$1.8 million and \$1.0 million, respectively. The increase in net cash used in financing activities was primarily a result of additional payments on lines of credit.

The above activity resulted in a decrease in cash and cash equivalents for the six months ended June 30, 2009, of \$219,000.

At June 30, 2009, the Company had negative working capital of \$435,000, as compared to a negative \$635,000 at December 31, 2008. The Company's current ratio was 0.97 at June 30, 2009, and 0.96 at December 31, 2008.

In January 2003, the Company (other than SGRP's foreign subsidiaries) and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provides for a \$7.0 million revolving line of credit. In March 2007, the credit facility was amended to, among other things, delay the Minimum Fixed Coverage ratio until the fourth quarter 2007, establish an EBITDA covenant and increase the interest rate by 0.25% beginning March 28, 2007. In May 2007, the credit facility was amended to provide for an availability reserve of \$500,000. In August 2007, the credit facility was further amended to reduce the availability reserve to \$250,000 until November 30, 2007. On November 16, 2007, Webster amended the credit facility to extend the availability reserve of \$250,000 indefinitely and to reduce the revolving line of credit from \$7.0 to \$5.0 million. In

February 2008, the Credit Facility was amended to establish monthly EBITDA covenants until September 30, 2008, and to set a Fixed Charge Coverage Ratio covenant for the year ended December 31, 2008. In January 2009, the Credit Facility was amended to extend the agreement until March 15, 2009, adjust the interest rate to the greater of 5%, the Alternative Base Rate plus 1% or the 30 day LIBOR plus 2.75% and to increase the limit on the capital expenditures to \$1.3 million. In March 2009, the Credit Facility was further amended to extend the maturity until March 15, 2010, extend the monthly Fixed Charge Coverage Ratio covenant until March 15, 2010, and reset the limit on capital expenditures to \$800,000.

Borrowings are based upon a borrowing base formula as defined in the agreement (principally 85% of “eligible” domestic accounts receivable less certain reserves). The Credit Facility is secured by all of the assets of

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the Company's domestic subsidiaries. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments.

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 Credit Facility totaling \$1.0 million.

The basic interest rate under the Credit Facility is the greater of i) Webster's "Alternative Base Rate" plus 1.0% per annum, which automatically changes with each change made by Webster in such Alternative Base Rate, ii) LIBOR plus 2.75% per annum, or iii) the minimum rate imposed by Webster of 5% per annum. The actual average interest rate under the Credit Facility was 5% per annum for the six months ended June 30, 2009. The Credit Facility is secured by substantially all of the assets of the Company (other than SGRP's foreign subsidiaries and their assets).

The domestic revolving loan balances outstanding under the Credit Facility were approximately \$3.0 million and \$4.0 million at June 30, 2009, and December 31, 2008, respectively. As of June 30, 2009, the Company had unused availability under the Credit Facility of \$48,000 out of the remaining maximum \$2.0 million unused revolving line of credit.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at June 30, 2009, and December 31, 2008, in accordance with EITF 95-22, Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement.

The Webster credit facility contains certain restrictive covenants. At June 30, 2009, the Company was in compliance with these 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 Webster will issue waivers for any future violations.

The Japanese subsidiary SPAR FM Japan, Inc. has line of credit agreements totaling 100 million Yen or approximately \$1.0 million (based upon the exchange rate at June 30, 2009). There were no outstanding balances under the line of credit agreements at June 30, 2009. The outstanding balance at December 31, 2008, was approximately 100 million Yen, or approximately \$1.1 million (based upon the exchange rate at that date). In addition, the Japanese subsidiary had cash balances totaling 113 million Yen, or approximately \$1.2 million (based upon the exchange rate at June 30, 2009) and 105 million Yen, or approximately \$1.2 million (based upon the exchange rate at December 31, 2008) at June 30, 2009, and December 31, 2008, respectively. The average interest rate was 2.3% per annum for the six months ended June 30, 2009.

In 2008, the Australian subsidiary, SPARFACTS Australia Pty. Ltd., entered into a revolving line of credit arrangement with Commonwealth Bank of Australia (CBA) for \$2.0 million (Australian), or approximately \$1.6 million (based upon the exchange rate at June 30, 2009). At June 30, 2009, SPARFACTS Australia Pty. Ltd. had \$469,000 (Australian) or \$377,000 outstanding under the line of credit and at December 31, 2008, SPARFACTS Australia Pty. Ltd. had \$1.4 million (Australian), or approximately \$1.0 million, outstanding under the line of credit

(based upon the exchange rate at those dates). The average interest rate was 9.5% per annum for the six months ended June 30, 2009.

On October 20, 2006, SPAR Canada Company, a wholly-owned subsidiary, entered into 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 \$649,000 (based upon the exchange rate at June 30, 2009). 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. On March 28, 2008, Royal Bank of Canada amended the secured credit agreement to reduce the maximum borrowing to \$500,000 (Canadian) however, in October 2008; Royal Bank of Canada reinstated the loan limit to \$750,000 (Canadian). The outstanding balances under the line of credit agreement were \$540,000 (Canadian) or \$467,000 and \$691,000 (Canadian) or \$565,000 at June 30, 2009, and December 31, 2008, respectively (based upon the exchange rate at those dates). The average interest rate was 3.3% per annum for the six months ended June 30, 2009.

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The Company's international business model is to partner with local merchandising companies and combine the Company's proprietary software and expertise in the merchandising and marketing services business with their partner's knowledge of the local market. In 2001, the Company established its first subsidiary in Japan and has continued this strategy. As of this filing, the Company is currently operating in 13 countries and has 9 international subsidiaries. Certain of these international subsidiaries are profitable, while others are operating at a loss. In the event of continued losses, the Company may be required to provide additional cash infusions into those subsidiaries with losses.

While the Company's borrowing capacity has been limited in recent months, management believes that based upon the continuation of the Company's existing credit facilities (or a comparable replacement), 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, continued 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.

The Company's Credit Facility with Webster is scheduled for renewal in March 2010.

Certain Contractual Obligations

The following table contains a summary of certain of the Company's contractual obligations by category as of June 30, 2009 (in thousands):

| Contractual Obligations | Total | Period in which payments are due | | | |
|-----------------------------|-----------------|----------------------------------|-----------------|---------------|-------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Credit Facilities | \$ 3,825 | \$ 3,825 | \$ - | \$ - | \$ - |
| Capital Lease Obligations | 221 | 119 | 102 | - | - |
| Operating Lease Obligations | 2,051 | 351 | 1,199 | 501 | - |
| Total | \$ 6,097 | \$ 4,295 | \$ 1,301 | \$ 501 | \$ - |

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.

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The Company is exposed to market risk related to the variable interest rate on its lines of credit. At June 30, 2009, the Company's outstanding lines of credit totaled approximately \$3.8 million, as noted in the table below (in thousands):

| Location | Variable Interest Rate ⁽¹⁾ | US Dollars ⁽²⁾ |
|---------------|---------------------------------------|---------------------------|
| United States | 5.0% | \$ 2,980 |
| International | 3.3% - 9.5% | 845 |
| | | \$ 3,825 |

(1) Based on interest rate at June 30, 2009.

(2) Based on exchange rate at June 30, 2009.

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Based on the 2009 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 six months ended June 30, 2009, by approximately \$19,000.

The Company has foreign currency exposure with its international subsidiaries. In both 2009 and 2008, these exposures are primarily concentrated in the Japanese Yen, Australian Dollar and Canadian Dollar. International revenues for the six months ended June 30, 2009 and 2008 were \$16.2 million and \$20.0 million, respectively. The international division reported a net (loss) income of approximately \$(403,000) and \$257,000 for the six months ended June 30, 2009 and 2008, respectively.

In those countries where the Company had risk for foreign currency exposure, the total assets were \$4.7 million and total liabilities were \$3.9 million based on exchange rates at June 30, 2009.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of the end of the period covering this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

The Company has internally documented and tested its internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 and the Company believes it is in compliance.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the three months covered by this report or from the end of the reporting period to the date of this Form 10-Q.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

Safeway Inc. ("Safeway") filed a Complaint against PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of SPAR Group, Inc. ("SGRP"), Pivotal Sales Company ("Pivotal"), a wholly-owned subsidiary of PIA Co., and SGRP in Alameda County Superior Court, case no. 2001028498 on October 24, 2001. Safeway claims, as subsequently amended, alleged causes of action for breach of contract and breach of implied contract. PIA Co. and Pivotal filed cross-claims against Safeway on or about March 21, 2002, and amended them on or about October 15, 2002, alleging causes of action by PIA Co. and Pivotal against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment. Trial commenced in March 2006.

On May 26, 2006, the jury in this case returned a verdict resulting in a net award of \$1,307,700 to Pivotal, a SGRP subsidiary. This net award is to be paid by Safeway and resulted from separate jury findings that awarded damages to those SGRP subsidiaries on certain claims and damages to Safeway on other claims. In particular, the jury awarded damages to Pivotal of \$5,760,879 for Safeway's interference with Pivotal's contractual relationships with third party manufacturers and also awarded \$782,400 to Pivotal and PIA Co. for Safeway's breach of contract with those SGRP subsidiaries. The jury awarded damages to Safeway of \$5,235,579 for breach of contract by SGRP and those SGRP subsidiaries. Judgment was entered in favor of Pivotal on August 14, 2006 for \$1,307,700. Both sides filed post trial motions but all post trial motions were denied. Notices of Appeal were thereafter filed by both Safeway and Pivotal/PIA/SGRP. Pivotal/PIA/SGRP is seeking to have Safeway's award overturned, thereby increasing the award to Pivotal by over \$5 million. Safeway is seeking to have overturned the \$5,760,879 award against it for interference with contractual relationships. With the appeals pending, the parties participated in a mediation of the dispute, but it was not successful in resolving the matter. Accordingly, the appeals are proceeding.

Briefing on the appeals commenced in the second quarter of 2008, and the case was fully briefed by April 2009. An oral argument hearing date will be assigned by the California Court of Appeal. The appellate process in the Court of Appeal is expected to last until late 2009. The Company has recorded the net \$1.3 million judgment award in other assets.

In addition to the above, the Company is a party to various other legal actions and administrative proceedings arising in the normal course of business. In the opinion of the Company's management, disposition of these other matters are not anticipated to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Item 1A. Risk Factors

Risks of a Nasdaq Delisting

SGRP's common stock is currently trading, has recently traded and could continue to trade for less than \$1.00 per share, which is below Nasdaq's minimum trading price for continued listing on the Nasdaq stock market. In response to market conditions, late last year Nasdaq temporarily suspended the enforcement of its rules requiring a minimum

\$1.00 closing bid price (and related minimum required market value of publicly held shares) for all its listed companies, but that enforcement suspension expired on August 2, 2009. There can be no assurance that SGRP will be in compliance in the future with Nasdaq's continued listing requirements. If SGRP's stock continues to trade below \$1.00, Nasdaq may give SGRP notice of non-compliance, which starts a six month cure period during which SGRP may endeavor to once again satisfy Nasdaq's continued listing requirements, and if SGRP continues to be in non-compliance after such six month cure period ends, Nasdaq may commence delisting procedures against SGRP (during which SGRP will have additional time of up to six months to appeal and correct its non-compliance). If SGRP's shares were ultimately delisted by Nasdaq, the market liquidity of SGRP's common stock could be adversely affected and its market price could decrease, even though such shares may continue to be traded "over the counter", due to (among other things) the potential for increased spreads between bids and asks, lower trading volumes and reporting delays in over-the-counter trades and the negative implications and perceptions that could arise from such a delisting.

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Existing Risk Factors

The Company's Annual Report for 2008 on Form 10-K 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. Except for the addition of the new *Risks of a Nasdaq Delisting* in this Quarterly Report, above, there have been no material changes in the Company's risk factors since the Company's Annual Report for 2008 on Form 10-K.

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.

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.

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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: August 14, 2009

SPAR Group, Inc., Registrant

By: /s/ James R. Segreto

James R. Segreto

Chief Financial Officer, Treasurer, Secretary
and duly authorized signatory