SPAR GROUP INC
Form 10-K/A
October 08, 2010

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

FORM 10-K/A
(Amendment No. 2)

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2009
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from __________ to __________

Commission file number 0-27824
SPAR GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0684451
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
560 White Plains Road, Suite 210, Tarrytown, New York	10591
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $.01 per share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K . o

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

Large Accelerated Filer o	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company x

(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 o NO x

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2010, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately $3,700,000.

The number of shares of the Registrant’s Common Stock outstanding as of December 31, 2009, was 19,139,365 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, for our Annual Meeting of Shareholders, presently scheduled to be held on May 27, 2010, are incorporated by reference into Part III of this Form 10-K.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K/A

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PART I

Explanatory Note

SPAR Group, Inc. ("SGRP" or the "Corporation"), and together with its subsidiaries, the "SPAR Group" or the "Company"), is filing this Amendment No. 2 on Form 10-K/A dated October 8, 2010 (this "Second Amendment"), to its Annual Report on Form 10-K for the fiscal year ended December 31, 2009, originally filed with the SEC on April 15, 2010, as amended by Amendment No. 1 to its Annual Report on Form 10-K/A dated and filed with the SEC on April 30, 2010 (as amended thereby and hereby, its "Annual Report"), in order to (among other things):

- File the final unqualified auditor's report for the Company's subsidiary in India, SPAR Solutions India Private Limited;
- File the revised unqualified final auditor's report for the Company from its Principal Independent Auditor;
- Update the reporting weakness relating its Indian subsidiary and the corrective measures taken;
- Add a financial statement table reporting its Consolidated Statements of Equity (adjusted to include “Non-Controlling Interest);
- Report the final resolution of the comments raised by the SEC Staff in their review of this Annual Report;

PART I

Statements contained in this Annual Report on Form 10-K, as amended (this “Annual Report”) of SPAR Group, Inc. (“SGRP”, and together with its subsidiaries, the “SPAR Group” or the “Company”), include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”, and together with the Securities Act, the “Securities Laws”), including, in particular and without limitation, the statements contained in the discussions under the headings “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the Company’s actual achievements, business, performance, prospects and results, whether expressed or implied by such forward-looking statements, to fail to occur or be realized or to be less than expected. Such forward-looking statements generally are based upon the Company’s plans, intentions and best estimates of the Company’s current and accounts, assets, business, cash flow, credit, expenses, financial condition, growth, income, liabilities, operations, prospects, reputation, taxation or other results or condition (collectively, the Company's "Condition and Results"). Forward-looking statements may be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “believe”, “estimate”, “anticipate”, “continue” or similar words or variations or the negative of those words.

You should carefully review and consider all forward-looking and other information contained in this Annual Report, including (without limitation) the risk factors described below and any other cautionary statements contained in this Annual Report. All forward-looking and other statements attributable to the Company or persons acting on its behalf are expressly qualified by all such risk factors and other cautionary statements, which could cause the Company's actual Condition and Results to differ materially from those estimated or desired and included in the Company's forward-looking statements or other information. Although the Company believes that its plans, intentions and estimates reflected or implied in such forward-looking statements are reasonable, the Company cannot assure that such plans, intentions or expectations will be achieved in whole or in part, that it has identified all potential risks or that it can successfully avoid or mitigate such risks in whole or in part. You should carefully review the risk factors described below (See Item 1A – Risk Factors) and any other cautionary statements contained in this Annual Report on Form 10-K. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by all such risk factors and other cautionary statements.

You should not place undue reliance on the Company's forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond its control. The Company's forward-looking statements are based on the information currently available to it and speak only as of the date on the cover of this Annual Report. New risks and uncertainties arise from time to time, and it is impossible for the Company to predict these matters or how they may arise or affect the Company. Over time, the Company's actual business, income, growth or other Condition and Results will likely differ from our estimated or desired Condition and Results that are expressed or implied by the Company's forward-looking statements, and such difference might be significant and materially and adversely affect the Company, its business, income, growth or other Condition and Results or the value of your investment in the Company's Common Stock.

The Company does not intend or promise, and the Company expressly disclaims any obligation, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as and to the extent required by applicable law.

Item 1. Business

BUSINESS STRATEGY

Acquisitions:

The Company is seeking to acquire businesses or enter into partnerships, joint ventures or other arrangements with companies that offer similar merchandising or marketing services both in the United States and worldwide. The Company believes that increasing its industry expertise, adding product segments, and increasing its geographic breadth will allow it to service its clients more efficiently and cost effectively. Through such acquisitions, the Company may realize additional operating and revenue synergies and may leverage existing relationships with manufacturers, retailers and other businesses to create cross-selling opportunities. However, there can be no assurance that any of the acquisitions will occur or whether, if completed, the integration of the acquired businesses will be successful or the anticipated efficiencies and cross-selling opportunities will occur.

On December 4, 2009, the Company acquired substantially all of the domestic merchandising service business and customer contracts and hired certain employees of Brenner Associates Inc., which also did business as National Marketing Services or "NMS". The NMS assets acquired included all of the stock of its wholly owned subsidiaries; National Assembly Services, Inc., a New Jersey corporation that performs in-home furniture assembly services ("NAS"), and NMS Retail Services ULC (“NRS”), a Nova Scotia unlimited Liability Company that performs merchandising services in Canada. In March 2010, the Company established a new Canadian subsidiary, SPAR Wings & Ink Company ("SWI"). On April 1, 2010, SWI acquired substantially all of the business, customer contracts, receivables, work-in progress and other assets and assumed certain specified liabilities of 2078281 Ontario Limited, an Ontario merchandising and marketing services company doing business as Wings & Ink (the "Seller"). At that closing, SWI also hired substantially all of the Seller’s employees, which included consulting contracts to the principals of the Seller. (See Note 13 to the Consolidated Financial Statements – Acquisition).

Item 1A. Risk Factors

Risks of a Nasdaq Delisting:

SGRP Common Stock has recently traded and could in the future again trade for less than $1.00 per share, which is below Nasdaq's minimum trading price for continued listing on the Nasdaq stock market. The Company received a notice from Nasdaq on September 16, 2009, advising the Company of that it failed to maintain a minimum closing bid price of $1.00 per share for its shares of Common Stock for the prior 30 consecutive business days as required by Nasdaq Listing Rule 5550(a)(2) (known as the "Bid Price Rule"), and that it had a 180 day grace period in which to regain compliance with the Bid Price Rule by maintaining a closing bid price of $1.00 per share for SGRP Common Stock for a minimum of ten consecutive business days. On December 1, 2009, the Company received notice from Nasdaq that it had regained compliance with the Bid Price Rule and the matter was closed. On April 28, 2010, the Company received a second notice from Nasdaq advising the Company that it failed to maintain a minimum closing bid price of $1.00 per share for its shares of Common Stock for the prior 30 consecutive business days as required by Nasdaq Listing Rule 5550(a)(2) and on September 8, 2010, the Company received notice from Nasdaq that it had again regained compliance with the Bid Price Rule and the matter was closed.

There can be no assurance that the Company will be able to comply in the future with Nasdaq's Bid Price Rule or other continued listing requirements. If the SGRP Common Stock were ultimately delisted by Nasdaq, the market liquidity of SGRP Common Stock could be adversely affected and its market price could decrease, even though such shares may continue to be traded "over the counter", due to (among other things) the potential for increased spreads between bids and asks, lower trading volumes and reporting delays in over-the-counter trades and the negative implications and perceptions that could arise from such a delisting.

Item 1B. Unresolved Staff Comments

The Staff of the SEC has reviewed the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as filed on April 15, 2009, and has exchanged comment letters and responses with the Company, which have resolved all comments noted. The SEC Staff has reviewed the Annual Report, as filed on April 15, 2010 and the Company's Quarterly Report on Form 10Q for the quarter ended March 31, 2010. The comments focused on Controls and Procedures and India Audit opinion and the Company is in the process of finalizing its response to the SEC.

Item 3. Legal Proceedings

Longstanding litigation with Safeway Inc. ("Safeway") concluded in August 2010. On October 24, 2001, 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 (California) Superior Court, case no. 2001028498. 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, including causes of action for breach of contract and interference with economic relationships. The case proceeded to trial by jury. On May 26, 2006, the jury returned a verdict that awarded certain damages on different claims to PIA Co. and Pivotal and awarded certain damages to Safeway, resulting in a net award of $1,307,700 to Pivotal. Judgment was entered in favor of Pivotal and against Safeway on August 14, 2006, for $1,307,700. A subsequent order awarded Pivotal certain court costs totaling $33,725.

Thereafter, both sides filed appeals. On May 27, 2010, the California Court of Appeal issued a decision affirming the judgment in full. All appellate proceedings concluded on July 28, 2010. On August 2, 2010, Safeway tendered, and the Company accepted, payment of $1,888,000 in full payment of the judgment.

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 Company's management, disposition of these other matters are not anticipated to have a material adverse effect on the Company or its estimated or desired business, income, growth or other Condition and Results.

PART II

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

Liquidity and Capital Resources

For the twelve months ended December 31, 2009, the Company had a net income of $557,000, compared to a net loss of $61,000 for the year ended December 31, 2008.

Net cash provided by operating activities for the year ended December 31, 2009 was $1.4 million, compared to net cash provided by operating activities of $2.1 million in 2008. The decrease of approximately $700,000 in cash provided by operating activities is primarily due to reduced accounts payable and other accrued liabilities, partially offset by decreased accounts receivable and increased liabilities due to affiliates as well as an increase in net income.

Net cash used in investing activities for the year ended December 31, 2009 and 2008, was $831,000 and $1.2 million, respectively. The change in net cash used in investing activities was a result of decreased purchases of property and equipment in 2009.

Net cash used in financing activities for the year ended December 31, 2009 was $743,000 compared with net cash used in financing activities of $399,000 for the year ended December 31, 2008. The cash used in financing activities was primarily a result of the Company payments on its lines of credit. In 2008, the Company received a benefit of $500,000 from the issuance of preferred stock.

The above activity resulted in a decrease in cash and cash equivalents for the twelve months ended December 31, 2009, of $26,000.

The Company had positive working capital of $252,000 at December 31, 2009 compared to negative working capital of $635,000 at December 31, 2008. The Company’s current ratio was 1.02 and 0.96 at December 31, 2009 and 2008, respectively. The increase in working capital and current ratio were primarily due to decreases in accounts payable and other current liabilities.

Credit Facilities:

Existing Domestic Credit Facility (“Webster Credit Facility)(reporting period through July 5, 2010):

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 “Webster Credit Facility”). The Webster Credit Facility provides for a $5.0 million revolving line of credit which matured on March 15, 2010. In February 2008, the Webster 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 Webster 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 or 30 day LIBOR plus 2.75% and to increase the limit on the capital expenditures to $1.3 million. In March 2009, the Webster Credit Facility was 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. On March 15, 2010, the Webster Credit Facility was further amended to extend the maturity and continue the monthly covenant requirements until September 15, 2010.

Borrowings were based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Webster Credit Facility was secured by all of the assets of the Company's domestic subsidiaries. The Webster Credit Facility also limited 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, provided personal guarantees of the Webster Credit Facility totaling $1.0 million.

The basic interest rate under the Webster Credit Facility was 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 Webster Credit Facility was 5% per annum for the twelve months ended December 31, 2009. The Webster Credit Facility was 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 Webster Credit Facility were $4.0 million and $3.9 million at December 31, 2009 and 2008, respectively. As of December 31, 2009, the Company had unused availability under the Webster Credit Facility of $16,000 out of the remaining maximum $969,000 of unused revolving line of credit.

Due to 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 Webster Credit Facility are classified as current at December 31, 2009 and 2008.

The Webster Credit Facility contained certain restrictive covenants. At December 31, 2009, the Company was in compliance with the covenants and did not expect to be in violation at future measurement dates.

New Domestic Credit Facility ("Sterling Credit Facility")(July 6, 2010, to present):

SGRP and certain of its domestic direct and indirect subsidiaries, namely SPAR Incentive Marketing, Inc., PIA Merchandising Co., Inc., Pivotal Sales Company, National Assembly Services, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc. and SPAR, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the " Borrowers "), entered into a Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Loan Agreement"), with Sterling National Bank and Cornerstone Bank as the lenders (the "Lenders"), and issued their Secured Revolving Loan Notes in the original maximum principal amounts of $5.0 million to Sterling National Bank and $1.5 million to Cornerstone Bank (the "Notes"), to document and govern its new credit facility with them (the "Sterling Credit Facility"). The Sterling Credit Facility replaced the Webster Credit Facility on July 6, 2010, and the first advance under such new facility was used to fully repay and terminate the Webster Credit Facility and its documents and liens.

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, have provided personal guarantees of the Sterling Credit Facility totaling $2.5 million pursuant to their Limited Continuing Guaranty in favor of the Lenders dated as of July 6, 2010. (the "Limited Guaranty").

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

The basic interest rate under the Sterling Credit Facility is equal to the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time (as determined by the Agent) plus one and one-half (1.50%) percent per annum, which automatically changes with each change in such rate. The aggregate interest rate on July 6, 2010, was 4.75% per annum under that formula.

The Borrowers drew down initial advances under the Sterling Credit Facility of approximately $5.0 million, of which approximately $4.9 million was used to repay the existing Webster Credit Facility. As of July 6, the Borrowers had unused availability under the Sterling Credit Facility of $800,000 out of the remaining maximum $1.5 million unused revolving line of credit.

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

The new Sterling Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments.

International Credit Facilities:

The Japanese subsidiary SPAR FM Japan, Inc.'s line of credit agreement totaling 100 million Yen or approximately $1.1 million (based upon the exchange rate at November 30, 2009) was cancelled on November 30, 2009 with the change in ownership to 100% owned by SGRP. Prior to this change there were no outstanding balances under the line of credit agreement at November 30, 2009 and December 31, 2008.

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 $1.8 million (based upon the exchange rate at December 31, 2009). At December 31, 2009, SPARFACTS Australia Pty. Ltd. had $510,000 (Australian), or approximately $455,000, outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate was 8.5% per annum for the twelve months ended December 31, 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 $715,000 (based upon the exchange rate at December 31, 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). At December 31, 2009, SPAR Canada Company had $395,000 (Canadian), or approximately $376,000, outstanding under the line of credit (based upon the exchange rate at December 31, 2009). The average interest rate was 3.25% per annum for the twelve months ended December 31, 2009.

The Company's international model is to partner with local merchandising companies and combine the partner's knowledge of the local market with the Company's proprietary software and expertise in the merchandising and marketing business. In 2001, the Company established its first international subsidiary and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, South Africa, India, Romania, China, Lithuania, Latvia, Australia and New Zealand through 8 active international subsidiaries.

Certain of these international subsidiaries are marginally profitable while others are operating at a loss. None of these entities have excess cash reserves. In the event of continued losses, the Company may find it necessary to provide additional cash infusions into these subsidiaries.

Management believes that based upon the existing credit facilities, sources of cash availability will be sufficient to support ongoing operations over the next twelve months. However, delays in collection of receivables due from any of the Company's major clients, or a significant further reduction in business from such clients, or the inability to acquire new clients, or the Company's inability to remain profitable, or the inability to obtain bank waivers in the event of future covenant violations could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

Item 9A.(T) Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

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

Management has evaluated the effectiveness of our internal control over financial reporting using the “Internal Control – Integrated Framework (1992)” created by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2009, except for the following material weakness:

The Company was not able to insure timely receipt of the auditor's report respecting the Company's subsidiary in India, SPAR Solutions India Private Limited, in order to allow completion of its consolidated reporting for the year ended December 31, 2009, which ultimately led to an extension request and the filing of the Annual Report on April 15, 2010 in a manner that was not complete with regard to the reporting of the results of that foreign subsidiary. As of the filing of this amendment to the Annual Report, the auditor’s report for the Company’s India subsidiary is properly filed herewith along with a revised unqualified opinion from the Company’s Principal Independent Auditor.

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

Management’s Evaluation of Disclosure Controls and Procedures

The Company’s chief executive officer and chief financial officer have each reviewed and evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, as required by Exchange Act Rules 13a-15(b) and Rule 15d-15(b). Based on that evaluation, the chief executive officer and chief financial officer have each concluded that the Company’s current disclosure controls and procedures are not effective, due to the material weakness noted above, except as noted above in respect of one foreign subsidiary to insure that the information required to be disclosed by the Company in reports it files, or submits under the Exchange Act were recorded, processed, summarized and reported within the time period specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Remediation and Changes in Control Over Financial Reporting

Management believes that the aforementioned material weakness will be corrected by the improvements the Company has already undertaken respecting its Indian Subsidary, including (among other things) improvements to the period end closing and reporting procedures related to accumulation of annual financial results and disclosures. Management is actively reviewing its other existing procedures to determine whether additional changes may be necessary to ensure correct and timely future reporting.

PART IV

Item 15. Exhibits and Financial Statement Schedule

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

3. Exhibits.

Exhibit Number	Description
21.1	List of Subsidiaries.
23.1	Consent of Rehmann Robson.
23.3	Consent of Nagesh Behl & Co.

SIGNATURES

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

SPAR Group, Inc.

By: /s/ Gary S. Raymond
Gary S. Raymond
Chief Executive Officer

Date: October 8, 2010

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

SIGNATURE	TITLE
/s/ Gary S. Raymond Gary S. Raymond Date: October 8, 2010	Chief Executive Officer and Director
/s/ Robert G. Brown Robert G. Brown Date: October 8, 2010	Chairman of the Board and Director
/s/ William H. Bartels William H. Bartels Date: October 8, 2010	Vice Chairman and Director
/s/ Jack W. Partridge Jack W. Partridge Date: October 8, 2010	Director
/s/ Jerry B. Gilbert Jerry B. Gilbert Date: October 8, 2010	Director
/s/ Lorrence T. Kellar Lorrence T. Kellar Date: October 8, 2010	Director
/s/ C. Manly Molpus	Director

C. Manly Molpus
Date: October 8, 2010

/s/ James R. Segreto James R. Segreto	Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)

Date: October 8, 2010

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
SPAR Group, Inc. and Subsidiaries
Tarrytown, New York

We have audited the accompanying consolidated balance sheets of SPAR Group, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for years then ended. Our audits also included the financial statement schedule for these years as listed in the index at Item 15. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits. We did not audit the financial statements of SPAR Solutions India Private Limited as of and for the year ended December 31, 2009. These statements reflect total assets constituting 7% of consolidated total assets as of December 31, 2009, and total revenues constituting 9% of total consolidated revenue for the year then ended. Such financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for SPAR Solutions India Private Limited for 2009, is based solely on the report of the other auditor. We did not audit the financial statements of SPAR RSS Baltic.; SPAR Turkey, Ltd. (SPAR Alan Pazarlama Hizmetleri Limited Sirketi); or SPAR Solutions India Private Limited as of and for the year ended December 31, 2008. These statements reflect total assets constituting 10% of consolidated total assets as of December 31, 2008, and total revenues constituting 11% of total consolidated revenue for the year then ended. Such financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SPAR RSS Baltic.; SPAR Turkey, Ltd. (SPAR Alan Pazarlama Hizmetleri Limited Sirketi); and SPAR Solutions India Private Limited for 2008, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors for 2009 and 2008, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPAR Group, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the for the years then ended,, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial schedule for those years, when considered in relation to the consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

/s/ Rehmann Robson

Troy, Michigan
October 5, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SPAR Solutions Merchandising Private Limited

New Delhi, India

The board of directors and stockholders of SPAR Solutions Merchandising Private Limited

We have audited the accompanying balance sheets of SPAR Solutions Merchandising Private Limited, a company incorporated under the laws of India, as of December 31, 2009 and 2008 and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe our audits provide reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SPAR Solutions Merchandising Private Limited as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in United States.

/s/ Nagesh Behl & Co.

New Delhi, India
June 25, 2010

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

	Preferred Stock		Common Stock					Accumulated Other Comprehensive	Non-	
	Shares	Amount	Shares	Amount	Treasury Stock	Paid-In Capital	Accumulated Deficit	(Loss) Gain	Controlling Interest	Total Equity
Balance at January 1, 2008			19,089	$ 191	$ (1)	$ 11,982	$ (9,579)	$ (43)	$ 651	$ 3,201
Preferred Stock Issued	554	$ 6	–	–	–	494	–	–	–	500
Stock options exercised and employee stock purchase plan purchases			50	–	–	41	–	–	–	41
Issuance of stock options to non-employees for services			–	–	–	71	–	–	–	71
Issuance of stock options to employees for services			–	–	–	233	–	–	–	233
Comprehensive loss:										
Foreign currency translation loss								(318)	–	(318)
Net Income							102	–	(163)	(61)
Comprehensive loss			–	–	–	–	102	(318)	–	(216)
Balance at December 31, 2008	554	$ 6	19,139	$ 191	$ (1)	$ 12,821	$ (9,477)	$ (361)	$ 488	$ 3,179
Preferred Stock Issued			–	–	–	–	–	–	–	
Issuance of stock options to non-employees for services			–	–	–	70	–	–	–	70
Issuance of stock options to employees for services			–	–	–	136	–	–	–	136
Purchase of non-controlling			–	–	–	51	–	–	(112)	(61)

interest in joint ventures										
Stock Compensation			–	–	–	21	–	–	–	21
Comprehensive income:										
Foreign currency translation gain			–	–	–	–	–	141	–	141
Net Income							502	–	55	557
Comprehensive income							502	141	–	643
Balance at December 31, 2009	554	$ 6	19,139	$ 191	$ (1)	$ 13,099	$ (8,975)	$ (220)	$ 431	$ 4,531

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Business and Organization

International Merchandising Services Division

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

Primary Territory (+ additional Territory)	Date Established	SGRP Percentage Ownership	Principal Office Location
United States of America	1979	100%	Tarrytown, New York United States of America
Japan	May 2001	100%*	Osaka, Japan
Canada	June 2003	100%	Toronto, Canada
Turkey	July 2003	51%**	Istanbul, Turkey
South Africa	April 2004	51%	Durban, South Africa
India	April 2004	51%	New Delhi, India
China	February 2005	100%***	Hong Kong, China
Lithuania (+ Latvia)	September 2005	51%	Siauliai, Lithuania
Australia (+ New Zealand)	April 2006	51%	Melbourne, Australia
Romania	July 2009	51%****	Bucharest, Romania

* Temporarily 100% is owned by the Company which is currently negotiating with a local merchandising and services company to purchase 49% of this subsidiary.

** Currently inactive and exploring a change in market focus.

*** In March 2010, the Company signed a new Joint Venture agreement with a Local Partner to establish a new merchandising and marketing company in mainland China. The new company is expected to be operational by June 2010.

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

4. Lines of Credit

Existing Domestic Credit Facility (“Webster Credit Facility)(reporting period through July 5, 2010):

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 "Webster Credit Facility"). The Webster Credit Facility provides for a $5.0 million revolving line of credit which matured on March 15, 2010. In February 2008, the Webster 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 Webster 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 or 30 day LIBOR plus 2.75% and to increase the limit on the capital expenditures to $1.3 million. In March 2009, the Webster Credit Facility was amended to extend the maturity until March 15, 2010, extend the monthly Fixed

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Lines of Credit (continued)

Charge Coverage Ratio covenant until March 15, 2010 and reset the limit on capital expenditures to $800,000. On March 15, 2010, the Webster Credit Facility was further amended to extend the maturity and continue the monthly covenant requirements until September 15, 2010.

Borrowings were based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Webster Credit Facility was secured by all of the assets of the Company's domestic subsidiaries. The Webster Credit Facility also limited 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, provided personal guarantees of the Webster Credit Facility totaling $1.0 million.

The basic interest rate under the Webster Credit Facility was 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 Webster Credit Facility was 5% per annum for the twelve months ended December 31, 2009. The Webster Credit Facility was 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 Webster Credit Facility were $4.0 million and $3.9 million at December 31, 2009 and 2008, respectively. As of December 31, 2009, the Company had unused availability under the Webster Credit Facility of $16,000 out of the remaining maximum $969,000 of unused revolving line of credit.

Due to 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 Webster Credit Facility are classified as current at December 31, 2009 and 2008.

The Webster Credit Facility contained certain restrictive covenants. At December 31, 2009, the Company was in compliance with the covenants and did not expect to be in violation at future measurement dates.

New Domestic Credit Facility ("Sterling Credit Facility")(July 6, 2010, to present):

SGRP and certain of its domestic direct and indirect subsidiaries, namely SPAR Incentive Marketing, Inc., PIA Merchandising Co., Inc., Pivotal Sales Company, National Assembly Services, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group International, Inc., SPAR Acquisition, Inc., SPAR Trademarks, Inc., SPAR Marketing Force, Inc. and SPAR, Inc. (each a "Subsidiary Borrower", and together with SGRP, collectively, the " Borrowers "), entered into a Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Loan Agreement"), with Sterling National Bank and Cornerstone Bank as the lenders (the "Lenders"), and issued their Secured Revolving Loan Notes in the original maximum principal amounts of $5.0 million to Sterling National Bank and $1.5 million to Cornerstone Bank (the "Notes"), to document and govern its new credit facility with them (the "Sterling Credit Facility"). The Sterling Credit Facility replaced the Webster Credit Facility on July 6, 2010, and the first advance under such new facility was used to fully repay and terminate the Webster Credit Facility and its documents and liens.

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, have provided personal guarantees of the Sterling Credit Facility totaling $2.5 million pursuant to their Limited Continuing Guaranty in favor of the Lenders dated as of July 6, 2010 (the "Limited Guaranty").

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Lines of Credit (continued)

The basic interest rate under the Sterling Credit Facility is equal to the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time (as determined by the Agent) plus one and one-half (1.50%) percent per annum, which automatically changes with each change in such rate. The aggregate interest rate on July 6, 2010, was 4.75% per annum under that formula.

The Borrowers drew down initial advances under the Sterling Credit Facility of approximately $5.0 million, of which approximately $4.9 million was used to repay the existing Webster Credit Facility. As of July 6, the Borrowers had unused availability under the Sterling Credit Facility of $800,000 out of the remaining maximum $1.5 million unused revolving line of credit.

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

The new Sterling Credit Facility contains certain financial and other restrictive covenants and also limits certain expenditures by the Borrowers, including, but not limited to, capital expenditures and other investments.

International Credit Facilities:

The Japanese subsidiary SPAR FM Japan, Inc. line of credit agreement totaling 100 million Yen or approximately $1.1 million (based upon the exchange rate at November 30, 2009) was cancelled at November 30, 2009 with the change in ownership to 100% owned by SGRP. Prior to this change there were no outstanding balances under the line of credit agreement at November 30, 2009 and December 31, 2008.

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 $1.8 million (based upon the exchange rate at December 31, 2009). At December 31, 2009, SPARFACTS Australia Pty. Ltd. had $510,000 (Australian), or approximately $455,000, outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate was 8.5% per annum for the twelve months ended December 31, 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 $715,000 (based upon the exchange rate at December 31, 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). At December 31, 2009, SPAR Canada Company had $395,000 (Canadian), or approximately $376,000, outstanding under the line of credit (based upon the exchange rate at December 31, 2009). The average interest rate was 3.25% per annum for the twelve months ended December 31, 2009.

6. Commitments and Contingencies

Legal Matters

Longstanding litigation with Safeway Inc. ("Safeway") concluded in August 2010. On October 24, 2001, 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 (California) Superior Court, case no. 2001028498. 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, including causes of action for breach of contract and interference with economic relationships. The case proceeded to trial by jury. On May 26, 2006, the jury returned a verdict that awarded certain damages on different claims to PIA Co. and Pivotal and awarded certain damages to Safeway, resulting in a net award of $1,307,700 to Pivotal. Judgment was entered in favor of Pivotal and against Safeway on August 14, 2006, for $1,307,700. A subsequent order awarded Pivotal certain court costs totaling $33,725.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Commitments and Contingencies (continued)

Thereafter, both sides filed appeals. On May 27, 2010, the California Court of Appeal issued a decision affirming the judgment in full. All appellate proceedings concluded on July 28, 2010. On August 2, 2010, Safeway tendered, and the Company accepted, payment of $1,888,000 in full payment of the judgment.

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 Company's management, disposition of these other matters are not anticipated to have a material adverse effect on the Company or its estimated or desired business, income, growth or other Condition and Results.

11. Geographic Data

New International Subsidiary organized

On July 26, 2010 the Company announced the structuring of a new joint venture corporation in China with its new joint venture partner Shanghai Wedone Marketing Consulting Co., Ltd. The new joint venture will provide merchandising and marketing services and have national market presence in the country.

The new joint venture corporation will be called SPAR (Shanghai) Marketing Management Company Ltd. SPAR will own 51% of the joint venture corporation while Shanghai Wedone Marketing Consulting will own 49% in accordance with the laws of the People's Republic of China. The new joint venture corporation, which started operations on August 1, 2010, will provide merchandising and related marketing services to manufacturers and retailers throughout China.

Shanghai Wedone Marketing Consulting is a comprehensive marketing management company that provides brand communication and retail marketing management service in China. They work with more than 50 international brands such as Coca-Cola, Unilever, Johnson & Johnson, Swatch and several prominent Chinese brands such as Meng Niu Dairy, Guan Sheng Yuan and Dong-e E-jiao. Their business covers all tier 1, 2 and 3 cities in China equating to more than 150 cities throughout the country.

13. Acquisition

On December, 4 2009, the Company acquired substantially all of the business and customer contracts and hired certain employees of Brenner Associates Inc., an assembly service and merchandising service company that also did business as National Marketing Services or "NMS". NMS was in a bankruptcy proceeding. With the approval of the court, the trustee and NMS's secured lender, JPMorgan Chase Bank, N.A. ("Chase"), and in return for the transfer of certain NMS assets to the Company, Chase released certain claims against NMS, and the Company agreed to compensate Chase through a contingent earn-out based on achieving certain future gross revenue levels and to indemnify Chase for up to $50,000 of uncollected NMS receivables in the event the collections by the trustee and Chase were less than the specified minimum. No other consideration was paid for NMS.

The earn out is based on the Company achieving at least $8.0 million in gross revenue from the acquired NMS business on a rolling 12 month basis. If this revenue level is achieved, Chase will be paid a monthly earn-out that could aggregate $350,000 during a 12 month period. If the Company achieved a similar gross revenue level on such a basis during a second 12 month period, Chase will be paid a second monthly earn-out that could aggregate $350,000 over that period (thus providing Chase with a potential earn-out of $700,000 over a 24 month period). The Company has not recorded any contingent liabilities related to the earn-out as current revenue levels do not indicate that such earn-out will be triggered. . The Company will continue to evaluate the terms of the purchase in 2010 and adjust the purchase price as appropriate.

The acquired NMS assets included all of the stock of its wholly owned subsidiaries; National Assembly Services, Inc., a New Jersey corporation that performs in-home furniture assembly services ("NAS"), and NMS Retail Services ULC ("NRS"), a Nova Scotia unlimited Liability Company that performs merchandising services in Canada. The principal assets of NAS and NRS were cash and accounts receivable, which had an approximate fair value of $205,000 on December 4, 2009, and their principal liabilities were accounts payable and accrued expenses, which had a fair value of $214,000 on the date of such acquisition. As subsidiaries of the Company, the assets and liabilities of NAS and NMS

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Acquisition (continued)

Canada, as well as their results since the date of acquisition, are included in the Company's 2009 consolidated financial statements.

In March 2010, the Company established a new Canadian subsidiary, SPAR Wings & Ink Company ("SWI"). On April 1, 2010, with the approval of SGRP's directors, SWI acquired substantially all of the business, customer contracts, receivables, work-in progress, other assets and certain liabilities of 2078281 Ontario Limited, an Ontario merchandising and marketing company doing business as Wings & Ink (the "Seller"). The Company, at closing, also hired substantially all of the Seller's employees including offering consulting contracts to the principals of the Seller.

In return for the purchase of such assets and assumed liabilities, at closing SWI compensated the Seller through 1) a cash payment of $500,000 Canadian dollars ("CAD"), 2) issued a $75,000 CAD interest bearing promissory note payable over an 18 month period and 3) placed $50,000 in escrow for a 12 month period.

SWI also agreed to pay an earn out to the principals of the Seller based on SWI achieving certain revenue and gross profit margin levels of the acquired business for each of the next two12 month periods. The earn out is based on revenue and gross profit margins exceeding certain agreed upon base levels, if achieved, the principles will be paid one third of the excess gross profit dollars in each of the two 12 month periods.

14. Subsequent Events

At the March 2010 quarterly board meeting of SGRP, the Board of Directors authorized the Company to secure bridge financing for future acquisition efforts in an amount not to exceed $1.0 million. On March 26, 2010 the Company signed a Loan and Security Agreement and a Promissory Note with Michael Anthony Holdings, Inc. for a total of $1.0 million at which time the Company received its first installment of $500,000 which was used for the acquisition of certain assets of a Canadian company that closed on April 1, 2010. The remaining balance of the loan amounting to $500,000 will be issued to the Company as needed.

The loan is payable on an interest only basis (for a one year term) at the rate of 14% per annum (payable monthly). Maturity is set at March 31, 2011, however, should the loan not be paid in full by March 31, 2011 the interest rate increases to 24% per annum (payable monthly, until the principal is paid in full). It should be noted that the loan does not contain a prepayment penalty.

In addition to the cost of interest, the Company paid, at closing, to Michael Anthony Holding, Inc. a fee of $10,000 in cash and issued 75,000 warrants to purchase 75,000 shares of the Company's Common Stock. The warrants are exercisable over two (2) years at the market price of $0.85 per Common share (SPAR's closing stock price on that date). In addition, the loan is secured by the stock of SPAR Canada Company.

On September 30, 2010, the Company entered into merger agreements between several of its inactive subsidiaries in an effort to simplify the Company's reporting structure. The mergers impacted the following companies:

Merged into SPAR All Store Marketing Services, Inc. were;

- SPAR Technology Group, Inc.

- SPAR/PIA Retail Services, Inc.
- Retail Resources, Inc.
- Pivotal Field Services, Inc.

Merged into PIA Merchandising Co. Inc.

- Pivotal Sales Company

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Subsequent Events (continued)

There is no expected tax or reporting impact expected from the above mergers as all companies are inactive.
The Company acquired the business of Wings and Ink in March of 2010 (see Note 13).
The Company entered into a new credit facility in July of 2010 (see Note 4).
In July of 2010 the Company formed a new joint venture in China called SPAR (Shanghai) Marketing Management Company, Ltd.
In August of 2010 the Company settled its litigation with Safeway (see Note 6).