

SPAR GROUP INC  
Form 10-Q  
November 19, 2007

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 third quarterly period ended **September 30, 2007**.

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.

555 White Plains Road, Suite 250, Tarrytown, New York 10591

(Address of principal executive offices, including zip code)

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Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:    x Yes    o No

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

Large Accelerated Filer   o    Accelerated Filer   o    Non-Accelerated Filer   x

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

On September 30, 2007, there were 19,088,927 shares of Common Stock outstanding.

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**SPAR Group, Inc.**

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

## Consolidated Balance Sheets

(In thousands, except share and per share data)

	<b>September 30,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
	(Unaudited)	(Note)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,503	\$ 1,148
Accounts receivable, net	10,046	12,982
Prepaid expenses and other current assets	677	553
<b>Total current assets</b>	<b>12,226</b>	<b>14,683</b>
Property and equipment, net	1,411	901
Goodwill	798	798
Other assets	1,597	1,695
<b>Total assets</b>	<b>\$ 16,032</b>	<b>\$ 18,077</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 3,830	\$ 2,551
Accrued expenses and other current liabilities	4,371	2,864
Accrued expenses due to affiliates	2,158	1,752
Customer deposits	694	560
Lines of credit	3,021	5,318
<b>Total current liabilities</b>	<b>14,074</b>	<b>13,045</b>
Other long-term liabilities	244	6
Minority interest	652	498
<b>Total liabilities</b>	<b>14,970</b>	<b>13,549</b>
Commitments and contingencies (Note – 9)		
Stockholders' equity:		
Preferred stock, \$.01 par value:	–	–

Authorized shares – 3,000,000

Issued and outstanding shares – none

Common stock, \$.01 par value:

Authorized shares – 47,000,000

Issued and outstanding shares –

19,088,927 – September 30, 2007

18,934,182 – December 31, 2006

	<b>189</b>	189
Treasury stock	<b>(1)</b>	(1)
Accumulated other comprehensive loss	<b>(32)</b>	(109)
Additional paid-in capital	<b>11,935</b>	11,484
Accumulated deficit	<b>(11,029)</b>	(7,035)
Total stockholders' equity	<b>1,062</b>	4,528
Total liabilities and stockholders' equity	<b>\$ 16,032</b>	\$ 18,077

Note: The Balance Sheet at December 31, 2006, is an excerpt from the audited financial statements at that date but does not include any of the 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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net revenues	\$ 14,365	\$ 12,709	\$ 42,284	\$ 41,477
Cost of revenues	10,483	8,856	29,738	27,853
Gross profit	3,882	3,853	12,546	13,624
Selling, general and administrative expenses	5,108	4,855	15,340	13,794
Depreciation and amortization	180	170	571	565
Operating loss	(1,406)	(1,172)	(3,365)	(735)
Interest expense	66	65	247	162
Other expense (income)	77	48	27	(542)
Loss before provision for income taxes and minority interest	(1,549)	(1,285)	(3,639)	(355)
Provision for income taxes	79	73	220	172
Loss before minority interest	(1,628)	(1,358)	(3,859)	(527)
Minority interest	119	34	135	(11)
Net loss	\$ (1,747)	\$ (1,392)	\$ (3,994)	\$ (516)
Basic/diluted net loss per common share:				
Net loss – basic/diluted	\$ (0.09)	\$ (0.07)	\$ (0.21)	\$ (0.03)
Weighted average common shares – basic/diluted	19,012	18,934	18,973	18,929

*See accompanying notes*

**SPAR Group, Inc.**

## Consolidated Statements of Cash Flows

(unaudited) (In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net cash provided by operating activities	\$ 3,097	\$ 117
<b>Investing activities</b>		
Purchases of property and equipment	(639)	(363)
<b>Financing activities</b>		
Net payments on lines of credit	(2,297)	280
Other long-term liabilities	(84)	(3)
Proceeds from employee stock purchase plan and options exercised	201	-
Net cash (used in) provided by financing activities	(2,180)	277
Translation gain (loss)	77	(53)
Net change in cash and cash equivalents	355	(22)
Cash and cash equivalents at beginning of period	1,148	1,914
Cash and cash equivalents at end of period	\$ 1,503	\$ 1,892
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 178	\$ 153
Taxes paid	\$ 10	\$ 123

The Company acquired equipment by entering into capital leases in the amounts of \$358,000 and \$84,000 in January 2007 and September 2007, respectively.

*See accompanying notes.*

**SPAR Group, Inc.**  
**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 2006 on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (the "SEC") on April 2, 2007, and amended on Form 10-K/A by Amendment No. 1 filed with the SEC on April 13, 2007 (the "Company's Annual Report for 2006 on Form 10-K As Amended"). 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, product sampling, radio frequency identification ("RFID") services, technology services and marketing research.

Today the Company operates in 12 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, in-store event staffing, product sampling, RFID services, technology services and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, electronics store chains, 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 and marketing services in Japan, Canada, Turkey, South Africa, India, Romania, China, Lithuania, Latvia, Australia and New Zealand. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.



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

**3. Earnings Per Share**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Numerator:				
Net loss	\$ (1,747)	\$ (1,392)	\$ (3,994)	\$ (516)
Denominator:				