

Backman Mats
Form 4
June 11, 2018

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Backman Mats

2. Issuer Name and Ticker or Trading Symbol
AUTOLIV INC [ALV]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
06/07/2018

___ Director ___ 10% Owner
X Officer (give title below) ___ Other (specify below)
See Remarks

C/O AUTOLIV, INC., KLARABERGSVIADUKTEN 70, SECTION B7

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
X Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

STOCKHOLM, V7 SE-111 64

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
				Code	V	Amount	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Underlying Security
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Security (Instr. 3)	or Exercise Price of Derivative Security	any (Month/Day/Year)	Code (Instr. 8)	Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	(Month/Day/Year)	(Instr. 3 and 4)			
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title
Restricted Stock Unit	<u>(1)</u>	06/07/2018	<u>A(2)(3)</u>		7.0426		02/19/2020 <u>(4)</u>	02/19/2020 <u>(4)</u>	Common Stock
Restricted Stock Unit	<u>(1)</u>	06/07/2018	<u>A(3)(5)</u>		10.343		02/13/2021 <u>(6)</u>	02/13/2021 <u>(6)</u>	Common Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Backman Mats C/O AUTOLIV, INC. KLARABERGSVIADUKTEN 70, SECTION B7 STOCKHOLM, V7 SE-111 64				See Remarks

Signatures

/s/ Mats
Backman

06/11/2018

**Signature of
Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Each restricted stock unit (RSU) represents a contingent right to receive one share of ALV common stock.
- (2) Reflects dividend equivalent rights accrued in the form of additional RSUs in respect of RSUs granted to the reporting person on February 19, 2017.
Per the terms of the award agreement, any cash dividend paid with respect to the ALV's common stock for which the record date occurs on or after the grant date and the payment date occurs on or before the vesting date will result in a credit of additional RSUs, which additional RSUs are subject to the same vesting schedule as the underlying RSUs.
- (3) The RSUs vest and convert to shares in one installment on the third anniversary of the grant date of the RSUs granted to the reporting person on February 19, 2017.
- (4) Reflects dividend equivalent rights accrued in the form of additional RSUs in respect of RSUs granted to the reporting person on February 13, 2018.
- (5) The RSUs vest and convert to shares in one installment on the third anniversary of the grant date of the RSUs granted to the reporting person on February 13, 2018.
- (6) Reflects dividend equivalent rights accrued in the form of additional RSUs in respect of RSUs granted to the reporting person on February 13, 2018.

Remarks:

Chief Financial Officer and Group Vice President, Finance

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Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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align="left">Operating Lease Obligations 2,853 780 1,606 \$467 –

Total

\$8,369 \$6,142 \$1,760 \$467 –

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

See Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A.(T) Controls and Procedures

Management's Report on Internal Control Over Financial Reporting

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

The Company's management has evaluated the effectiveness of the Company's internal control over financial reporting using the "Internal Control – Integrated Framework (1992)" created by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. Based on this evaluation, management has concluded that internal controls over financial reporting were effective as of December 31, 2010.

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 effective to insure that the information required to be disclosed by the Company in reports it files, or submits under the Exchange Act were recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Explanation of Responses:

Changes in Internal Controls

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's fourth quarter of its 2010 fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting, except for completion of the improvements the Company had undertaken with respect to its Indian subsidiary's period end closing and reporting procedures related to accumulation and reporting of annual financial results and disclosures (as more fully described in the Company's Amendment No. 2 to its 2009 Annual Report on Form 10-K as filed with the SEC on October 8, 2010).

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Reference is made to the information set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission for its Annual Meeting of Shareholders, presently scheduled to be held on May 26, 2011, pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections "Executive Compensation Report of the Compensation Committee" and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

Item 11. Executive Compensation

Reference is made to the information set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission for its Annual Meeting of Shareholders, presently scheduled to be held on May 26, 2011, pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections "Executive Compensation Report of the Compensation Committee" and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Reference is made to the information set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission for its Annual Meeting of Shareholders, presently scheduled to be held on May 26, 2011, pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections "Executive Compensation Report of the Compensation Committee" and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Reference is made to the information set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission for its Annual Meeting of Shareholders, presently scheduled to be held on May 26, 2011, pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections "Executive Compensation Report of the Compensation Committee" and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

Item 14. Principal Accountant Fees and Services

Reference is made to the information set forth in the Company's definitive proxy statement, which will be filed with the Securities and Exchange Commission for its Annual Meeting of Shareholders, presently scheduled to be held on May 26, 2011, pursuant to Regulation 14A not later than 120 days after the end of our fiscal year, which information is incorporated by reference to this Annual Report. Notwithstanding the foregoing, information appearing in the sections "Executive Compensation Report of the Compensation Committee" and "Audit Committee Report" shall not be deemed to be incorporated by reference in this Annual Report.

PART IV

Item 15. Exhibits and Financial Statement Schedule

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

Reports of Independent Registered Public Accounting Firms	
– Rehmann Robson	F-1
– Nagesh Behl & Co.	F-2
Consolidated Balance Sheets as of December 31, 2010, and December 31, 2009	F-3
Consolidated Statements of Income for the years ended December 31, 2010, and December 31, 2009	F-4
Consolidated Statements of Equity for the years ended December 31, 2010, and December 31, 2009	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2010, and December 31, 2009	F-6
Notes to Consolidated Financial Statements	F-7

2. Financial Statement Schedule.

Schedule II - Valuation and Qualifying Accounts for the two years ended December 31, 2010	F-30
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3. Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name of PIA Merchandising Services, Inc.), as amended ("SGRP"), incorporated by reference to SGRP's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1"), and the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes SGRP's name to SPAR Group, Inc.), (incorporated by reference to Exhibit 3.1 to SGRP's Quarterly Report on Form 10-Q for the 3rd Quarter ended September 30, 1999).
3.2	Amended and Restated By-Laws of SPAR Group, Inc., adopted on May 18, 2004, as amended through August 5, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on August 10, 2010).
3.3	Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
3.4	Charter of the Compensation Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).

- 3.5 Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc., adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).

- 3.6 SPAR Group, Inc. Statement of Policy Respecting Stockholder Communications with Directors, adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.7 SPAR Group, Inc. Statement of Policy Regarding Director Qualifications and Nominations, adopted on May 18, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 27, 2004).
- 3.8 Certificate of Designation of Series "A" Preferred Stock of SPAR Group, Inc., As of March 28, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the SEC on March 31, 2008).
- 4.1 Registration Rights Agreement entered into as of January 21, 1992, by and between RVM Holding Corporation, RVM/PIA, a California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverine (incorporated by reference to the Form S-1).
- 4.2 Amended and Restated Series A Preferred Stock Subscription Agreement by and among SGRP, Robert G. Brown, William H. Bartels and SPAR Management Services, Inc., a Nevada corporation ("SMSI"), dated September 30, 2008, and effective as of March 31, 2008 (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 4.3 Series A Preferred Stock Subscription Agreement by and among SGRP, 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, affiliates of Mr. Robert G. Brown and Mr. William H. Bartels, dated September 30, 2008, and effective as of September 24, 2008 (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 4.4 SGRP's Offer to Exchange Certain Outstanding Stock Options for New Stock Options dated August 24, 2009, (incorporated by reference to Exhibits 99(a)(1)(A) through (G) of SGRP's Schedule TO dated August 24, 2009, as filed with the SEC on August 25, 2009 ("SGRP's SC TO-I")).
- 4.5 Form of SGRP's Common Stock Certificate (incorporated by reference to SGRP's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-3 (Registration No. 333-162657) as filed with the SEC on February 7, 2011).
- 4.6 Form of SGRP's Preferred Stock Certificate (incorporated by reference to SGRP's Pre-Effective Amendment No. 1 to its Registration Statement on Form S-3 (Registration No. 333-162657) as filed with the SEC on February 7, 2011).
- 10.1 SPAR Group, Inc. 2008 Stock Compensation Plan, effective as of May 29, 2008, and as amended through May 28, 2009 (the "SGRP 2008 Plan") (incorporated by reference to SGRP's Current Report on Form 8-K dated June 4, 2009, as filed with the SEC on June 4, 2009).
- 10.2 Summary Description and Prospectus dated August 24, 2009, respecting the SPAR Group, Inc. 2008 Stock Compensation Plan, as amended (incorporated by reference to Exhibit 99(a)(1)(G) to SGRP's SC TO-I).

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- 10.3 Form of Nonqualified Stock Option Contract for new awards under the SGRP 2008 Plan (incorporated by reference to SGRP's first and final amendment to its SC TO-I on Schedule TO I/A dated October 20, 2009, as filed with the SEC on October 22, 2009).
- 10.4 2000 Stock Option Plan, as amended through May 16, 2006 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, as filed with the SEC on November 14, 2006).
- 10.5 2001 Employee Stock Purchase Plan (incorporated by reference to SGRP's Proxy Statement for SGRP's annual stockholders meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.6 2001 Consultant Stock Purchase Plan (incorporated by reference to SGRP's Proxy Statement for SGRP's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).

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- 10.7 Amended and Restated Change in Control Severance Agreement between William H. Bartels and SGRP, dated as of December 22, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.8 Amended and Restated Change in Control Severance Agreement between Gary S. Raymond and SGRP, dated as of December 30, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.9 Amended and Restated Change in Control Severance Agreement between Kori G. Belzer and SGRP, dated as of December 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.10 Amended and Restated Change in Control Severance Agreement between Patricia Franco and SGRP, dated as of December 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.11 Amended and Restated Change in Control Severance Agreement between James R. Segreto and SGRP, dated as of December 20, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.12 Amended and Restated Field Service Agreement dated and effective as of January 1, 2004, by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
- 10.13 First Amendment to Amended and Restated Field Service Agreement between SPAR Marketing Services, Inc., a Nevada corporation ("SMS"), and SPAR Marketing Force, Inc., a Nevada corporation ("SMF"), dated September 30, 2008, and effective as of September 24, 2008 (the "First Amendment") (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 10.14 Amended and Restated Field Management Agreement dated and effective as of January 1, 2004, by and between SPAR Management Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
- 10.15 Amended and Restated Programming and Support Agreement by and between SPAR Marketing Force, Inc. and SPAR Infotech, Inc., dated and effective as of September 15, 2007 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on November 14, 2007).
- 10.16 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2002).
- 10.17 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2002).
- 10.18 Master Lease Agreement by and between SPAR Marketing Services, Inc. and SPAR Marketing Force, Inc. dated as of November 2004 relating to lease of handheld computer equipment

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(incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).

- 10.19 Amended and Restated Equipment Leasing Schedule 001 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of November 1, 2004, relating to lease of handheld computer equipment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).

- 10.20 Amended and Restated Equipment Leasing Schedule 002 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of January 4, 2005, relating to lease of handheld computer equipment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).

- 10.21 Amended and Restated Equipment Leasing Schedule 003 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of January 31, 2005, relating to lease of handheld computer equipment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.22 Equipment Leasing Schedule 004 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of March 24, 2005, relating to lease of handheld computer equipment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.23 Master Lease Agreement by and between SPAR Marketing Services, Inc. and SPAR Canada Company dated as of January 2005 relating to lease of handheld computer equipment (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.24 Amended and Restated Equipment Leasing Schedule 001 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Canada Company dated as of January 4, 2005, relating to lease of handheld computer equipment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.25 Bill of Sale and Lease Termination Under Certain Schedules to Master Equipment Leases by and among SMF, SPAR Canada Company, a Nova Scotia corporation, and SMS dated September 30, 2008, and effective as of September 24, 2008 (the "Bill of Sale") (incorporated by reference to SGRP's Current Report on Form 8-K dated October 6, 2008, as filed with the SEC on October 10, 2008).
- 10.26 Master Lease Agreement by and between SPAR Marketing Services, Inc. ("SMS"), and SGRP's subsidiary, SPAR Marketing Force, Inc. ("SMF"), dated as of July 1, 2008, relating to leases of handheld computer equipment (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, as filed with the SEC on May 15, 2009).
- 10.27 Equipment Leasing Schedule No. 001 to Master Lease Agreement by and between SMS and SMF dated as of July 1, 2008 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, as filed with the SEC on May 15, 2009).
- 10.28 Equipment Leasing Schedule No. 002 to Master Lease Agreement by and between SMS and SMF dated as of September 1, 2008 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, as filed with the SEC on May 15, 2009).
- 10.29 Joint Venture Agreement dated as of March 26, 2004, by and between Solutions Integrated Marketing Services Ltd. and SPAR Group International, Inc., respecting the Corporation's subsidiary in India (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.30 Joint Venture Agreement dated as of May 1, 2001, by and between Paltac Corporation and SGRP, respecting the Corporation's subsidiary in Japan (incorporated by reference to SGRP's Annual

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- Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.31 Agreement on Amendment dated as of August 1, 2004, by and between SGRP and SPAR FM Japan, Inc., respecting the Corporation's subsidiary in Japan (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.32 Joint Venture Agreement dated as of January 26, 2005, by and between Best Mark Investments Holdings Ltd. and SPAR International Ltd., respecting the Corporation's subsidiary in China (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).

- 10.33 Joint Venture Agreement dated as of March 29, 2006 by and between FACE AND COSMETIC TRADING SERVICES PTY LIMITED and SPAR International, Ltd., respecting the Corporation's subsidiary in Australia (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.34 Stock Purchase and Sale Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the SEC on August 14, 2002).
- 10.35 Revolving Credit, Guaranty and Security Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the SEC on August 14, 2002).
- 10.36 Term Loan, Guaranty and Security Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, as filed with the SEC on August 14, 2002).
- 10.37 Promissory Note in the principal amount of \$764,271.00 by STIMULYS, Inc., in favor of SPAR Incentive Marketing, Inc., dated as of September 10, 2004 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.38 Payoff and Release Letter by and between STIMULYS, Inc., and SPAR Incentive Marketing, Inc., dated as of September 10, 2004 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.39 Sales Proceeds Agreement by and between STIMULYS, Inc. and SPAR Incentive Marketing, Inc., dated as of September 10, 2004 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.40 Third Amended and Restated Revolving Credit and Security Agreement dated as of January 24, 2003 (as amended, the "Webster Credit Agreement"), by and among Webster Business Credit Corporation, formerly known as Whitehall Business Credit Corporation ("Webster") with SGRP, SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., SPAR Group International, Inc., SPAR Technology Group, Inc., SPAR/PIA Retail Services, Inc., Retail Resources, Inc., Pivotal Field Services Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co. and Pivotal Sales Company (as such borrower list may be amended from time to time, collectively, the "SPAR Borrowers"), (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).
- 10.41 Consent, Joinder, Release and Amendment Agreement (Amendment No. 1) to the Webster Credit Agreement among the SPAR Webster Borrowers and Webster dated as of October 31, 2003 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed with the SEC on March 30, 2004).
- 10.42 Waiver and Amendment Letter (Amendment No. 2) to the Webster Credit Agreement among the SPAR Webster Borrowers and Webster dated as of January 1, 2004 (incorporated by reference to SGRP's Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2003,

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as filed with the SEC on June 28, 2004).

- 10.43 Waiver And Amendment No. 3 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of March 26, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 26, 2004).

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- 10.44 Waiver And Amendment No. 4 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of May 17, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 26, 2004).
- 10.45 Waiver and Amendment No. 5 to Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of August 20, 2004 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, as filed with the SEC on August 23, 2004).
- 10.46 Waiver and Amendment No. 6 to Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of November 15, 2004 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, as filed with the SEC on November 17, 2004).
- 10.47 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of March 31, 2005 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.48 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of May 11, 2005, with respect to the fiscal quarter ended March 31, 2005 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.49 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of August 10, 2005, with respect to the fiscal quarter ended June 30, 2005 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, as filed with the SEC on August 15, 2005).
- 10.50 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of November 10, 2005, with respect to the fiscal quarter ended September 30, 2005 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as filed with the SEC on November 14, 2005).
- 10.51 Amendment No. 7 to the Third Amended and Restated Revolving Credit and Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of January 18, 2006 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on January 26, 2006).
- 10.52 Waiver And Amendment No. 8 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of March 28, 2007, with respect to the fiscal year ended December 31, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for year ended December 31, 2006, as filed with the SEC on April 2, 2007).

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- 10.53 Waiver And Amendment No. 9 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of May 18, 2007, with respect to the fiscal year ended December 31, 2006 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, as filed with the SEC on May 21, 2007).
- 10.54 Limited Guaranty of Robert G. Brown respecting certain obligations of the SPAR Webster Borrowers under the Webster Credit Agreement in favor of Webster dated as of May 18, 2007 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, as filed with the SEC on May 21, 2007).
- 10.55 Limited Guaranty of William H. Bartels respecting certain obligations of the SPAR Webster Borrowers under the Webster Credit Agreement in favor of Webster dated as of May 18, 2007 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, as filed with the SEC on May 21, 2007).

- 10.56 Waiver And Amendment No. 10 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of August 1, 2007, with respect to the fiscal quarter ended June 30, 2007 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, as filed with the SEC on August 20, 2007).
- 10.57 Waiver And Amendment No. 11 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of November 16, 2007, with respect to the fiscal year ended December 31, 2006 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007, as filed with the SEC on November 19, 2007).
- 10.58 Waiver And Amendment No. 12 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of February 12, 2008, with respect to the fiscal year ended December 31, 2007 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the SEC on March 31, 2008).
- 10.59 Waiver And Amendment No. 13 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of August 14, 2008, with respect to the fiscal quarter ended June 30, 2008 (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, as filed with the SEC on August 14, 2008).
- 10.60 Amendment No. 14 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of January 23, 2009 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.61 Amendment No. 15 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of March 15, 2009 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.62 Amendment No. 16 To Third Amended And Restated Revolving Credit And Security Agreement (i.e., to the Webster Credit Agreement) among the SPAR Webster Borrowers and Webster dated as of March 15, 2010 (incorporated by reference to SGRP's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on April 15, 2010).
- 10.63 Revolving Loan and Security Agreement dated as of July 6, 2010 (the "Sterling Loan Agreement"), by and among SGRP, and certain of its 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 "SPAR Sterling Borrowers"), and Sterling National Bank, as Agent (the "Sterling Agent"), and Sterling National Bank and Cornerstone Bank, as lenders (collectively, the "Sterling Lenders") (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).

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- 10.64 Secured Revolving Loan Note in the original maximum principal amount of \$5,000,000.00 issued by the SPAR Sterling Borrowers to Sterling National Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.65 Secured Revolving Loan Note in the original maximum principal amount of \$1,500,000.00 issued by the SPAR Sterling Borrowers to Cornerstone Bank pursuant to (and governed by) the Sterling Loan Agreement and dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).
- 10.66 Limited Continuing Guaranty of the obligations of the SPAR Sterling Borrowers under the Sterling Loan Agreement from Robert G. Brown and William H. Bartels in favor of the Sterling Lenders dated as of July 6, 2010 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on July 12, 2010).

- 10.67 Confirmation of Credit Facilities Letter by Royal Bank of Canada in favor of SPAR Canada Company dated as of October 17, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.68 General Security Agreement by SPAR Canada Company in favor of Royal Bank of Canada dated as of October 20, 2006 (incorporated by reference to SGRP's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as filed with the SEC on April 2, 2007).
- 10.69 Waiver Letter and Amendment by and between Royal Bank of Canada Company, dated as of March 31, 2008 (incorporated by reference to SGRP's Annual Report on Form 10-K, as filed with the SEC on March 31, 2008).
- 10.70 Debtor Finance Agreement dated as of May 24, 2006, by and among Bendigo Bank Limited ACN and SPARFACTS Pty Ltd. together with Bendigo Bank Limited ACN Standard Terms and Conditions (incorporated by reference to SGRP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, as filed with the SEC on May 15, 2008).

- 14.1 Code of Ethical Conduct for the Directors, Senior Executives and Employees, of SPAR Group, Inc., dated May 1, 2004 (incorporated by reference to SGRP's Current Report on Form 8-K, as filed with the SEC on May 5, 2004)."
- 14.2 Statement of Policy Regarding Personal Securities Transactions in SGRP Stock and Non-Public Information, as adopted and restated on May 1, 2004, and as further amended through March 10, 2011 (as filed herewith).

- 21.1 List of Subsidiaries (as filed herewith).
- 23.1 Consent of Rehmann Robson (as filed herewith).
- 23.2 Consent of Nitin Mittalan & Co. (as filed herewith).
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (as filed herewith).

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: March 15, 2011

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: March 15, 2011	Chief Executive Officer and Director
/s/ Robert G. Brown Robert G. Brown Date: March 15, 2011	Chairman of the Board and Director
/s/ William H. Bartels William H. Bartels Date: March 15, 2011	Vice Chairman and Director
/s/ Jack W. Partridge Jack W. Partridge Date: March 15, 2011	Director
/s/ Jerry B. Gilbert Jerry B. Gilbert Date: March 15, 2011	Director
/s/ Lorrence T. Kellar Lorrence T. Kellar Date: March 15, 2011	Director
/s/ C. Manly Molpus C. Manly Molpus	Director

Explanation of Responses:

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Date: March 15, 2011

/s/ James R. Segreto
James R. Segreto

Chief Financial Officer,
Treasurer and Secretary (Principal Financial and
Accounting Officer)

Date: March 15, 2011

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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, 2010 and 2009, and the related consolidated statements of income, 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 years ended December 31, 2010 and 2009. These statements reflect total assets constituting 5% and 7% of consolidated total assets as of December 31, 2010 and 2009, respectively, and total revenues constituting 5% and 9% of total consolidated revenue for the years then ended, respectively. Such financial statements were audited by another auditor 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 2010 and 2009, is based solely on the report of the other auditor.

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 and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditor for 2010 and 2009, 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, 2010 and 2009, 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
March 15, 2011

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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 re-instated the accompanying balance sheets of SPAR Solutions Merchandising Private Limited, a company incorporated under the laws of India, as of December 31, 2010 and 2009 (Audited by Statutory Auditors of the company) 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 is to re-instate these financial statements based on audited financials provided to us.

We conducted this reinstatement in accordance with generally accepted auditing standards of the Public Company Oversight Board (United States). Those standards require that we plan and perform the reinstatement 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 a 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, 2010 and 2009, 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/ Nitin Mittal & Co.

New Delhi, India
March 11, 2011

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SPAR Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share data)

	December 31,	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$923	\$1,659
Accounts receivable, net	13,999	10,231
Prepaid expenses and other current assets	1,283	1,182
Total current assets	16,205	13,072
Property and equipment, net	1,452	1,550
Goodwill	848	798
Intangibles	362	-
Other assets	226	1,931
Total assets	\$19,093	\$17,351
Liabilities and equity		
Current liabilities:		
Accounts payable	\$1,804	\$3,819
Accrued expenses and other current liabilities	2,733	2,226
Accrued expenses due to affiliates	1,575	1,436
Customer deposits	471	477
Lines of credit and other debt	5,263	4,862
Total current liabilities	11,846	12,820
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value:		
Authorized shares - 3,000,000		
Issued and outstanding shares-	6	6
554,402 – December 31, 2010 and 2009		
Common stock, \$.01 par value:		
Authorized shares - 47,000,000		
Issued and outstanding shares -		
19,314,306 – December 31, 2010		
19,139,365 – December 31, 2009	193	191
Treasury stock	(1)	(1)
Additional paid-in capital	13,549	13,099
Accumulated other comprehensive loss	(142)	(220)
Accumulated deficit	(6,808)	(8,975)
Total SPAR Group, Inc. equity	6,797	4,100
Non-controlling interest	450	431
Total liabilities and equity	\$19,093	\$17,351

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except per share data)

	Year Ended December 31,	
	2010	2009
Net revenues	\$63,154	\$57,549
Cost of revenues	42,165	40,019
Gross profit	20,989	17,530
Selling, general and administrative expense	17,140	16,127
Depreciation and amortization	1,018	1,081
Operating income	2,831	322
Interest expense	310	178
Other (income)	(21)	(582)
Income before provision for income taxes	2,542	726
Provision for income taxes	263	169
Net income	2,279	557
Net income attributable to non-controlling interest	112	55
Net income attributable to SPAR Group, Inc	\$2,167	\$502
Net income per basic and diluted common share:		
Net income – basic and diluted	\$0.11	\$0.03
Weighted average common shares – basic	19,209	19,139
Weighted average common shares – diluted	20,602	19,434

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Equity

(In thousands)

	Preferred Stock		Common Stock			Accumulated Other Comprehensive (Loss) Gain		Non-Controlling Interest	Total Equity	
	Shares	Amount	Shares	Amount	Treasury Stock	Paid-In Capital	Accumulated Deficit			
Balance at January 1, 2009	554	\$ 6	19,139	\$ 191	\$ (1)	\$ 12,821	\$ (9,477)	\$ (361)	\$ 488	\$ 3,667
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 interest in joint ventures			–	–	–	51	–	–	(112)	(61)
Stock Compensation			–	–	–	21	–	–	–	21
Comprehensive income:										
Foreign currency translation gain			–	–	–	–	–	141	–	141
Net Income							502	–	55	557
Comprehensive income							502	141	55	698
Balance at December 31, 2009	554	\$ 6	19,139	\$ 191	\$ (1)	\$ 13,099	\$ (8,975)	\$ (220)	\$ 431	\$ 4,531
Preferred Stock Issued			–	–	–	–	–	–	–	
Issuance of stock options and warrants to non-employees for			120	1	–	204	–	–	–	205

services										
Issuance of stock options to employees for services				131						131
Exercise of Options	55	1		25						26
Purchase of non-controlling interest in joint ventures				90					(141)	(51)
Other changes to non-controlling interest									48	48
Comprehensive income:										
Foreign currency translation gain								78		78
Net Income						2,167			112	2,279
Comprehensive income						2,167	78		112	2,357
Balance at December 31, 2010	554	\$ 6	19,314	\$ 193	\$ (1)	\$ 13,549	\$ (6,808)	\$ (142)	\$ 450	\$ 7,247

See accompanying notes.

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

	Year Ended December 31,	
	2010	2009
Operating activities		
Net income	\$ 2,279	\$ 557
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,018	1,081
Issuance of stock and stock options for service	336	278
Additional paid-in capital purchase of non-controlling interest and other changes in non-controlling interest	93	(112)
Changes in operating assets and liabilities:		
Accounts receivable	(3,790)	2,997
Prepaid expenses and other assets	1,604	139
Accounts payable, accrued expenses, other current liabilities and customer deposits	(1,280)	(3,529)
Net cash provided by operating activities	260	1,411
Investing activities		
Purchases of property and equipment and non-controlling interest in subsidiary	(1,439)	(831)
Financing activities		
Net borrowing (repayments) from lines of credit	445	(743)
Repayments of capital lease obligations	(95)	-
Proceeds from employee stock purchase plan and exercised options	26	-
Net cash provided by (used in) financing activities	376	(743)
Effect of foreign exchange rate changes on cash	67	137
Net change in cash and cash equivalents	(736)	(26)
Cash and cash equivalents at beginning of year	1,659	1,685
Cash and cash equivalents at end of year	\$ 923	\$ 1,659
Supplemental disclosure of cash flows information		

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Interest paid	\$ 378	\$ 288
Income taxes paid	\$ 203	\$ 799
Equipment purchased through capital lease	\$ 250	\$ -

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Business and Organization

The SPAR Group, Inc., a Delaware corporation (“SGRP”), and its subsidiaries (together with SGRP, the “SPAR Group” or 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, furniture and other product assembly services, Radio Frequency Identification (“RFID”) services, technology services and marketing research services. Assembly services are performed in stores, homes and offices while those other services are primarily performed in mass merchandisers, office supply, grocery and drug store chains, and independent, convenience and electronics stores.

Merchandising services primarily consist of regularly scheduled, special project and other product services provided at the store level, and the Company may be engaged by either the retailer or the manufacturer. Those services may include restocking and adding new products, removing spoiled or outdated products, resetting categories "on the shelf" in accordance with client or store schematics, confirming and replacing shelf tags, setting new sale or promotional product displays and advertising, replenishing kiosks, providing in-store event staffing and providing assembly services in stores, homes and offices. Other merchandising services include whole store or departmental product sets or resets, including new store openings, new product launches and in-store demonstrations, special seasonal or promotional merchandising, focused product support and product recalls. The Company also provides RFID services, technology services and marketing research services.

Today the Company operates in 9 countries that encompass approximately 47% of the total world population. Although it operates in a single business segment (merchandising and marketing services), the Company currently divides its operations for marketing, administrative and other purposes into two geographic divisions: its Domestic Merchandising Services Division, which provides those services in the United States of America since certain of its predecessors were formed in 1979; and its International Merchandising Services Division, which began operations in May of 2001 and provides similar merchandising, marketing services and in-store event staffing services in Japan, Canada, South Africa, India, Romania, China, Australia and New Zealand.

The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

Domestic Merchandising Services Division

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

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Business and Organization (continued)

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	100%**	New Delhi, India
Lithuania	September 2005	51%***	Siauliai, Lithuania
Australia (+ New Zealand)	April 2006	51%	Melbourne, Australia
Romania	July 2009	51%****	Bucharest, Romania
China	March 2010	51%*****	Shanghai, China

* Currently not in operation while the Company explores a change in this subsidiary's market focus.

** As of September 30, 2010, the Company owned 100% of this subsidiary.

*** The Company closed this subsidiary's operations in Fourth Quarter 2010.

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

***** Currently the Company owns two subsidiaries in China. One Subsidiary is 100% owned and the second subsidiary, acquired in March 2010 and operational in August 2010, is 51% owned.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company consolidates its 100% owned subsidiaries. The Company also consolidates all of its 51% owned subsidiaries as the Company believes it is the primary beneficiary and controls the economic activities in accordance with Accounting Standards Codification (ASC) 810-10, Consolidation of Variable Interest Entities.

All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents

Explanation of Responses:

The Company considers all highly liquid short-term investments with maturities of three months or less at the time of acquisition to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

Revenue Recognition

The Company's services are provided to its clients under contracts or agreements. The Company bills its clients based upon service fee or per unit fee arrangements. Revenues under service fee arrangements are recognized when the service is performed. The Company's per unit fee arrangements provide for fees to be earned based on the retail sales of a client's products to consumers. The Company recognizes per unit fees in the period such amounts become determinable and are reported to the Company.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Unbilled Accounts Receivable

Unbilled accounts receivable represent services performed but not billed and are included as accounts receivable.

Doubtful Accounts and Credit Risks

The Company continually monitors the validity of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$143,000 and \$317,000 at December 31, 2010, and 2009, respectively. Bad debt expenses were \$265,000 and \$412,000 in 2010, and 2009, respectively.

Property and Equipment and Depreciation

Property and equipment, including leasehold improvements, are stated at cost. Depreciation is calculated on a straight-line basis over estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or lease term, using the straight-line method.

Capital Lease Obligations

The Company has two outstanding capital lease obligations. The first lease originating in March 2010 has a cost of \$215,000, accumulated depreciation of \$29,800 and a net book value of \$185,200 at December 31, 2010. The second lease originating in November 2010 has a cost of \$48,100, accumulated depreciation of \$2,700 and a net book value of \$45,400 at December 31, 2010.

Annual future minimum lease payments required under the lease, together with the present value as of December 31, 2010 are as follows:

Year Ending December 31,	Amount
2011	\$ 99
2012	99
2013	55
	253
Less amount representing interest	23
Present value of net minimum lease payments included with other liabilities	\$ 230

Internal Use Software Development Costs

In accordance with ASC-350-10-720, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalized software development costs are amortized over three years on a straight-line basis.

The Company capitalized \$632,000 and \$586,000 of costs related to software developed for internal use in 2010, and 2009, respectively, and recognized approximately \$518,000 and \$396,000 of amortization of capitalized software for the twelve months ended December 31, 2010, and 2009, respectively.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may be higher than its fair value. If an asset is considered to be impaired, the impairment charge that would be recognized is the excess of the asset's carrying value over the asset's fair value.

Fair Value of Financial Instruments

The Company's balance sheets include the following financial instruments: accounts receivable, accounts payable and lines of credit. The Company considers the carrying amounts of current assets and liabilities in the financial statements to approximate the fair value for these financial instruments, because of the relatively short period of time between origination of the instruments and their expected realization or payment. The carrying amount of the lines of credit approximates fair value because the obligations bear interest at a floating market rate of interest.

Excess Cash

The Company's domestic cash balances are generally utilized to pay its bank lines of credit. International cash balances are maintained in liquid cash accounts and are utilized to fund daily operations.

Major Customers - Domestic

One customer accounted for 10% of the Company's net revenues for the years ended December 31, 2010, and 2009, resulting from merchandising services performed for a large pharmaceutical distributor. This customer accounted for approximately 5% and 6% of the Company's accounts receivable at December 31, 2010, and 2009, respectively.

In addition, approximately 10% and less than 1% of the Company's net revenue for the years ended December 31, 2010, and 2009, respectively, resulting from merchandising and assembly services performed for a major office supply chain and for manufacturers within this claim. These customers accounted for approximately 3% and less than 1% of the Company's accounts receivable at December 31, 2010, and 2009, respectively.

Approximately 7% and 6% of the Company's net revenues for the years ended December 31, 2010, and 2009, respectively, resulting from merchandising services performed for manufacturers and others in stores operated by a leading mass merchandising chain in the United States. This customer accounted for approximately 4% and 9% of the Company's accounts receivable at December 31, 2010, and 2009, respectively.

In 2010, the Company performed merchandising and marketing services for manufacturers and others in a national drug store chain. The services accounted for approximately 6% of the company's net revenues for the twelve months ended December 31, 2010. Effective March 1, 2011, the Company will no longer be providing these merchandising and marketing services in this national drug store chain.

Foreign Currency Rate Fluctuations

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The Company has foreign currency exposure associated with its international subsidiaries. In both 2010 and 2009, these exposures are primarily concentrated in the Canadian Dollar, South African Rand, Australian Dollar and Japanese Yen. At December 31, 2010, international assets totaled \$8.2 million and international liabilities totaled \$6.2 million. For 2010, international revenues of subsidiaries posted \$26.6 million and the international share of the Company's net income was a net loss of approximately \$506,000.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Interest Rate Fluctuations

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At December 31, 2010, the Company's outstanding debt totaled \$5.3 million, as noted in the table below (in thousands):

Location	Variable Interest Rate (1)	US Dollars (2)
United States	4.75 %	\$ 3,536
	4.0% -	
International	10.2 %	1,727
		\$ 5,263

(1) Per annum interest at December 31, 2010

(2) Based on exchange rate at December 31, 2010

Based on 2010 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact annual pre-tax earnings and cash flows by approximately \$45,000.

Income Taxes

Deferred tax assets and liabilities represent the future tax return consequences of certain temporary differences that will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. In the event the future consequences of differences between the financial reporting basis and the tax basis of the Company's assets and liabilities result in a net deferred tax asset, an evaluation is required of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance is provided when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

Stock-Based Compensation

As of January 1, 2006, ASC-718-10 became effective and applicable to the Company's accounting for its employee options. Under ASC-718-10, compensation expense is recognized in the Company's financial statements when employee 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 employee's requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model. 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.

The fair value of each option grant is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; volatility factor of expected market price of common stock of 140% and 144% for 2010, and 2009, respectively; risk-free interest rate of 3.30% and 3.85% for 2010, and 2009, respectively; and expected lives of six years.

Net Income Per Share

Basic net income per share amounts are based upon the weighted average number of common shares outstanding. Diluted net income per share amounts are based upon the weighted average number of common and potential common shares outstanding except for periods in which such potential common shares are anti-dilutive. Potential common shares outstanding include stock options and are calculated using the treasury stock method.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the amounts disclosed for contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Goodwill and Other Intangible Assets

The Company follows ASC-805-10, Goodwill and Other Intangible Assets, as such, goodwill is no longer amortized, but is subject to annual impairment tests. At December 31, 2010 and 2009 the Company performed the required impairment test. The Company calculated the fair value of each business unit for which goodwill was recorded to determine if there was an impairment. The fair value of each unit was based upon the estimate of the discounted cash flow generated by the respective business unit. As a result of these calculations, it was determined that there was no impairment to the goodwill.

On April 1, 2010, with the approval of SGRP's directors, the Company 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. A portion of this purchase was allocated to customer contracts. The contracts are being amortized on a straight line basis over 5 years.

Translation of Foreign Currencies

The financial statements of the foreign entities consolidated into SPAR Group, Inc. consolidated financial statements were translated into United States dollar equivalents at exchange rates as follows: balance sheet accounts for assets and liabilities were converted at year-end rates, equity at historical rates and income statement accounts at average exchange

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

rates for the year. The resulting translation gains and losses are reflected in accumulated other comprehensive gain or loss in the statements of stockholders' equity. Foreign currency transaction gains and losses are reflected in net earnings.

Recently Issued Accounting Standards

In June 2009, the FASB issued a new accounting standard related to the consolidation of VIEs. The standard replaces the quantitative-based risks and rewards calculation with an approach that is primarily qualitative. The standard also requires ongoing reassessments of the appropriateness of consolidation, and additional disclosures about involvement with VIEs. The standard is effective for us as of January 1, 2010. The adoption of this standard did not have a material impact on our financial condition, results of operations, and financial statement disclosures.

During December 2010, the FASB issued ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." The ASU is effective prospectively for business combinations whose acquisition date is at or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments to this guidance also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of the ASU will impact disclosures in future interim and annual financial statements issued if the Company enters into business combinations.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

3. Supplemental Balance Sheet Information

	December 31,	
Accounts receivable, net, consists of the following (in thousands):	2010	2009
Trade	\$9,846	\$7,250
Unbilled	3,914	2,953
Non-trade	382	345
	14,142	10,548
Less:		
Allowance for doubtful accounts	(143)	(317)
	\$13,999	\$10,231

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Supplemental Balance Sheet Information (continued)

Property and equipment consists of the following (in thousands):	December 31,	
	2010	2009
Equipment	\$ 7,893	\$ 7,669
Furniture and fixtures	541	558
Leasehold improvements	250	245
Capitalized software development costs	3,518	2,886
	12,202	11,358
Less accumulated depreciation and amortization	10,750	9,808
	\$ 1,452	\$ 1,550

Other assets (in thousands):	December 31,	
	2010	2009
Safeway settlement (inclusive of interest)	\$ –	\$ 1,744
Other	226	187
	\$ 226	\$ 1,931

Accrued expenses and other current liabilities (in thousands):	December 31,	
	2010	2009
Accrued accounting and legal expenses	\$ 266	\$ 201
Accrued salaries payable	708	696
Other	1,759	1,329
	\$ 2,733	\$ 2,226

4. Lines of Credit

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 provided 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.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Lines of Credit (continued)

In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, 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 period that commenced on January 1, 2010, and ended on July 6, 2010. The Webster Credit Facility was secured by substantially all of the assets of the Company (other than SGRP's foreign subsidiaries and their assets).

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 subsidiaries, and their respective equity and assets).

The domestic revolving loan balance outstanding under the Sterling Credit Facility was approximately \$3.5 million at December 31, 2010, and the revolving loan balances outstanding under the Webster Credit Facility was approximately \$ 4.0 million at December 31, 2009. As of December 31, 2010, the Company had unused availability under the Sterling Credit Facility of \$1.7 million out of the remaining maximum \$3.0 million unused revolving line of credit.

The basic interest rate under the Sterling Credit Facility is equal to the fluctuating Prime Rate of interest published in the Wall Street Journal from time to time plus one and one-half (1.50%) percent per annum, which automatically changes with each change in such rate. The aggregate interest rate on December 31, 2010, was 4.75% per annum

under that formula. The actual average interest rate under the Sterling Credit Facility was 4.75% per annum for the period that commenced on July 6, 2010, and ended on December 31, 2010.

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. At December 31, 2010 the Company was in compliance with such covenants and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Lines of Credit (continued)

in the future and should the Company be in violation; there can be no assurances that the Lenders will issue waivers for any future violations.

International Credit Facilities and Other Debt:

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 on November 30, 2009 in connection with SGRP's increase in ownership from 50% to 100%.

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). On September 11, 2009, the line of credit arrangement was amended to reduce the line of credit to \$1.5 million (Australian), or approximately \$1.5 million (based upon the exchange rate at December 31, 2010). At December 31, 2010, SPARFACTS Australia Pty. Ltd. had \$540,000 (Australian), or approximately \$548,000, outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate under this facility was 10.2% per annum for the twelve months ended December 31, 2010.

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 \$750,000 (based upon the exchange rate at December 31, 2010). 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, 2010, SPAR Canada Company had \$623,000 (Canadian or USD) outstanding under the line of credit (based upon the exchange rate at December 31, 2010). The average interest rate under this line of credit was 4.0% per annum for the twelve months ended December 31, 2010.

The Company was in compliance with the minimum total debt to tangible net worth covenant under this line of credit at December 31, 2010.

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 and the Company received its first advance of \$500,000 which was used for the acquisition of certain assets of a Canadian company that closed on April 1, 2010. The parties amended such loan agreement on November 5, 2010, to reduce the applicable interest rates. The remaining \$500,000 balance of the originally-contemplated loan would have been advanced to the Company upon request and satisfaction of certain conditions prior to maturity, but the Company currently does not expect to request that advance. The loan matures and is due in full on March 31, 2011. The Company currently plans to repay the loan in full on maturity.

The loan is payable on an interest only basis at the rate of 9.5% per annum (originally 14% per annum prior to such amendment). If the loan is not paid in full by March 31, 2011, the interest rate automatically increases to 14% per

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annum (which would have been 24% per annum prior to such amendment). The average interest rate for this loan was 13.1% per annum for the twelve months ended December 31, 2010.

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 SGRP 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). The Company recorded a \$52,000 expense for the cost of the warrants during 2010. In addition, the loan is secured by the stock of SPAR Canada Company.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Income Taxes

The provision for income tax expense is summarized as follows (in thousands):

	Year Ended December 31,	
	2010	2009
Current	\$ 263	\$ 169
Deferred	–	–
	\$ 263	\$ 169

The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The items causing this difference are as follows (in thousands):

	Year Ended December 31,	
	2010	2009
Provision for income taxes at federal statutory rate, net of foreign tax	\$ 726	\$ 136
State income taxes, net of federal benefit	89	43
Permanent differences	18	18
Change in valuation allowance	(722)	(202)
International tax provisions	92	109
Federal Alternative Minimum Tax	58	–
Change in Tax Reserve	22	4
Other	(20)	61
Provision for income taxes	\$ 263	\$ 169

Deferred taxes consist of the following (in thousands):	December 31,	
	2010	2009
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,953	\$ 7,179
Deferred revenue	145	3
SIM reserve against loan commitment	147	147
Allowance for doubtful accounts and other receivable	36	115
Share-based compensation expense	427	374
Depreciation	34	72
Accrued expenses	–	5
Other	27	27
Valuation allowance	(6,275)	(6,997)
Total deferred tax assets	494	926
Deferred tax liabilities:		
Goodwill	121	101

Explanation of Responses:

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Litigation receivables	–	496
Capitalized software development costs	373	329
Total deferred tax liabilities	494	926
Net deferred tax assets	\$ –	\$ –

At December 31, 2010, the Company has net operating loss carryforwards (NOLs) of \$4.9 million, related to the PIA Acquisition available to reduce future federal taxable income. Section 382 of the Internal Revenue Code restricts the annual utilization of the NOLs incurred prior to a change in ownership. Such a change in ownership had occurred in 1999. The Company may utilize \$657,500 of the PIA NOLs per year through the year 2018.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

In addition, the Company incurred NOLs related to its prior year losses totaling \$10.8 million of which:

\$2.7 expires in 2024,
 \$0.7 expires in 2025,
 \$3.6 expires in 2026,
 \$2.9 expires in 2027,
 \$0.7 expires in 2028, and
 \$0.2 expires in 2029.

As a result of losses, a challenging market and the lack of certainty of continued profitability in 2010, the Company has established a valuation allowance of approximately \$6.3 million against deferred tax assets at December 31, 2010.

The Company does not provide currently for U.S. income taxes on the undistributed earnings of its profitable foreign subsidiaries since, at the present time, management expects any earnings to be reinvested in the foreign subsidiaries and not distributed. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. income taxes, which could potentially be offset by foreign tax credits. Distribution of those earnings can also subject the Company to related withholding taxes payable to various non-U.S. jurisdictions. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculations.

ASC-740-10 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 ASC-740-10. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of ASC-740-10 and in subsequent periods. ASC-740-10 is effective for fiscal years beginning after December 15, 2006 and the provisions of ASC-740-10 will be applied to all tax positions upon initial adoption of the Interpretation. The Company has adopted ASC-740-10 as of January 1, 2007.

The Company adopted provisions of ASC-740-10, Accounting for Uncertainty in Income Taxes, on January 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2010	2009
Beginning Balance	\$ 119	\$ 115
Additions for tax positions of prior years	33	21
Reductions for tax positions of prior years	(109)	(17)
Ending Balance	\$ 43	\$ 119

ASC-740-10 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 2005 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.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

In management's view, the Company's tax reserves at December 31, 2010, totaling \$43,000 for potential domestic state tax liabilities were sufficient to meet the requirements of ASC-740-10. The Company has evaluated the tax liabilities of its international subsidiaries and does not believe a reserve is necessary at this time.

Details of the Company's tax reserves at December 31, 2010, are outlined in the table below (in thousands):

	Taxes	Interest	Penalty	Total Tax Liability
Domestic				
State	\$ 34	\$ 5	\$ 4	\$ 43
Federal	–	–	–	–
International	–	–	–	–
Total reserve	\$ 34	\$ 5	\$ 4	\$ 43

6. Commitments and Contingencies

Lease Commitments

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately \$346,000 and \$418,000 for 2010, and 2009, respectively. At December 31, 2010, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

Year	Amount
2011	\$ 780
2012	710
2013	473
2014	423
2015	467
Total	\$ 2,853

International Commitments

The Company's international model is to join forces with local investors experienced with merchandising services and combine their knowledge of their local markets with the Company's proprietary software and expertise in the merchandising and marketing business. In 2001, the Company established its first international subsidiary and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, South Africa, India, Romania, China, Australia and New Zealand through 7 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, SGRP may find it necessary to provide additional cash infusions into these subsidiaries.

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.

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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 assets, business, capital, cash flow, credit, expenses, financial condition, income, liabilities, liquidity, locations, marketing, operations, prospects, sales, strategies, taxation or other achievement, results or condition.

7. Treasury Stock

The Company initiated a share repurchase program in 2002, which allowed for repurchase of up to 100,000 shares. In 2003, the Board of Directors authorized the repurchase of an additional 122,000 shares increasing the total to 222,000 shares.

The Company's treasury stock balances have remained unchanged at a quantity of 254 shares at a value of \$1,212 for the years 2010 and 2009.

8. Preferred Stock

SGRP's certificate of incorporation also authorizes it to issue 3,000,000 shares of preferred stock with a par value of \$0.01 per share (the "SGRP Preferred Stock"), which may have such preferences and priorities over the SGRP Common Stock and other rights, powers and privileges as the Company's Board of Directors may establish in its discretion from time to time. The Company has created and authorized the issuance of a maximum of 3,000,000 shares of Series A Preferred Stock pursuant to SGRP's Certificate of Designation of Series "A" Preferred Stock (the "SGRP Series A Preferred Stock"), which have dividend and liquidation preferences, have a cumulative dividend of 10% per year, are redeemable at the Company's option and are convertible at the holder's option (and without further consideration) on a one-to-one basis into SGRP Common Stock. The number of shares authorized by such designation could, however, be reduced by amendment or redemption to facilitate the creation of other SGRP Preferred Series. On December 31, 2010, there were 554,402 shares of SGRP Series A Preferred Stock were issued and outstanding, such shares are fully paid and non-assessable, and the Company owes approximately \$118,000 in accumulated and unpaid dividends on those shares, and there were 2,455,598 shares of authorized Series A Preferred Stock that remained unissued and available for issuance.

On December 31, 2010, there were 338,801 shares of such Series A Preferred Stock owned by a non-SGRP retirement plan whose trustee is and beneficiaries include Robert G. Brown (who is a co-founder, director, executive officer and significant shareholder of SGRP), and 215,601 shares of such Series A Preferred Stock owned by a non-SGRP retirement plan whose trustees is and beneficiaries include William H. Bartels (who also is a co-founder, director, executive officer and significant shareholder of SGRP), which shares collectively constituted all of the outstanding shares of Series A Preferred Stock. Those shares were originally purchased pursuant to subscription agreements on March 31, 2008, and September 24, 2008, at the closing Nasdaq bid price of SGRP Common Stock for the preceding trading day, which was \$1.12 per share for the March purchases and \$0.86 per share for the September

purchases. The offer and sale of such Preferred Stock was not registered under the Securities Act or other securities laws, as they were a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act. For more information respecting these purchases - "See Note 10 to the Consolidated Financial Statements – Related Party Transactions, below."

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

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Preferred Stock (continued)

which were for accrued dividends) and Mr. Bartel's plan received 236,828 shares of SGRP Common Stock (21,227 shares of which were for accrued dividends).

9. Employee Benefits

Stock Purchase Plans

The Company has Employee and Consultant Stock Purchase Plans (the "SP Plans"). The SP Plans allow employees and consultants of the Company to purchase common stock without having to pay any commissions on the purchases. On August 8, 2002, the Company's Board of Directors approved a 15% discount for employee purchases and recommended that its affiliates (See Note 10 – Related-Party Transactions) approve a 15% cash bonus for affiliate consultant purchases. The maximum amount that any employee or consultant can contribute to the SP Plans per quarter is \$6,250, and the total number of shares reserved by the Company for purchase under the SP Plans is 500,000.

Shares purchased by employees and consultants under the SP Plans were 16,763 and 13,237 for 2010, and 2009, respectively. As of December 31, 2010, 141,907 shares remain outstanding under the SP plan.

The Company's expense resulting from the 15% discount offered to employees and consultants was immaterial for all years presented.

Retirement/Pension Plans

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Employer contributions were suspended for 2009 and 2010.

10. Related-Party Transactions

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

SMS and SMSI provided approximately 99% of the Company's domestic merchandising specialists field force and approximately 92% of the Company's domestic field management at a total cost of approximately \$20 million and \$14 million for 2010 and 2009, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, as amended (the "Field Services Agreement"), SMS provides merchandising services to the Company through the use of approximately 5,300 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 54 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"). In 2009, 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 was re-instated to 4% as of January 1, 2010. The total Plus Compensation earned by SMS and SMSI for services rendered in 2010 was \$778,000. The total Plus Compensation (3% of the costs of SMS and SMSI for 2009) earned by SMS and SMSI for services rendered in 2009 was \$404,000.

The Company has continued to purchase those services because it believes the terms it receives from them are at least as favorable to the Company as it could obtain from non-affiliated providers of similar services. The Company periodically engages an outside firm to conduct a survey of fees and rates charged by comparable national labor sourcing firms to serve as a comparison to the rates charged by such affiliates. The most recent such survey showed that the rates negotiated with the Affiliates are in fact slightly less than those charged by unrelated vendors providing similar services. The Company's cost of revenue would have increased by \$609,000 and \$492,000 for the years ended December 31, 2010 and 2009, respectively, if the Company would have instead used an unaffiliated entity to provide comparable services at the surveyed rates. All affiliate contracts are reviewed and approved by SGRP's Audit Committee, as described below.

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

In an effort to further reduce costs and improve efficiencies, on January 1, 2010, the Company began performing its own programming services through its centralized data processing facility located in Auburn Hills, Michigan, using its own employees and contractors worldwide, and ceased utilizing the programming services of SIT. The Company hired the majority of the employees and contractors who previously worked for SIT with SIT's cooperation. In 2009, SIT provided substantially all of the Internet computer programming services purchased by the Company at a total cost of \$572,000 for the twelve months ended December 31, 2009. SIT provided approximately 21,000 hours of Internet computer programming services to the Company for the twelve months ended December 31, 2009. The average hourly billing rate was \$26.64 for the twelve months ended December 31, 2009. The Company has been advised that no hourly charges or business expenses for Messrs. Brown and Bartels were charged to the Company by SIT for the twelve months ended December 31, 2009. However, since SIT is a "Subchapter S" corporation and is owned by Messrs. Brown and Bartels, all income of SIT is allocated to them.

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In July 2008, the Company, through SPAR Marketing Force, Inc. (“SMF”), entered into a new Master Lease Agreement with SMS, and in July and September of 2008 entered into new separate operating leases with SMS pursuant to Equipment Leasing Schedules under that Master Lease Agreement. Each operating lease has a 36 month term and representations, covenants and defaults customary for the leasing industry. The leases are for 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%.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Related-Party Transactions (continued)

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"). Each lease, as amended, has a 36 month term and representations, covenants and defaults customary for the leasing industry. The SMF lease is for handheld computers to be used by field merchandisers in the performance of various merchandising and marketing services in the United States and has a monthly payment of \$17,891. These handheld computers had an original purchase price of \$632,200. The SPAR Canada lease is also for handheld computers to be used by field merchandisers in the performance of various merchandising and marketing services in Canada and has a monthly payment of \$2,972. These handheld computers had an original purchase price of \$105,000. The monthly payments, as amended, are based upon a lease factor of 2.83%. In March 2005, SMF entered into an additional 36 month lease with SMS for handheld computers. The lease factor is 2.83% and the monthly payment is \$2,341. These handheld computers had an original purchase price of \$82,727.

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 thereunder 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.

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.

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

	Year Ended December 31,	
	2010	2009
Services provided by affiliates:		
Independent contractor services (SMS)	\$ 16,052	\$ 10,820
Field management services (SMSI)	\$ 4,110	\$ 3,223
Handheld computer leases (SMS)	\$ 132	\$ 132
Internet and software program consulting services (SIT)	\$ -	\$ 572

Accrued expenses due to affiliates (in thousands):	December 31,	
	2010	2009
Total accrued expenses due to affiliates	\$ 1,575	\$ 1,436

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.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Related-Party Transactions (continued)

SGRP's Audit Committee periodically reviews and has approved all of the related party relationships and transactions described above, as required by and in accordance with its Charter and the Company's Code of Ethical Conduct, NASDAQ rules and applicable law, the Audit Committee reviews each material related party transaction for its overall fairness to the Company, both initially and periodically (often annually), which review includes (without limitation) the costs and benefits to the Company, the other terms of the transactions, the affiliated relationship of the parties, and whether the overall economic and other terms are (or continue to be) no less favorable to the Company than would be the case with an unrelated provider of substantially similar services.

11. Stock Based Compensation

SGRP currently has five stock option plans: the 2008 Stock Compensation Plan ("2008 Plan"), the 2000 Stock Option Plan ("2000 Plan"), the Special Purpose Stock Option Plan ("Special Purpose Plan"), the Amended and Restated 1995 Stock Option Plan ("1995 Plan") and the Directors Plan.

On May 29, 2008, SGRP's stockholders approved and adopted the 2008 Plan as the successor to the 2000 Plan, the 1995 Plan and the Director's Plan with respect to all new options issued. The 2008 Plan provides for the granting of either incentive or nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and other stock based awards to specified employees, consultants, and directors of the Company, although to date SGRP has not issued any permissible form of award other than stock options. Pursuant to the 2008 Plan, no more than 5,600,000 shares of SGRP's common stock in the aggregate ("Maximum Covered Shares") may be covered by options or other awards issued from time to time under the 2008 Plan on or after May 29, 2009 ("New Awards"), or to the extent still outstanding on May 29, 2008, issued at any time under the 2000 Plan or 1995 Plan ("Continuing Awards"). Shares covered by New Awards or Continuing Awards that expire, lapse, terminate, are forfeited, become void or otherwise cease to exist (other than as a result of exercise) are added back to the Maximum Covered Shares and become available for new grants, while those shares covered by exercised New Awards or Continuing Awards are not added back and accordingly effectively reduce the Maximum Covered Shares under the 2008 Plan. The options have a maximum term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders (whose terms are limited to a maximum of five years), and SGRP has generally issued options having maximum terms.

On December 4, 2000, SGRP adopted the 2000 Plan as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000 under the 1995 Plan). The options generally had a term of ten years, except that incentive stock options granted to greater than 10% stockholders generally had five year terms. The exercise price of nonqualified stock options must be equal to at least 85% of the fair market value of SGRP's common stock at the date of grant (although typically the options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of SGRP's common stock at the date of grant.

On July 8, 1999, in connection with the merger, SGRP established the Special Purpose Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were options to purchase 134,114 shares granted at \$0.01 per share under this plan. Since July

8, 1999, SGRP has not granted any new options under this plan.

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of SGRP's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The 1995 Plan was superseded by the 2008 Plan and the 2000 Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of SGRP's common stock. Since 2000, SGRP has not granted any new options under this plan. The Director's Plan has been replaced by the 2008 Plan and the 2000 Plan with respect to all new options issued.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Stock Based Compensation (continued)

Summary of 2010 Plan Activities:

Plan	Outstanding Options				December 31, 2010 Balance
	Beginning Balance	Granted	Exercised	Cancelled	
2008 Plan	2,102,189	422,950	(40,065)	(32,600)	2,452,474
2000 Plan	281,041	–	(14,876)	(37,000)	229,165
Special Purpose Plan	–	–	–	–	–
1995 Plan	2,000	–	–	(2,000)	–
Director's Plan	–	–	–	–	–
Total	2,385,230	422,950	(54,941)	(71,600)	2,681,639

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. 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 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.

On August 6, 2009, 330,000 new stock option grants were issued to employees, officers, and certain employees of its affiliate at an exercise price of \$0.40, which represents the fair market value of a share of the Company's common stock on August 6, 2009, as determined in accordance with the Company's 2008 Stock Compensation Plan. The estimated stock compensation expense is \$93,000 and \$42,000 for employees and non-employees, respectively, which will be recognized ratably over the four-year vesting period.

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. The Repricing Amendment permits changes in all outstanding stock options and other awards, including those previously issued under predecessor plans. However, no modification can adversely affect an awardee's rights or obligations under an award without the awardee's consent.

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 Company's common stock in exchange for repriced replacement options ("New Option Contracts") in the same amount as the surrendered option shares except for those surrendered by outside directors, who will receive fewer replacement shares.

The Company detailed such plan in its Offer to Exchange Certain Outstanding Stock Options for New Stock Options dated August 24, 2009 (including its exhibits and incorporated documents, the "Exchange Offer"), as filed with the SEC in its Schedule TO on August 25, 2009.

On September 24, 2009, pursuant to the Company's Exchange Offer: eighty-one of the Company's eligible officers, employees and consultants voluntarily surrendered for exchange and cancellation their existing option contracts to

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Stock Based Compensation (continued)

purchase an aggregate of 1,257,740 shares of SGRP's common stock, representing approximately 82.5% of the total option shares under all existing option contracts eligible for exchange. Those existing option contracts were accepted for exchange by the Company; and in exchange for those surrendered option contracts, the Company issued new stock option contracts to them to purchase an aggregate of 1,257,740 shares of SGRP's common stock ("New Option Contracts"). These New Option Contracts have an exercise price of \$0.40 per share, which represents the fair market value of a share of SGRP's common stock on August 6, 2009 (their grant date), as determined in accordance with SGRP's 2008 Stock Compensation Plan and will vest over four (4) years. The incremental compensation expense to the Company is approximately \$92,000 (based on current Black-Scholes computation factors), which will be recognized ratably over the vesting period from August 7, 2009, to August 6, 2013.

Also on September 24, 2009, pursuant to the Company's Exchange Offer: all five of the Company's eligible current and retired outside directors voluntarily surrendered for exchange and cancellation their existing option contracts to purchase an aggregate of 530,564 shares of SGRP's common stock, representing 98.2% of the total option shares under all existing option contracts eligible for exchange by such directors; those existing option contracts were accepted for exchange by the Company; and in exchange for those surrendered option contracts, the Company issued new stock option contracts to them to purchase an aggregate of 446,000 shares of SGRP's common stock for exchange and cancellation of their existing option contracts. These new contracts have an exercise price of \$0.40 per share, which represents the fair market value of a share of SGRP's common stock on August 6, 2009 (their grant date), as determined in accordance with the Company's 2008 Stock Compensation Plan, vest immediately, and have no incremental compensation expense to the Company. The number of shares covered by the new stock options received by the outside directors averaged 0.83 new option shares for each surrendered and cancelled option share, which they required to avoid any such incremental compensation expense to the Company from their participation in the repricing exchange.

Based upon the Black-Scholes calculation, share-based compensation expense related to employee stock option grants totaled \$131,000 and \$136,000 for the years ended December 31, 2010 and 2009, respectively. Compensation expense related to non-employee stock option grants awarded to the employees of the Company's affiliates was \$80,000 and \$70,000 for the years ended December 31, 2010 and 2009, respectively. The unamortized expense as of December 31, 2010, was approximately \$340,000 for outstanding stock option grants. The impact of the total share-based compensation expense on basic/diluted earnings per share was \$0.01 for both years ended December 31, 2010 and 2009.

On March 10, 2010, in connection with an Investor Relations Consulting agreement dated August 15, 2009, with Alliance Advisors LLC, the Board of Directors approved the issuance of 120,000 shares of SGRP common stock in return for a cash payment of \$0.01 per share and services rendered by Alliance Advisors LLC to the Company.

The following table summarizes stock option activity under SGRP's plans:

Shares	Weighted Average Exercise Price
2,245,449	\$ 1.21

Options outstanding, January 1, 2009		
2009		
Granted	2,123,739	\$ 0.41
Exercised	—	—
Canceled or expired	(1,983,958)	1.22
Options outstanding, December 31, 2009	2,385,230	\$ 0.48
2010		
Granted	422,950	\$ 0.98
Exercised	(54,941)	0.47
Canceled or expired	(71,600)	0.90
Options outstanding, December 31, 2010	2,681,639	\$ 0.55
Option price range at December 31, 2010	\$0.01 to \$4.65	

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Stock Based Compensation (continued)

	2010	2009
Grant Date weighted average fair value of options granted during the year	\$ 0.98	\$ 0.41

The following table summarizes information about stock options outstanding at December 31, 2010:

Range of Exercise Prices	Number Outstanding at December 31, 2010	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2010	Weighted Average Exercise Price
Less than \$1.01	2,598,474	8.57 years	\$ 0.52	976,657	\$ 0.46
\$ 1.01 - \$ 2.00	78,915	4.02 years	1.25	73,418	1.27
\$ 2.01 - \$ 4.00	4,000	2.08 years	2.96	4,000	2.96
Greater than \$4.00	250	2.60 years	\$ 4.65	250	\$ 4.65
Total	2,681,639			1,054,325	

12. Geographic Data

The Company operates in the same single business segment (e.g., merchandising and marketing services) in both its Domestic Merchandising Services Division and its International Merchandising Services Division. The Company uses those divisions to improve its administration and operational and strategic focuses, and it tracks and reports certain financial information separately for each of those divisions, as described in Item 1 – Business in our Annual Report, above. The Company measures the performance of its domestic and international divisions and subsidiaries using the same metrics. The primary measurement utilized by management is operating profits, historically the key indicator of long-term growth and profitability, as the Company is focused on reinvesting the operating profits of each of its international subsidiaries back into its local markets in an effort to improve market share and continued expansion efforts. Set forth below are summaries (in thousands) of the Company's net revenues from its United States subsidiaries (i.e., the Domestic Merchandising Services Division) and from its international (non-U.S.) subsidiaries (i.e., the International Merchandising Services Division), net revenue from certain international subsidiaries as a percent of consolidated net revenue, operating income (loss) and long lived assets by geographic area for 2010 and 2009, respectively:

	Year Ended December 31,	
	2010	2009
Net revenues:		

Explanation of Responses:

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United States	\$ 36,564	\$ 26,427
International	26,590	31,122
Total net revenues	\$ 63,154	\$ 57,549

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Geographic Data (continued)

	Year Ended December 31,			
	2010		2009	
Net revenues		% of consolidated net		% of consolidated net
International :		revenue		revenue
Australia	\$ 7,711	12.2 %	\$ 6,171	10.7 %
Canada	7,219	11.4 %	4,663	8.1 %
Japan	4,089	6.5 %	10,972	19.1 %
India	2,935	4.6 %	5,010	8.7 %
All Others	4,636	7.3 %	4,306	7.5 %
Total international net revenue	\$ 26,590	42.0 %	\$ 31,122	54.1 %

	Year Ended December 31,	
	2010	2009
Operating income (loss):		
United States	\$ 3,043	\$ 888
International	(212)	(566)
Total operating income	\$ 2,831	\$ 322

	December 31,	December 31,
	2010	2009
Long lived assets:		
United States	\$ 2,231	\$ 4,001
International	657	278
Total long lived assets	\$ 2,888	\$ 4,279

Purchase of Interest in Subsidiaries

In July 2009, the Company purchased the remaining 49% ownership in the Company's existing Romanian subsidiary, which currently has minimal operations. As consideration for purchase, the Company forgave \$34,344 of debt owed by the former local investor. The Company is currently assessing ongoing business opportunities for this subsidiary.

On August 6, 2009, the Board of Directors and its Audit Committee approved the purchase of the 51% ownership in S.C. SPAR City S.R.L., a Romanian marketing services company, held by SPAR Infotech, Inc. ("SIT"), an affiliated company (See Note 10, Related-Party Transactions, above), 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 entire 51% ownership in

such new Romanian subsidiary was effective as of July 1, 2009, for purposes of the consolidation of the new Romanian subsidiary into the Company's financial statements. The remaining 49% ownership in the new Romanian subsidiary is held by a Romanian party not affiliated with the Company.

On September 27, 2010, the Company purchased the remaining 49% ownership in the Company's subsidiary in India at a cost of \$90,000. The Company is actively pursuing alternative local investors to purchase a 49% ownership interest in India.

Effective August 31, 2009, the Company purchased the remaining 50% ownership in the Company's subsidiary in China, SPAR China Limited, at a cost of \$1.00 and its assumption of a working capital loan payable to the previous local investor for approximately \$191,000 USD payable in eight monthly installments beginning September 2009. The

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Geographic Data (continued)

Company was actively pursuing a new local investor in the merchandising business to purchase a 49% interest in its subsidiary in China. On March 23, 2010, the Company entered into a joint venture agreement with a Local Partner in mainland China.

Effective November 30, 2009 the Company purchased the remaining 50% ownership in the Company's subsidiary in Japan, SPAR FM Japan, Inc., at a cost of 667,578 Yen or approximately \$8,000 US dollars. The Company is actively pursuing a new local partner in the merchandising business to purchase a 49% interest in its subsidiary in Japan.

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 local investor Shanghai Wedone Marketing Consulting Co., Ltd. The new joint venture will have national market presence in China.

The new joint venture corporation is called SPAR (Shanghai) Marketing Management Company Ltd.. SPAR owns 51% of the joint venture corporation while Shanghai Wedone Marketing Consulting owns 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, has begun providing 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 and 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, which equal more than 150 cities throughout the country.

The effects of the above transactions on the net income attributed to the Company and transfers from the non-controlling interest are as follows (in thousands):

	Year Ended December 31, 2010	Year Ended December 31, 2009
Net income attributed to SPAR Group, Inc.	\$ 2,167	\$ 502
Increase in SPAR Group, Inc. Paid in Capital for purchase of subsidiaries common stock	51	61
Change from net income attributed to SPAR Group, Inc. and transfer from non-controlling interest	\$ 2,218	\$ 563

The purpose of the above schedule is to disclose the effects of changes in the Company's ownership interest in its subsidiaries on the Company's equity.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Net Income Per Share

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

	Year Ended December 31,	
	2010	2009
Numerator:		
Net income	\$ 2,167	\$ 502
Denominator:		
Shares used in basic net income per share calculation	19,209	19,139
Effect of diluted securities:		
Employee stock options:	1,393	295
Shares used in diluted net income per share calculations	20,602	19,434
Basic and diluted net income per common share:	\$ 0.11	\$ 0.03

14. Acquisitions

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. The \$50,000 was paid to Chase and recorded as goodwill. 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 earn out of \$8.0 million in gross revenue was not achieved in the first twelve months and current revenue levels do not indicate that the remaining earn out will be triggered, as such, no contingent liability was recorded. 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 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") specifically to expand its merchandising and marketing services throughout Canada. 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 and 4) assumed \$446,000 CAD of liabilities.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Acquisitions (continued)

The Company has completed its valuation of the fair value and allocation for the assets acquired and liabilities assumed and has recorded the following (in US dollars):

Accounts Receivable	\$644,000
Equipment	2,000
Customer contracts	426,000
	\$1,072,000

The Company is amortizing the customer contracts of \$426,000 on a straight line basis over 5 years. The net book value at December 31, 2010 was \$362,000. Amortization expense for the year ending December 31, 2010 was approximately \$64,000. The annual amortization amount of these contracts is expected to be approximately \$82,000 for 2011-2013 and \$18,000 in 2014.

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 two 12 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. The Company has not recorded a contingent liability as it is unlikely these revenue and gross margin targets will be met.

15. Mergers

In 2010, the Company entered into merger agreements between several of its inactive subsidiaries in an effort to simplify the Company's reporting structure.

The following inactive subsidiaries were merged into SPAR All Store Marketing Services, Inc. (as the survivor):

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

The following inactive subsidiaries were merged into PIA Merchandising Co. Inc. (as the survivor):

- Pivotal Sales Company

The following inactive subsidiaries were merged into SPAR Marketing Force, Inc. (as the survivor):

- SPAR/Burgoyne Retail Services, Inc.
 - SPAR, Inc.
 - SPAR Marketing, Inc.

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There is no expected tax or reporting impact expected from the above mergers, as all such subsidiaries were inactive.

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SPAR Group, Inc. and Subsidiaries

Schedule II – Valuation and Qualifying Accounts

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions(1)	Balance at End of Period
Year ended December 31, 2010:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$317	265	439	\$143
Year ended December 31, 2009:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$292	412	387	\$317

(1) Uncollectible accounts written off, net of recoveries

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