

SPAR GROUP INC
Form 10-Q
November 09, 2012

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the third quarterly period ended September 30, 2012.
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____.

Commission file number: 0-27824

SPAR Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware
State of Incorporation

33-0684451
IRS Employer Identification No.

333 Westchester Avenue, South Building, Suite 204, White Plains, New York 10604
(Address of principal executive offices, including zip code)

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

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

Yes No

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

Yes No

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

Large Accelerated Filer
Non-Accelerated Filer

Accelerated Filer
Smaller Reporting Company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

On September 30, 2012, there were 20,414,468 shares of Common Stock outstanding.

SPAR Group, Inc.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

SPAR Group, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2012 (unaudited)	December 31, 2011 (note)
Assets		
Current assets:		
Cash and cash equivalents	\$1,929	\$1,705
Accounts receivable, net	17,713	15,461
Prepaid expenses and other current assets	896	801
Total current assets	20,538	17,967
Property and equipment, net	1,725	1,523
Goodwill	1,348	1,148
Intangibles	1,365	705
Other assets	681	178
Total assets	\$25,657	\$21,521
Liabilities and equity		
Current liabilities:		
Accounts payable	\$2,699	\$1,819
Accrued expenses and other current liabilities	5,967	4,039
Accrued expenses due to affiliates	2,488	1,092
Customer deposits	423	183
Lines of credit	757	3,641
Total current liabilities	12,334	10,774
Long-term debt and other liabilities	329	334
Total liabilities	12,663	11,108
Equity:		
SPAR Group, Inc. equity		
Preferred stock, \$.01 par value: Authorized and available shares– 2,445,598 Issued and outstanding shares – none – September 30, 2012 and none – December 31, 2011 –		–
Common stock, \$.01 par value: Authorized shares – 47,000,000 Issued and outstanding shares – 20,414,468 – September 30, 2012 and 20,103,043 – December 31, 2011	204	201
Treasury stock – 12,189 shares- September 30, 2012	(24) –
Additional paid-in capital	14,609	13,940
Accumulated other comprehensive loss	(209	) (172
Accumulated deficit	(3,023	) (4,626
Total SPAR Group, Inc. equity	11,557	9,343
Non-controlling interest	1,437	1,070

Total liabilities and equity	\$25,657	\$21,521
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Note: The Balance Sheet at December 31, 2011, is excerpted from the consolidated audited financial statements as of that date but does not include certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenues	\$ 26,423	\$ 17,564	\$ 71,813	\$ 49,925
Cost of revenues	19,899	12,515	52,813	34,684
Gross profit	6,524	5,049	19,000	15,241
Selling, general and administrative expenses	5,290	4,368	15,945	13,078
Depreciation and amortization	298	280	868	808
Operating income	936	401	2,187	1,355
Interest expense	33	55	96	160
Other income	(29)	(30)	(36)	(22)
Income before provision for income taxes	932	376	2,127	1,217
Provision for income taxes	73	17	173	72
Net income	859	359	1,954	1,145
Net income attributable to the non-controlling interest	(281)	(112)	(351)	(137)
Net income attributable to the SPAR Group	\$ 578	\$ 247	\$ 1,603	\$ 1,008
Basic/diluted net income per common share:				
Net income - basic	\$ 0.03	\$ 0.01	\$ 0.08	\$ 0.05
Net income - diluted	\$ 0.03	\$ 0.01	\$ 0.07	\$ 0.05
Weighted average common shares – basic	20,275	20,081	20,175	19,911
Weighted average common shares – diluted	21,987	21,536	21,682	21,423
Net income	859	359	1,954	1,145
Other comprehensive income:				
Foreign currency translation adjustments	158	(163)	(37)	(138)
Comprehensive income	\$ 1,017	\$ 196	\$ 1,917	\$ 1,007

See accompanying notes.

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

	Common Stock		Treasury Stock	Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- Controlling Interest	Total Equity
	Shares	Amount						
Balance at December 31, 2011	20,103	\$ 201		\$ 13,940	\$ (4,626)	\$ (172)	\$ 1,070	\$ 10,413
Issuance of stock options and restricted shares to employees and non-employees for services	20	–		416	–	–	–	416
Issuance of shares for purchase of joint venture	100	1		164	–	–	–	165
Exercise of options	203	2		103	–	–	–	105
Purchase of non-controlling interest in joint venture	–	–		–	–	–	75	75
Other changes to non-controlling interest	–	–		–	–	–	(59)	(59)
Other changes to paid-in capital				(14)				(14)
Purchase of treasury shares	(12)		(24)					(24)
Other comprehensive loss	–	–		–	–	(37)	–	(37)
Net income					1,603	–	351	1,954
Balance at September 30, 2012	20,414	\$ 204	\$ (24)	\$ 14,609	\$ (3,023)	\$ (209)	\$ 1,437	\$ 12,994

See accompanying notes.

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

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net income	\$1,954	\$1,145
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation & Amortization	868	808
Share based compensation	416	258
Changes in non-controlling interest	16	124
Changes in operating assets and liabilities:		
Accounts receivable	(2,263)	) 1,253
Prepaid expenses and other assets	(598)	) 318
Accounts payable	880	(263)
Accrued expenses, other liabilities and customer deposits	3,075	(1,256)
Net cash provided by operating activities	4,348	2,387
Investing activities		
Purchases of property and equipment and capitalized software	(704)	) (444)
Purchases of Mexican subsidiary	-	(400)
Purchase of NMS, LLC subsidiary	(400))
Net cash used in investing activities	(1,104)	) (844)
Financing activities		
Net payments on lines of credit	(2,884)	) (552)
Proceeds from options exercised	105	35
Proceeds from term debt	-	244
Payments on term debt	(29)	) (500)
Payments on capital lease obligations	(162)	) (75)
Purchase of treasury shares	(24))
Net cash used in financing activities	(2,994)	) (848)
Effects of foreign exchange rate on cash	(26)	) 20
Net change in cash and cash equivalents	224	715
Cash and cash equivalents at beginning of period	1,705	923
Cash and cash equivalents at end of period	\$1,929	\$1,638
Supplemental disclosure of cash flows information		
Interest paid	\$120	\$160
Taxes paid	\$81	\$198

Supplemental disclosure of non-cash financing activities

Liability related to acquisition of NMS, LLC	\$200	\$-
Stock issuance related to acquisition of NMS, LLC	\$165	\$-
Liability related to acquisition of Mexican subsidiary	\$200	\$300
Preferred stock converted to common stock at par	\$-	\$6
Acquisition of equipment through capital leases	\$253	\$140

See accompanying notes.

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

1. Basis of Presentation

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

2. Business and Organization

The SPAR Group is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides in-store event staffing, product sampling, furniture and other product assembly services, Radio Frequency Identification ("RFID") services, technology services and marketing research services. Assembly services are performed in stores, homes and offices while those other services are primarily performed in mass merchandiser, office supply, grocery, drug, independent, convenience, electronics, toy and specialty stores.

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

In order to cultivate foreign markets and expand the Company's merchandising and marketing services business outside of the United States, modify the necessary systems and implement its business model worldwide, and insure a consistent approach to its merchandising and marketing efforts worldwide, and even though it operates in a single business segment (merchandising and marketing services), the Company has divided its world focus into two geographic areas, the United States, which is the sales territory for its Domestic Merchandising Services Division, and international (i.e., all locations outside the United States), which are the sales territories for its International Merchandising Services Division. To that end, the Company also (1) provides and requires all of its locations to use its Internet-based operating, scheduling, tracking and reporting systems (including language translations, ongoing client and financial reports and ongoing IT support), (2) provides and requires all of its locations to comply with the Company's financial reporting and disclosure controls and procedures, (3) provides accounting and auditing support and tracks and reports certain financial and other information separately for those two divisions, and (4) has

management teams in its corporate offices responsible for supporting and monitoring the management, sales, marketing and operations of each of the Company's international subsidiaries and maintaining consistency with the Company's other subsidiaries worldwide.

Today the Company operates in 10 countries that encompass approximately 47% of the total world population. Although it operates in a single business segment (merchandising and marketing services), the Company currently divides its operations for marketing, administrative and other purposes into two geographic divisions: its Domestic Merchandising Services Division, which provides those services in the United States of America since certain of its predecessors were formed in 1979; and its International Merchandising Services Division, which began operations in May of 2001 and provides similar merchandising, marketing services and in-store event staffing services in Japan, Canada, South Africa, India, Romania, China, Australia, Mexico and Turkey. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

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

Subsequent Events

In preparing these financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2011, the most recent balance sheet presented herein, through February 9, 2012, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those matters disclosed in Note 20 labeled "Subsequent Events."

3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income attributable to the SPAR Group	\$ 578	\$ 247	\$ 1,603	\$ 1,008
Denominator:				
Shares used in basic net income per share calculation	20,275	20,081	20,175	19,911
Effect of diluted securities:				
Stock options	1,712	1,455	1,507	1,512
Shares used in diluted net income per common share calculation	21,987	21,536	21,682	21,423
Basic net income per common share	\$ 0.03	\$ 0.01	\$ 0.08	\$ 0.05
Diluted net income per common share	\$ 0.03	\$ 0.01	\$ 0.07	\$ 0.05

4. Credit Facilities

Domestic Credit Facility ("Sterling Credit Facility"):

SGRP and certain of its domestic subsidiaries, namely SPAR Marketing Force, Inc., National Assembly Services, Inc., SPAR Group International, Inc., SPAR Trademarks, Inc., and SPAR Acquisition, Inc. (each a "S