

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 first quarterly period ended **March 31, 2008**.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 0-27824

**SPAR Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
State of Incorporation

33-0684451  
IRS Employer Identification No.

560 White Plains Road, Suite 210, Tarrytown, New York 10591  
(Address of principal executive offices, including zip code)

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was 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 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", 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 March 31, 2008 there were 19,129,177 shares of Common Stock outstanding.

# SPAR Group, Inc.

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## Item 1. Financial Statements

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

	March 31, 2008	December 31, 2007
	(Unaudited)	(Note)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,409	\$ 1,246
Accounts receivable, net	12,991	13,748
Prepaid expenses and other current assets	1,177	975
Total current assets	<u>16,577</u>	<u>15,969</u>
Property and equipment, net	1,466	1,528
Goodwill	798	798
Other assets	1,679	1,648
Total assets	<u>\$ 20,520</u>	<u>\$ 19,943</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 4,654	\$ 3,631
Accrued expenses and other current liabilities	4,735	3,981
Accrued expenses due to affiliates	1,808	2,107
Customer deposits	747	580
Lines of credit	5,055	6,119
Total current liabilities	<u>16,999</u>	<u>16,418</u>
Other long-term liabilities	266	299
Minority interest	741	676
Total liabilities	<u>18,006</u>	<u>17,393</u>
Commitments and contingencies (Note – 9)		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares – 3,000,000		
Issued and outstanding shares – 89,286 – March 31, 2008	1	—
Common stock, \$.01 par value:		
Authorized shares – 47,000,000		
Issued and outstanding shares – 19,129,177 – March 31, 2008 19,089,177 – December 31, 2007	191	191
Treasury stock	(1)	(1)
Accumulated other comprehensive loss	(46)	(43)
Additional paid-in capital	12,198	11,982
Accumulated deficit	(9,829)	(9,579)
Total stockholders' equity	<u>2,514</u>	<u>2,550</u>
Total liabilities and stockholders' equity	<u>\$ 20,520</u>	<u>\$ 19,943</u>

Note: The Balance Sheet at December 31, 2007, is an excerpt from the audited financial statements at that date but does not include certain information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.



**SPAR Group, Inc.**  
Consolidated Statements of Operations  
(unaudited)  
(In thousands, except per share data)

	<u>Three Months Ended March 31,</u>	
	2008	2007
Net revenues	\$ 17,454	\$ 15,413
Cost of revenues	<u>12,484</u>	<u>10,498</u>
Gross profit	4,970	4,915
Selling, general and administrative expenses	4,658	5,005
Depreciation and amortization	<u>208</u>	<u>197</u>
Operating income (loss)	104	(287)
Interest expense	81	89
Other expense	<u>43</u>	<u>21</u>
Loss before provision for income taxes and minority interest	(20)	(397)
Provision for income taxes	<u>164</u>	<u>67</u>
Loss before minority interest	(184)	(464)
Minority interest	66	45
Net loss	<u>\$ (250)</u>	<u>\$ (509)</u>
Basic/diluted net loss per common share:		
Net loss – basic/diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
Weighted average common shares		
– basic/diluted	<u>19,129</u>	<u>18,934</u>

*See accompanying notes*

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

	Three Months Ended March 31,	
	2008	2007
<b>Operating activities</b>		
Net cash provided by operating activities	\$ 2,375	\$ 3,044
<b>Investing activities</b>		
Purchases of property and equipment	(146)	(346)
<b>Financing activities</b>		
Net payments on lines of credit	(1,064)	(1,709)
Other long-term liabilities	(33)	—
Proceeds from employee stock purchase plan and options exercised	34	—
Net cash used in financing activities	(1,063)	(1,709)
Translation loss	(3)	(5)
Net change in cash and cash equivalents	1,163	984
Cash and cash equivalents at beginning of period	1,246	1,148
Cash and cash equivalents at end of period	\$ 2,409	\$ 2,132
<b>Supplemental disclosure of cash flows information</b>		
Interest paid	\$ 96	\$ 64
Taxes paid	\$ 4	\$ 5

The Company acquired equipment by entering into capital leases in the amount of \$358,000 in the first quarter of 2007.

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

*See accompanying notes.*

**SPAR Group, Inc.**  
**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 2007 on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2008, (the “Company’s Annual Report for 2007 on Form 10-K”). The Company’s results of operations for the interim periods are not necessarily indicative of its operating results for the entire year.

**2. Business and Organization**

The Company is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides in-store event staffing, product sampling, radio frequency identification (“RFID”) services, technology services and marketing research.

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

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

**3. Earnings Per Share**

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

	Three Months Ended March 31,	
	2008	2007
Numerator:		
Net loss	\$ (250)	\$ (509)
Denominator:		
Shares used in basic net loss per share calculation	19,129	18,934
Effect of diluted securities:		
Employee stock options	—	—
Shares used in diluted net loss per share calculation	19,129	18,934
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.03)

**4. Lines of Credit**

In January 2003, the Company (other than SGRP's foreign subsidiaries) and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provides for a \$7.0 million revolving line of credit maturing on January 23, 2009. In March 2007 the credit facility was further amended to, among other things, delay the Minimum Fixed Coverage ratio until the fourth quarter 2007, establish an EBITDA covenant and increase the interest rate by .25% beginning March 28, 2007. In May 2007 the credit facility was amended to provide for an availability reserve of \$500,000. In August 2007 the credit facility was further amended to reduce the availability reserve to \$250,000 until November 30, 2007. On November 16, 2007 Webster amended the credit facility to extend the availability reserve of \$250,000 indefinitely and to reduce the revolving line of credit to \$5.0 million. Borrowings are based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments. In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, have provided personal guarantees of the Credit Facility totaling \$1.0 million.

The basic interest rate under the Credit Facility is Webster's "Alternative Base Rate" plus 1.0% per annum (a total of 6.25% per annum at March 31, 2008), which automatically changes with each change made by Webster in such Alternative Base Rate. The Company at its option, subject to certain conditions, may elect to have portions of its loans under the Credit Facility bear interest at various LIBOR rates plus 3.25% per annum based on fixed periods of one, two, three or nine months. The actual average interest rate under the Credit Facility was 7.06% per annum for the three months ended March 31, 2008.



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

The domestic revolving loan balances outstanding under the Credit Facility were \$3.9 million and \$4.9 million at March 31, 2008 and December 31, 2007, respectively. As of March 31, 2008, the SPAR Group had unused availability under the Credit Facility of \$120,000 out of the remaining maximum \$1.1 million unused revolving line of credit after reducing the borrowing base by outstanding loans.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at March 31, 2008 and December 31, 2007, in accordance with EITF 95-22, *Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement*.

The Company was not in violation of any covenants at March 31, 2008, and does not expect to be in violation at future measurement dates. However, there are no assurances that the Company will not be in violation of certain covenants in the future. Should the Company be in violation, there are no assurances that Webster will issue waivers of any future violations.

The Japanese subsidiary, SPAR FM Japan, Inc., has line of credit agreements totaling 100 million Yen, or approximately \$1.0 million (based upon the exchange rate at March 31, 2008). The outstanding balances under the line of credit agreements were 90 million Yen, or approximately \$907,000 at March 31, 2008 and 90 million Yen, or approximately \$802,000 at December 31, 2007 (based upon the exchange rate at those dates). The average interest rate was 1.88% per annum for the three months ended March 31, 2008. In addition, the Japan subsidiary had cash balances totaling 209 million Yen, or approximately \$2.1 million and 137 million Yen, or approximately \$1.2 million at March 31, 2008 and December 31, 2007 respectively (based upon the exchange rates at those dates).

The Australian subsidiary, SPARFACTS Australia Pty. Ltd., has a revolving line of credit arrangement with Oxford Funding Pty. Ltd. for \$1.1 million (Australian) or approximately \$1.0 million (based upon the exchange rate at March 31, 2008). There was no outstanding balance under the line of credit agreement at March 31, 2008 and a balance of \$315,000 (Australian) or approximately \$276,000 at December 31, 2007 (based upon the exchange rate at that date). The average interest rate was 12.6% per annum for the three months ended March 31, 2008.

SPAR Canada Company, a wholly owned subsidiary, has a credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$1.0 million (Canadian) or approximately \$978,000 (based upon the exchange rate at March 31, 2008). The Demand Operating Loan provides for borrowings based upon a borrowing base formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions). The outstanding balances under the line of credit agreement were \$236,000 (Canadian) or approximately \$231,000 and \$140,000 (Canadian) or approximately \$143,000 at March 31, 2008 and December 31, 2007, respectively (based upon the exchange rate at those dates). The average interest rate was 6.25% per annum for the three months ended March 31, 2008.

**5. Capital Lease Obligations**

In 2007, the Company capitalized certain equipment leases. The economic substance of the leases is such that the Company is financing the acquisition of the assets through the leases. The equipment has a cost of \$582,000, accumulated depreciation of \$185,000 and a net book value of \$397,000 at March 31, 2008.

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

Annual future minimum lease payments required under the leases, together with their present value as of March 31, 2008 are as follows:

Year Ending December 31:	Amount
2008	\$ 167,000
2009	223,000
2010	96,000
	<u>486,000</u>
Less amount representing interest	61,000
Present value of net minimum lease payments	<u>425,000</u>
Less current portion included with other current liabilities	176,000
Long-term portion included with other long-term liabilities	<u>\$ 249,000</u>

**6. Related-Party Transactions**

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

SMS and SMSI provided approximately 99% of the Company's domestic merchandising specialists field force (through independent contractors) for both the three months ended March 31, 2008 and 2007, and approximately 80% and 78% of the Company's domestic field management, at a total cost to the Company of approximately \$4.4 million and \$4.7 million for the three months ended March 31, 2008 and 2007, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, SMS provides the services of SMS's merchandising specialist field force of approximately 4,200 independent contractors to the Company. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, SMSI provides 53 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. Total net premiums (4% of SMS and SMSI costs) paid to SMS and SMSI for services rendered were approximately \$170,000 and \$189,000 for the three months ended March 31, 2008, and 2007, respectively. The Company has been advised that Messrs. Brown and Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations and are owned by Messrs. Brown and Bartels, they benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services purchased by the Company at a total cost of approximately \$188,000 and \$166,000 for the three months ended March 31, 2008 and 2007, respectively. SIT provided approximately 6,100 and 5,400 hours of Internet computer programming services to the Company for the three months ended March 31, 2008 and 2007, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of September 15, 2007, SIT continues to provide programming services to the Company for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. The average hourly billing rate was \$30.96 and \$30.69 for the three months ended March 31, 2008 and 2007, respectively. 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 three months ended March 31, 2008 and 2007, respectively. However, since SIT is a "Subchapter S" corporation and is owned by Messrs. Brown and Bartels, they benefit from any income of such company allocated to them.

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

In November 2004 and January 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"), respectively. In March 2005 SMF entered into an additional operating lease with SMS. Each lease had a term of 36 months. The equipment leased by SMF and SPAR Canada was handheld computers and the total monthly lease expense for SMF and SPAR Canada was \$20,232 and \$2,972, respectively.

By March 31, 2008, all of the operating leases noted above had expired. Both SMF and SPAR Canada elected to notify SMS of its intention to continue to lease the equipment for an additional twelve month period. The extended lease payments are based upon the fair market value of the equipment as of the expiration dates and an effective interest rate of 10% per annum. The revised monthly lease payments are \$10,050 for SMF and \$1,500 for SPAR Canada. SMF and SPAR Canada accrued the cost of the revised lease payments since the expiration of the original leases and in March 2008 SMS forgave the total indebtedness for the accrued monthly lease amounts that were due as of March 31, 2008 totaling \$39,000.

In addition to the \$39,000 in operating lease payments SMS forgave, SMSI also forgave \$100,000 that was owed by the Company for field management expenses as of March 31, 2008. It should also be noted that SMSI forgave an additional \$100,000 of the Company's indebtedness in exchange for 89,286 shares of Preferred Stock (see Note 16, Preferred Stock).

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):

	<u>Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
<b>Services provided by affiliates:</b>		
Independent contractor services (SMS)	\$ 3,441	\$ 3,871
Field management services (SMSI)	\$ 996	\$ 793
Handheld computer leases (SMS)	\$ 7	\$ 70
Internet and software program Consulting services (SIT)	\$ 188	\$ 166
	<u>March 31,</u>	<u>December 31,</u>
<b>Accrued expenses due to affiliates:</b>	<u>2008</u>	<u>2007</u>
SPAR Marketing Services, Inc. (SMS)	\$ 1,327	\$ 1,490
SPAR Management Services, Inc. (SMSI)	398	457
SPAR Infotech, Inc. (SIT)	83	160
<b>Total accrued expenses due to affiliates</b>	<b>\$ 1,808</b>	<b>\$ 2,107</b>

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 5%) equity interest in Affinity.

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

**7. Stock-Based Compensation**

The Company grants options to purchase shares of the Company's common stock to its employees and certain employees of its affiliates. Under SFAS No. 123(R), the Company accounts for its employee and affiliate employee stock option expense as compensation expense in the Company's financial statements when the stock options are granted. Share-based compensation cost is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model. The fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

Based upon the Black-Scholes calculation, share-based compensation expense related to employee stock option grants totaled approximately \$49,000 and \$80,000 for the three months ended March 31, 2008 and 2007 respectively. Compensation expense related to non-employee stock option grants awarded to the employees of the Company's affiliates, was approximately \$34,000 and \$37,000 for the three months ended March 31, 2008 and 2007, respectively. The impact of the total share-based compensation expense on basic/diluted earnings per share was approximately \$0.004 and \$0.006 for the three months ended March 31, 2008 and 2007, respectively.

**8. Customer Deposits**

Customer deposits at March 31, 2008, were approximately \$747,000 (approximately \$28,000 from domestic operations and approximately \$719,000 from international operations) compared to approximately \$580,000 at December 31, 2007 (approximately \$120,000 from domestic operations and approximately \$460,000 from international operations).

**9. Commitments and Contingencies**

**International Commitments**

The Company's international business model is to partner with local merchandising companies and combine the Company's proprietary software and expertise in the merchandising and marketing services business with their partner's knowledge of the local market. In 2001, the Company established its Japanese subsidiary to provide the latest in-store merchandising and marketing services to the Japanese market. Since 2003, the Company has expanded its international presence to Canada, Turkey, South Africa, India, Romania, China, Lithuania, Latvia, Estonia, Australia, and New Zealand. Today the Company has nine subsidiaries operating in 13 countries whose population represents approximately 48% of the total world population.

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

**Legal Matters**

Safeway Inc. ("Safeway") filed a Complaint against PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of SPAR Group, Inc. ("SGRP"), Pivotal Sales Company ("Pivotal"), a wholly owned subsidiary of PIA Co., and SGRP in Alameda Superior Court, case no. 2001028498 on October 24, 2001. Safeway claims, as subsequently amended, alleged causes of action for breach of contract and breach of implied contract. PIA Co. and Pivotal filed cross-claims against Safeway on or about March 11, 2002, and amended them on or about October 15, 2002, alleging causes of action by PIA Co. and Pivotal against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment. Trial commenced in March 2006.

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

On May 26, 2006, the jury in this case returned a verdict resulting in a net award of \$1,307,700 to Pivotal, a SGRP subsidiary. This net award is to be paid by Safeway and resulted from separate jury findings that awarded damages to those SGRP subsidiaries on certain claims and damages to Safeway on other claims. In particular, the jury awarded damages to Pivotal of \$5,760,879 for Safeway's interference with Pivotal's contractual relationships with third party manufacturers and also awarded \$782,400 to Pivotal and PIA for Safeway's breach of contract with those SGRP subsidiaries. The jury awarded damages to Safeway of \$5,235,579 for breach of contract by SGRP and those SGRP subsidiaries. Judgment was entered in favor of Pivotal in September 2006 for \$1,307,700. Both parties filed post trial motions but all post trial motions were denied. Notices of Appeal were thereafter filed by both Safeway and Pivotal. Pivotal/SGRP is seeking to have Safeway's judgment overturned, thereby increasing the award to Pivotal by over \$5 million. Safeway has asked for a new trial on the judgment found against it. The appellate process is expected to take fourteen to twenty four months to complete. In the interim, the court ordered a mediation of the dispute, which took place but was not successful in resolving the matter. Accordingly, the appeals will proceed. The Company has recorded the net \$1.3 million settlement award in other assets.

Briefing on the appeals commenced in the first quarter of 2008. It is expected that opposition and reply briefs will be completed by July, 2008. Thereafter, an oral argument hearing date will be assigned by the court of appeal.

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 financial position, results of operations or cash flows of the Company.

**10. Geographic Data**

A summary of the Company's net revenues, operating income (loss) and long lived assets by geographic area for the three months ended March 31, 2008 and 2007, respectively, and at March 31, 2008 and December 31, 2007, are as follows (in thousands):

	Three Months Ended March 31,	
	2008	2007
<b>Net revenues:</b>		
United States	\$ 7,443	\$ 8,433
International	10,011	6,980
Total net revenues	<u>\$ 17,454</u>	<u>\$ 15,413</u>

	Three Months Ended March 31,	
	2008	2007
<b>Operating income (loss):</b>		
United States	\$ (233)	\$ (273)
International	337	(14)
Total operating income (loss)	<u>\$ 104</u>	<u>\$ (287)</u>

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

	March 31, 2008	December 31, 2007
<b>Long lived assets:</b>		
United States	\$ 3,648	\$ 3,706
International	295	268
<b>Total long lived assets</b>	<b>\$ 3,943</b>	<b>\$ 3,974</b>

International revenues disclosed above were based upon revenues reported by the Company's nine international subsidiaries. The Japan subsidiary contributed 19% and 18% of the consolidated net revenues of the Company for the three months ended March 31, 2008 and 2007, respectively. The Canadian subsidiary contributed 10% and 8% of the consolidated net revenues of the Company for the three months ended March 31, 2008 and 2007, respectively. The Australian subsidiary contributed 11% and 9% of the consolidated net revenues of the Company for the three months ended March 31, 2008 and 2007, respectively. Each of the remaining foreign subsidiaries contributed less than 7% of the consolidated net revenues of the Company for the three ended March 31, 2008 and 2007, respectively.

**11. Supplemental Balance Sheet Information**

	March 31, 2008	December 31, 2007
<b>Accounts receivable, net, consists of the following (in thousands):</b>		
Trade	\$ 8,935	\$ 9,833
Unbilled	3,813	3,789
Non-trade	415	289
	13,163	13,911
Less allowance for doubtful accounts	(172)	(163)
<b>Accounts receivable, net</b>	<b>\$ 12,991</b>	<b>\$ 13,748</b>

	March 31, 2008	December 31, 2007
<b>Property and equipment, net, consists of the following (in thousands):</b>		
Equipment	\$ 6,810	\$ 6,781
Furniture and fixtures	630	625
Leasehold improvements	245	245
Capitalized software development costs	1,936	1,837
	9,621	9,488
Less accumulated depreciation and amortization	8,155	7,960
<b>Property and equipment, net</b>	<b>\$ 1,466</b>	<b>\$ 1,528</b>

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

	March 31, 2008	December 31, 2007
Accrued expenses and other current liabilities consist of the following (in thousands):		
Taxes payable	\$ 900	\$ 664
Accrued accounting and legal expense	440	227
Accrued salaries payable	1,366	1,304
Other	2,029	1,786
Accrued expenses and other current liabilities	<u>\$ 4,735</u>	<u>\$ 3,981</u>

**12. Foreign Currency Rate Fluctuations**

The Company has foreign currency exposure associated with its international subsidiaries. In both 2008 and 2007, these exposures are primarily concentrated in the Canadian Dollar, Australian Dollar and Japanese Yen. At March 31, 2008, international assets totaled \$10.1 million and international liabilities totaled \$14.2 million. International revenues for the three months ended March 31, 2008 and 2007 were \$10.0 million and \$7.0 million, respectively. The international division reported a net income (loss) of approximately \$69,000 and \$(118,000) for the three months ended March 31, 2008 and 2007, respectively.

In those countries where the Company had the greater risk for currency exposure, the total assets and liabilities are as follows (in thousands):

<u>Country</u>	<u>Total Assets</u>	<u>Total Liabilities</u>
Canada	\$ 1,221	\$ 897
Australia	1,873	1,396
Japan	4,093	3,765

**13. Interest Rate Fluctuations**

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At March 31, 2008, the Company's outstanding lines of credit totaled approximately \$5.0 million, as noted in the table below (in thousands):

Location	Variable Interest Rate <sup>(1)</sup>	Local Currency Amount	US Dollars Equivalent <sup>(2)</sup>
United States	6.25%	3,917 USD	\$3,917
Japan	1.88%	90,000 YEN	907
Canada	6.25%	236 CAD	231
			<u>\$5,055</u>

(1) Based on interest rate at March 31, 2008.

(2) Based on exchange rate at March 31, 2008.

Based on the 2008 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact pre-tax earnings and cash flows for the three months ended March 31, 2008 by approximately \$14,000.

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

**14. Recently Issued Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. SFAS No. 157 is effective January 1, 2008 for financial assets and liabilities and January 1, 2009 for non-financial assets and liabilities. There was no material impact from this statement on our financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115” (“SFAS No. 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157 and SFAS No. 107, “Disclosures about Fair Value of Financial Instruments.” SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. There was no material impact from this statement on our financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 141(Revised), “Business Combinations” (“SFAS No. 141(R)”), which replaces SFAS No. 141, “Business Combinations,” and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect to adopt this statement on January 1, 2009. SFAS No. 141(R)’s impact on accounting for business combinations is dependent upon acquisitions after the effective date.

In December 2007, FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements,” which amends Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 establishes accounting and reporting standards that require the ownership interests in subsidiaries not held by the parent to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity. This statement also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of income. Changes in a parent’s ownership interest while the parent retains its controlling financial interest must be accounted for consistently, and when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary must be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any non-controlling equity investment. The statement also requires entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This statement applies prospectively to all entities that prepare consolidated financial statements and applies prospectively for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We don’t believe this statement will impact our financial condition or results of operations but may impact the format of our financial statements.



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

In March 2008, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 161, “Disclosures about Derivative Investments and Hedging Activities, an amendment of FASB Statement No. 133”, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective for us beginning January 1, 2009. We are currently assessing the potential impact, if any, that adoption of SFAS No. 161 may have in our financial statements.

**15. Taxes**

In July 2006, the FASB issued FASB interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 is effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions upon initial adoption of the Interpretation. FIN 48 requires that interest and penalties that the tax law requires to be paid on the underpayment of taxes should be accrued on the difference between the amount claimed or expected to be claimed on the return and the tax benefit recognized in the financial statements. The Company’s policy is to record this interest and penalties as additional tax expense.

SPAR and its subsidiaries file numerous consolidated, combined and separate company income tax returns in the U.S. Federal jurisdiction and in many U.S. state and foreign jurisdictions. With few exceptions, SPAR is subject to U.S. Federal, state and local income tax examinations for the years 2004 through the present. However, tax authorities have the ability to review years prior to the position taken by the Company to the extent that SPAR utilized tax attributes carried forward from those prior years.

The Company adopted the provisions of FASB Interpretation No. 48 Accounting for uncertainty in Income Taxes, on January 1, 2007. In management’s view, the Company’s tax reserves at March 31, 2008, totaling \$182,000 for potential domestic state tax and federal tax liabilities were sufficient to meet the requirements of FIN 48. The reserve for potential international tax liabilities totaling \$180,000 was also deemed sufficient to satisfy FIN 48. For the first quarter of 2008 the reserve for FIN 48 exposures increased \$23,000.

Details of the Company’s FIN 48 reserves at March 31, 2008 are outlined in the table below (in thousands):

	Taxes	Interest	Penalty	Total Tax Liability
Domestic				
State	\$ 116	\$ 43	\$ 23	\$ 182
Federal	—	—	—	—
International	125	32	23	180
Total FIN 48 Reserve	<u>\$ 241</u>	<u>\$ 75</u>	<u>\$ 46</u>	<u>\$ 362</u>

**16. Preferred Stock**

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

The Preferred Designation provides that each share of Preferred Stock is to be issued at a value equal to the closing bid price of SGRP’s common stock (the “Common Stock”) immediately preceding the day SGRP and the purchaser(s) entered into a binding commitment to issue and acquire Preferred Stock. The Preferred Stock will

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

accrue a 10% dividend payable in either cash (when permitted by law and Nasdaq and authorized by the Board) or common stock when authorized by the Board (valued at the current market price of a share of common stock at the time paid but not less than the initial purchase price of a share of such preferred). All accrued and unpaid dividends and potential dividends must be paid to the holders of the Preferred Stock before any dividends can be paid to the holders of the Common Stock. The face value (purchase price) of the Preferred Stock and all accrued and unpaid dividends and potential dividends must be paid to the holders of the Preferred Stock before any liquidating distributions can be made to the holders of the Common Stock. The consent of all of the holders of the Preferred Stock is required for SGRP to make any changes in the Preferred Designation or issue any other class of preferred stock senior to or pari passu with the Preferred Stock.

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

On March 27, 2008, the Board also authorized the issuance of up to 530,000 shares of Preferred Stock to its affiliates, Robert G. Brown and William H. Bartels (who are officers, directors and significant shareholders of SGRP - see Note 6, Related-Party Transactions) in return for (among other things) cash or the reduction of an equivalent debt owed by the Company to SPAR Management Services, Inc. ("SMSI"), an affiliate of SGRP wholly owned by Mr. Brown and Mr. Bartels. On March 31, 2008, the Corporation, Mr. Brown, Mr. Bartels and SMSI entered into an agreement to issue and purchase 89,286 shares of Preferred Stock at \$1.12 per share (the closing bid price of SGRP's Common Stock for the most recent trading day available immediately preceding such agreement date). Pursuant to that agreement, SGRP's payable to SMSI was reduced by \$100,000, and SGRP issued 54,564 shares of Preferred Stock to Mr. Brown and 34,722 shares of Preferred Stock to Mr. Bartels, all effective March 31, 2008. SGRP's Audit Committee reviewed and unanimously approved this transaction, including the terms of the Preferred Stock and the affiliated relationship of the parties. The offer and sale of such Preferred Stock have not been registered under the Securities Act or other securities laws, as they were a non-public offer and sale made in reliance upon (among other things) Section 4 (2) of the Securities Act.

**17. Reclassifications**

Certain reclassifications have been made to the 2007 financial statements to conform with the 2008 presentation.

**Item 2. Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources**

**Forward-Looking Statements**

Statements contained in this Quarterly Report on Form 10-Q for the three months ended March 31, 2008 (this "Quarterly Report"), of SPAR Group, Inc. ("SGRP"), and together with its subsidiaries, the "SPAR Group" or the "Company"), include "forward-looking statements" (within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act", and together with the Securities Act, the "Securities Laws") that are based on the Company's best estimates. In particular and without limitation, this "Management's Discussion and Analysis of Financial Condition, Results of Operations, Liquidity and Capital Resources" contains such forward-looking statements, which are included in (among other places) the discussions respecting net revenues from significant clients, significant chain work and international joint ventures, federal taxes and net operating loss carryforwards, commencement of operations and future funding of international joint ventures, credit facilities and covenant compliance, cost savings initiatives, liquidity and sources of cash availability. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the Company's actual results, performance and achievements, whether expressed or implied by such forward-looking statements, to not occur, to not be realized or to be less than expected. Such forward-looking statements generally are based upon the Company's best estimates of future results, performance or achievement, current conditions and the most recent results of operations. Forward-looking statements may be identified by the use of forward-looking terminology such as "may", "will", "likely", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms. You should carefully consider such risks, uncertainties and other information, disclosures and discussions containing cautionary statements or identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements.

You should carefully review this management discussion and analysis together with the risk factors and other cautionary statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission (the "SEC") on March 31, 2008 (the "Company's Annual Report for 2007 on Form 10-K"), including the risk factors described in Item 1A of that annual report under the caption "Certain Risk Factors" and the changes (if any) in such risk factors described in Item 1A of Part II of this Quarterly Report (collectively, "Risk Factors"), as well as the cautionary statements contained in this Quarterly Report. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Risk Factors and other cautionary statements in this Quarterly Report and in the Company's Annual Report for 2007 on Form 10-K, which are incorporated by reference into this Quarterly Report. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, the Company cannot assure that such plans, intentions or expectations will be achieved in whole or in part, that it has identified all potential risks or that it can successfully avoid or mitigate such risks in whole or in part. The Company undertakes no obligation to publicly update or revise any forward-looking statements, or any Risk Factors or other cautionary statements, whether as a result of new information, future events or otherwise, except as required by law.

**Overview**

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

## SPAR Group, Inc.

### ***Domestic Merchandising Services Division***

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

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

### ***International Merchandising Services Division***

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

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

### **Critical Accounting Policies**

There were no material changes during the three months ended March 31, 2008, to the Company's critical accounting policies as reported in the Company's Annual Report for 2007 on Form 10-K.

**SPAR Group, Inc.**

**Results of Operations**

**Three months ended March 31, 2008, compared to three months ended March 31, 2007**

The following table sets forth selected financial data and data as a percentage of net revenues for the periods indicated (in thousands, except percent data).

	<b>Three Months Ended March 31,</b>					
	<b>2008</b>		<b>2007</b>		<b>Increase/ (decrease)</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>		
Net revenues	\$ 17,454	100.0%	\$ 15,413	100.0%	13.2%	
Cost of revenues	12,484	71.5	10,498	68.1	18.9	
Selling, general & administrative expense	4,658	26.7	5,005	32.5	(7.0)	
Depreciation and amortization	208	1.2	197	1.3	5.5	
Interest expense	81	0.5	89	0.6	(8.8)	
Other expense	43	0.3	21	0.1	110.5	
Loss before income tax provision and minority interest	(20)	(0.1)	(397)	(2.6)	(95.0)	
Provision for income taxes	164	0.9	67	0.4	144.1	
Loss before minority interest	(184)	(1.1)	(464)	(3.0)	(60.2)	
Minority interest	66	0.4	45	0.3	48.1	
Net loss	<u>\$ (250)</u>	<u>1.4%</u>	<u>\$ (509)</u>	<u>(3.3)%</u>	<u>(50.8)%</u>	

**Net Revenues**

Net revenues for the three months ended March 31, 2008, were \$17.5 million, compared to \$15.4 million for the three months ended March 31, 2007, an increase of \$2.1 million or 13.2%.

International net revenues totaled \$10.0 million for the three months ended March 31, 2008, compared to \$7.0 million for the same period in 2007, an increase of \$3.0 million or 43.4%. The increase in 2008 international net revenues was due to net revenue increases from Australia \$618,000, India \$515,000, Turkey \$287,000, Canada \$548,000, Japan \$551,000, South Africa \$123,000 and China \$409,000, partially offset by net revenue decreases in Romania \$16,000 and Lithuania \$5,000.

Domestic net revenues totaled \$7.5 million in the three months ended March 31, 2008, compared to \$8.4 million for the same period in 2007. Domestic net revenues decreased \$900,000 primarily as a result of the loss of a significant client. Approximately 9% and 12% of the Company's net revenues for the three months ended March 31, 2008 and 2007, respectively, resulted from merchandising services performed for clients at a leading domestic electronics chain. Services performed for these clients in that electronics chain also accounted for approximately 5% and 10% of the Company's accounts receivable at March 31, 2008 and December 31, 2007, respectively. The Company's contractual relationships or agreements are with various clients and not that retail electronics chain.

One client accounted for 7% and 6% of the Company's net revenues for the three months ended March 31, 2008 and 2007, respectively. The client accounted for approximately 6% and 3% of the Company's accounts receivable at March 31, 2008 and December 31, 2007, respectively.

The loss of the ability to provide merchandising and marketing services in the above and/or other chains or the loss of this client or other clients could significantly decrease the Company's revenues and could have a material adverse effect on the Company's business, results of operations and financial condition.

**Cost of Revenues**

Cost of revenues consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues was 71.5% of net revenues for the three months ended March 31, 2008 and 68.1% for the three months ended March 31, 2007. The increase in cost of revenues as a percent of net revenues of 3.4% is primarily a result of international operations.

## SPAR Group, Inc.

Domestic cost of revenues was 67.4% of net revenues for the three months ended March 31, 2008 and 67.3% of net revenues for the three months ended March 31, 2007. In the first quarter of 2008, SPAR Management Services, Inc. ("SMS"), an affiliate of the Company, forgave \$100,000 of debt owed by the Company for field management expenses. Excluding this transaction, domestic cost of revenue as a percent of net revenues was 68.7%, an increase of 1.4% directly attributed to a mix in higher cost project work in the quarter ended March 31, 2008 compared to the same period in 2007.

Internationally, the cost of revenues was 74.6% of net revenues for the three months ended March 31, 2008 and 69.0% of net revenues for the three months ended March 31, 2007. The international cost of revenues percentage increase was primarily attributed to higher cost of revenues as a percentage of net revenues in Canada, China and Turkey.

Approximately 89% and 87% of the Company's domestic cost of revenues in the three months ended March 31, 2008 and 2007, respectively, resulted from in-store independent contractor and field management services purchased from certain of the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (see Note 6 - Related-Party Transactions).

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resources, and legal and accounting expenses. Selling, general and administrative expenses decreased by \$347,000, or 7.0%, for the three months ended March 31, 2008, to \$4.7 million compared to \$5.0 million for the same period in 2007.

International selling, general and administrative expenses totaled \$2.2 million for the three months ended March 31, 2008, compared to \$2.1 million for the same period in 2007. The \$44,000 increase in international selling, general and administrative expenses was primarily due to Japan \$132,000 and Canada \$24,000, partially offset by decreased expenses from Australia of \$126,000. All other international subsidiaries resulted in a net increase of \$14,000.

Domestic selling, general and administrative expenses totaled \$2.5 million for the three months ended March 31, 2008, compared to \$2.9 million for the same period in 2007. The decrease in domestic selling, general and administrative expenses of \$391,000 was primarily due to a decrease in payroll related expenses of \$179,000 and reduced building related expenses of \$149,000 (\$73,000 was related to a one-time charge in 2007 for relocation expenses). In addition, there was a reduction in operating lease expense for equipment provided by the Company's affiliate SMS totaling \$63,000 (see Note 6, Related-Party Transactions).

### **Depreciation and Amortization**

Depreciation and amortization charges for the three months ended March 31, 2008, totaled \$208,000 and were comparable to \$197,000 for the same period in 2007.

### **Interest Expense**

Interest expense totaled \$81,000 and \$89,000 for the three months ended March 31, 2008 and 2007, respectively.

### **Other Expense**

Other expense totaled \$43,000 and \$21,000 for the three months ended March 31, 2008 and 2007, respectively.

### **Income Taxes**

Income taxes for the three months ended March 31, 2008 were approximately \$164,000 for taxes due on international profits and minimum domestic state taxes. Income taxes for the three months ended March 31, 2007 were approximately \$67,000 for minimum domestic state taxes. There were no tax provisions for federal tax as the Company reported a loss for the three months ended March 31, 2008, and provides a valuation allowance against any benefits from operating loss carryforwards.

**Minority Interest**

Minority interest of approximately \$66,000 and \$45,000 resulted from the net operating profits of the Company's 51% owned subsidiaries and 50% owned subsidiaries for the three months ended March 31, 2008 and 2007, respectively.

**Net Loss**

The Company had a net loss of \$250,000 for the three months ended March 31, 2008, or \$0.01 per diluted share, compared to a net loss of \$509,000, or \$0.03 per diluted share, for the corresponding period last year.

***Liquidity and Capital Resources***

In the three months ended March 31, 2008 the Company had a net loss of \$250,000.

Net cash provided by operating activities for the three months ended March 31, 2008 was \$2.4 million compared to \$3.0 million for the prior year. The decrease in net cash provided by operating activities was primarily due to a smaller decrease in total dollars in accounts receivable, an increase in prepaid expenses and a decrease in accrued expenses due affiliates. This was partially offset by a larger increase in accounts payable and accrued expenses in 2008 as compared to the first quarter of 2007.

Net cash used in investing activities for the three months ended March 31, 2008 and March 31, 2007, was approximately \$146,000 and \$346,000, respectively. The decrease in net cash used in investing activities was a result of decreased purchases of property and equipment.

Net cash used in financing activities for the three months ended March 31, 2008 and 2007, was approximately \$1.1 million and \$1.7 million, respectively. The decrease in net cash used in financing activities was primarily a result of reduced net payments on lines of credit.

The above activity resulted in an increase in cash and cash equivalents for the three months ended March 31, 2008, of approximately \$1.2 million.

At March 31, 2008, the Company had negative working capital of \$422,000, as compared to a negative \$449,000 at December 31, 2007. The Company's current ratio was 0.98 at March 31, 2008, and 0.97 at December 31, 2007.

In January 2003, the Company (other than SGRP's foreign subsidiaries) and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provides for a \$7.0 million revolving line of credit maturing on January 23, 2009. In March 2007 the credit facility was further amended to, among other things, delay the Minimum Fixed Coverage ratio until the fourth quarter 2007, establish an EBITDA covenant and increase the interest rate by .25% beginning March 28, 2007. In May 2007 the credit facility was amended to provide for an availability reserve of \$500,000. In August 2007 the credit facility was further amended to reduce the availability reserve to \$250,000 until November 30, 2007. On November 16, 2007 Webster amended the credit facility to extend the availability reserve of \$250,000 indefinitely and to reduce the revolving line of credit to \$5.0 million. Borrowings are based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" domestic accounts receivable less certain reserves). The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments. In addition, Mr. Robert G. Brown, a Director, the Chairman and a major stockholder of SGRP, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of SGRP, have provided personal guarantees of the Credit Facility totaling \$1.0 million.

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The basic interest rate under the Credit Facility is Webster's "Alternative Base Rate" plus 1.0% per annum (a total of 6.25% per annum at March 31, 2008), which automatically changes with each change made by Webster in such Alternative Base Rate. The Company at its option, subject to certain conditions, may elect to have portions of its loans under the Credit Facility bear interest at various LIBOR rates plus 3.25% per annum based on fixed periods of one, two, three or nine months. The actual average interest rate under the Credit Facility was 7.06% per annum for the three months ended March 31, 2008.

The domestic revolving loan balances outstanding under the Credit Facility were \$3.9 million and \$4.9 million at March 31, 2008 and December 31, 2007, respectively. As of March 31, 2008, the SPAR Group had unused availability under the Credit Facility of \$120,000 out of the remaining maximum \$1.1 million unused revolving line of credit after reducing the borrowing base by outstanding loans.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at March 31, 2008 and December 31, 2007, in accordance with EITF 95-22, *Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement*.

The Company was not in violation of any covenants at March 31, 2008, and does not expect to be in violation at future measurement dates. However, there are no assurances that the Company will not be in violation of certain covenants in the future. Should the Company be in violation, there are no assurances that Webster will issue such waivers in the future.

The Japanese subsidiary, SPAR FM Japan, Inc., has line of credit agreements totaling 100 million Yen, or approximately \$1.0 million (based upon the exchange rate at March 31, 2008). The outstanding balances under the line of credit agreements were 90 million Yen, or approximately \$907,000 at March 31, 2008 and 90 million Yen, or approximately \$802,000 at December 31, 2007 (based upon the exchange rate at those dates). The average interest rate was 1.88% per annum for the three months ended March 31, 2008. In addition, the Japan subsidiary had cash balances totaling 209 million Yen, or approximately \$2.1 million and 137 million Yen, or approximately \$1.2 million at March 31, 2008 and December 31, 2007 respectively (based upon the exchange rates at those dates).

The Australian subsidiary, SPARFACTS Australia Pty. Ltd., has a revolving line of credit arrangement with Oxford Funding Pty. Ltd. for \$1.1 million (Australian), or approximately \$1.0 million (based upon the exchange rate at March 31, 2008). There was no outstanding balance under the line of credit agreement at March 31, 2008 and a balance of \$315,000 (Australian), or approximately \$276,000 at December 31, 2007 (based upon the exchange rate at that date). The average interest rate was 12.6% per annum for the three months ended March 31, 2008.

SPAR Canada Company, a wholly owned subsidiary, has a credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$1.0 million (Canadian), or approximately \$978,000 (based upon the exchange rate at March 31, 2008). The Demand Operating Loan provides for borrowings based upon a borrowing base formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions). The outstanding balances under the line of credit agreement were \$236,000 (Canadian), or approximately \$231,000 and \$140,000 (Canadian), or approximately \$143,000 at March 31, 2008 and December 31, 2007, respectively (based upon the exchange rate at those dates). The average interest rate was 6.25% per annum for the three months ended March 31, 2008.

The Company's international business model is to partner with local merchandising companies and combine the Company's proprietary software and expertise in the merchandising and marketing services business with their partner's knowledge of the local market. In 2001, the Company established its first subsidiary in Japan and has continued this strategy. As of this filing, the Company is currently operating in 13 countries and has 9



**SPAR Group, Inc.**

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

Management believes that based upon the Company's existing credit facilities, projected results of operations and other financing available to the Company (including amounts due to affiliates), sources of cash availability should be sufficient to support ongoing operations over the next twelve months. However, continued losses, delays in collection of receivables due from any of the Company's major clients, or a significant reduction in business from such clients could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

**Certain Contractual Obligations**

The following table contains a summary of certain of the Company's contractual obligations by category as of March 31, 2008 (in thousands).

Contractual Obligations	Period in which payments are due				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 5,055	\$ 5,055	\$ –	\$ –	\$ –
Capital Lease Obligations	486	223	263	–	–
Operating Lease Obligations	3,414	713	1,957	744	–
<b>Total</b>	<b>\$ 8,955</b>	<b>\$ 5,991</b>	<b>\$ 2,220</b>	<b>\$ 744</b>	<b>\$ –</b>

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company's accounting policies for financial instruments and disclosures relating to financial instruments require that the Company's consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and lines of credit. The Company carries current assets and liabilities at their stated or face amounts in its consolidated financial statements, as the Company believes those amounts approximate the fair value for these items because of the relatively short period of time between origination of the asset or liability and their expected realization or payment. The Company monitors the risks associated with asset and liability positions, as well as interest rates. The Company's investment policy objectives require the preservation and safety of the principal, and the maximization of the return on investment based upon its safety and liquidity objectives.

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At March 31, 2008, the Company's outstanding lines of credit totaled \$5.0 million, as noted in the table below (in thousands):

Location	Variable Interest Rate <sup>(1)</sup>	Local Currency Amount	US Dollars Equivalent <sup>(2)</sup>
United States	6.25%	3,917 USD	\$3,917
Japan	1.88%	90,000 YEN	907
Canada	6.25%	236 CAD	231
			\$5,055

(1) Based on interest rate at March 31, 2008.

(2) Based on exchange rate at March 31, 2008.

Based on the 2008 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact pre-tax earnings and cash flows for the three months ended March 31, 2008 by approximately \$14,000.

**SPAR Group, Inc.**

The Company has foreign currency exposure associated with its international subsidiaries. In both 2008 and 2007, these exposures are primarily concentrated in the Canadian Dollar, Australian Dollar and Japanese Yen. At March 31, 2008, international assets totaled \$10.1 million and international liabilities totaled \$14.2 million. International revenues for the three months ended March 31, 2008 and 2007 were \$10.0 million and \$7.0 million, respectively. The international division reported a net income (loss) of approximately \$69,000 and \$(118,000) for the three months ended March 31, 2008 and 2007, respectively.

In those countries where the Company had the greater risk for currency exposure, the total assets and liabilities are as follows (in thousands):

<u>Country</u>	<u>Total Assets</u>	<u>Total Liabilities</u>
Canada	\$ 1,221	\$ 897
Australia	1,873	1,396
Japan	4,093	3,765

**Item 4. Controls and Procedures**

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

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

The Company has established a plan, documented and tested its domestic internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002 and has developed a plan to document and test its internal controls as they pertain to its material international subsidiaries.

**PART II: OTHER INFORMATION**

**Item 1. Legal Proceedings**

Safeway Inc. (“Safeway”) filed a Complaint against PIA Merchandising Co., Inc. (“PIA Co.”), a wholly owned subsidiary of SPAR Group, Inc. (“SGRP”), Pivotal Sales Company (“Pivotal”), a wholly owned subsidiary of PIA Co., and SGRP in Alameda Superior Court, case no. 2001028498 on October 24, 2001. Safeway claims, as subsequently amended, alleged causes of action for breach of contract and breach of implied contract. PIA Co. and Pivotal filed cross-claims against Safeway on or about March 11, 2002, and amended them on or about October 15, 2002, alleging causes of action by PIA Co. and Pivotal against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment. Trial commenced in March 2006.

On May 26, 2006, the jury in this case returned a verdict resulting in a net award of \$1,307,700 to Pivotal, a SGRP subsidiary. This net award is to be paid by Safeway and resulted from separate jury findings that awarded damages to those SGRP subsidiaries on certain claims and damages to Safeway on other claims. In particular, the jury awarded damages to Pivotal of \$5,760,879 for Safeway’s interference with Pivotal’s contractual relationships with third party manufacturers and also awarded \$782,400 to Pivotal and PIA for Safeway’s breach of contract with those SGRP subsidiaries. The jury awarded damages to Safeway of \$5,235,579 for breach of contract by SGRP and those SGRP subsidiaries. Judgment was entered in favor of Pivotal in September 2006 for \$1,307,700. Both parties filed post trial motions but all post trial motions were denied. Notices of Appeal were thereafter filed by both Safeway and Pivotal. Pivotal/SGRP is seeking to have Safeway’s judgment overturned, thereby increasing the award to Pivotal by over \$5 million. Safeway has asked for a new trial on the judgment found against it. The appellate process is expected to take fourteen to twenty four months to complete. In the interim, the court ordered a mediation of the dispute, which took place but was not successful in resolving the matter. Accordingly, the appeals will proceed. The Company has recorded the net \$1.3 million settlement award in other assets.

Briefing on the appeals commenced in the first quarter of 2008. It is expected that opposition and reply briefs will be completed by July, 2008. Thereafter, an oral argument hearing date will be assigned by the court of appeal.

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 financial position, results of operations or cash flows of the Company.

**Item 1A. Risk Factors**

The Company’s Annual Report for 2007 on Form 10-K describes various risk factors applicable to the Company and its businesses in Item 1 under the caption “Certain Risk Factors”, which risk factors are incorporated by reference into this Quarterly Report. There have been no material changes in the Company’s risk factors since the Company’s Annual Report for 2007 on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

**SPAR Group, Inc.**

**Item 3. Defaults upon Senior Securities**

Item 3(a): Defaults under Indebtedness: None.

Item 3(b): Defaults under Preferred Stock: Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

- 10.1 Series A Preferred Stock Subscription Agreement dated as of March 31, 2008 by and among SPAR Group, Inc., each of Robert G. Brown and William H. Bartels and SPAR Management Services, Inc., as filed herewith.
- 10.2 Debtor Finance Agreement dated as of May 24, 2006 by and among Bendingo Bank Limited ACN and Sparfacts Pty Ltd. together with Bendingo Bank Limited ACN Standard Terms and Conditions, as filed herewith.
- 31.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 31.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.

**SPAR Group, Inc.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 15, 2008

SPAR Group, Inc., Registrant

By: /s/ James R. Segreto  
James R. Segreto  
Chief Financial Officer, Treasurer, Secretary  
and duly authorized signatory

**SPAR Group, Inc.**

**EXHIBIT INDEX**

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**SERIES A PREFERRED STOCK  
SUBSCRIPTION AGREEMENT**

This **Series A Preferred Stock Subscription Agreement** (this "Agreement") is made as of this 31st day of March, 2008, by and among **SPAR Group, Inc.**, a Delaware corporation (the "Corporation"), each of **Robert G. Brown** and **William H. Bartels** (each a "Purchaser", and collectively, the "Purchasers"), and **SPAR Management Services, Inc.**, a Nevada corporation wholly owned by the Purchasers ("SMSI").

Section 1 . Purchase and Sale of the Preferred Shares. Subject to the terms and conditions of this Agreement, each Purchaser subscribes for and hereby purchases and acquires from the Corporation, and the Corporation hereby sells and issues to each Purchaser, the number of shares of the Corporation's Series A Preferred Stock, par value \$0.01 per share, specified for such Purchaser (collectively, the "Preferred Shares"), at a purchase price of \$1.12 per Share:

- (a) 54,564 Preferred Shares to Robert G. Brown, and
- (b) 34,722 Preferred Shares to William H. Bartels.

The Purchasers shall cause SMSI to reduce the Corporation's payable to it by the aggregate purchase price of \$100,000.32 (the "Purchase Price"), as payment in full for all such Preferred Shares. The Purchasers hereby direct SMSI to reduce, and by its signature below, SMSI hereby agrees to reduce and hereby reduces, the outstanding balance of SMSI's receivables owed by the Corporation in the amount of the Purchase Price (applied oldest to youngest) and will reflect the same on its books and records.

Section 2 . Representations and Covenants of the Corporation. In order to induce them to enter into this Agreement, the Corporation represents and warrants the following to each Purchaser: (a) the Corporation is and will continue to be a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware; (b) the Corporation has and will maintain full and unrestricted power, authority and legal capacity, and it has been duly authorized and empowered, to the extent necessary to execute and deliver this Agreement and make this Agreement enforceable against it; (c) the Corporation has obtained and will maintain all qualifications, authorizations, approvals and waivers, and it has satisfied and will continue to satisfy all other applicable legal, governance and contractual requirements, to the extent necessary to execute and deliver this Agreement and make this Agreement enforceable against it; (d) this Agreement has been duly executed and delivered by the Corporation, and, upon its execution by the Purchasers, shall constitute the legal, valid and binding obligation of the Corporation, enforceable in accordance with its terms, except to the extent that its enforcement is limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally and by general principles of equity; (e) the authorized capital stock of the Corporation is 50,000,000 shares, consisting of (i) 47,000,000 shares of common stock, par value \$.01 per share, and (ii) 3,000,000 shares of preferred stock, par value \$.01 per share; (f) the holder's conversion rights, Corporation's redemption rights, payment and liquidation preferences over common, and other terms, provisions and conditions respecting the Preferred Shares are stated in the Series A Preferred Stock Designation as filed with the Delaware Secretary of State on March 28, 2008 (the "Series A Designation"); and (g) upon issuance in accordance with the terms of this Agreement, the Preferred Shares will be duly and validly authorized and issued and fully paid and nonassessable.

Section 3 . Representations and Warranties of the Purchaser. In order to induce it to enter into this Agreement, each Purchaser represents and warrants (as to himself only) the following to the Corporation as of the date hereof: (a) the Purchaser has and will maintain full and unrestricted power, authority and legal capacity to the extent necessary to execute and deliver this Agreement and make this Agreement enforceable against him; (b) the Purchaser has obtained and will maintain all qualifications, authorizations, approvals and waivers, and he has satisfied and will continue to satisfy all other applicable legal, governance and contractual requirements, to the extent necessary to execute and deliver this Agreement and make this Agreement enforceable against him; (c) this Agreement has been duly executed and delivered by the Purchaser, and, upon its execution by the Corporation, shall constitute the legal, valid and binding obligation of the Purchaser, enforceable in accordance with its terms, except to the extent that its enforcement is limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally and by general principles of equity; (d) the Purchaser has knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of his investment in the Preferred Shares; (e) the Purchaser understands

that an investment in the Corporation represents a high degree of risk and there is no assurance that the Corporation's business or operations will be successful; (f) as an officer and director, the Purchaser regularly receives and reviews information pertaining to the Corporation, including (without limitation) the Corporation's Annual Report on Form 10-K for the Fiscal Year ended December 31, 2008 (the "2007 Annual Report"), the Purchaser has received all of the information that he requested in connection with the decision to purchase the Preferred Shares, the Purchaser has independently reviewed and evaluated the 2007 Annual Report, the Series A Designation, and other information provided by the Corporation in connection with the decision to purchase the Preferred Shares, the Purchaser has had an opportunity to ask questions and receive answers from the Corporation regarding the business, properties, prospects and financial condition of the Corporation, and all such questions have been answered to the full satisfaction of the Purchaser; (g) the Purchaser has considered carefully the risks attendant to an investment in the Corporation and the Preferred Shares (including, without limitation, the Risk Factors described in the 2007 Annual Report), and that, as a consequence of such risks, the Purchaser understands he could lose his entire investment in the Preferred Shares; (h) the Purchaser further understands that (i) neither the offering nor the sale of the Preferred Shares has been registered under the Securities Act of 1933, as amended (the "Securities Act") or any applicable state laws in reliance upon exemptions from the registration requirements of such laws, (ii) the Preferred Shares must be held by him indefinitely unless the sale or transfer thereof is subsequently registered under the Securities Act and any applicable state laws, or an exemption from such registration requirements is available, and (iii) the Corporation will rely upon the representations and warranties made by the Purchaser in this Agreement in order to establish such exemptions from the registration requirements of the Securities Act and any applicable state laws; (i) the Preferred Shares are being acquired for investment for the Purchaser's own account, and not as a nominee or agent and not with a view to the resale, transfer or distribution of all or any part of the Preferred Shares; (j) the Purchaser has no present intention of selling, transferring or distributing any of the Preferred Shares, or granting any participation in any of the Preferred Shares, to any individual, entity or other person within the meaning of the Securities Act; and (k) the Purchaser does not have any contracts, understandings, agreements or arrangements to sell, transfer or distribute any of the Preferred Shares, or grant any participation in any of the Preferred Shares, to any individual, entity or other person.

Section 4 . Further Assurances. The parties will, upon reasonable request, execute and deliver all such further assignments, endorsements and other documents as may be necessary in order to implement and perfect the purchase by the Purchasers of the Preferred Shares.

Section 5 . Successors and Assigns; No Third Party Benefits; Headings, Etc. The representations, warranties, covenants and other agreements made by or on behalf of each party in this Agreement shall be binding upon the successors, permitted assigns, heirs and legal representatives of such party and shall inure to the benefit of the successors, permitted assigns, heirs and legal representatives of each other party. The provisions of this Agreement are for the exclusive benefit of the parties hereto, and, except as otherwise expressly provided herein, no other person (including creditors of any party hereto) shall have any right or claim against any party by reason of any of those provisions or be entitled to enforce any of those provisions against any party. The section headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

Section 6 . Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, (a) to the extent applicable, the General Corporation Law and Article 8 of the Uniform Commercial Code of the State of Delaware, each as amended, and (b) to the extent that such Delaware laws are not applicable, the applicable law of the State of New York other than those conflict of law rules that would defer to the substantive laws of any other jurisdiction.

Section 7 . Counterparts and Amendments. This Agreement or any amendment hereto may have been executed in two or more counterparts of the entire document or its signatures pages, any of which may have been delivered by telecopy, pdf or other electronic means, and all of which, when taken together, shall constitute a single agreement binding upon all of the parties hereto. Except for a party's consent or waiver hereunder (which need only be signed by it), each and every supplement, modification and amendment respecting this Agreement shall be in writing and signed by all of the parties hereto.

Section 8 . Entire Agreement. This Agreement contains the entire agreement of the parties, and supersedes and completely replaces all prior and other communications, discussions and other representations, warranties, promises, assurances, agreements and understandings (whether written, oral, express, implied or otherwise) between the parties, with respect to the matters contained in this Agreement.



IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

/s/ Robert G. Brown

**Robert G. Brown**

/s/ William H. Bartels

**William H. Bartels**

**SPAR Group, Inc.**

By: /s/ James R. Segreto

Name: James R. Segreto

Title: Chief Financial Officer

**ACKNOWLEDGED AND AGREED TO:**

**SPAR Management Services, Inc.**

By: /s/ Robert G. Brown

Name: Robert G. Brown

Title: Chairman, Chief Executive Officer and President





**Bendigo Bank**

**BENDIGO BANK LIMITED**

ACN 068 049 178  
ABN 11 068 049 178

and

**Sparfacts Pty Ltd**

ACN 119 057 653  
ABN 95 119 057 653

**GENERAL BUSINESS**

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**DEBTOR FINANCE AGREEMENT  
CONFIDENTIAL**

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### **Details**

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22.	Facility Limit
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27.	Advance
28.	Ineligible Assigned Debts
29.	Total Eligible Assigned Debt Limit
Agreement Signatures (both Parties)	





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- 4.3 You may request drawdowns from the *Drawdown Account* in writing at any time. Subject to clause 4.4 and 4.5, we will pay a drawdown requested by you, by debiting the amount to the *Drawdown Account*, and crediting the amount to your bank account specified in Part 3 of the *Details*.
- 4.4 You may only request a drawdown in respect of *Eligible Assigned Debts* (which expression excludes all Debts described in Part 28). The *current drawings* from the *Drawdown Account* must not exceed the *Facility Limit* at any time. You must repay us the amount of any excess on demand by us.
- 4.5 You irrevocably authorize us to apply any credit balance in the *Drawdown Account* to pay any money owing by you to us under the *Transaction Documents*.
- 4.6 Each payment we receive in respect of an *Assigned Debt* will be credited to the *Drawdown Account*.

## 5. FEES AND CHARGES

- 5.1 You must pay us the *Discounting charge* which will be calculated by us as set out in Part 4 of the *Details* and will accrue daily and is payable on the earliest of:
- (a) collection of the *Debt* to which it relates;
  - (b) on demand at any time after the *Recourse Date* for that *Debt*; or
  - (c) on demand at any time after an *Event of Default* has occurred.
- 5.2 You must pay us the *Administration Fee* as set out in Part 15 of the *Details* and is payable on purchase by us of a *Debt*.
- 5.3 You must pay us the *Application Fee* set out in Part 5 of the *Details* which will be calculated by us and is payable on signing of the *Letter of Offer* by you.
- 5.4 If any *Assigned Debt* remains unpaid on and from the *Recourse Date*, you agree to pay to us the *Service Fee* which will be calculated by us daily and is payable monthly or on notice from us to you. Upon notification, the *Service Fee* calculated in accordance with Part 6 of the *Details* is immediately due and payable by you to us.
- 5.5 If any *Assigned Debt* remains unpaid on and from the *Recourse Date* you agree to pay to us the *Recourse Fee* which will be calculated by us as set out in Part 23 of the *Details* and is payable on the *Recourse Date*.
- 5.6 If you offer for sale a ledger of existing *Debts* upon commencement of this *Agreement* you must pay us a *Settlement Fee* as set out in Part 7 of the *Details* in consideration of the initial purchase, on the date of the purchase.
- 5.7 If you request an electronic funds transfer of moneys payable by us to you under this *Agreement*, the fee specified in Part 8 of the *Details* shall be immediately payable by you to us.
- 5.8 If you deposit into your bank account other than one nominated by us any funds being payment by our *Debtor* for an *Assigned Debt* then you must immediately pay us the *Misbanking Fee* calculated as set out in Part 14 of the *Details*.
- 5.9 If this *Agreement* is terminated during the periods specified in Part 9 of the *Details* whether by you or by us; or  
you offer any of your *Debts* for sale to a purchaser other than us;  
then the fees specified in Part 9 of the *Details* are immediately due and payable by you to us.
- 5.10 You must pay us the *Batch Fee* which will be calculated by us as set out in Part 16 of the *Details* and is payable on purchase by us of a *Debt*.
- 5.11 You must pay us the *Drawdown Fee* which will be calculated by us as set out in Part 17 of the *Details* and is payable on drawdown of the *Advance*.
- 5.12 You must pay us the *New Debtor Application Fee* specified in Part 18 of the *Details* and payable on purchase by us of a *Debt*.
- 5.13 You must pay us the *Minimum Fee* which will be calculated by us as set out in Part 19 of the *Details* on each anniversary of this *Agreement* and is payable on demand by us.

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- 5.14 You must pay us the *Unused Facility Fee* which will be calculated monthly by us as set out in Part 20 of the *Details* and is payable on demand by us.
- 5.15 You must pay us the *Audit Fee* (refer to Part 21 of the *Details*) which will be notified by us to you and is payable on demand.
- 5.16 You must pay us the *Early Retention Release Fee* set out in Part 25 of the *Details* and calculated in accordance with clause 2.7 of the *Terms and Conditions*.
- 5.17 You must pay us the *Security Release Fee* set out in Part 26 of the *Details*.
- 5.18 You must also pay to us all other fees, charges, expenses, taxes and costs otherwise set out in the *Terms and Conditions*.

6. **RESERVE AMOUNT**

- 6.1 We will pay the *Reserve Amount* for each *Debt* purchased by us by crediting that amount in the *Reserve Account*.
- 6.2 We will debit the *Reserve Account* with all fees charges and other moneys payable by you to us under this *Agreement*.
- 6.3 The total amount credited to the *Reserve Account* must not be less than the *Reserve Amount* for *current drawings* at all times. You must repay us the amount of any deficiency on demand by us.
- 6.4 Subject to clause 6.5, we will calculate and pay to you the *Cash Reserve/Reserve Release* on the date specified in Part 11 of the *Details*.
- 6.5 The *Cash Reserve/Reserve Release* may at our absolute discretion be applied at any time and without notice to you in accordance with the *Terms and Conditions*. We are not obliged to pay you the *Cash Reserve/Reserve Release* if any *Event of Default* has occurred.
- 6.6 Upon termination of this *Agreement* we will pay you the *Cash Reserve/Reserve Release* provided all monies payable or to become payable in the future by you to us under any *Transaction Document* have been paid in full.

7. **WHAT HAPPENS IF A DEBTOR FAILS TO PAY AN ASSIGNED DEBT**

- 7.1 Without limiting your other obligations under the *Terms and Conditions* you agree that you will pay to us the *Full Face Value* of any *Assigned Debt* less any money received by us in respect of it without the need for any demand from us if
- 7.1.1 any *Assigned Debt* remains unpaid or has not been paid to us wholly or partly by the *Recourse Date*;
- 7.1.2 any *Assigned Debt* is uncollectable, or contains any mistake or error on the face of its evidencing it at any time; or
- 7.1.3 any warranty or undertaking given in respect of any *Assigned Debts* is or becomes untrue or misleading.
- 7.2 If any money is payable under clause 7.1, we may deduct the *Chargeback* from the *Reserve Account* or the *Drawdown Account* at our option.

8. **WHAT SECURITIES MUST YOU GIVE US**

You agree that for the purpose of securing your obligations to us under this *Agreement* you will ensure that the *Securities* are granted to us.

9. **WHAT IF YOU ARE A TRUSTEE**

If you enter into this *Agreement* as the trustee of a trust including any trust referred to in Part 1 of the *Details* (whether or not that fact is known to us) you are liable both personally and in your capacity as trustee;

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- 9.1 *you* warrant to *us* that *you* enter into this *Agreement* and the transactions contemplated by it both in *your* own right and in *your* capacity as trustee of that trust pursuant to the deed creating that trust as amended from time to time and with the intention of binding any successor to *you* as such trustee; and
- 9.2 *you* make the following representations and warranties relating to the trust:
- (a) the trust is validly created and existing and no circumstances exist pursuant to which it may be determined and no date for the vesting of any of the trust fund has been appointed;
  - (b) *you* have provided *us* with true copies of the documents which constitute the trust;
  - (c) *you* are not in breach of *your* obligations as trustee of the trust and no circumstances in relation to the trust exist pursuant to which *you* may be removed as trustee of the trust;
  - (d) each *Transaction Document* to which *you* are a party is entered into or given pursuant to and in proper exercise of the powers of the trustee as trustee of the trust and all formalities required with such acceptance have been complied with;
  - (e) the execution, performance of *your* obligations under any *Transaction Document* to which *you* are a party is for the proper purpose of and provides commercial benefit to the Trust and the beneficiaries of the Trust;
  - (f) *you* are entitled to be fully indemnified out of the assets of the trust in respect of *your* liability under each *Transaction Document* to which *you* are a party;
  - (g) *you* are the legal owner of all the assets of the trust;
  - (h) there is no dispute between *you* and any other person in relation to the trust or the trust assets;
  - (i) *you* are empowered by the trust deed to carry on business as now conducted or contemplated and to own property and assets in *your* capacity as trustee of the trust and there is no restriction, limitation or condition upon such activity; and
  - (j) *your* liability under each *Transaction Document* or the extent of *your* liability to indemnify *yourself* is not in any way limited or otherwise affected by *you* being trustee of any trust.

10. **OUR STANDARD TERMS AND CONDITIONS APPLY**

- 10.1 *You* acknowledge that our agreement to purchase *your Debts* is subject to our *Terms and Conditions* and *you* acknowledge that a copy of such *Terms and Conditions* has been provided to *you* and read by *you* prior to the entering into of this *Agreement*.
- 10.2 This *Agreement*, incorporating the *Details* and the *Terms and Conditions*, the *Letter of Offer* constitutes the entire agreement between *you* and *us* with respect to the subject matter of this *Agreement* and supersedes any and all promises, representations and agreements whether written or oral made by *us* to *you* or *your* agents or representatives.
- 10.3 Clauses 3.1 and 3.2 of the *Terms and Conditions* only apply as follows:
- 10.3.1 If we serve a *Notification Notice* in relation to the *Assigned Debts* set out in the *Notification Notice*.
- 10.3.2 We will not serve a *Notification Notice* on *you* until:
- (a) an *Event of Default* occurs; or
  - (b) we form the view in our absolute discretion, that *you* are not diligently pursuing the collection of *Assigned Debts* set out in the *Notification Notice*, or collection of the *Assigned Debts* is at risk.
- 10.3.3 Clauses 3.1 and 3.2 of the *Terms and Conditions* apply to:
- (a) the *Assigned Debts* set out in the *Notification Notice* immediately on and from service on *you* of the *Notification Notice*; and

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(b) all *Assigned Debts* immediately upon the appointment of a liquidator, provisional liquidator, voluntary administrator, deed administrator or controller (as defined in the Corporations Act); or the insolvency of any *Assigned Debts*, whether or not a *Notification Notice* has been served.

10.4 Until Clauses 3.1 and 3.2 of the *Terms and Conditions* apply, you may collect *Assigned Debts* in your own name provided that you must bank the collections in accordance with our direction at all times.

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**1. DETAILS**

**"YOU"**

- 1.1 Name: Sparfacts Pty Ltd
- 1.2 ACN 119 057 653
- 1.3 ABN 95 119 057 653
- 1.4 Address 150 Dyon Road, West Melbourne, VIC 3003
- 1.5 State of Incorporate: VIC
- 1.6 Trust Details (if relevant)

Name of Trust:

Settlor:

Date of Trust and date  
of variations

**"US"**

- 1.1 Name: Bendigo Bank Limited
- 1.2 ACN 068 049 178
- 1.3 ABN 17 068 049 178
- 1.4 Address Fountain Court, Bendigo Vic 3550
- 1.5 State Victoria

**2. SCHEDULE OF DEBTS**

as attached

**3. BANK ACCOUNT**

Account Name SPARFACTS PTY LTD  
BSB No. 633 000  
Account No. 127604767  
Bank Name BENDIGO BANK LIMITED

**4. DISCOUNTING CHARGE - See clause 5.1**

The Discounting charge shall be calculated by using Bendigo Bank's Debtor Finance Reference Rate plus a margin of 0.75% on the daily balance of the current drawings.

**5. APPLICATION FEE - See clause 5.3**

The Application fee of \$2500 is payable on signing of the Letter of Offer.

**6. SERVICE FEE - See clause 5.4**

The Service Fee is calculated according to the following formula:

$\frac{A \times D \times E}{365}$

In calculating such formula

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A= the Full Face Value of the Assigned Debt

D = the number of days that the Assigned Debt remains unpaid in excess of the Recourse Date

E = 30% plus GST (interest rate per annum)

**7. SETTLEMENT FEE – See clause 5.6**

0.275% plus GST of the total sum of all *Debts* purchased by us prior to the first payment of moneys pursuant to this *Agreement*.

**8. ELECTRONIC FUNDS TRANSFER FEE – see clause 5.7**

\$30.00 plus GST per each electronic funds transfer.

**9. TERMINATION FEE - see clause 5.9**

9.1 If such event occurs before the expiration of 6 months from the date of this *Agreement* the sum of \$17325

9.2 If such event occurs after 6 months but before the expiration of 12 months from the date of this *Agreement* the sum of \$17325

9.3 If such event occurs after 12 months but before the expiration of 18 months from the date of this *Agreement* the sum of \$0

**10. RESERVE AMOUNT - see clause 6**

(a) 20% of the *Full Face Value* of all *Debts* purchased by us under this *Agreement*, unless specified otherwise for *Debts* or classes of *Debts* below.

(b) in respect of *Debts* owing by [Debtor] N/A% of the *Full Face Value* of *Debts* owed by that *Debtor* which are purchased by us under this *Agreement*.

(c) after a Notice has issued under clause 15 of the *Terms and Conditions*, the amount we determine in our absolute discretion to adequately secure the amount you owe us under this *Agreement*, reflecting among other things, the additional risk following an *Event of Default*.

(d) in respect of any particular *Debts*, the amount we determine in our absolute discretion to adequately reflect the credit risk of that *Debt*

**11. PAYMENTS FROM RESERVE ACCOUNT - see clause 6.4**

Subject to our rights under clause 6.5 of this *Agreement*, retention funds (20% less our fees) will be calculated daily and will be available for drawdown 4 days after receipt of payment from your debtors.

**12. RECOURSE DATE**

In respect of each *Debt*, 90 days following the date we purchase the *Debt* from you.

**13. SECURITIES**

13.1 First ranking Deed of Charge over your entire assets and undertaking

13.2 Deed of Guarantee executed by:

Lynda Cathryn Chapman of 3/380 Toorak Road, South Yarra, VIC 3141

Gavin James Brown of 3/380 Toorak Road, South Yarra, VIC 3141

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- 13.3 Mortgage over Properties at N/A.
14. **MISBANKING FEE** - See clause 5.8  
10% plus GST of the *Full Face Value* of the *Assigned Debt*.
15. **ADMINISTRATION FEE** - see clause 5.2  
0% of the *Full Face Value* of the *Debts* purchased by *us* under this *Agreement*.
16. **BATCH FEE** - see clause 5.10  
1% for each Schedule of *Debts* offered to *us* for purchase [in excess of 10 per calendar month.]
17. **DRAWDOWN FEE** - see clause 5.11  
1% for each drawdown of the *Advance* [in excess of 10 per calendar month.]
18. **NEW DEBTOR APPLICATION FEE** - see clause 5.12  
\$25.00 plus GST for each new *Debtor* as set out in clause 2.6 of the *Terms and Conditions*.
19. **MINIMUM FEE** - see clause 5.13  
Nil.
20. **UNUSED FACILITY FEE** - see clause 5.14  
(a) Nil.
21. **AUDIT FEE** - see clause 5.15  
\$500.00 for each audit *we* conduct on *your* books.
22. **FACILITY LIMIT** - see clause 4.4  
\$1,200,000.00
23. **RECOURSE FEE** - see clause 5.5  
1% of the *Full Face Value* of the amount outstanding of any *Assigned Debt* on the *Recourse Date* for that *Assigned Debt*.
24. **SHORT NOTICE FEE**  
The fee calculated in accordance with in clause 14.2 of the *Terms and Conditions*.
25. **EARLY RETENTION RELEASE FEE** - see clause 5.16  
1.5% of the amount released or \$100.00 whichever is the greater.
26. **SECURITY RELEASE FEE** -

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\$250.00 for each facility plus any government charges.

**27. ADVANCE**

- (a) 80% of the *Full Face Value* of all *Debts* purchased by *us* under this *Agreement*, unless specified otherwise for *Debts* or classes of *Debts* below;
- (b) in respect of *Debts* owing by [Debtor] N/A % of the *Full Face Value* of *Debts* owed by that *Debtor* which are purchased by *us* under this *Agreement*;
- (c) after a Notice has issued under clause 14 of the *Terms and Conditions* the amount we determine in *our* absolute discretion which is not required by *us* as the *Reserve Amount* for that *Debt*.

**28. INELIGIBLE ASSIGNED DEBTS - see clause 4.4**

*Assigned Debts* will be excluded from eligibility where they are:

- (b) unpaid at a time which is 90 days after the date of the *Invoice* for that *Assigned Debt*; or
- (c) owed by a *Debtor* who owes more than 20% of all *Assigned Debts* owed to *you*; or
- (d) owed by a *Debtor* in respect of whom *we* have not conducted a credit rating within 12 months or where *our* credit rating for that *Debtor* is unacceptable to *us* in *our* absolute discretion; or
- (e) owed by a *Debtor* whose *Debts* *we* have not previously considered to be *Eligible Assigned Debts*; or
- (f) owed by a person or company that is related to *you* or any *guarantor*; or
- (g) not arising from an arms length commercial transaction in the ordinary course of business; or
- (h) subject to any set-off or counter claim, or likely to be in *our absolute discretion*; or
- (i) based on a progress claim; or
- (j) not based on a bona fide transaction for goods supplied or services rendered or a combination of those; or
- (k) not owed in Australian dollars, and by a *Debtor* who conducts business in Australia; or
- (l) subject to any claim or interest by any third party; or
- (m) based on any claim for delivery, interest, installation costs or the like; or
- (n) in excess of the *Total Eligible Assigned Debt Limit*, when added to the total of the *Eligible Assigned Debts* at that time

unless we agree to include all or part of the *Assigned Debt* as eligible for drawdown in *our* absolute discretion.

**29. TOTAL ELIGIBLE ASSIGNED DEBT LIMIT**

\$1,400,000.00


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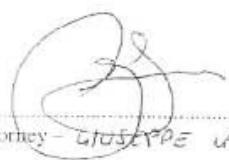
AGREEMENT SIGNATURES

Executed for and on behalf of )  
Sparfacts Pty Ltd )  
ACN 119 057 653 ABN 95 119 057 653 )  
By Authority of the Director:


  
.....  
Lynda Cathryn Chapman  
In his capacity as Director/Secretary

  
.....  
Gavin James Brown  
In his capacity as Director/Secretary

Executed by Bendigo Bank Limited ACN 068 049 178 )  
by being signed by its Attorneys )  
GIUSEPPE LA GRECA )  
ANTHONY MORTIMER )

  
.....  
Attorney - GIUSEPPE LA GRECA

who certify that they are the employees of Oxford )  
Funding Pty Ltd respectively holding the following )  
positions )  
CHIEF OPERATING OFFICER )

  
.....  
Attorney - ANTHONY MORTIMER

and  
RISK MANAGER

being authorised Officers of the Company under Power of )  
Attorney dated 1 November 2005 (a certified copy of )  
which is filed in Permanent Order Book No. 277 at Page )  
23 Item 13) in the presence of:-

  
.....  
Witness  
Witness Full  
Name JULIE ELIZABETH SMITH



**BENDIGO BANK LIMITED**

ACN 068 049 178

ABN 11 068 049 178

**STANDARD TERMS  
&  
CONDITIONS**

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**STANDARD TERMS AND CONDITIONS**

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## **STANDARD TERMS AND CONDITIONS**

### **1. APPLICATION OF STANDARD TERMS**

On *you* signing and returning to *us* the offer set out in the *Letter of Offer* and these Standard Terms, a legally binding contract comes into existence between *you* and *us*. *You* should carefully consider and ensure that *you* fully understands the terms of the *Letter of Offer* and these *Standard Terms* before *you* sign and accept the *Letter of Offer*. We recommend that *you* obtain legal and financial advice before *you* sign and accept the *Letter of Offer*. The Standard Terms will also apply to each *Security Provider* and each *Security Provider* should carefully consider and ensure that it understands its obligations before signing any documents. We recommend that each *Security Provider* obtains legal and financial advice before signing the *Letter of Offer* and any *Security*.

### **2. COSTS AND OTHER AMOUNTS**

2.1 *You* must pay *us*:

- 2.1.1 all fees, charges, bank charges and other expenses incurred by *us* under or specified in this *Agreement* or incidental to it or in connection with any transactions contemplated by it;
- 2.1.2 all stamp duty, tax and other government or semi-government charges payable in respect of the *Transaction Documents* or any transactions entered into under them;
- 2.1.3 all costs and charges (including legal fees on the higher of a solicitor/own client basis and a full indemnity basis) incurred by *us* in negotiation, preparation, execution, stamping and (where necessary) registration of the *Transaction Documents*;
- 2.1.4 all costs and charges (including legal fees on the higher of a solicitor/own client basis and a full indemnity basis) incurred by *us* in either or both of the following circumstances:
  - (a) where an *Event or Default* has occurred under any *Transaction Document*; or
  - (b) in preserving or protecting *our* position or enforcing or attempting to enforce all or any of *our* rights under any *Transaction Document*;

including the costs of *our* agents, consultants or contractors as *we* reasonably determine and including such time spent by *our* and/or *our* agents' employees at the rate from time to time applicable to *our* and/or *our* agents' employees as stipulated by *us* from time to time but if not otherwise stipulated, at the following rates:

Executive Director and Chief Executive Officer or any person performing some or all of the functions of any of those positions - at \$380 plus GST per hour;

National Sales & Marketing Manager, Chief Financial Officer and Chief Operations Officer or any person performing some or all of the functions of any of those positions - at \$292 plus GST per hour;

Account Manager, Risk Manager, Technology Manager, Sales or State Manager, Business Development Manager, or any person performing some or all of the functions of any of those positions -at \$264 plus GST per hour;

Senior Client Services Officer, Risk Officer, Accounts Receivable Manager, Senior Accounts Officer or any person performing some or all of the functions of any of those positions - at \$171 plus GST per hour;

Client Services Officer, Accounts Receivable Officer, Accounts Officer,

## STANDARD TERMS AND CONDITIONS

Personal Assistant or any person performing some or all of the functions of any of those positions - at \$127 plus GST per hour;

Team Support Officer, Receptionist or any person performing some or all of the functions of any of those positions - at \$98 plus GST per hour.

- 2.2 You must promptly comply with all of *our* requests and those of *our* lawyers in connection with any payments required in respect of the charges in clause 2.1.
- 2.3 You indemnify *us* against any liability resulting from delay or failure to pay any of the charges in clause 2.1.
- 2.4 Unless otherwise specified in the *Transaction Documents* all costs charges and other payments due to *us* are payable on demand.
- 2.5 You must pay *us* the *Security Release Fee* upon release or discharge of any one or more *securities*.
- 2.6 You must pay *us* the sum as set out in Part 18 of the *Details* for each new *Debtor* whose *Debts* you offer to sell to *us* after the initial sale of *Debts* to *us* under this *Agreement*, plus any costs (calculated on an indemnity basis) *we* incur in assessing the credit risk of the *Debtor*, whether or not *we* accept *your offer* in relation to that *Debtor*.
- 2.7 If *we* agree in our absolute discretion, following *your* request, to release any part of the *Cash Reserve/ Reserve Release* where there are insufficient funds available in the *Reserve Account*, or otherwise prior to the date set out in Part 11 of the *Details*, you must pay *us* the greater of:
  - 2.7.1 \$100 plus GST; or
  - 2.7.2 1.5% of the funds to be made available plus GST; or
  - 2.7.3 the charges set out in Part 25 of the *Details*.

### **3. GENERAL OBLIGATIONS**

- 3.1 You must not do anything that would prevent any *Assigned Debts* being paid to *us* by *your Debtors*. In particular you shall not ask or require *your Debtors* to pay *Assigned Debts* to any person other than ourselves unless *we* direct you in writing to do so.
- 3.2 You shall require *your Debtors* to pay *Assigned Debts* directly to *us* by the placing of a notice to such effect in the form annexed as Schedule A to these *Terms and Conditions* on each invoice.
- 3.3 Any payment received by you in respect of a *Assigned Debt* is received by you on trust for *us* and you must deliver it to *us* in original form or bank it as *we* direct whether or not, in the case of cheques, drafts or notes, it may, in addition to the payment of the *Debt* include an additional amount. If made payable to you it must be endorsed by you to *us* or as *we* direct, provided that if you are not in default of the terms of this *Agreement* *we* shall reimburse to you any amount received by *us* not in respect of *Assigned Debts*.
- 3.4 Whenever *we* request you to do so you shall execute a legal assignment to *us* of any *Assigned Debts* and give *your Debtors* written notice of such assignment.

### **4. YOUR WARRANTIES AND UNDERTAKINGS AS TO ASSIGNED DEBTS**

- 4.1 You warrant to *us* in relation to each *Debt* you offer to *us* that (except as disclosed in writing to *us* at the time of offering the *Debt*):
  - 4.1.1 the *Debt* is fully valid and enforceable for the *Full Face Value* free of any cross claims, set offs, charges, discounts or any other rights whatsoever;
  - 4.1.2 the *Debt* was incurred in the ordinary course of *your Debtor's* business on *your* standard terms of trade as disclosed to *us* and that the terms provide for payment in Australia in Australian dollars;
  - 4.1.3 *your Debtors* have not and will not during the term of the *Assigned Debt* have or claim any set off or other claim by way of cross action against you or dispute their liability to

## **STANDARD TERMS AND CONDITIONS**

pay the *Debt* on any ground whatsoever;

- 4.1.4 *you* have investigated the financial status and credit of each of *your Debtors* and are satisfied that each *Debtor* is able to pay the relevant *Debt* before the due date;
  - 4.1.5 *you* are not aware of any matter in relation to any of *your Debtors* that may affect *our* decision to purchase that *Debtor's Debts*;
  - 4.1.6 *you* have disclosed to *us* any fact or matter *you* know or ought to know would influence *our* decision whether or not to accept any offer *you* make to *us*;
  - 4.1.7 *you* have full power to sell the legal and equitable title to each *Debt* and that *you* will transfer each *Debt* to *us* free from any third party rights whatsoever;
  - 4.1.8 no *Assigned Debt* is owed by an *Associate* or *Related Company* or person of *you*;
  - 4.1.9 no supplier to *you* is entitled to or claims any interest in respect of any *Assigned Debt* under any retention of title or similar provisions;
  - 4.1.10 the particulars included in the *Invoice*, and all other documents relating to the *Debt* submitted by *you* to *us* are correct;
  - 4.1.11 *you* have paid all applicable Taxes (other than GST which *you* warrants *you* will pay in accordance with the GST Act) in respect of the sale represented by the *Debt*; and
  - 4.1.12 the transaction creating the *Debt* is not governed by the Consumer Credit Code, unless *you* disclose to *us* in writing that the Transaction creating the debt is governed by the applicable Consumer Credit Code, and provide full written details to *us* of the terms, conditions, and circumstances of such Transaction creating the *Debt* and *we* waive this warranty in writing to *you*.
- 4.2 *You* undertake to *us* in relation to each *Debt you offer* to *us* that (except as disclosed in writing to *us* at the time of offering the *Debt*):
- 4.2.1 *you* shall duly and promptly perform and observe all the terms of the agreement giving rise to the *Debt* and do everything necessary to ensure that the *Debt* is recoverable by action at law;
  - 4.2.2 *you* will not make any arrangements with *your Debtors* to compromise, set off or discharge any *Debt*;
  - 4.2.3 *you* shall not make any arrangements for or accept the return of any goods without *our* consent in writing where the sale of those goods gave rise to an *Assigned Debt*;
  - 4.2.4 *you* will not issue a credit note in relation to a *Assigned Debt* without proper cause. Any credit note issued by *you* will be promptly notified to *us*. *You* will deliver any credit note and any other information in relation to it to *us* before issuing it if *we* require *you* to do so. *We* shall have total discretion to deliver such a credit note to *your Debtor* but if *we* deliver it, the delivery shall be without prejudice to any rights *we* have under this *Agreement*;
  - 4.2.5 *you* will keep *us* fully informed of all information concerning disputes or possible disputes about any *Assigned Debt* or that may affect the credit worthiness of any of *your Debtors*; and
  - 4.2.6 *you* will do everything necessary to validly assign each *Debt* to *us*.
- 4.3 *You* indemnify *us* against any failure by *you* to fulfil *your* obligations under this clause and against any loss arising by reason of any actions whatsoever brought by *Debtors* against *you* in relation to any agreement giving rise to a *Assigned Debt*.

## **5. OUR RIGHT OF ENTRY AND INSPECTION**

*You* agree that *we* (or an *Authorised Officer* or *our* nominee) is at any time able to enter land or buildings occupied by *you* without notice to inspect and take copies of any documents relating in any way to any *Assigned Debts*.

## **STANDARD TERMS AND CONDITIONS**

### **6. LIMITATIONS ON YOUR RIGHTS UNDER ANY SALE OF GOODS OR OTHER AGREEMENTS**

Subject to clause 4.2.4, *you* agree that *you* will not rescind, cancel or vary any sale of goods or other agreement between a *Debtor* and *you* which gave rise to an *Assigned Debt*, without *our* express consent in writing.

### **7. LIMITATIONS ON YOUR RIGHTS TO DEAL WITH DEBTS**

Subject to clause 4.2.4, *you* agree that *you* will not ~~assign~~, charge or otherwise encumber any of *your Debts* or enter into any other agreement for factoring or discounting them without *our* prior written consent.

### **8. RESTRICTIONS ON PAYMENTS TO DIRECTORS**

Unless *you* have given *us* six months prior notice in writing of *your* intention to do so, *you* may not pay, lend or credit *your* directors any amounts without *our* prior written consent other than the following:

- 8.1 director's fees, salaries, expenses or benefits (including superannuation benefits) in whatever form for an amount which is no greater than that disclosed in *your* last balance sheet and profit and loss account before this *Agreement*;
- 8.2 money payable under any agreement now in force which has been disclosed to *us* prior to *our* execution of this *Agreement* and where *we* have given *our* prior written approval to the payment; and
- 8.3 dividends to which *we* have given prior written approval for payment of same.

### **9. GENERAL ACCOUNTING OBLIGATIONS**

9.1 *You* must:

- 9.1.1 give to *us* all accounts and financial information provided for in this *Agreement*. The accounts and information must be prepared in accordance with all accounting standards in force or recommended by the Australian Society of Accountants or the Institute of Chartered Accountants and kept so as to give a true and fair view of *your* financial position and that of *your Group*;
- 9.1.2. keep proper books of account containing entries of all transactions in relation to *your Group's* business. Books of account, delivery receipts and all other documents relating to *your Group's* business must be kept at *your* principal place of business and be open for inspection at all reasonable times by *us* or anyone *we* authorises in writing; and
- 9.1.3 appoint an accountant approved by *us* to maintain *your* debtors ledger and such other accounts as *we* requires if requested to do so by *us* in writing. If *you* does not do so for whatever reason *we* shall be entitled to appoint an accountant on *your* behalf. *We* is irrevocably authorised to pay for an appointment *we* makes and any work performed by the accountant *we* appoints out of any money due to *you* under this *Agreement*.

9.2 *You* must give to *us* within 30 *Business Days* of the end of each financial year and half year the following statements for the next year certified as correct by at least one of *your* directors or if *you* are not a corporation, by an owner or principal of *your business*:

- 9.2.1 the estimated consolidated after tax profit of the *Group*; and
- 9.2.2 the budgets of the *Group*.



## **STANDARD TERMS AND CONDITIONS**

- 9.3 Any material revisions of the statements in clause 9.2 must be given to *us* within 30 days.
- 9.4 You must give to *us* within 180 days of the end of each financial year and half year:
- 9.4.1 a consolidated balance sheet and individual balance sheets for *you* and for each of the companies in *your Group*;
  - 9.4.2 consolidated profit and loss account and detailed audited individual profit and loss accounts for *you* and each of the companies in *your Group*; and
  - 9.4.5 an individual reconciliation of profit and loss appropriation accounts together with a consolidated profit summary for *you* and each of the companies in *your Group*.
- 9.5 Subject to clause 9.6 all accounts referred to in clause 9.4 must be prepared and audited by an independent chartered accountant agreed upon in writing between *you* and *us*. If *you* and *we* fail to agree upon a named accountant within 30 *Business Days* after a written request by either of *you* or *us* to the other *we* shall nominate one.
- 9.6 If *you* and each of the companies in *your Group* are a small proprietary company under Section 45A(2) of the Corporations Act *we* may exempt *you* from the requirements in clause 8.6 on *your* request in writing to *us*. Even if *we* grant *you* an exemption *you* must still supply the accounts reports and other information referred to in Section 292 and 293 of the Corporations Act if Section 292(2) of the Corporations Act applies.
- 9.7 All statements given pursuant to clauses 9.2, 9.3, 9.4, and 9.5 must be certified as correct by at least one of *your* directors or if *you* are not a corporation, by an owner or principal of *your business*.
- 9.8 You must if requested by *we* give to *us* management accounts and any other financial information *we* requires about *you* or a company in *your Group* to enable *us* to make an assessment of *your* financial position and that of *your Group*. The management accounts and any other information shall be for each month or such other periods as *we* may from time to time nominate and must be given to *us* within 30 days of the end of each period.

## **10. ACCOUNTING OBLIGATIONS FOR DEBTS**

- 10.1 You must keep all proper books and accounts necessary to disclose the following matters to *us* in relation to *Assigned Debts* at all times:
- 10.1.1 the amount;
  - 10.1.2 the terms of payment;
  - 10.1.3 the amounts collected and the time of each collection; and
  - 10.1.4 the balance due by the *Debtor*
- 10.2 When requested by *us* *you* agree:
- 10.2.1 to annotate in such manner as *we* require *your* debtors' ledger so as to indicate which *Debts* have become *ours* and agree to otherwise deal with the *Debts* in *your* books as directed by *us*; and
  - 10.2.2 to keep a separate ledger to record all *Assigned Debts*. The ledger is and remains *our* property.
- 10.3 You agree that if *you* are requested to keep the accounts referred to in clause 10.1 and all other records and documents relating to the *Assigned Debts* the accounts will be kept at *your* expense, as agent for *us* and that *we* may remove them at any time for any period *we* think fit.
- 10.4 You must deliver to *us* on demand the following documents in relation to *Assigned Debts*:
- 10.4.1 all agreements, *Debtor* invoices, delivery receipts and ledger cards;

## STANDARD TERMS AND CONDITIONS

- 10.4.2 all invoices, vouchers and accounts issued by *you*;
- 10.4.3 all writing evidencing the agreement between *you* and *your Debtors* and *Debtor* receipts for any goods delivered by *you*; and
- 10.4.5 all other evidence or documents which would be required by *us* to enforce the *Debt* in a court of law or that *we* may from time to time require. If *you* maintains accounts on computer, *your* obligations include providing to *us* copies of all computer software and all other programs and information necessary to enable *us* to inspect and efficiently use and maintain them.
- 10.5 *You* warrant in relation to the documents and information in clause 10.4 that as at the time they are provided by *you* to *us* they contain correct and sufficient details of:
- 10.5.1 the names and addresses of *Debtors* who owe *you* *Debts*;
- 10.5.2 the goods sold and services rendered to *your Debtors* by *you* and the dates of the sales or services; and
- 10.5.3 the amounts payable by *your Debtors* and the terms of such payments.
- 10.6 Without prejudice to *our* rights under this clause *we* may permit *you* to retain any documents referred to in clause 10.4 for the convenience of *your* business or lend them to *you* for such periods as *we* think fit.
- 10.7 If *we* request *you* to do so *you* must by the 15th day of each month deliver to *us* a full aged debtor trial balance of all *your Debts* for the previous month together with a full reconciliation and any other information *we* may reasonably require in relation to the *Assigned Debts*.
- 10.8 *You* shall not deal in *your* books of account or financial statements or deal with any *Assigned Debt* in any way that *we* direct *you* not to do so.
- 10.9 Where goods are the subject of a sale which gave rise to a *Assigned Debt* and the goods are returned to *you* for whatever reason *you* shall hold such goods on trust for *us* and deal with them in accordance with *our* directions.
- 10.10 If *we* direct *you* to do so *you* must deliver the goods referred to in clause 10.9 to *us*.

## 11. YOUR DUTY TO INDEMNIFY US

- 11.1 *You* indemnify *us* and keep *us* indemnified against any failure for whatever reason by a *Debtor* to pay the *Net Invoice Value* of an *Assigned Debt* by the *Recourse Date*.
- 11.2 Without limiting the generality of *your* obligations under clause 11.1 *you* agree that *you* will pay *us* the *Net Invoice Value* of any *Assigned Debt* less any money received by *us* in respect of it without the need for any demand from *us* if:
- 11.2.1 any *Assigned Debt* remains unpaid or has not been paid to *us* wholly or partly by the *Recourse Date*;
- 11.2.2 any warranty given by *you* about a *Assigned Debt* has been breached whether at the time of offering it to *us* or subsequently;
- 11.2.3 in our absolute discretion it is of the opinion that the *Assigned Debt* is unlikely to be paid in full by the *Recourse Date* for that *Debt* and *we* notifies *you* of that fact;
- 11.2.4 the *Debtor* in relation to a *Assigned Debt*;
- (a) is an individual and commits an act of bankruptcy as defined in the *Bankruptcy Act 1966* (C'th); or
- (b) is a company and any application is filed or an order is made or a resolution passed for its winding up or if any meeting is called for the purpose of considering such a resolution;
- 11.2.5 an administrator or other controller is appointed to the *Debtor* or a receiver, receiver

## **STANDARD TERMS AND CONDITIONS**

and manager or other controller is appointed to all or part of the undertaking or property of the *Debtor*;

11.2.6 the holder of any mortgage charge or encumbrance takes possession of any of the *Debtor's* assets; or

11.2.7 any execution or other process of a court or any authority is levied over the *Debtor's* property.

11.3 Legal and beneficial title to any *Assigned Debt* remains with *us* even if *you* have made a payment under clauses 11.1 or 11.2 and *we* are entitled to receive the full proceeds from the *Assigned Debt* subject only to the terms of this *Agreement*, which proceeds will be credited to *your Drawdown Account* or *your Reserve Account* at *our* discretion.

11.4 If *you* issue a *Debtor* with a credit note or accept the return of goods in relation to the whole or any part of a *Assigned Debt* *you* must immediately pay to *us* the *Full Face Value* of the credit note. *Our* rights under this clause are without prejudice to the obligations imposed on *you* under clause 6 and clause 7.

## **12. WHAT IS THE PERIOD OF THE AGREEMENT AND HOW CAN IT BE ENDED**

12.1 This *Agreement* operates until it is ended by *you* or *us* in a way set out in this *Agreement*.

12.2 Either of *you* or *us* can end this *Agreement* for future transactions by giving the other 60 days prior written notice.

12.3 *You* can end this *Agreement* without giving 60 days prior written notice if *you* pay *us* the *Short Notice Fee*.

12.4 *We* can end this *Agreement* at *our* option without notice if an *Event of Default* occurs.

12.5 An *Event of Default* occurs if:

12.5.1 *you* breach any obligation under this *Agreement*;

12.5.2 in *our* absolute discretion *we* are of the opinion that any warranty *you* have given *us* under any *Transaction Document* is or becomes incorrect;

12.5.3 in *our* absolute discretion *we* are of the opinion that *you* have not disclosed to *us* something known to *you* that *you* know or ought to know might influence *our* decision whether or not to enter into this *Agreement*;

12.5.4 *you* or any other person breach any obligation under any of the *Collateral Securities*; or

12.5.5 an *Event of Default* specified in any of the *Collateral Securities* occurs.

12.6 Except as specifically provided the ending of this *Agreement* does not affect *your* obligations under it prior to its end including without limitation *your* obligation to pay interest, fees and charges as provided for in this *Agreement* and *your* obligations under clauses 10 and 11 in respect of *Assigned Debts*.

## **13. YOUR OBLIGATION TO REPURCHASE ASSIGNED DEBTS**

13.1 If this *Agreement* is ended for whatever reason *you* must repurchase all *Assigned Debts*, (including any *Debts* for which *you* have made a payment under clause 11) immediately, without any need for demand from *us*.

13.2 The repurchase price for any *Assigned Debt* shall be its *Full Face Value* less any money (including any payment) *we* have received in relation to it.

13.3 Legal and beneficial title to all *Assigned Debts* remains with *us* until *we* have received all money due to *us* or payable by *you* in the future under the *Transaction Documents*.

## **14. WHAT YOU MUST PAY AT THE END OF THIS AGREEMENT**

## **STANDARD TERMS AND CONDITIONS**

- 14.1 You agree to pay us on demand the *Termination Fee* (if applicable) if this *Agreement* is terminated by you or by us for any reason whatsoever.
- 14.2 Unless you give us 60 days prior written notice of termination, you must pay us on demand a *Short Notice Fee* in lieu of such notice calculated as follows:
- 14.2.1 if less than 30 days written notice is given the sum equivalent to 5% of the *Full Face Value* of all *Assigned Debts* purchased by us from you which remain unpaid at the date you give notice;
- 14.2.2 if 30 days or more but less than 60 days written notice is given the sum equivalent to 3% of the *Full Face Value* of all *Assigned Debts* purchased by us from you which remain unpaid at the date you gave notice.
- 14.3 You agree that the *Termination Fee* and the *Short Notice Fee* have been calculated by us after consideration of the loss which we would suffer if this *Agreement* was terminated early and/or without the giving of 60 days prior notice in writing and represent a genuine pre-estimate of the loss which the termination would cause us in such circumstances.

## **15. CONVERSION TO NON SELECTIVE FACTORING**

- 15.1 We may require you to offer to sell us all your *Debts* by giving you a notice in writing in any of the following circumstances:
- 15.1.1 if an *Event of Default* occurs;
- 15.1.2 if in our absolute discretion we are of the opinion that the *Securities* are at risk; or
- 15.1.3 if in our absolute discretion we are of the opinion that there has been a material adverse change to you or your business or the *Assigned Debts*.
- 15.2 From service of a *Notice* under clause 15.1, you must offer to sell us all your *Debts* no less than once each month. Each *Debt* must be included in the first offer made after the date the *Debt* arose.
- 15.3 The provisions of this *Agreement* apply to *Debts* purchased by us after a *Notice* has been issued unless specified otherwise.
- 15.4 You must require your *Debtors* to pay directly to us:
- 15.4.1 all *Assigned Debts* unless we specifies otherwise in writing; and
- 15.4.2 after an *Event of Default* has occurred, all *Assigned Debts*
- by the placing of a notice to that effect in the form annexed as Schedule A to these *Terms and Conditions* on each invoice.

## **16. OUR DISCRETION TO VARY THIS AGREEMENT**

- 16.1 We may give notice of its intention to amend, add to or delete any term of this *Agreement* at any time by written notice to you.
- 16.2 Without limiting the generality of what we can do under clause 15.1 we can give notice of an:
- 16.2.1 increase or decrease in the *Advance Rate*, the *Reserve Amount* or any fees or charges payable under this *Agreement*; or
- 16.2.2 imposition of any additional fees or charges.
- 16.3 You must accept or reject any amendments, additions or deletions we proposes to make by notice in writing to us within seven days of the date of our notice to you.
- 16.4 If you reject any amendment, addition or deletion you shall be deemed to have given us notice to terminate this *Agreement* under clause 14.2.
- 16.5 If you fail to notify us within seven days of your acceptance or rejection of our amendment, addition or deletion, you is deemed to have accepted the amendment, addition or deletion.
- 16.6 Any amendment, addition or deletion if accepted shall only be applicable to *Debts* purchased after the date of our notice to you.

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### **17. YOU MUST APPOINT US AS ATTORNEY**

- 17.1 By this clause *you* irrevocably appoints *us* and each *Authorised Officers* or any one or more of them jointly and severally to be *your* true and lawful attorneys. As *your* attorneys *we* and each *Authorised Officer* can in *your* name and on *your* behalf:
- 17.1.1 render accounts to *Debtors* who owe *Assigned Debts*;
  - 17.1.2 contact or communicate by letter, telephone, electronic mail, or in person any of *your Debtors* for the purposes of verifying the terms and collecting payment of any *Assigned Debt* owed by such *Debtor*;
  - 17.1.3 demand, commence or defend any action or other proceedings in any court for the recovery or otherwise in relation to any *Assigned Debt* which has not been legally assigned to *us* and bring action or proceedings to prosecute or discontinue or become non suit at *our* absolute discretion;
  - 17.1.4 bring any action to wind up or bankrupt any *Debtor*;
  - 17.1.5 do everything necessary to prepare and complete formal or legal assignments of any *Assigned Debts* to *us* or otherwise to perfect *our* title to a *Assigned Debt*;
  - 17.1.6 write to any debtors in *your* name to require payment of any *Assigned Debts* whenever and in any manner *we* think fit;
  - 17.1.7 give in *your* name and on *your* behalf notice of the assignment, formal, legal or equitable of any *Assigned Debt*;
  - 17.1.8 draw, accept and endorse cheques, bills or other negotiable instruments in relation to any *Assigned Debt*;
  - 17.1.9 enter into or execute transactions, documents, mortgages, charges and agreements which, in *our* opinion *you* should enter or execute pursuant to the *Agreement*; and
  - 17.1.10 do anything whatsoever necessary to secure performance by *you* of *your* obligations under this *Agreement* or otherwise in relation to the *Assigned Debts*
- 17.2 *You* ratify anything done by an attorney under the power of attorney in this document.
- 17.3 The power of attorney conferred on *us* and each *Authorised Officer* by this clause is irrevocable as long as *you* remains under any obligation actual or contingent under this *Agreement* despite any termination or purported termination of the *Agreement*.

### **18. CHARGE**

As security for all moneys owing from time to time by *you* to *us*, *you* as beneficial owner charge in favour of *us* all freehold and leasehold interests in land and all personal property of whatever description and wherever situated which *you* now have or during the currency of the *Agreement* may acquire.

### **19. FURTHER ASSURANCE**

- 19.1 *You* will whenever so requested by *us*:

## **STANDARD TERMS AND CONDITIONS**

- 19.1.1 hand to *us* all certificates or other documents of title relating to the land and property charged under the *Agreement* and transfers for any such land or property duly executed *you* as transferor to be held by *us* until the charge created by the *Agreement* is released except during any period that a prior encumbrancer has and is entitled to hold such documents of title;
- 19.1.2 execute in favour of *us* in writing legal assignments of any or all of the *Assigned Debts* and give to any *Debtor* or *Debtors* in respect of such *Assigned Debts* written notice of such assignment;
- 19.1.3 execute mortgages in favour of *us*, in such form as *we* determine of any land and or real or personal property now or in the future owned by *you* or in which *you* may have an interest and where such mortgage secures all money owing from time to time by *you* to *us*; and
- 19.1.4 deliver or cause to be executed and delivered such deeds, instruments, mortgages and other documents and cause to be done all such other acts and things as *we* may consider necessary or desirable for further or more satisfactorily assuring or securing to *us* or as *we* direct the land and property charged under the *Agreement* in such form as is necessary in order to obtain any necessary or desirable registration of such documents.

### **20. PROPER LAW**

The proper law for this *Agreement* is that of the *Relevant State* and *you* and *we* agree to submit to the jurisdiction of its courts.

### **21. CERTIFICATE, STATEMENT, ETC**

- 21.1 Under no circumstances are *we* obliged to provide to any party to an *Agreement* or any of the *Transaction Documents* or *Securities* any statement or accounting as to amounts paid or payable (in this clause 21 "Statement") under an *Agreement* or any of the *Transaction Documents* or *Securities*, or any information as to the basis of arriving at any amount payable to *us* by a party to an *Agreement* or any of the *Transaction Documents* or *Securities*.
- 21.2 If *we* at any time and for any purpose serve a Statement on a party to an *Agreement* or any of the *Transaction Documents* or *Securities* in respect of any period and that party or any other party to the relevant an *Agreement* or any of the *Transaction Documents* or *Securities* does not by written notice given to *us* not later than 30 days after the Statement is served by *us* on the party, challenge the contents of that Statement and provide particulars of alleged inaccuracies in that Statement, that Statement is, in the absence of manifest error, admissible in proceedings and is conclusive evidence of its subject matter.
- 21.3 A Certificate or notice from or demand signed by an *Authorised Officer* stating any of the following:
  - 21.3.1 that a specified sum of money is owing or payable (or both) under an *Agreement* or any of the *Transaction Documents* or *Securities*; **or**
  - 21.3.2 that the party providing a *Security* to *us* has not complied with their obligations under an *Agreement* or any of the *Transaction Documents* or *Securities*; **or**
  - 21.3.3 something relevant to *our* rights or obligations of *us* under an *Agreement* or any of the *Transaction Documents* or *Securities*,  
is, in the absence of manifest error, admissible in proceedings and is conclusive evidence of the matters stated.

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### **22. WAIVER AND RIGHTS OF SET OFF**

- 22.1 If you breach this *Agreement* you are not entitled to claim any waiver by us of your default unless we give you a certificate in writing signed by an *Authorised Officer* expressly waiving your breach.
- 22.2 We are entitled to set off any amounts whatsoever you owe us under this *Agreement* or otherwise against any sum we owe you.
- 22.3 Our right to set off continues despite the occurrence of an *Event of Default* is given in respect of any of your assets or undertaking.
- 22.4 All warranties and indemnities given by you to us are absolute and unconditional in all circumstances and are not affected by any delay, concession or indulgence on our part to exercise any of our rights.

### **23. NOTICES**

- 23.1 A notice or demand or other communication contemplated by this *Agreement* may be given by you or us by prepaid post, facsimile or email transmission to the last known address, facsimile number of the other or email address or by written notice left at that address.
- 23.2 Such a notice demand or other communication is deemed to be properly given and received:
- 23.2.1 if by letter on the second *Business Day* after the day of posting;
- 23.2.1 if by facsimile or electronic mail on production of a transmission confirmation from the transmitting facsimile indicating that the facsimile or electronic mail was sent in its entirety to the facsimile number or electronic mail address of the recipient; or
- 23.2.2 if delivered by hand, upon delivery;
- but if a receipt is not on a *Business Day* or is after 4.00 pm at the place of receipt, it is deemed to be given and received on the next *Business Day*.
- 23.3 Where you consists of more than one party service by us on one of you is deemed to be service on all of you.
- 23.4 Any notice or demand to you from us is deemed to be properly signed if it is in writing and signed by an *Authorised Officer*.

### **24. NO FINANCIAL ADVICE**

You acknowledge and agree that we have not provided or held itself out as providing any financial advice to you whatsoever and that the responsibility of determining the type and amount of any facilities you want is entirely your.

### **25. ASSIGNMENT**

- 25.1 You must not assign your rights or obligations under this *Agreement* without first obtaining our prior written consent.
- 25.2 We can assign our rights and obligations under this *Agreement* at any time without restriction.

### **26. CONSENT**

Unless any provision of this *Agreement* specifies otherwise, any consent required to be given by us under this *Agreement* may be given or refused absolutely or subject to any conditions that we may determine in our absolute discretion.



## **STANDARD TERMS AND CONDITIONS**

### **27. TERMS OF THIS AGREEMENT TO PREVAIL**

We may from time to time give *you* written notice of the terms on which the facility provided under this *Agreement* is to operate. If there is a conflict between such a notice including *our* original facility letter and this *Agreement* the terms and conditions of this *Agreement* prevail unless *we* determine otherwise.

### **28. TIME FOR PAYMENT**

Time is of the essence in relation to any payment from *you* to *us* under this *Agreement*.

### **29. SECURITIES**

29.1 *You* agree that for the purposes of securing *your* obligations under this *Agreement* *you* will ensure that the following is granted to *us*:

29.1.1 the *Securities*; and

29.1.2 the *Guarantees* of the *Guarantors* if any specified in Part 13 of the *Details*.

29.2 *You* acknowledge that *your* obligations under this *Agreement* are secured by the *Collateral Securities*.

29.3 *We* are not obliged to purchase any *Debt* or provide any financial accommodation to *you* until *we* are in receipt of duly executed and registrable *Securities*.

### **30. THE COLLATERAL AGREEMENTS**

This *Agreement* is collateral to the *Collateral Securities* and *Transaction Documents*.

### **31. GOODS AND SERVICES TAX**

All amounts, rates and other payments payable by *you* under this *Agreement* are exclusive of any goods and services tax, broad based consumption tax, value added tax or similar tax ("GST"). If GST is imposed on any supply made by *us* under or in connection with this *Agreement* (a "taxable supply") then *you* must pay to *us* an additional amount equal to the GST paid by *us*.

### **32. KEY WORDS AND EXPRESSIONS**

In this *Agreement* unless the context requires otherwise:

- *Administration Fee* means the fee set out in Part 15 of the *Details*;
- *Application Fee* means the fee set out in Part 5 of the *Details*;
- *Advance* means the amount calculated in accordance with the formula set out in Part 27 of the *Details*;
- *Advance Rate* means in respect of each *Debt* purchased by *us*, the rate used to calculate the *Advance* for that *Debt* in accordance with Part 27 of the *Details*;
- *Agreement* means the agreement entered into between *you* and *us* incorporating these Terms and Conditions by reference, the *Letter of Offer* and the Schedules and *Details* attached to any of them;
- *Assigned Debts* means those of *your Debts* offered for sale to *us* and in respect of which *we* have accepted the offer;

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- *Associate* includes an associate in accordance with Section 12 and Section 15 of the Corporations Act and includes any related entity within the meaning of Section 9 of the Corporations Act;
- *Audit Fee* means the fee specified in Part 21 of the *Details*;
- *Authorised Officer* means any one of *our* directors, *our* company secretary, any person employed by *us* whose title includes the word "manager", or any other person authorised by *us* to sign documents or give notices or communications or certificates including but not limited to our solicitors, accountants and duly appointed agents and their employees;
- *Batch Fee* means the fee set out in Part 16 of the *Details*;
- *Business* means the business carried on by *you* from time to time during the term of this *Agreement* as specified in your application form; ##
- *Business Day* means any day other than a Saturday or Sunday that banks in the capital city of the *Relevant State* are open for normal business;
- *Cash Reserve/Reserve Release* means the amount available for payment to *you* from the *Reserve Account*;
- *Certificate* means a certificate in the terms described in Clause 21 given by an *our Authorised Officer*;
- *Chargeback* means the amount referred to in Clause 7.2 of the *Agreement* you must pay *us* in respect of any *Assigned Debt*;
- *Collateral Securities* means and includes the *Guarantees* and *Securities*;
- *Conditions Precedent* means the conditions precedent to the facility being granted to *you* as set out in the *Letter of Offer*;
- *Current Drawings* means at any time, the total amount which *you* have drawn down from the *Drawdown Account* in respect of *Eligible Assigned Debts*;
- *Debtors* means *your* Debtors from time to time and any person liable to *you* in respect of *Debts* and every one of them;
- *Debts* means *your* book debts from time to time
- *Debtor*;
- *Details* means the *Details* part of the *Agreement*;
- *Discounting charge* means the fee set out in Part 4 of the *Details*;
- *Drawdown Account* means the account maintained on *our* books to show amounts available for drawdown in respect of *Eligible Assigned Debts*;
- *Drawdown Fee* means the fee set out in Part 17 of the *Details*;
- *Early Retention Release Fee* means the fee set out in clause 2.7 of these *Terms and Conditions*;
- *Electronic Funds Transfer Fee* means the fee set out in Part 8 of the *Details*;
- *Eligible Assigned Debts* means all *Assigned Debts* which remain unpaid excluding the *Assigned Debts* in any of the categories in Part 28 of the *Details*;
- *Event of Default* means any event described as such in these *Terms and Conditions* or any of the *Transaction Documents*;
- *Facility Limit* means the amount set out in Part 22 of the *Details*;
- *Group* means *you* and all companies that are *Related Companies* to *you*;
- *GST Act* means the A New Tax System (Goods and Services Tax) Act 1999 and the related imposition Acts of the Commonwealth;
- *Guarantees* means the guarantees (if any) specified in Part 13 of the *Details* and any other guarantee from time to time of *your* obligations under this *Agreement*;



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- *Full Face Value* in respect of any *Debt* means the gross amount charged to the *Debtor* less any allowances made or allowable or which may on the terms of that invoice become allowable to the *Debtor* in respect of the *Debt*;
- *Ineligible Assigned Debts* means the *Debts* described as excluded from eligibility in Part 28 of the *Details*;
- *Invoice* means each invoice created or deemed to be created by *you* evidencing a *Debt* and all other evidence whatever of the existence of a *Debt* and containing all information the statutory provisions of the *GST Act* require for the giving of a valid tax invoice;
- *Letter of Offer* means the Letter of Offer addressed to *you* from *us* which offer is accepted by *you* and each *Security Provider* signing and returning to *us* the Letter of Offer which sets out the Facilities that *we* have offered to make available;
- *Minimum Fee* means the fee set out in Part 19 of the *Details*;
- *Misbanking Fee* means the fee set out in Part 14 of the *Details*;
- *Net Invoice Value* means the dollar value of the *Invoice* as presented to *us* as part of an *Offer* which has been accepted by *us* and assigned to *us*;
- *New Debtor Application Fee* means the fee set out in clause 2.6 of the *Terms and Conditions*;
- *Notification Notice* means a notice given to *you* by *us* that *you* must effect a notice in the form annexed as Schedule A, pursuant to Clauses 3.1 and 3.2 of the *Terms and Conditions* and 10.3 of the *Agreement*;
- *Offer* means the *Debts* and or *Invoices* *you* wish to sell to *us* as presented on the *Schedule of Debts* whether these are in a written form or sent to *us* via *our* web interface or any other electronic means such as facsimile or electronic mail under the terms of this *Agreement*;
- *Related Company* means a related body corporate within the meaning of the *Corporations Act*;
- *Relevant State* means the state or territory in which *our* office is situated as specified in Part 10 of the *Details*;
- *Recourse Date* means the date set out in Part 12 of the *Details*;
- *Recourse Fee* means the fee set out in Part 23 of the *Details*;
- *Reserve Account* means the account so styled in *your* name in *our* records to which *Reserve Amounts* are credited;
- *Reserve Amount* means the amount calculated and set out in Part 10 of the *Details*;
- *Schedule* means the Schedule of Debts that *you* must provide to *us* in accordance with Clause 3 of the *Agreement*;
- *Security Provider* means any person a party to a *Transaction Document* who at any time grants a *Security* to *us*.
- *Security Release Fee* means the amount/s set out in Part 26 of the *Details*;
- *Securities* means the securities specified in Part 13 of the *Details* and any other security provided to *us* from time to time for the performance by *you* of *your* obligations under this *Agreement*;
- *Service Fee* means the fee calculated in accordance with Part 6 of the *Details*
- *Settlement Fee* means the fee calculated in accordance with Part 7 of the *Details*
- *Short Notice Fee* means the short notice fee payable in accordance with clause 14.2 of these *Terms and Conditions*;
- *Termination Fee* means the amounts set out in Part 9 of the *Details*;
- *Terms and Conditions* means these our standard terms and conditions applicable to general business factoring as at the date of this *Agreement*;



## STANDARD TERMS AND CONDITIONS

- *Total Eligible Assigned Debt Limit* means the amount specified in Part 29 of the *Details*;
- *Transaction Documents* means this *Agreement*, any other agreement between *us*, the *Letter of Offer* and the *Collateral Securities*;
- *Unused Facility Fee* means the fee set out in Part 20 of the *Details*;
- *Us* means the person described as *us* as set out in Part 1 of the *Details* and an *Associate of us*. *Us*, *our* and similar parts of speech have corresponding meanings;
- *You* means *the* person referred to as such on the first page of this *Agreement* and in Part 1 of the *Details*. *You*, *your* and similar parts of speech have corresponding meanings.

### 33. INTERPRETATION

In this *Agreement* unless there is something inconsistent with the context or circumstances:

- 33.1 Words importing any one gender include the other genders;
- 33.2 Words importing persons are deemed to include all bodies and associations, whether corporate or unincorporated, and vice versa;
- 33.3 Words (including defined terms) importing the singular include the plural and vice versa;
- 33.4 The headings in this *Agreement* are for convenience and reference only and will not be construed as affecting the meaning or interpretation of this *Agreement*;
- 33.5 A reference to a statute or regulation, or to a provision of a statute or regulation, includes a reference to that statute, regulation or provision as amended, consolidated, replaced or re-enacted from time to time;
- 33.6 The obligations imposed and the benefits conferred under this *Agreement* on *you* and *us* will be binding and continue for the benefit of the respective parties and each of their respective successors in title, legal personal representatives and permitted assigns;
- 33.7 A reference to any party to this *Agreement* includes that party's successors in title, legal personal representatives and permitted assigns;
- 33.8 A reference to dollars and "\$" will be taken as referring to amounts in Australian currency;
- 33.9 Where a party comprises two or more persons, all covenants and agreements by that party binds such two or more persons jointly and severally unless expressed to be only several;
- 33.10 The interpretation of any covenant clause or word mentioned in this *Agreement* shall not be restricted by reference to any other covenant clause or word or by the position of such covenants clauses or words and in the event of any ambiguity all of the covenants clauses and words shall be construed in such a way as to widen and not restrict *our* powers, rights and remedies under this *Agreement*;
- 33.11 Where the day on or by which anything is to be done under this *Agreement* is not a *Business Day* such act, matter or thing may be done on the next succeeding day which is a *Business Day*;
- 33.12 Reference in this *Agreement* to a month shall be a reference to a calendar month;
- 33.13 if a word or expression is defined, cognate words and expressions have corresponding definitions;
- 33.14 unless otherwise stated, a reference to a clause, recital or schedule is to a clause, recital or schedule in the document in which the reference is made;
- 33.15 Words such as "including" are not to be construed as being words of limitation.

**STANDARD TERMS AND CONDITIONS**

**Schedule A**

#

INVOICE ASSIGNED

THE DEBT SUBJECT TO THIS INVOICE HAS BEEN ASSIGNED TO  
BENDIGO BANK LIMITED  
ACN 068 049 178

FOUNTAIN COURT BENDIGO 3550

DIRECT PAYMENT TO BENDIGO BANK LIMITED  
SHALL BE THE ONLY DISCHARGE OF THIS DEBT

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Gary S. Raymond, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended March 31, 2008 (this "report"), of SPAR Group, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2008

/s/ Gary S. Raymond  
Gary S. Raymond  
President and Chief Executive Officer



**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James R. Segreto, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended March 31, 2008 (this "report"), of SPAR Group, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2008

/s/ James R. Segreto  
James R. Segreto, Chief Financial Officer,  
Treasurer and Secretary

**Certification of the Chief Executive Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q for the three month period ended March 31, 2008 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Gary S. Raymond

Gary S. Raymond  
President and Chief Executive Officer

May 15, 2008

**A signed original of this written statement required by Section 906 has been provided to SPAR Group, Inc. and will be retained by SPAR Group, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.**

**Certification of the Chief Financial Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the quarterly report on Form 10-Q for the three month period ended March 31, 2008 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ James R. Segreto  
James R. Segreto  
Chief Financial Officer, Treasurer and  
Secretary

May 15, 2008

**A signed original of this written statement required by Section 906 has been provided to SPAR Group, Inc. and will be retained by SPAR Group, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.**