

SPAR GROUP INC
Form DEF 14A
April 26, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or 240.14a-12

SPAR Group, Inc.

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement,
if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SPAR GROUP, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 24, 2007

To The Stockholders of SPAR Group, Inc.

The 2007 Annual Meeting of Stockholders (the 2007 Annual Meeting) of **SPAR Group, Inc.** (SGRP or the Corporation , and together with its subsidiaries, the SPAR Group or the Company), will be held at 10:00 a.m., Eastern Standard Time, on May 24, 2007, at the Tarrytown House Estate & Conference Center, Biddle House, Cronise Room (3rd Floor), which is located at 49 East Sunnyside Lane, Tarrytown, New York 10591, for the following purposes:

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1. To elect seven Directors of SGRP to serve during the ensuing year and until their successors are elected and qualified.
2. To ratify the appointment of Rehmann Robson as the principal independent auditors for the Corporation and its subsidiaries for the year ending December 31, 2007.
3. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Only the stockholders of record at the close of business on April 2, 2007, will be entitled to notice of and to vote at the 2007 Annual Meeting or any adjournment or postponement thereof.

A copy of SGRP's Annual Report to Stockholders for the year ended December 31, 2006 (the 2006 Annual Report), is being mailed with this Notice but is not to be considered part of the proxy soliciting material.

By Order of the Board of Directors

Charles Cimitile
Secretary, Treasurer and Chief
Financial Officer

April 27, 2007
Tarrytown, New York

YOU ARE URGED TO VOTE UPON THE MATTERS PRESENTED AND TO SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY IN THE ENVELOPE PROVIDED. IT IS IMPORTANT FOR YOU TO BE REPRESENTED AT THE MEETING. PROXIES ARE REVOCABLE AT ANY TIME AND THE EXECUTION OF YOUR PROXY WILL NOT AFFECT YOUR RIGHT TO VOTE IN PERSON IF YOU ARE PRESENT AT THE MEETING. REQUESTS FOR ADDITIONAL COPIES OF PROXY MATERIALS SHOULD BE ADDRESSED TO MR. CHARLES CIMITILE, SECRETARY, TREASURER AND CHIEF FINANCIAL OFFICER, AT THE OFFICES OF THE CORPORATION: SPAR GROUP, INC., 555 WHITE PLAINS ROAD, SUITE 250, TARRYTOWN, NEW YORK 10591.

SPAR GROUP, INC

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

PROXY STATEMENT
2007 Annual Meeting of Stockholders
To Be Held May 24, 2007

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of **SPAR Group, Inc.**, a Delaware corporation (SGRP or the Corporation), and together with its subsidiaries, the SPAR Group or the Company), for use at the 2007 Annual Meeting of Stockholders (the 2007 Annual Meeting) to be held on Thursday, May 24, 2007, at 10:00 a.m., Eastern Standard Time, at the Tarrytown House Estate & Conference Center, Biddle House, Cronise Room (3rd Floor), which is located at 49 East Sunnyside Lane, Tarrytown, New York 10591, and any adjournment or postponement thereof. This Proxy Statement and the form of proxy to be utilized at the 2007 Annual Meeting were mailed or delivered to the stockholders of SGRP on or about April 27, 2007.

MATTERS TO BE CONSIDERED

The 2007 Annual Meeting has been called to (1) elect seven Directors of SGRP to serve during the ensuing year and until their successors are elected and qualified, (2) ratify the appointment by SGRP's Audit Committee of Rehmann Robson as the principal independent auditors of SGRP and its direct and indirect subsidiaries for the year ending December 31, 2007, and (3) transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

RECORD DATE AND VOTING

The Board has fixed the close of business on April 2, 2007, as the record date (the Record Date) for the determination of stockholders entitled to vote at the 2007 Annual Meeting and any adjournment or postponement thereof. As of the Record Date, there were 18,934,182 shares outstanding of SGRP's common stock, \$.01 par value (the Common Stock).

QUORUM AND VOTING REQUIREMENTS

The holders of record of a majority of the outstanding shares of Common Stock entitled to vote at the 2007 Annual Meeting will constitute a quorum for the transaction of business at the 2007 Annual Meeting. As to all matters, each stockholder is entitled to one vote for each share of Common Stock held. Under Delaware law, shares not voted by brokers (called broker non-votes) are considered not entitled to vote. However, abstentions and broker non-votes are counted as present for purposes of determining the presence or absence of a quorum for the transaction of business.

A plurality of votes cast (which means the most votes, even though less than a majority) at the 2007 Annual Meeting in person or by proxy is required for the election of each nominee to serve as a director. In a field of more than seven nominees, the seven nominees receiving the most votes would be elected as directors. The affirmative vote of a majority of votes cast at the 2007 Annual Meeting in person or by proxy is required to ratify the selection of Rehmann Robson as SGRP's principal independent auditors for the year ending December 31, 2007. Votes withheld, in the case of the election of directors, and abstentions and any broker non-votes with respect to the ratification of independent auditors, are not considered votes cast with respect to that matter and, consequently, will have no effect on the vote on that matter, but, as noted above, are counted in determining a quorum. Brokers who are members of the New York Stock Exchange have discretion to vote the shares of their clients that the broker holds of record (in street name) for its customers with respect to non-contested elections of directors and certain other matters. Stockholders are not entitled to cumulate votes. Votes against a candidate and votes withheld have no legal effect.

All proxies that are properly completed, signed and returned prior to the 2007 Annual Meeting will be voted in accordance with the specifications made thereon or, in the absence of specification: (a) for the election of all nominees named herein to serve as directors, and (b) in favor of the proposal to ratify the appointment of Rehmann Robson as the Company's principal independent auditors. Management does not intend to bring before the 2007 Annual Meeting any matters other than those specifically described above and knows of no other matters to come before the 2007 Annual Meeting. If any other matters or motions come before the 2007 Annual Meeting, it is the intention of the persons named in the accompanying form of Proxy to vote Proxies in accordance with their judgment on those matters or motions, including any matter dealing with the conduct of the 2007 Annual Meeting. Proxies may be revoked at any time prior to their exercise (1) by written notification to the Secretary of SGRP at SGRP's principal executive offices located at 555 White Plains Road, Suite 250, Tarrytown, New York 10591, (2) by delivering a duly executed proxy bearing a later date, or (3) by the stockholder attending the 2007 Annual Meeting and voting his or her shares in person.

PROPOSAL 1 ELECTION OF DIRECTORS

Seven Directors are to be elected at the 2007 Annual Meeting to serve on SGRP's Board of Directors (the Board) until the next annual meeting of Stockholders and until their respective successors have been elected and qualified.

The nominees for election are Mr. Robert G. Brown, Mr. William H. Bartels, Mr. Robert O. Aders, Mr. Jack W. Partridge, Mr. Jerry B. Gilbert, Mr. Lorrence T. Kellar, and Mr. C. Manly Molpus, all of whom are currently Directors of SGRP. The age, principal occupation and certain other information respecting each nominee are stated on pages 5 and 6 below. The nominees were approved and recommended by the Governance Committee (See - pages 14 and 15 below) and nominated by the Board at a meeting on March 15, 2007.

In the absence of instructions to the contrary, proxies covering shares of Common Stock will be voted in favor of the election of each of those nominees.

Each nominee has consented to being named in this Proxy Statement as a nominee for Director and has agreed to serve as a Director of SGRP if elected. In the event that any nominee for election as Director should become unavailable to serve, it is intended that votes will be cast, pursuant to the enclosed proxy, for such substitute nominee as may be nominated by SGRP. Management has no present knowledge that any of the persons named will be unavailable to serve. The Board has fixed the number of Directors at seven for the term commencing with the 2007 Annual Meeting. Each Director is elected to hold office until the next annual meeting of stockholders and until his respective successor is elected and qualified.

No arrangement or understanding exists between any nominee and any other person or persons pursuant to which any nominee was or is to be selected as a Director or nominee. None of the nominees has any family relationship to any other nominee or to any executive officer of the Company. However, Messrs. Brown and Bartels are executive officers and significant stockholders of SGRP.

**THE BOARD OF DIRECTORS AND THE GOVERNANCE COMMITTEE EACH UNANIMOUSLY
RECOMMENDS A VOTE FOR EACH OF THE NOMINEES IDENTIFIED ABOVE.**

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PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF REHMANN ROBSON AS THE COMPANY'S PRINCIPAL INDEPENDENT ACCOUNTANTS

The Audit Committee of the Board has appointed Rehmann Robson (Rehmann) as independent public accountants to audit the financial statements of the Company for its year ending December 31, 2007, subject to the Audit Committee's review of the final terms of Rehmann's engagement and plans for their audit. A resolution will be submitted to stockholders at the 2007 Annual Meeting for the ratification of such appointment. Since May of 2003, all audit and permitted non-audit services to be performed by the Company's principal independent auditor have required approval by SGRP's Audit Committee. Shareholder ratification of the appointment of Rehmann or anyone else for non-audit services is not required and will not be sought.

Rehmann served as the Company's principal independent accountants for its years ended December 31, 2006, 2005 and 2004, respectively.

Audit Fees

During the Company's fiscal year ended December 31, 2006 and 2005, fees for all audit services rendered to the Company (i.e. SGRP and its subsidiaries) by Rehmann were \$164,034 and \$217,711, respectively. Audit services principally include fees for the Company's year end and 401K audits and 10-Q filing reviews. As required by law, the choice of the Company's principal auditor and the audit services to be performed by

it have been approved in advance by the SGRP's Audit Committee.

Audit-Related Fees, Tax Fees, and All Other Fees

During the Company's fiscal year ended December 31, 2006 and 2005, the Company did not engage Rehmann to provide advice regarding financial information systems design or implementation. In 2006 the Company did engage Rehmann to prepare the 2005 tax returns and in 2005 engaged Rehmann to review the 2004 tax returns and was paid \$83,149 and \$13,939, respectively. Rehmann was also engaged to review the preliminary 404 documentation for which Rehmann was paid \$15,339 and \$8,437 in 2006 and 2005, respectively. No other non-audit services were performed by Rehmann in 2006 or 2005.

Since 2003, as required by law, each non-audit service performed by the Company's auditor either (i) was approved in advance on a case-by-case basis by SGRP's Audit Committee, or (ii) fit within a pre-approved basket of audit-related, tax and other non-audit services of limited amount, scope and duration established in advance by SGRP's Audit Committee. In connection with the standards for independence of the Company's independent public accountants promulgated by the Securities and Exchange Commission, the Audit Committee considers (among other things) whether the provision of such services would be compatible with maintaining the independence of Rehmann.

Anticipated Attendance by Rehmann Robson at the 2007 Annual Meeting

Rehmann has indicated to the Company that it intends to have a representative available during the 2007 Annual Meeting who will respond to appropriate questions. This representative will have the opportunity to make a statement during the meeting if he or she so desires.

Required Vote

A resolution will be submitted to stockholders at the 2007 Annual Meeting for the ratification of the Audit Committee's appointment of Rehmann as the Company's principal independent auditors to audit the Company's financial statements for the year ending December 31, 2007. The affirmative vote of a majority of the votes cast at the 2007 Annual Meeting in person or by proxy will be required to adopt this resolution. Proxies solicited by the Board will be voted in favor of ratification unless stockholders specify otherwise. Abstentions and broker non-votes will have no effect on the outcome of the vote on this proposal.

If the resolution selecting Rehmann as the Company's principal independent public accountants is adopted by the stockholders, the Audit Committee and Board nevertheless retain the discretion to select different auditors should they subsequently deem it in the Company's best interests. Any such future selection need not be submitted to a vote of stockholders.

If the stockholders do not ratify the appointment of Rehmann, or if Rehmann should decline to act or otherwise become incapable of acting, or if Rehmann's employment is discontinued, SGRP's Audit Committee will appoint

independent public accountants for the year ending December 31, 2007 (which may nevertheless be Rehmann should the Audit Committee subsequently deem Rehmann's appointment in the Company's best interests).

THE BOARD OF DIRECTORS AND AUDIT COMMITTEE EACH BELIEVE THAT THE APPOINTMENT OF REHMANN ROBSON AS THE COMPANY'S PRINCIPAL INDEPENDENT ACCOUNTANTS FOR YEAR ENDING DECEMBER 31, 2007, IS IN THE BEST INTERESTS OF THE COMPANY AND ITS STOCKHOLDERS, AND EACH UNANIMOUSLY RECOMMEND A VOTE **FOR** APPROVAL THEREOF. PROXIES WILL BE VOTED FOR THIS PROPOSAL UNLESS OTHERWISE SPECIFICALLY INDICATED.

THE BOARD OF DIRECTORS OF THE CORPORATION

The Board of Directors (the Board) is responsible for the management and direction of SGRP and establishing its corporate policies. The current members of the Board are set forth below, and each is a nominee for election at the 2007 Annual Meeting:

Name	Age	Position with SPAR Group, Inc.
Robert G. Brown	64	Chairman, Chief Executive Officer, President and Director
William H. Bartels	63	Vice Chairman and Director
Robert O. Aders (1)	80	Director and Chairman of the Governance Committee
Jack W. Partridge (1)	61	Director and Chairman of the Compensation Committee
Jerry B. Gilbert (1)	73	Director
Lorrence T. Kellar (1)	70	Director and Chairman of the Audit Committee
C. Manly Molpus (1)	65	Director

(1) Member of the Governance, Compensation and Audit Committees

Robert G. Brown serves as the Chairman, Chief Executive Officer, President and a Director of SGRP and has held such positions since July 8, 1999, the effective date of the merger of the SPAR Marketing Companies with PIA Merchandising Services, Inc. (the Merger). Mr. Brown served as the Chairman, President and Chief Executive Officer of the SPAR Marketing Companies (SPAR/Burgoyne Retail Services, Inc. (SBRS) since 1994, SPAR, Inc. (SINC) since 1979, SPAR Marketing, Inc. (SMNEV) since November 1993, and SPAR Marketing Force, Inc. (SMF) since 1996).

William H. Bartels serves as the Vice Chairman and a Director of SGRP and has held such positions since July 8, 1999 (the effective date of the Merger). Mr. Bartels served as the Vice Chairman, Secretary, Treasurer and Senior Vice President of the SPAR Marketing Companies (SBRS since 1994, SINC since 1979, SMNEV since November 1993 and SMF since 1996).

Robert O. Aders serves as a Director of SGRP and has done so since July 8, 1999. He has served as the Chairman of the Governance Committee since May 9, 2003, and also is a member of the Audit Committee and Compensation Committee. Mr. Aders has served as Chairman of The Advisory Board, Inc., an international consulting organization since 1993, and also as President Emeritus of the Food Marketing Institute (FMI) since 1993. Immediately prior to his election to the Presidency of FMI in 1976, Mr. Aders was Acting Secretary of Labor in the Ford Administration. Mr. Aders was the Chief Executive Officer of FMI from 1976 to 1993. He also served in The Kroger Co., in various executive positions from 1957 to 1974 and was Chairman of the Board from 1970 to 1974.

Jack W. Partridge serves as a Director of SGRP and has done so since January 29, 2001. He has served as the Chairman of the Compensation Committee of SGRP since May 9, 2003, and also is a member of the Audit Committee and Governance Committee. Mr. Partridge is President of Jack W. Partridge & Associates. He previously served as Vice Chairman of the Board of The Grand Union Company from 1998 to 2000. Mr. Partridge's service with Grand Union followed a distinguished 23-year career with The Kroger Company, where he served as Group Vice President, Corporate Affairs, and as a member of the Senior Executive Committee, as well as various other executive positions. Mr. Partridge has been a leader in industry and community affairs for over three decades. He has served as Chairman of the Food Marketing Institute's Government Relations Committee, the Food and Agriculture Policy Task Force, and as Chairman of the Board of The Ohio Retail Association. He currently serves as a member of the board of Checkpoint Systems, Inc.

Jerry B. Gilbert serves as a Director of SGRP and has done so since June 4, 2001. Mr. Gilbert is a member of the Audit Committee, Compensation Committee and Governance Committee. Mr. Gilbert served as Vice President of Customer Relations for Johnson & Johnson's Consumer and Personal Care Group of Companies from 1989 to 1997. Mr. Gilbert joined Johnson & Johnson in 1958 and from 1958 to 1989 held various executive positions. Mr. Gilbert also served on the Advisory Boards of the Food Marketing Institute, the National Association of Chain Drug Stores and the General Merchandise Distributors Council (GMDC) where he was elected the first President of the GMDC Educational Foundation. He was honored with lifetime achievement awards from GMDC, Chain Drug Review, Drug Store News and the Food Marketing Institute. He is the recipient of the prestigious National Association of Chain Drug Stores (NACDS) Begley Award, as well as the National Wholesale Druggists Association (NWDA) Tim Barry Award. In June 1997, Mr. Gilbert received an Honorary Doctor of Letters Degree from Long Island University.

Lorrence T. Kellar serves as a Director and the Chairman of the Audit Committee of SGRP and has done so since April 2, 2003. Mr. Kellar also is a member of the Compensation Committee and Governance Committee. Mr. Kellar had a 31-year career with The Kroger Co., where he served in various financial capacities, including Group Vice President for real estate and finance, and earlier, as Corporate Treasurer. He was responsible for all of Kroger's real estate activities, as well as facility engineering, which coordinated all store openings and remodels. Mr. Kellar subsequently served as Vice President, real estate, for Kmart. He currently is Vice President of Continental Properties Company, Inc. Mr. Kellar also serves on the boards of Frisch's Restaurants and Multi-Color Corporation and is a trustee of the Acadia Realty Trust. He also is a major patron of the arts and has served as Chairman of the Board of the Cincinnati Ballet.

C. Manly Molpus serves as a Director of SGRP and has done so since August 9, 2006. Mr. Molpus is a member of the Audit Committee, Compensation Committee and Governance Committee. Mr. Molpus recently retired as president, chief executive officer and a director of the Grocery Manufacturers Association, based in Washington, D.C. Mr. Molpus serves on the board of directors of the Congressional Hunger Center and was formally a trustee of the U.S. Capitol Historical Society. In 2002, he was appointed to the U.S. Department of State Advisory Committee on International Economic Policy. He formerly served on the USDA/USTR Agriculture Policy Advisory Committee for Trade. Previously, Mr. Molpus served as president and chief executive officer of the American Meat Institute and was vice president of corporate affairs for The Kroger Co., the nation's largest supermarket company.

EXECUTIVE OFFICERS OF THE CORPORATION

Set forth in the table below are the names, ages and current offices held by all executive officers of SGRP. For biographical information regarding Robert G. Brown and William H. Bartels, see *The Board of Directors of the Corporation*, above.

Name	Age	Position with SPAR Group, Inc.
Robert G. Brown	64	Chairman, Chief Executive Officer, President and Director
William H. Bartels	63	Vice Chairman and Director
Charles Cimitile	52	Chief Financial Officer, Secretary and Treasurer
Kori G. Belzer	41	Chief Operating Officer
Patricia Franco	46	Chief Information Officer and President of the SPAR International Merchandising Services Division
James R. Segreto	58	Vice President and Controller

Charles Cimitile serves as the Chief Financial Officer, Secretary and Treasurer of SGRP and has done so since November 24, 1999. Mr. Cimitile served as Chief Financial Officer for GT Bicycles from 1996 to 1999 and Cruise Phone, Inc. from 1995 through 1996. Prior to 1995, he served as the Vice President Finance, Secretary and Treasurer of American Recreation Company Holdings, Inc. and its predecessor company.

Kori G. Belzer serves as the Chief Operating Officer of SGRP and has done so since January 1, 2004. Ms. Belzer also serves as Chief Operating Officer of SPAR Management Services, Inc. (SMSI), and SPAR Marketing Services, Inc. (SMS), each an affiliate of SGRP (see Transactions with Related Persons, Promoters and Certain Control Persons, below), and has done so since 2000. The Audit Committee determined that Ms. Belzer also served during 2003 as the de facto chief operating officer of SGRP through her position as Chief Operating Officer of SMSI and SMS. From 1997 to 2000, Ms.

Belzer served as Vice President Operations of SMS and as Regional Director of SMS from 1995 to 1997. Prior to 1995, she served as Client Services Manager for SPAR/Service, Inc.

Patricia Franco serves as the Chief Information Officer of SGRP and President of the SPAR International Merchandising Services Division and has done so since January 1, 2004. Ms. Franco also serves as Senior Vice President of SPAR Infotech, Inc. (SIT), an affiliate of SGRP (see Transactions with Related Persons, Promoters and Certain Control Persons, below), and has done so since January 1, 2003. The Audit Committee determined that Ms. Franco also served during 2003 as the de facto chief information officer of SGRP as well as, the de facto President of the SPAR International Merchandising Services Division, through her position as Senior Vice President of SIT. Prior to 2003, Ms. Franco served in various management capacities with SIT, SMS and their affiliates.

James R. Segreto serves as Vice President and Controller of SGRP and has done so since July 8, 1999, the effective date of the Merger. From 1997 through the Merger, he served in the same capacity for SMS. Mr. Segreto served as Chief Financial Officer for Supermarket Communications Systems, Inc. from 1992 to 1997 and LM Capital, LLP from 1990 to 1992. Prior to 1992, he served as Controller of Dorman Roth Foods, Inc.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of SGRP's common stock as of April 2, 2007 by: (i) each person (or group of affiliated persons) who is known by SGRP to own beneficially more than 5% of SGRP's common stock; (ii) each of SGRP's directors; (iii) each of the Named Executive Officers in the Summary Compensation Table; and (iv) SGRP's directors and such Named Executive Officers as a group. Except as indicated in the footnotes to this table, the persons named in the table, based on information provided by such persons, have sole voting and sole investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

Title of Class	Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	See Note #	Percentage
Common Shares	Robert G. Brown (1)	8,710,329	(2)	45.8
Common Shares	William H. Bartels (1)	5,345,910	(3)	28.1
Common Shares	Robert O. Aders (1)	174,929	(4)	*
Common Shares	Jack W. Partridge (1)	119,019	(5)	*
Common Shares	Jerry B. Gilbert (1)	112,360	(6)	*
Common Shares	Lorrence T. Kellar (1)	112,387	(7)	*
Common Shares	C. Manly Molpus (1)	-	-	
Common Shares	Charles Cimitile (1)	152,500	(8)	*
Common Shares	Kori G. Belzer (1)	160,757	(9)	*
Common Shares	Patricia Franco (1)	248,021	(10)	*
Common Shares	Richard J. Riordan 300 South Grand Avenue, Suite 2900 Los Angeles, California 90071	1,209,922	(11)	6.4
Common Shares	Heartland Advisors, Inc. 790 North Milwaukee Street Milwaukee, Wisconsin 53202	1,228,000	(12)	6.5
Common Shares	Executive Officers and Directors	15,136,212		79.9

* Less than 1%

- (1) The address of such owners is c/o SPAR Group, Inc. 555 White Plains Road, Suite 250, Tarrytown, New York 10591.
- (2) Mr. Brown's beneficial ownership includes (a) 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees, (b) 95,747 shares issuable upon exercise of options (James R. Brown, Sr., and William H. Bartels each disclaim beneficial ownership of those trust shares), (c) 12,000 shares held in trust for James R. Brown, and (d) 1,300 shares held by Jean Brown.
- (3) Mr. Bartel's beneficial ownership excludes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees, beneficial ownership of these trust shares are disclaimed by Mr. Bartels. His beneficial ownership includes 58,999 shares issuable upon exercise of options.
- (4) Mr. Ader's beneficial ownership includes 103,275 shares issuable upon exercise of options.

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- (5) Mr. Partridge's beneficial ownership includes 108,051 shares issuable upon exercise of options.
- (6) Mr. Gilbert's beneficial ownership includes 99,275 shares issuable upon exercise of options.
- (7) Mr. Kellar's beneficial ownership includes 106,239 shares issuable upon exercise of options.
- (8) Mr. Cimitile's beneficial ownership includes 152,500 shares issuable upon exercise of options.
- (9) Ms. Belzer's beneficial ownership includes 157,820 shares issuable upon exercise of options.
- (10) Ms. Franco's beneficial ownership includes 195,233 shares issuable upon exercise of options.
- (11) Share ownership was confirmed with SGRP's stock transfer agent.
- (12) All information regarding share ownership is taken from and furnished in reliance upon the Schedule 13G (Amendment No. 9), filed by Heartland Advisors, Inc. with the Securities and Exchange Commission on February 14, 2007.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act (Section 16(a)) requires SGRP s directors and certain of its officers and persons who own more than 10% of SGRP s Common Stock (collectively, Insiders), to file reports of ownership and changes in their ownership of SGRP s Common Stock with the Commission. Insiders are required by Commission regulations to furnish SGRP with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it for the year ended December 31, 2006, or written representations from certain reporting persons for such year, SGRP believes that its Insiders complied with all applicable Section 16(a) filing requirements for such year, with the exception that Robert G. Brown timely reported 2 transactions on Form 5 (Annual Statement of Change in Beneficial Ownership of Securities) that should have been reported earlier on Form 4 (Statements of Changes in Beneficial Ownership) and untimely filed 2 reports on Form 4 respecting 6 other transactions, William H. Bartels timely reported 2 transactions on Form 5 that should have been reported earlier on Form 4, Jerry B. Gilbert untimely filed 1 report on Form 4 respecting 22 other transactions. C. Manly Molpus untimely filed his Form 3 (Initial Statement of Beneficial Ownership of Securities) respecting his appointment as a director and first transaction, Charles Cimitile timely reported 7 transactions on Form 5 that should have been reported earlier on Form 4, Kori Belzer timely reported 10 transactions on Form 5 that should have been reported earlier on Form 4, Patricia Franco timely reported 12 transactions on Form 5 that should have been reported earlier on Form 4 and James R. Segreto timely reported 5 transactions on Form 5 that should have been reported earlier on Form 4. All such transactions were related to the issuance or cancellation of certain options rather than actual purchases or sales of the Corporation s stock. All such Section 16(a) filing requirements have since been completed by each of the aforementioned individuals.

Transactions with Related Persons, Promoters and Certain Control Persons

The Corporation s policy respecting approval of transactions with related persons, promoters and control persons is contained in the SPAR Group Code of Ethical Conduct for its Directors, Senior Executives and Employees Dated (as of) May 1, 2004 (the Ethics Code). Article V of the Ethics Code generally prohibits each Covered Person (including SGRP s officers and directors) from engaging in any business activity that conflicts with his or her duties to the Company, and directs each Covered Person to avoid any activity or interest that is inconsistent with the best interests of the SPAR Group, in each case except for any Approved Activity (as such terms are defined in the Ethics Code). Examples of violations include (among other things) having any ownership interest in, acting as a director or officer of or otherwise personally benefiting from business with any customer or vendor of the Company other than pursuant to any Approved Activity. Approved Activities include (among other things) anything disclosed to and approved by the Board, the Governance Committee or the Audit Committee, as the case may be, as well as the ownership, board and executive positions held by certain executive officers in SMS, SMSI and SIT (as defined and described below). The Company s senior management is generally responsible for monitoring compliance with the Ethics Code and establishing and maintaining compliance systems, including conflicting relationships and transactions, subject to the review and oversight of the Governance Committee as provided in clause IV.11 of the Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc. Dated (as of) May 18, 2004. However, the Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc. Dated (as of) May 18, 2004, provides in clause I.2(1) that one of the Audit Committee s primary (and specific) duties and responsibilities is to review and approve the overall fairness of all material related-party transactions. The Audit Committee periodically reviews and has approved all of the related party relationships and transactions described below.

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

SMS and SMSI provided approximately 99% of the Company s domestic merchandising specialists in the field (through its independent contractor field force) and approximately 78% of the Company s domestic field management at a total cost of approximately \$18.9 million, \$20.0 million, and \$24.4 million for 2006, 2005, and 2004, 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 5,000 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 approximately 50 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, except that for 2004 SMSI agreed to concessions that reduced the premium paid by approximately \$640,000 for 2004. Total net premiums (4% of SMS and SMSI costs less 2004 concessions) paid to SMS and SMSI for services rendered were approximately \$730,000, \$770,000, and \$320,000 for 2006, 2005, and 2004, 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, Messrs. Brown and Bartels benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services to the Company at a total cost of approximately \$678,000, \$771,000, and \$1.2 million for 2006, 2005, and 2004, respectively. SIT provided approximately 23,000, 25,000, and 34,000 hours of Internet computer programming services to the Company for 2006, 2005, and 2004, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004, 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 \$28.87, \$30.34, and \$34.71 for 2006, 2005, and 2004, 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 2005. However, since SIT is a Subchapter S corporation, Messrs. Brown and Bartels benefit from any income of such company allocated to them.

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

In March 2005, SMF entered into an additional 36 month lease with SMS for handheld computers. The lease factor is 2.83% and the monthly payment is \$2,341. These handheld computers had an original purchase price of \$82,727.

The Company owed the following amounts to SMS, SMSI and SIT for the above services as at December 31, 2006 and 2005, respectively (in thousands):

	December 31,	
	2006	2005
SPAR Marketing Services, Inc.	\$ 1,238	\$ 847
SPAR Management Services, Inc.	346	238
SPAR Infotech, Inc.	168	105
	\$ 1,752	\$ 1,190

In July 1999, SMF, SMS and SIT entered into a Software Ownership Agreement with respect to Internet job scheduling software jointly developed by such parties. In addition, SPAR Trademarks, Inc. (STM), SMS and SIT entered into trademark licensing agreements whereby STM has granted non-exclusive royalty-free licenses to SIT, SMS and SMSI for their continued use of the name SPAR and certain other trademarks and related rights transferred to STM, a wholly owned subsidiary of SGRP.

Messrs. Brown and Bartels also collectively own, through SMSI, a minority (less than 5%) equity interest in Affinity Insurance Ltd., which provides certain insurance to the Company.

In the event of any material dispute in the business relationships between the Company and SMS, SMSI, or SIT, it is possible that Messrs. Brown or Bartels may have one or more conflicts of interest with respect to these relationships and such dispute could have a material adverse effect on the Company.

CORPORATE GOVERNANCE

Board Meetings

The Board meets regularly to receive and discuss operating and financial reports presented by management of SGRP and its advisors. During the year ended December 31, 2006, the Board held four meetings in person and took various actions by written consent. Each incumbent Director attended all of the meetings of the Board of Directors, except for C. Manly Molpus who was appointed to the Board of Directors on August 9, 2006. Since his appointment, Mr. Molpus attended all meetings of the Board of Directors. In addition, no committee member missed more than 25% of the meetings of any committee.

Board Size

The size of the Board is currently set at seven directors. The Board acted after the 2006 annual meeting of stockholders to increase its size to seven members, and on the nomination of the Governance Committee, appointed Mr. C. Manly Molpus to the newly created vacancy to serve as of that date until the 2007 annual meeting of stockholders.

Committees

From time to time the Board may establish permanent standing committees and temporary special committees to assist the Board in carrying out its responsibilities. Currently, SGRP has three committees; the Audit Committee, the Compensation Committee and the Governance Committee. An audit committee is required by the Nasdaq Stock Market, Inc., or National Association of Securities Dealers (collectively, Nasdaq), the Securities and Exchange Commission (the SEC), and applicable law. While SGRP is not similarly required to have either a compensation committee or governance committee, certain responsibilities assigned to these committees in their respective charters are required to be fulfilled by independent directors.

The standing committees of the Board are the Audit Committee of the Board (the Audit Committee), the Compensation Committee of the Board (the Compensation Committee), and the Governance Committee of the Board (the Governance Committee), as provided in SGRP's Restated By-Laws (see Limitation of Liability and Indemnification Matters, below).

Audit Committee

The Audit Committee of the Board assists the Board in fulfilling its oversight responsibilities respecting the accounting, auditing and financial reporting and disclosure principles, policies, practices and controls of SGRP and its direct and indirect subsidiaries (together with SGRP, collectively, the Company), the integrity of the Company's financial statements, the audits of the financial statements of the Company and the Company's compliance with legal and regulatory requirements and disclosure, and has done so since June of 2000. The specific functions and responsibilities of the Audit Committee are set forth in the written Amended and Restated Charter of the Audit Committee of the Board of Directors of SPAR Group, Inc., Dated (as of) May 18, 2004 (the Audit Charter), approved and recommended by the Audit Committee and Governance Committee and adopted by the Board on May 18, 2004. The Audit Committee also is given specific functions and responsibilities by and is subject to the rules and regulations of Nasdaq (Nasdaq Rules) and of the SEC (the SEC Rules), the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and other applicable law, which are reflected in the Audit Charter. A current copy of the Audit Charter is posted and available to stockholders and the public on the Company's web site (www.SPARinc.com). The Audit Charter was amended and restated to reflect the recent evolution of the Audit Committee's expanding responsibilities, the recent adoption of Sarbanes-Oxley, and recent changes in Nasdaq Rules, SEC Rules, securities laws and other applicable law pertaining to all audit committees. The Audit Committee reviews and reassesses the Audit Charter annually and recommends any needed changes to the Board for approval. The Audit Committee's most recent review was in August of 2006, when it determined no changes were then needed in the Audit Charter.

The Audit Committee (among other things and as more fully provided in the Audit Charter):

- (a) Serves as an independent and objective party to monitor the Company's financial reporting process and internal accounting and disclosure control system and their adequacy and effectiveness;
- (b) Is directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (hereinafter referred to as the Company's Independent Accountants);
- (c) Resolves disagreements between the Company's senior management and the Company's Independent Accountants regarding financial reporting;
- (d) Communicates directly with the Company's Independent Accountants;
- (e) Reviews and appraises the audit efforts of the Company's Independent Accountants, including the plans for and scope of the audit, the audit procedures to be utilized and results of the audit;
- (f) Provides an open avenue of communication among the Company's Independent Accountants, the Company's financial and senior management and the Board;
- (g) Reviews and approves, in advance, all non-audit services to be performed by the Company's Independent Accountants, either individually or through policies and procedures for particular types of services to be performed within specified periods;
- (h) Reviews the performance, qualifications and independence of the Company's Independent Accountants;
- (i) Reviews the financial reports and other financial information provided by SGRP to any governmental body or the public;
- (j) Encourages continuous improvement of, and fosters adherence to, the Company's accounting, disclosure and similar control policies, procedures and practices at all levels; and
- (k) Reviews and approves the overall fairness of all material related-party transactions.

The Audit Committee currently consists of Messrs. Kellar (its Chairman), Aders, Gilbert, Molpus and Partridge, each of whom has been determined by the Governance Committee and the Board to meet the independence requirements for Audit Committee members under Nasdaq Rule 4200(a)(14). In connection with his re-nomination as a Director, the Governance Committee and the Board re-determined that Mr. Kellar was qualified to be the Audit Committee financial expert as required by applicable law and the SEC Rules.

During the year ended December 31, 2006, the Audit Committee met four times in person and six times by telephone.

See Report of the Audit Committee of the Board of Directors, below.

Compensation Committee

The Compensation Committee of the Board assists the Board in fulfilling its oversight responsibilities respecting the performance and compensation of the executives and the other compensation, equity incentive and related policies of the Company, through which the Company endeavors to attract, motivate and retain the executive talent needed to optimize stockholder value in a competitive environment while facilitating the business strategies and long-range plans of the Company. The specific functions and responsibilities of the Compensation Committee are set forth in the written Charter of the Compensation Committee of the Board of Directors of SPAR Group, Inc., Dated (as of) May 18, 2004 (the Compensation Charter), approved and recommended by the Compensation Committee and Governance Committee and adopted by the Board on May 18, 2004. The Compensation Committee also is given specific functions and responsibilities by and is subject to the Nasdaq Rules and SEC Rules, Sarbanes-Oxley and other applicable law. A current copy of the Compensation Charter is posted and available to stockholders and the public on the Company's web site (www.SPARinc.com). The Compensation Charter was adopted to reflect the recent evolution of the Compensation Committee's informal responsibilities, the recent adoption of Sarbanes-Oxley, and recent changes in Nasdaq Rules, SEC Rules, securities laws and other applicable law pertaining to compensation committees. The Compensation Committee reviews and reassesses the Compensation Charter annually and recommends any needed changes to the Board for approval.

The Compensation Committee's most recent review was in August of 2006, when it determined no changes were then needed in the Compensation Charter.

The Compensation Committee (among other things and as more fully provided in the Compensation Charter):

- (a) Oversees the existing and proposed compensation plans, policies and practices of the Company, and reviews and recommends to the Board any necessary or desirable changes or additions to any such plan, policy or practice, all in order to (i) attract and retain quality directors, executives and employees, (ii) provide total compensation competitive with similar companies, (iii) reward and reinforce the attainment of the Company's performance objectives, and (iv) align the interests of SGRP's directors and the Company's executives and employees with those of SGRP's stockholders (the Company's Compensation Objectives);
- (b) Reviews the Company's existing and proposed Compensation Objectives from time to time and recommends to the Board any necessary or desirable changes or additions to such objectives;
- (c) Reviews the performance of and establishes the compensation for the Company's senior executives; and
- (d) Oversees the Company's stock option, stock purchase and other benefit plans and severance policies, and reviews and recommends to the Board any necessary or desirable changes or additions to any such plan, policy or practice.

The Compensation Committee currently consists of Messrs. Partridge (its Chairman), Aders, Gilbert, Kellar and Molpus, all of whom are non-employees of the Company and have been determined by the Governance Committee and the Board to be independent directors in accordance with Nasdaq Rule 4200(a)(14).

During the year ended December 31, 2006, the Compensation Committee met four times in person.

See Report of the Compensation Committee of the Board of Directors, below.

Governance Committee

The Governance Committee of the Board assists the Board in fulfilling its oversight responsibilities respecting the nomination of directors and committee members for the Board and the corporate governance policies and practices of the Company. The specific functions and responsibilities of the Governance Committee are set forth in the written Charter of the Governance Committee of the Board of Directors of SPAR Group, Inc., Dated (as of) May 18, 2004 (the Governance Charter), approved and recommended by the Governance Committee and adopted by the Board on May 18, 2004. The Governance Committee also is given specific functions and responsibilities by and is subject to the Nasdaq Rules, SEC Rules, Sarbanes-Oxley and other applicable law, which are reflected in the Governance Charter. A current copy of the Governance Charter is posted and available to stockholders and the public on the Company's web site (www.SPARinc.com). The Governance Charter was adopted to reflect the recent evolution of the Governance Committee's informal responsibilities, the recent adoption of Sarbanes-Oxley, and recent changes in Nasdaq Rules, SEC Rules, securities laws and other applicable law pertaining to governance committees. The Governance Committee reviews and reassesses the Governance Charter, Nomination Policy and Ethics Code (as such terms are defined below) annually and recommends any needed changes to the Board for approval. The Governance Committee's most recent review was in August of 2006, when it determined no changes were then needed in the Governance Charter, Nomination Policy and Ethics Code.

The Governance Committee (among other things and as more fully provided in the Governance Charter):

- (a) Oversees the identification, vetting and nomination of candidates for directors of SGRP and the selection of committee members, reviews their qualifications (including outside director independence) and recommends any proposed nominees to the Board;
- (b) Oversees SGRP's organizational documents and policies and practices on corporate governance and recommends any proposed changes to the Board for approval; and
- (c) Oversees the Company's codes of ethics and other internal policies and guidelines and monitors the Company's enforcement of them and inco