

SPAR GROUP INC

FORM 10-K (Annual Report)

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Address	560 WHITE PLAINS ROAD SUITE 210 TARRYTOWN, NY 10591
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Sector	Services
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**FOR ANNUAL AND TRANSITIONAL REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE --- ACT OF 1934 for the fiscal year ended December 31, 2005 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 or other jurisdiction of incorporation or organization)	33-0684451 (I.R.S. Employer Identification No.)
580 White Plains Road, Suite 600, Tarrytown, New York (Address of principal executive offices)	10591 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, par value \$.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark 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 twelve 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 if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2005, based on the closing price of the Common Stock as reported by the Nasdaq Capital Market on such date, was approximately \$10,083,534.

The number of shares of the Registrant's Common Stock outstanding as of December 31, 2005, was 18,916,847 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

Statements contained in this Annual Report on Form 10-K 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 and Section 21E of the Exchange Act (collectively, the "Securities Laws", including, in particular and without limitation, the statements contained in the discussions under the headings "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". 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 or 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", "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.

Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, it cannot assure that such plans, intentions or expectations will be achieved in whole or in part. You should carefully review the risk factors described below (see Item 1A - Risk Factors) and any other cautionary statements contained in this Annual Report on Form 10-K. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified all such risk factors and other cautionary statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Item 1. Business.

GENERAL

The SPAR Group, Inc. (formerly known as PIA Marketing Services, Inc.), a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a supplier of merchandising and other marketing services throughout the United States and internationally. In 2002, the Company sold its Incentive Marketing Division, SPAR Performance Group, Inc. ("SPGI"). 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, Radio Frequency Identification ("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 currently provides similar merchandising and marketing services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in India, South Africa, Turkey and Romania, and through 50% owned joint ventures in Japan and China. In September 2005, the Company entered into a 51% owned joint venture subsidiary in Lithuania which is project to begin operations in April 2006. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

Continuing Operations

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 products companies in the United States.

Merchandising 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 primarily under single or multi-year contracts or agreements. 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, and include new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. The Company also provides 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. The Company has expanded its international business as follows:

Date Established	Percent Ownership in Subsidiary or Joint Venture	Location
May 2001	50%	Osaka, Japan
June 2003	100%	Toronto, Canada
July 2003	51%	Istanbul, Turkey
April 2004	51%	Durban, South Africa
April 2004	51%	New Delhi, India
December 2004	51%	Bucharest, Romania
February 2005	50%	Hong Kong, China
September 2005	51%	Siauliai, Lithuania

The joint venture in Lithuania is projected to begin operations in April 2006.

Discontinued Operations

Incentive Marketing Division

As part of a strategic realignment in the fourth quarter of 2001, the Company made the decision to divest its Incentive Marketing Division, operating through its subsidiary, SPAR Performance Group, Inc. ("SPGI"). The Company explored various alternatives for the sale of SPGI and subsequently sold the business to SPGI's employees through the establishment of an employee stock ownership plan on June 30, 2002. In December of 2003, SPGI changed its name to STIMULYS, Inc.

Technology Division

In October 2002, the Company dissolved its Technology Division, which it had established in March 2000 for the purpose of marketing its proprietary Internet-based computer software.

INDUSTRY OVERVIEW

Domestic Merchandising Services Division

According to industry estimates over two billion dollars are spent annually on domestic retail merchandising and marketing services. The merchandising and marketing services industry includes manufacturers, retailers, food brokers, and professional service merchandising companies. The Company believes there is a continuing trend for major manufacturers to move increasingly toward third parties to handle in-store merchandising. The Company also believes that its merchandising and marketing services bring added value to retailers, manufacturers and other businesses. Retail merchandising and marketing services enhance sales by making a product more visible and available to consumers. These services primarily include placing orders, shelf maintenance, display placement, reconfiguring products on store shelves, replenishing products and providing in-store event staffing services. The Company provides other marketing services such as test market research, mystery shopping, and promotion planning and analysis.

The Company believes merchandising and marketing services previously undertaken by retailers and manufacturers have been increasingly outsourced to third parties. Historically, retailers staffed their stores as needed to ensure inventory levels, the advantageous display of new items on shelves, and the maintenance of shelf schematics. In an effort to improve their margins, retailers decreased their own store personnel and increased their reliance on manufacturers to perform such services. Initially, manufacturers attempted to satisfy the need for merchandising and marketing services in retail stores by utilizing their own sales representatives. However, manufacturers discovered that using their own sales representatives for this purpose was expensive and inefficient. Therefore, manufacturers have increasingly outsourced the merchandising and marketing services to third parties capable of operating at a lower cost by (among other things) serving multiple manufacturers simultaneously.

Another significant trend impacting the merchandising segment is the tendency of consumers to make product purchase decisions once inside the store. Accordingly, merchandising and marketing services and in-store product promotions have proliferated and diversified. Retailers are continually remerchandising and remodeling entire stores to respond to new product developments and changes in consumer preferences. The Company estimates that these activities have increased in frequency over the last five years, such that most stores are re-merchandised or remodeled approximately every twenty-four months. Both retailers and manufacturers are seeking third parties to help them meet the increased demand for these labor-intensive services.

International Merchandising Services Division

The Company believes another current trend in business is globalization. As companies expand into foreign markets they will need assistance in merchandising or marketing their products. As evidenced in the United States, retailer and manufacturer sponsored merchandising and marketing programs are both expensive and inefficient. The Company also believes that the difficulties encountered by these programs are only exacerbated by the logistics of operating in foreign markets. This environment has created an opportunity for the Company to exploit its Internet-based technology and business model that are successful in the United States. In July 2000, the Company established its International Merchandising Services Division to cultivate foreign markets, modify the necessary systems and implement the Company's business model worldwide by expanding its merchandising and marketing services business off shore. The Company formed an International Merchandising Services Division task force consisting of members of the Company's information technology, operations and finance groups to evaluate and develop foreign markets. In 2001, the Company and a leading Japanese based distributor established a joint venture to provide the latest in-store merchandising and marketing services to the Japanese market. In 2003, the Company expanded its international presence to Canada and Turkey by acquiring the business of a Canadian merchandising company and entering into a start-up joint venture subsidiary in Turkey. In 2004, the Company established 51% owned joint venture subsidiaries in South Africa and India. In 2005, the Company established a 50% owned joint venture in China and 51% owned joint venture subsidiaries in Romania and Lithuania. The joint venture in Lithuania is projected to begin operations in April 2006. Key to the Company's international strategy is the translation of several of its proprietary Internet-based logistical, communications and reporting software applications into the native language of any market the Company enters. As a result of this requirement for market penetration, the Company has developed translation software that can quickly convert its proprietary software into various languages. Through its computer facilities in Auburn Hills, Michigan, the Company provides worldwide access to its proprietary logistical, communications and reporting software. In addition, the Company maintains personnel in Greece and Australia to assist in its international efforts. The Company is actively pursuing expansion into various other markets.

PIA ACQUISITION

SPAR Acquisition, Inc., and its subsidiaries (the "SPAR Companies") are the original predecessor of the Company and were founded in 1967. On July 8, 1999, SPAR Companies completed a reverse merger with SGRP (the "PIA Acquisition"), and SGRP then changed its name to SPAR Group, Inc., from PIA Merchandising Services, Inc. (prior to such merger, "PIA"). The SPAR Companies were deemed to have "purchased" PIA and its subsidiaries (the "PIA Companies") for accounting purposes, with the books and records of the Company being adjusted to reflect the historical operating results of the SPAR Companies.

BUSINESS STRATEGY

As the marketing services industry continues to grow, consolidate and expand both in the United States and internationally, large retailers and manufacturers are increasingly outsourcing their merchandising and marketing service needs to third-party providers. The Company believes that offering marketing services on a national and global basis will provide it with a competitive advantage. Moreover, the Company believes that successful use of and continuous improvements to a sophisticated technology infrastructure, including its proprietary Internet-based software, is key to providing clients with a high level of client service while maintaining efficient, low cost operations. The Company's objective is to become an international retail merchandising and marketing service provider by pursuing its operating and growth strategy, as described below.

Increased Sales Efforts:

The Company is seeking to increase revenues by increasing sales to its current clients, as well as, establishing long-term relationships with new clients, many of which currently use other merchandising companies for various reasons. The Company believes its technology, field implementation and other competitive advantages will allow it to capture a larger share of this market over time. However, there can be no assurance that any increased sales will be achieved.

New Products:

The Company is seeking to increase revenues through the internal development and implementation of new products and services that add value to its clients' retail merchandising related activities, some of which have been identified and are currently being tested for feasibility and market acceptance. However, there can be no assurance that any new products of value will be developed or that any such new product can be successfully marketed.

Acquisitions:

The Company is seeking to acquire businesses or enter into joint ventures or other arrangements with companies that offer similar merchandising or marketing services both in the United States and worldwide. The Company believes that increasing its industry expertise, adding product segments, and increasing its geographic breadth will allow it to service its clients more efficiently and cost effectively. As part of its acquisition strategy, the Company is actively exploring a number of potential acquisitions, predominately in its core merchandising and marketing service businesses. Through such acquisitions, the Company may realize additional operating and revenue synergies and may leverage existing relationships with manufacturers, retailers and other businesses to create cross-selling opportunities. However, there can be no assurance that any of the acquisitions will occur or whether, if completed, the integration of the acquired businesses will be successful or the anticipated efficiencies and cross-selling opportunities will occur.

Leverage and Improve Technology:

The Company believes that providing merchandising and marketing services in a timely, accurate and efficient manner, as well as delivering timely, accurate and useful reports to its clients, are key components that are and will continue to be critical to the Company's success. The Company has developed Internet-based logistic deployment, communications, and reporting systems that improve the productivity of its merchandising specialists and provide timely data to its clients. The Company's merchandising specialists use hand-held computers, personal computers or laptop computers to report the status of each store or client product they service. Merchandising specialists report on a variety of issues such as store conditions, status of client products (e.g. out of stocks, inventory, display placement) or they may scan and process new orders for certain products. This information is reported, analyzed and displayed in a variety of reports that can be accessed by both the Company and its clients via the Internet. These reports can depict the status of every merchandising project in real time.

Through the Company's automated labor tracking system, its merchandising specialists communicate work assignment completion information via the Internet or telephone, enabling the Company to report hours and other completion information for each work assignment on a daily basis and providing the Company with daily, detailed tracking of work completion. This technology allows the Company to schedule its merchandising specialists more efficiently, quickly quantify the benefits of its services to clients, rapidly respond to clients' needs and rapidly

implement programs. The Company believes that its technological capabilities provide it with a competitive advantage in the marketplace.

The Company intends to continue to utilize computer (including hand-held computers), Internet, and other technology to enhance its efficiency and ability to provide real-time data to its clients, as well as, maximize the speed of communication, and logistical deployment of its merchandising specialists. Industry sources indicate that clients are increasingly relying on merchandising and marketing service providers to supply rapid, value-added information regarding the results of merchandising and marketing expenditures on sales and profits. The Company (together with certain of its affiliates) has developed and owns proprietary Internet-based software technology that allows it to utilize the Internet to communicate with its field management, schedule its store-specific field operations more efficiently, receive information and incorporate the data immediately, quantify the benefits of its services to clients faster, respond to clients' needs quickly and implement client programs rapidly. The Company has successfully modified and is currently utilizing certain of its software applications in connection with its international ventures. The Company believes that it can continue to improve, modify and adapt its technology to support merchandising and other marketing services for additional clients and projects in the United States and in foreign markets. The Company also believes that its proprietary Internet-based software technology gives it a competitive advantage in the marketplace.

Improve Operating Efficiencies:

The Company will continue to seek greater operating efficiencies. The Company believes that its existing field force and technology infrastructure can support additional clients and revenue in the Domestic Merchandising Services Division.

DESCRIPTION OF SERVICES

The Company currently provides a broad array of merchandising and marketing services to some of the world's leading companies, both domestically and internationally. The Company believes its full-line capabilities provide fully integrated solutions that distinguish the Company from its competitors. These capabilities include the ability to develop plans at one centralized division headquarter location, effect chain wide execution, implement rapid coordinated responses to its clients' needs and report on a real time Internet enhanced basis. The Company also believes its international presence, industry-leading technology, centralized decision-making ability, local follow-through, ability to recruit, train and supervise merchandisers, ability to perform large-scale initiatives on short notice, and strong retailer relationships provide the Company with a significant advantage over local, regional or other competitors.

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, product sampling and other in-store event staffing, 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, convenience and grocery stores. The International Merchandising Services Division established in July 2000, currently provides similar merchandising and marketing services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in India, South Africa, Turkey and Romania, and through 50% owned joint ventures in Japan and China. In September 2005, the Company entered into a 51% owned joint venture subsidiary in Lithuania which is projected to begin operations in April 2006.

Domestic Merchandising Services Division

The Company provides a broad array of merchandising and marketing services on a national, regional, and local basis to manufacturers, distributors and retailers in the United States. The Company provides its merchandising and marketing services primarily on behalf of consumer product manufacturers and distributors at mass merchandiser, electronic, drug and retail grocery chains. The Company currently provides three principal types of merchandising and marketing services: syndicated services, dedicated services and project services.

Syndicated Services

Syndicated services consist of regularly scheduled, routed merchandising and marketing services provided at the retail store level for various manufacturers and distributors. These services are performed for multiple manufacturers and distributors, including, in some cases, manufacturers and distributors whose products are in the same product category. Syndicated services may include activities such as:

- o Reordering and replenishment of products
- o Ensuring that the clients' products authorized for distribution are in stock and on the shelf
- o Adding new products that are approved for distribution but not yet present on the shelf
- o Designing and implementing store planogram schematics
- o Setting product category shelves in accordance with approved store schematics
- o Ensuring that product shelf tags are in place
- o Checking for overall salability of the clients' products
- o Placing new product and promotional items in prominent positions

Dedicated Services

Dedicated services consist of merchandising and marketing services, generally as described above, which are performed for a specific retailer or manufacturer by a dedicated organization, including a management team working exclusively for that retailer or manufacturer. These services include many of the above activities detailed in syndicated services, as well as, new store set-ups, store remodels and fixture installations. These services are primarily based on agreed-upon rates and fixed management fees.

Project Services

Project services consist primarily of specific in-store services initiated by retailers and manufacturers, such as new store openings, new product launches, special seasonal or promotional merchandising, focused product support, product recalls, in-store product demonstrations and in-store product sampling. The Company also performs other project services, such as new store sets and existing store resets, re-merchandising, remodels and category implementations, under annual or stand-alone project contracts or agreements.

In-Store Event Staffing Services

In February of 2003, the Company began to provide in-store event staffing services such as product demonstrations and samplings when it acquired the business and certain assets of a regional company that specialized in providing product samplings, other in-store events and other merchandising and marketing services in Texas and Oklahoma. In December of 2003, the Company expanded this business through the acquisition of the business and certain assets of another regional company that specialized in providing similar services in Louisiana and neighboring areas. The Company continues to provide in-store product samplings in those geographic areas, and is beginning to provide certain in-store product demonstrations to national chains in other target markets nationwide. The Company has also developed additional product offerings in an effort to expand this segment of its business.

Other Marketing Services

Other marketing services performed by the Company include:

Test Market Research - Testing promotion alternatives, new products and advertising campaigns, as well as packaging, pricing, and location changes, at the store level.

Mystery Shopping - Calling anonymously on retail outlets (e.g. stores, restaurants, banks) to check on distribution or display of a brand and to evaluate products, service of personnel, conditions of store, etc.

Data Collection - Gathering sales and other information systematically for analysis and interpretation.

RFID - Utilizing technology to track merchandiser performance, product inventory at store level as well as other related merchandising and marketing applications.

International Merchandising Services Division

The Company believes another current trend in business is globalization. As companies expand into foreign markets they will need assistance in marketing their products. As evidenced in the United States, retailer and manufacturer sponsored merchandising programs are both expensive and inefficient. The Company also believes that the difficulties encountered by these programs are only exacerbated by the logistics of operating in foreign markets. This environment has created an opportunity for the Company to exploit its Internet-based technology and business model that are successful in the United States.

In July 2000, the Company established its International Merchandising Services Division to cultivate foreign markets, modify the necessary systems and implement the Company's business model worldwide by expanding its merchandising and marketing services business off shore. The Company formed an International Merchandising Services Division task force consisting of members of the Company's information technology, operations and finance groups to evaluate and develop foreign markets. In 2001, the Company and a leading Japanese based distributor established a 50% owned joint venture to provide the latest in-store merchandising and marketing services to the Japanese market. In 2003, the Company expanded its international presence to Canada by acquiring a Canadian merchandising company and Turkey by entering into a 51% owned start-up joint venture subsidiary. In 2004, the Company established 51% owned joint venture subsidiaries in South Africa and India. In 2005, the Company announced the establishment of 51% owned joint venture subsidiaries in Romania and Lithuania. The joint venture subsidiary in Lithuania is projected to begin operations in April 2006. In 2005, the Company also announced the establishment of a joint venture in China which is 50% owned by the Company.

Key to the Company's international strategy is the translation of several of its proprietary Internet-based logistical, communications and reporting software applications into the native language of any market the Company enters. As a result of this strategy for market penetration, the Company has developed translation software that can quickly convert its proprietary software into various languages. Through its computer facilities in Auburn Hills, Michigan, the Company provides worldwide access to its proprietary logistical, communications and reporting software. In addition, the Company maintains personnel in Greece and Australia to assist in its international efforts. The Company is actively pursuing expansion into various other markets.

SALES AND MARKETING

Domestic Merchandising Services Division

The Company's sales efforts within its Domestic Merchandising Services Division are structured to develop new business in national, regional and local markets. The Company's corporate business development team directs its efforts toward the senior management of prospective clients. Sales strategies developed at the Company's headquarters are communicated to the Company's sales force for execution. The sales force, located nationwide, work from both Company and home offices. In addition, the Company's corporate account executives play an important role in the Company's new business development efforts within its existing manufacturer, distributor and retailer client base.

As part of the retailer consolidation, retailers are centralizing most administrative functions, including operations, procurement and category management. In response to this centralization and the growing importance of large retailers, many manufacturers have reorganized their selling organizations around a retailer team concept that focuses on a particular retailer. The Company has responded to this emerging trend and currently has retailer teams in place at select retailers.

The Company's business development process includes a due diligence period to determine the objectives of the prospective client, the work required to satisfy those objectives and the market value of such work to be performed. The Company employs a formal cost development and proposal process that determines the cost of each element of work required to achieve the prospective client's objectives. These costs, together with an analysis of market rates, are used in the development of a formal quotation that is then reviewed at various levels within the organization. The pricing of this internal proposal must meet the Company's objectives for profitability, which are established as part of the business planning process. After approval of this quotation, a detailed proposal is presented to and approved by the prospective client.

International Merchandising Services Division

The Company's marketing efforts within its International Merchandising Services Division are three fold. First, the Company endeavors to develop new markets through acquisitions. The Company's international acquisition team, whose primary focus is to seek out and develop acquisitions throughout the world, consists of personnel located in the United States, Greece and Australia. Personnel from information technology, field operations, client services and finance support the international acquisition team. Second, the Company offers global merchandising solutions to clients that have worldwide distribution. This effort is spearheaded out of the Company's headquarters in the United States. Third, the Company develops local markets through various joint ventures or subsidiaries throughout the world.

CLIENTS

Domestic Merchandising Services Division

In its Domestic Merchandising Services Division, the Company currently represents numerous manufacturers and /or retail clients in a wide range of retail chains and stores in the United States, including:

- o Mass Merchandisers
- o Electronics
- o Drug
- o Grocery
- o Other retail outlets (such as discount stores, home centers, etc.)

The Company also provides event staffing, RFID, research and other marketing services to the consumer packaged goods industry.

One client accounted for 20%, 14%, and 8% of the Company's domestic net revenues for the years ended December 31, 2005, 2004, and 2003, respectively. This client also accounted for approximately 13% and 29% of the Company's domestic accounts receivable at December 31, 2005 and 2004, respectively.

In addition, approximately 16%, 16%, and 17% of the Company's domestic net revenues for the years ended December 31, 2005, 2004, and 2003, respectively, resulted from merchandising services performed for manufacturers and others in stores operated by a leading mass merchandising chain. These clients also accounted for approximately 23% and 22% of the Company's domestic accounts receivable at December 31, 2005 and 2004, respectively.

Also, approximately 17% and 4% of the Company's domestic net revenues for the years ended December 31, 2005 and 2004, respectively, resulted from merchandising services performed for manufacturers and others in stores operated by a leading electronics chain. These clients also accounted for 24% and 16% of Company's domestic accounts receivable at December 31, 2005 and 2004, respectively.

Another client accounted for 10% of the Company's domestic net revenues for the year ended December 31, 2005. This client also accounted for approximately 5% of the Company's domestic accounts receivable at December 31, 2005.

International Merchandising Services Division

The Company believes that the potential international clients for this division have similar profiles to its Domestic Merchandising Services Division clients. The Company is currently operating in Japan, Canada, Turkey, South Africa, India, Romania, China and in Lithuania as of April 2006. The Company is actively pursuing expansion into Europe, Asia, South America and other markets.

COMPETITION

The marketing services industry is highly competitive. The Company's competition in the Domestic and International Merchandising Services Divisions arises from a number of large enterprises, many of which are national or international in scope. The Company also competes with a large number of relatively small enterprises

with specific client, channel or geographic coverage, as well as with the internal marketing and merchandising operations of its clients and prospective clients. The Company believes that the principal competitive factors within its industry include development and deployment of technology, breadth and quality of client services, cost, and the ability to execute specific client priorities rapidly and consistently over a wide geographic area. The Company believes that its current structure favorably addresses these factors and establishes it as a leader in the mass merchandiser, electronics and chain drug store channels of trade. The Company also believes it has the ability to execute major national and international in-store initiatives and develop and administer national and international retailer programs. Finally, the Company believes that, through the use and continuing improvement of its proprietary Internet software, other technological efficiencies and various cost controls, the Company will remain competitive in its pricing and services.

TRADEMARKS

The Company has numerous registered trademarks. Although the Company believes its trademarks may have value, the Company believes its services are sold primarily based on breadth and quality of service, cost, and the ability to execute specific client priorities rapidly, efficiently and consistently over a wide geographic area. See "Industry Overview" and "Competition".

EMPLOYEES

Worldwide the Company utilizes a labor force of approximately 7,900 people.

As of December 31, 2005, the Company's Domestic Merchandising Services Division's labor force consisted of approximately 5,800 people. Approximately 113 were full-time employees and 53 were part-time employees of the Company. Of the 113 full-time Company employees, 107 were engaged in operations and 6 were engaged in sales. Of the 53 part-time Company employees, 40 were engaged in field merchandising. The Company's Domestic Merchandising Services Division utilizes the services of its affiliate, SPAR Management Services, Inc. ("SMSI"), to schedule and supervise its field force of merchandising specialists, which consists of independent contractors furnished by SPAR Marketing Services, Inc. ("SMS"), another affiliate of the Company (see Item 13 - Certain Relationships and Related Transactions, below) as well as the Company's field employees. SMS and SMSI furnish approximately 5,600 merchandising specialists (all of whom are independent contractors of SMS) and 44 field managers (all of whom are full-time employees of SMSI), respectively.

As of December 31, 2005, the Company's International Merchandising Services Division's labor force consisted of approximately 2,125 people. Approximately 52 full-time employees were engaged in operations and 10 were engaged in sales. The International Division's field force of merchandising specialists consisted of approximately 74 full time employees, 150 part time employees and approximately 1,835 independent contractors.

The Company currently utilizes certain of its Domestic Merchandising Services Division's employees, as well as, the services of certain employees of its affiliates, SMSI and SPAR Infotech, Inc. ("SIT"), to support the International Merchandising Services Division. However, dedicated employees will be added to that division as the need arises. The Company's affiliate, SIT, also provides programming and other assistance to the Company's various divisions (see Item 13 - Certain Relationships and Related Transactions, below).

The Company, SMS, SMSI and SIT consider their relations with their respective employees and independent contractors to be good.

Item 1A. Risk Factors

There are various risks associated with the Company's growth and operating strategy. The risks factors presented below are the ones that the Company currently considers material based on best estimates and includes "forward-looking statements" within the meaning of the Securities Laws. 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 or be realized or to be less than expected. Additional risks may be facing the Company, the industry, or the economy in general, whether domestically or internationally. The Company may not be aware of some risks and may currently consider other

risks immaterial, but any risk may develop at any time into actual events that adversely affect the Company. There also may be risks that a particular investor would view differently from the Company, and current analysis may be wrong. The Company expressly disclaims any obligation to update or revise any forward-looking statements or any of these risks in whole or in part, whether as a result of new information, future events or otherwise, except as required by law.

You should carefully consider each of the risks described below before deciding to invest in the Company's common stock. If any of the following risks develops into actual events, or any other risks arise and develop into actual events, the Company's business, financial condition or results of operations could be negatively affected, the market price of the Company's common stock could decline and you may lose all or part of your investment.

Dependency on Largest Clients

As discussed above in Clients, the Company does a significant amount of business with two clients and performs a significant amount of services in a leading mass merchandising chain and a leading electronics chain. The loss of these clients, the loss of the ability to provide merchandising and marketing services in those chains, or the failure to attract new large clients could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on Trend Toward Outsourcing

The business and growth of the Company depends in large part on the continued trend toward outsourcing of merchandising and marketing services, which the Company believes has resulted from the consolidation of retailers and manufacturers, as well as the desire to seek outsourcing specialists and reduce fixed operation expenses. There can be no assurance that this trend in outsourcing will continue, as companies may elect to perform such services internally. A significant change in the direction of this trend generally, or a trend in the retail, manufacturing or business services industry not to use, or to reduce the use of, outsourced marketing services such as those provided by the Company, could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Failure to Successfully Compete

The merchandising and marketing services industry is highly competitive and the Company has competitors that are larger (or part of larger holding companies) and may be better financed. In addition, the Company competes with:

(i) a large number of relatively small enterprises with specific client, channel or geographic coverage; (ii) the internal merchandising and marketing operations of its clients and prospective clients; (iii) independent brokers; and (iv) smaller regional providers. Remaining competitive in the highly competitive merchandising and marketing services industry requires that the Company monitor and respond to trends in all industry sectors. There can be no assurance that the Company will be able to anticipate and respond successfully to such trends in a timely manner. If the Company is unable to successfully compete, it could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

If certain competitors were to combine into integrated merchandising and marketing services companies, or additional merchandising and marketing service companies were to enter into this market, or existing participants in this industry were to become more competitive, it could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Variability of Operating Results and Uncertainty in Client Revenue

The Company has experienced and, in the future, may experience fluctuations in quarterly operating results. Factors that may cause the Company's quarterly operating results to vary and from time to time and may result in reduced revenue include: (i) the number of active client projects;

(ii) seasonality of client products; (iii) client delays, changes and cancellations in projects; (iv) the timing requirements of client projects; (v) the completion of major client projects; (vi) the timing of new engagements;

(vii) the timing of personnel cost increases; and (viii) the loss of major clients. In particular, the timing of revenues is difficult to forecast for the home entertainment industry because timing is dependent on the commercial success of particular product releases. In the event that a particular

release is not widely accepted by the public, the Company's revenue could be significantly reduced. In addition, the Company is subject to revenue uncertainties resulting from factors such as unprofitable client work and the failure of clients to pay. The Company attempts to mitigate these risks by dealing primarily with large credit-worthy clients, by entering into written or oral agreements with its clients and by using project budgeting systems. These revenue fluctuations could materially and adversely affect the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Failure to Develop New Products

A key element of the Company's growth strategy is the development and sale of new products. While several new products are under current development, there can be no assurance that the Company will be able to successfully develop and market new products. The Company's inability or failure to devise useful merchandising or marketing products or to complete the development or implementation of a particular product for use on a large scale, or the failure of such products to achieve market acceptance, could adversely affect the Company's ability to achieve a significant part of its growth strategy and the absence of such growth could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Inability to Identify, Acquire and Successfully Integrate Acquisitions

Another key component of the Company's growth strategy is the acquisition of businesses across the United States and worldwide that offer similar merchandising or marketing services. The successful implementation of this strategy depends upon the Company's ability to identify suitable acquisition candidates, acquire such businesses on acceptable terms, finance the acquisition and integrate their operations successfully with those of the Company. There can be no assurance that such candidates will be available or, if such candidates are available, that the price will be attractive or that the Company will be able to identify, acquire, finance or integrate such businesses successfully. In addition, in pursuing such acquisition opportunities, the Company may compete with other entities with similar growth strategies, these competitors may be larger and have greater financial and other resources than the Company. Competition for these acquisition targets could also result in increased prices of acquisition targets and/or a diminished pool of companies available for acquisition.

The successful integration of these acquisitions also may involve a number of additional risks, including: (i) the inability to retain the clients of the acquired business; (ii) the lingering effects of poor client relations or service performance by the acquired business, which also may taint the Company's existing businesses; (iii) the inability to retain the desirable management, key personnel and other employees of the acquired business; (iv) the inability to fully realize the desired efficiencies and economies of scale; (v) the inability to establish, implement or police the Company's existing standards, controls, procedures and policies on the acquired business; (vi) diversion of management attention; and (vii) exposure to client, employee and other legal claims for activities of the acquired business prior to acquisition. In addition, any acquired business could perform significantly worse than expected.

The inability to identify, acquire, finance and successfully integrate such merchandising or marketing services business could have a material adverse effect on the Company's growth strategy and could limit the Company's ability to significantly increase its revenues and profits.

Uncertainty of Financing for, and Dilution Resulting from, Future Acquisitions

The timing, size and success of acquisition efforts and any associated capital commitments cannot be readily predicted. Future acquisitions may be financed by issuing shares of the Company's Common Stock, cash, or a combination of Common Stock and cash. If the Company's Common Stock does not maintain a sufficient market value, or if potential acquisition candidates are otherwise unwilling to accept the Company's Common Stock as part of the consideration for the sale of their businesses, the Company may be required to obtain additional capital through debt or equity financings. To the extent the Company's Common Stock is used for all or a portion of the consideration to be paid for future acquisitions, dilution may be experienced by existing stockholders. In addition, there can be no assurance that the Company will be able to obtain the additional financing it may need for its acquisitions on terms that the Company deems acceptable. Failure to obtain such capital would materially adversely affect the Company's ability to execute its growth strategy.

Reliance on the Internet and Third Party Vendors

The Company relies on the Internet for the scheduling, coordination and reporting of its merchandising and marketing services. The Internet has experienced, and is expected to continue to experience, significant growth in the numbers of users and amount of traffic as well as increased attacks by hackers and other saboteurs. To the extent that the Internet continues to experience increased numbers of users, frequency of use or increased bandwidth requirements of users, there can be no assurance that the Internet infrastructure will continue to be able to support the demands placed on the Internet by this continued growth or that the performance or reliability of the Internet will not be adversely affected. Furthermore, the Internet has experienced a variety of outages and other delays as a result of accidental and intentional damage to portions of its infrastructure, and could face such outages and delays in the future of similar or greater effect. The Company relies on third-party vendors to provide its Internet access and other services used in its business, and the Company has no control over such third-party providers. Any protracted disruption or material slowdown in Internet or other services could increase the Company's costs of operation and reduce efficiency and performance, which could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Economic and Retail Uncertainty

The markets in which the Company operates are cyclical and subject to the effects of economic downturns. The current political, social and economic conditions, including the impact of terrorism on consumer and business behavior, make it difficult for the Company, its vendors and its clients to accurately forecast and plan future business activities. Substantially all of the Company's key clients are either retailers or those seeking to do product merchandising at retailers. If the retail industry experiences a significant economic downturn, a reduction in product sales could significantly decrease the Company's revenues. The Company also has risks associated with its clients changing their business plans and/or reducing their marketing budgets in response to economic conditions, which could also significantly decrease the Company's revenues. Such revenue decreases could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Significant Stockholders: Voting Control and Market Illiquidity

Mr. Robert G. Brown, founder, director, Chairman, President and Chief Executive Officer of the Company, beneficially owns approximately 46% of the Company's outstanding Common Stock, and Mr. William H. Bartels, founder, director, and Vice Chairman of the Company beneficially owns approximately 29% of the Company's outstanding Common Stock. These stockholders have, should they choose to act together, and under certain circumstances Mr. Brown acting alone has, the ability to control all matters requiring stockholder approval, including the election of directors and the approval of mergers and other business combination transactions.

In addition, although the Company Common Stock is quoted on the Nasdaq Capital Market, the trading volume in such stock may be limited and an investment in the Company's securities may be illiquid because the founders own a significant amount of the Company's stock.

Dependence Upon and Potential Conflicts in Services Provided by Affiliates

The success of the Company's domestic business is dependent upon the successful execution of its field services by SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), as well as the programming services provided by SPAR Infotech, Inc. ("SIT"), each of which is an affiliate, but not a subsidiary, of the Company, and none of which is consolidated in the Company's financial statements. SMS provides substantially all of the merchandising specialists used by the Company in conducting its domestic business (86% of field expense in 2005), and SMSI provides substantially all of the field management services (91% in 2005) used by the Company in conducting its business. These services provided to the Company by SMS and SMSI are on a cost-plus basis pursuant to contracts that are cancelable on 60 days notice prior to December 31 of each year, commencing in 1997, or with 180 days notice at any other time. SIT provides substantially all of the Internet programming services and other computer programming needs used by the Company in conducting its business (see Item 13 - Certain Relationships and Related Transactions, below), which are provided to the Company by SIT on an hourly charge basis pursuant to a contract that is cancelable on 30 days notice. The Company has determined that the services provided by SMS, SMSI and SIT are at rates favorable to the Company.

SMS, SMSI and SIT (collectively, the "SPAR Affiliates") are owned solely by Mr. Robert G. Brown, founder, director, Chairman, President and Chief Executive Officer of the Company, and Mr. William H. Bartels, founder, director, and Vice Chairman of the Company, each of whom are also directors and executive officers of each of the SPAR Affiliates (see Item 13 - Certain Relationships and Related Transactions, below). In the event of any dispute in the business relationships between the Company and one or more of the SPAR Affiliates, it is possible that Messrs. Brown and Bartels may have one or more conflicts of interest with respect to those relationships and could cause one or more of the SPAR Affiliates to renegotiate or cancel their contracts with the Company or otherwise act in a way that is not in the Company's best interests.

While the Company's relationships with SMS, SMSI and SIT are excellent, there can be no assurance that the Company could (if necessary under the circumstances) replace the field merchandising specialists and management currently provided by SMS and SMSI, respectively, or replace the Internet and other computer programming services provided by SIT, in sufficient time to perform its client obligations or at such favorable rates in the event the SPAR Affiliates no longer performed those services. Any cancellation, other nonperformance or material pricing increase under those affiliate contracts could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

The Company has not paid and does not intend to pay cash Dividends

The Company has not paid dividends in the past, intends to retain any earnings or other cash resources to finance the expansion of its business and for general corporate purposes, and does not intend to pay dividends in the future. In addition, the Company's Credit Facility with Webster Business Credit Corporation ("Webster") (see Note 5 to the Consolidated Financial Statements - Lines of Credit and Subsequent Events) restricts the payment of dividends without Webster's prior consent.

Risks Associated with International Joint Ventures

While the Company endeavors to limit its exposure for claims and losses in any international joint ventures through contractual provisions, insurance and use of single purpose entities for such ventures, there can be no assurance that the Company will not be held liable for the claims against and losses of a particular international joint venture under applicable local law or local interpretation of any joint venture or insurance provisions. If any such claims and losses should occur, be material in amount and be successfully asserted against the Company, such claims and losses could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Risks Associated with Foreign Currency

The Company also has foreign currency exposure associated with its international joint venture subsidiaries and joint ventures. In 2005, these exposures are primarily concentrated in the Canadian dollar, Japanese yen and South African rand.

Risks Associated with International Business

The Company's expansion strategy includes expansion into various countries around the world. While the Company endeavors to limit its exposure by entering only countries where the political, social and economic environments are conducive to doing business in that country there can be no assurances that the respective business environments will remain favorable. In the future, the Company's international operations and sales may be affected by the following risks, which may adversely affect United States companies doing business internationally:

- o Political and economic risks, including political instability;
- o Various forms of protectionist trade legislation which currently exist, or have been proposed, in some foreign countries;
- o Expenses associated with customizing products for foreign countries;
- o Laws and business practices that favor local competition;
- o Dependence on local vendors;
- o Multiple, conflicting and changing governmental laws and regulations;
- o Potentially adverse tax consequences;
- o Foreign currency exchange rate fluctuations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties.

The Company does not own any real property. The Company leases certain office space and storage facilities for its corporate headquarters, divisions and subsidiaries under various operating leases, which expire at various dates during the next five years. These leases generally require the Company to pay minimum rents, subject to periodic adjustments, plus other charges, including utilities, real estate taxes and common area maintenance. The Company believes that its relationships with its landlords generally to be good. However, as these leased facilities generally are used for offices and storage, the Company believes that other leased spaces could be readily found and utilized on similar terms should the need arise.

The Company maintains its corporate headquarters in approximately 6,000 square feet of leased office space located in Tarrytown, New York, under an operating lease with a term expiring in May 2006. The Company is exploring various leasing options, including an extension of its existing lease.

The Company maintains its data processing center and warehouse at it regional office in Auburn Hills, Michigan, under an operating lease expiring in November 2006. The Company is exploring various leasing options, including an extension of its existing lease.

The Company believes that its existing facilities are adequate for its current business. However, new facilities may be added should the need arise in the future.

The following is a list of the locations where the Company maintains leased facilities for the listed offices and countries:

Location	Office Use	Approximate Square Footage
Domestic:		
Tarrytown, NY	Corporate Headquarters	6,000
Auburn Hills, MI	Regional Office and Warehouse	27,000
Cincinnati, OH	Regional Office	5,300
International:		
Canada		
Toronto, Ontario	Headquarters	4,000
Japan		
Osaka	Headquarters	1,000
Tokyo	Regional Office	1,700
Nagoya	Regional Office	800
Turkey		
Istanbul	Headquarters	1,500
South Africa		
Durban	Headquarters	2,800
Port Elizabeth	Regional Office	900
Epping	Regional Office	3,000
Midrand	Regional Office	1,700
India		
New Delhi	Headquarters	1,280
Mumbai	Regional Office	500
Bangalore	Regional Office	200
Romania		
Bucharest	Headquarters	770
China		
Shanghai	Headquarters	400
Beijing	Regional Office	70
Guangzhou	Regional Office	400
Shenzhen	Regional Office	130
Lithuania		
Siauliai	Headquarters	1,150

Item 3. Legal Proceedings.

Safeway Inc. ("Safeway") filed a Complaint against the PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of SGRP, and Pivotal Sales Company ("Pivotal"), a wholly owned subsidiary of PIA Co., and SGRP in Alameda Superior Court, case no. 2001028498 on October 24, 2001, and has subsequently amended it. Safeway alleges causes of action for breach of contract and breach of implied contract. Safeway has most recently alleged monetary damages in the principal sum of \$3,000,000 and alleged interest of \$1,500,000 and has also demanded unspecified costs. 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 them against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment and is seeking

damages and injunctive relief. Mediation between the parties occurred in 2004, but did not result in a settlement. PIA Co., Pivotal and SGRP are vigorously defending against Safeway's allegations. It is not possible at this time to determine the likelihood of the outcome of this lawsuit. However, if Safeway prevails respecting its allegations, and PIA Co. and Pivotal lose on their cross-claims and counterclaims, that result could have a material adverse effect on the Company. The Company anticipates that this matter will be resolved in 2006.

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

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Price Range of Common Stock

The following table sets forth the reported high and low sales prices of the Common Stock for the quarters indicated as reported on the Nasdaq Capital Market.

	2005		2004	
	High	Low	High	Low
First Quarter	\$ 1.55	\$ 0.81	\$ 3.44	\$ 2.30
Second Quarter	2.48	1.20	2.33	0.85
Third Quarter	2.89	1.50	1.50	0.75
Fourth Quarter	1.80	0.89	1.80	0.36

As of December 31, 2005, there were approximately 1,100 beneficial shareholders of the Company's Common Stock.

Dividends

The Company has never declared or paid any cash dividends on its capital stock and does not anticipate paying cash dividends on its Common Stock in the foreseeable future. The Company currently intends to retain future earnings to finance its operations and fund the growth of the business. Any payment of future dividends will be at the discretion of the Board of Directors of the Company and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions in respect to the payment of dividends and other factors that the Company's Board of Directors deems relevant.

The Company's Credit Facility with Webster Business Credit Corporation (see Note 5 to the Consolidated Financial Statements - Lines of Credit and Subsequent Events) restricts the payment of dividends without Webster's prior consent.

Issuer Purchases of Equity Securities

During the fiscal year ended December 31, 2005, SGRP did not repurchase any of its equity securities.

Item 6. Selected Financial Data.

The following selected condensed consolidated financial data sets forth, for the periods and the dates indicated, summary financial data of the Company and its subsidiaries. The selected financial data have been derived from the Company's consolidated financial statements.

SPAR Group, Inc. Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Year Ended December 31,				
	2005	2004	2003	2002	2001
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$ 51,586	\$ 51,370	\$ 64,859	\$ 69,612	\$ 70,891
Cost of revenues	31,939	33,644	42,338	40,331	40,883
Gross profit	19,647	17,726	22,521	29,281	30,008
Selling, general and administrative expenses	17,561	20,222	20,967	18,804	19,380
Impairment charges	-	8,141	-	-	-
Depreciation and amortization	1,031	1,399	1,529	1,844	2,682
Operating income (loss)	1,055	(12,036)	25	8,633	7,946
Other (income) expense	(424)	(754)	237	(26)	107
Interest expense	191	220	269	363	561
Income (loss) from continuing operations before provision for income taxes and minority interest	1,288	(11,502)	(481)	8,296	7,278
Provision for income taxes	242	853	58	2,998	3,123
Income (loss) from continuing operations before minority interest	1,046	(12,355)	(539)	5,298	4,155
Minority interest	168	(87)	-	-	-
Discontinued operations:					
Loss from discontinued operations net of tax benefits of \$935	-	-	-	-	(1,597)
Loss on disposal of discontinued operations, including provision of \$1,000 for losses during phase-out period and disposal costs net of tax benefit of \$2,618	-	-	-	-	(4,272)
Net income (loss)	\$ 878	\$ (12,268)	\$ (539)	\$ 5,298	\$ (1,714)
Basic/diluted net income(loss) per common share:					
Net income (loss) from continuing operations	\$ 0.05	\$ (0.65)	\$ (0.03)	\$ 0.28	\$ 0.23
Discontinued operations:					
Loss from discontinued operations	-	-	-	-	(0.09)
Estimated loss on disposal of discontinued operations	-	-	-	-	(0.23)
Net loss from discontinued operations	-	-	-	-	(0.32)
Basic/diluted net income (loss)	\$ 0.05	\$ (0.65)	\$ (0.03)	\$ 0.28	\$ (0.09)
Weighted average shares outstanding					
- basic	18,904	18,859	18,855	18,761	18,389
- diluted	19,360	18,859	18,855	19,148	18,467

December 31,

	2005	2004	2003	2002	2001
BALANCE SHEET DATA:					
Working capital	\$ 3,120	\$ 962	\$ 4,085	\$ 6,319	\$ 8,476
Total assets	15,417	15,821	28,137	28,800	41,155
Lines of credit, current	2,969	4,956	4,084	-	-
Lines of credit, long term(1)	-	-	-	148	11,287
Other long-term debt	415	218	270	235	2,585
Total stockholders' equity	4,850	3,714	16,023	16,592	10,934

(1) Prior to 2003, the Company's lines of credit were recorded as long-term.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" include "forward-looking statements" within the meaning of the Securities Laws and are based on our best estimates. 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 or 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", "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 described above (see Item 1A - Risk Factors) and the other cautionary statements contained in this Annual Report on Form 10-K. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by such risk factors and other cautionary statements. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, it cannot assure that such plans, intentions or expectations will be achieved in whole or in part. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

In the United States, the Company provides merchandising and marketing services to manufacturers and retailers principally in mass merchandiser, electronics, drug store, grocery, and other retail trade classes through its Domestic Merchandising Services Division. Internationally, the Company provides in-store merchandising and marketing services through a wholly owned subsidiary in Canada, 51% owned joint venture subsidiaries in Turkey, South Africa, India and Romania and 50% owned joint ventures in Japan and China. In 2005 and 2004, the Company consolidated Canada, Turkey, South Africa, India and Japan into the Company's financial statements. Also in 2005, the Company consolidated Romania and China.

In December 2001, the Company decided to divest its Incentive Marketing Division and recorded an estimated loss on disposal of SPAR Performance Group, Inc., now called STIMULYS, Inc. ("SPGI"), of approximately \$4.3 million, net of taxes, including a \$1.0 million reserve recorded for the anticipated cost to divest SPGI and any anticipated losses through the divestiture date.

On June 30, 2002, SPAR Incentive Marketing, Inc. ("SIM"), a wholly owned subsidiary of the Company, entered into a Stock Purchase and Sale Agreement with Performance Holdings, Inc. ("PHI"), a Delaware corporation headquartered in Carrollton, Texas. Pursuant to that agreement, SIM sold all of the stock of SPGI, its subsidiary, to PHI for \$6.0 million. As a condition of the sale, PHI issued and contributed 1,000,000 shares of its common stock to Performance Holdings, Inc. Employee Stock Ownership Plan, which became the only shareholder of PHI.

SIM's results (including those of SPGI) were reclassified as discontinued operations for all periods presented. The results of operations of the discontinued business segment are shown separately below net income from continuing operations. Accordingly, the 2002 consolidated statements of operations of the Company have been prepared, and its 2001 consolidated statements of operations have been restated, to report the results of discontinued operations of SIM (including those of SPGI) separately from the continuing operations of the Company (see Item 6 - Selected Financial Data, above).

Critical Accounting Policies & Estimates

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Note 2 to the Consolidated Financial Statements. These policies have been consistently applied in all material respects and address such matters as revenue recognition, depreciation methods, asset impairment recognition, consolidation of subsidiaries and other companies, and discontinued business accounting. While the estimates and

judgments associated with the application of these policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are appropriate in the circumstances. Four critical accounting policies are consolidation of subsidiaries, revenue recognition, allowance for doubtful accounts and sales allowances, and internal use software development costs:

Consolidation of subsidiaries and other companies

The Company consolidates its 100% owned subsidiaries. The Company also consolidates its 51% owned joint venture subsidiaries and its 50% owned joint ventures where the Company is the primary beneficiary in accordance with Financial Accounting Standards Board Interpretation Number 46, as revised December 2003, Consolidation of Variable Interest Entities ("FIN 46(R)").

Revenue Recognition

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

Allowance for Doubtful Accounts and Sales Allowances

The Company continually monitors the validity of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$616,000 and \$761,000 at December 31, 2005 and 2004, respectively. Bad debt and sales allowance expenses were \$38,000, \$366,000, and \$825,000 in 2005, 2004, and 2003, respectively.

Internal Use Software Development Costs

In accordance with SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalized software development costs are amortized over three years.

The Company capitalized \$346,000, \$559,000, and \$1,004,000 of costs related to software developed for internal use in 2005, 2004, and 2003, respectively, and amortized capitalized software of approximately \$516,000, \$638,000 and \$690,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

The Company also recorded a net impairment charge of capitalized software related to lost clients totaling approximately \$442,000 in 2004.

Results of operations

The following table sets forth selected financial data and such data as a percentage of net revenues for the years indicated (in millions).

	Year Ended December 31,					
	2005	%	2004	%	2003	%
Net revenues	\$ 51.6	100.0%	\$ 51.4	100.0%	\$ 64.9	100.0%
Cost of revenues	31.9	61.9	33.6	65.5	42.3	65.3
Selling, general & administrative expenses	17.6	34.0	20.2	39.4	21.0	32.3
Impairment charges	-	-	8.1	15.8	-	-
Depreciation & amortization	1.0	2.0	1.4	2.7	1.5	2.3
Other (income) expenses, net	(0.2)	(0.4)	(0.4)	(1.0)	0.5	0.8
Income (loss) before income tax provision and minority interest	1.3	2.5	(11.5)	(22.4)	(0.4)	(0.7)
Provision for income taxes	0.2	0.5	0.9	1.7	0.1	0.1
Income (loss) before minority interest	1.1	2.0	(12.4)	(24.1)	(0.5)	(0.8)
Minority interest	0.2	0.3	(0.1)	(0.2)	-	-
Net income (loss)	\$ 0.9	1.7%	\$ (12.3)	(23.9)%	\$ (0.5)	(0.8)%

Results from continuing operations for the twelve months ended December 31, 2005, compared to twelve months ended December 31, 2004

Net Revenues

Net revenues from operations for the twelve months ended December 31, 2005, were \$51.6 million, compared to \$51.4 million for the twelve months ended December 31, 2004, an increase of \$0.2 million. The increase of \$0.2 million in net revenues consists of an increase in international revenue of \$6.7 million offset by decreases in domestic revenue of \$6.5 million or 15%. The international revenue increase of \$6.7 million was primarily attributed to increases in Japan of \$3.0 million, Canada of \$2.6 million, India of \$1.2 million and all others of \$0.2 million, partially offset by revenue decrease in South Africa of \$0.3 million. The decrease in domestic revenue is a result of the loss of several significant clients partially offset by revenue from new clients in 2005.

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 as a percentage of net revenues was 61.9% for the twelve months ended December 31, 2005, compared to 65.5% for the twelve months ended December 31, 2004. Domestic cost of revenues as a percentage of net revenues was 62.9% and 65.8% for the twelve months ended December 31, 2005, and 2004, respectively. The decrease in cost as a percentage of net revenues is primarily a result of an increase in per unit fee revenues that do not have a proportionate increase in cost. As discussed above under Critical Accounting Policies/Revenue Recognition, the Company's revenue consists of per unit fee revenue, which is earned when the client's product is sold to the consumer at retail, not when the services are performed. Retail sales of client products are influenced by numerous factors including consumer tastes and preferences, and not solely by the merchandising and marketing service performed, in any given period, the cost of per unit fee revenues may not be directly proportionate to the per unit fee revenue. Internationally, the cost of revenues as a percentage of net revenues was 59.6% and 63.7% for the twelve months ended December 31, 2005, and 2004, respectively. The international cost of revenue percentage was favorably impacted by the increase in international revenue, which enabled the Company to leverage its infrastructure.

Approximately 87% of the Company's domestic cost of revenue in both the twelve months ended December 31, 2005 and 2004, resulted from in-store independent contractor and field management services purchased from the Company's affiliates, SPAR Marketing Services, Inc. ("SMS") and SPAR Management Services, Inc. ("SMSI") respectively. (See Item 13 - Certain Relationships and Related Transactions, below)

Operating Expenses

Operating expenses include selling, general and administrative expenses, impairment charges, depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resource, legal and accounting expenses. The following table sets forth the operating expenses for the years indicated (in millions):

	Year Ended December 31,				Increase (decrease) %
	2005	%	2004	%	
Selling, general & administrative	\$ 17.6	34.0%	\$ 20.2	39.4%	(13.2)%
Impairment charges	-	-	8.1	15.8	-
Depreciation and amortization	1.0	2.0	1.4	2.7	(26.3)%
Total operating expenses	\$ 18.6	36.0%	\$ 29.7	57.9%	(37.5)%

Selling, general and administrative expenses decreased by \$2.6 million, or 13%, for the twelve months ended December 31, 2005, to \$17.6 million compared to \$20.2 million for the twelve months ended December 31, 2004. Domestic selling, general and administrative expenses totaled \$12.2 million for 2005 and were reduced \$4.5 million from \$16.7 million in 2004. The reduction of 27% was a result of cost reduction programs initiated in the second half of 2004 as a result of the loss of certain large clients. The domestic cost reductions were partially offset by increases of \$1.9 million in international selling, general and administrative expenses primarily a result of increased spending in Canada of

approximately \$800,000, and in Japan of approximately \$500,000, with the balance attributable to the joint venture startups in Romania and China, and a full year of operations in South Africa, Turkey, and India.

Impairment charges were \$8.1 million for 2004 (see Note 3 to the Consolidated Financial Statements -Impairment Charges). Impairment charges resulting from the loss of certain large clients consisted of \$7.6 million of goodwill impairment, \$1.2 million for the impairment of other assets partially offset by the reduction of \$1.4 million (net of taxes) of other liabilities related to the PIA Acquisition. In addition there was approximately \$700,000 of goodwill impairment associated with the Canadian subsidiary.

Depreciation and amortization charges were \$1.0 million for the twelve months ended December 31, 2005, compared to \$1.4 million for the twelve months ended December 31, 2004. The decrease was a result of reduced capitalized software.

Other Income/Other Expense

Other income was approximately \$424,000 and \$754,000 for twelve months ended December 31, 2005 and 2004, respectively. In 2005, other income consists primarily of the release of a reserve associated with the PIA Acquisition in July 1999. In 2004, other income consisted of approximately \$640,000 resulting from the release of specific reserves related to the refinancing of the SPGI notes and approximately \$114,000 of foreign currency translation gains.

Interest Expense

Interest expense totaled approximately \$191,000 for 2005 compared to interest expense of approximately \$220,000 for 2004. The decrease was a result of lower debt levels in 2005 partially offset by increased rates.

Income Taxes

The provision for income taxes was \$242,000 and \$853,000 for 2005 and 2004, respectively. The 2005 provision is primarily for state taxes. The 2004 provision consists primarily of a valuation allowance totaling approximately \$750,000 against its net deferred tax assets and state taxes of approximately \$103,000.

Net Income (Loss)

The SPAR Group had a net income of approximately \$878,000 or \$0.05 per basic and diluted share for 2005, compared to a net loss of approximately \$12.3 million or \$0.65 per basic and diluted shares for 2004.

Off Balance Sheet Arrangements

None.

Results from continuing operations for the twelve months ended December 31, 2004, compared to twelve months ended December 31, 2003

Net Revenues

Net revenues from operations for the twelve months ended December 31, 2004, were \$51.4 million, compared to \$64.9 million for the twelve months ended December 31, 2003, a decrease of \$13.5 million or 20.8%. The decrease of \$13.5 million in net revenues consists of a decrease in domestic revenue of \$21.1 million or 32.9% partially offset by increases in international revenue of \$7.7 million. The decrease in domestic revenue is a result of the loss of several significant clients partially offset by revenue from new clients in 2004. The international revenue increase of \$7.7 million was primarily a result of the South African acquisition, the Japan consolidation and a full year of Canadian operations.

Cost of Revenues

Cost of revenues from operations consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues decreased by \$8.7 million in 2004 and as a percentage of net revenues was 65.5% for the twelve months ended December 31, 2004, which was consistent with 65.3% for the twelve months ended December 31, 2003. Approximately 87% and 85% of the field services were purchased from the Company's affiliate, SMS, in 2004 and 2003, respectively (see Item 13 - Certain Relationships and Related Transactions, below). SMS's increased share of field services resulted from its more favorable cost structure

Operating Expenses

Operating expenses include selling, general and administrative expenses, impairment charges, depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resource, legal and accounting expenses. The following table sets forth the operating expenses as a percentage of net revenues for years indicated (in millions):

	Year Ended December 31,				Increase (decrease) %
	2004	%	2003	%	
Selling, general & administrative	\$ 20.2	39.4%	\$ 21.0	32.3%	(3.6)%
Impairment charges	8.1	15.8	-	-	-
Depreciation and amortization	1.4	2.7	1.5	2.3	(8.5)%
Total operating expenses	\$ 29.7	57.9%	\$ 22.5	34.6%	32.3%

Selling, general and administrative expenses decreased by \$0.8 million, or 3.6%, for the twelve months ended December 31, 2004, to \$20.2 million compared to \$21.0 million for the twelve months ended December 31, 2003. Domestic selling, general and administrative expenses totaled \$16.7 million for 2004 and were reduced \$3.3 million from \$19.9 million in 2003. The reduction of 16.1% was a result of cost reduction programs initiated in 2004 as a result of the loss of certain large clients partially offset by restructure costs of \$480,000 expensed in 2004 compared to no expense in 2003. Restructure costs included office lease and employee severance costs. The domestic cost reductions were partially offset by increases of \$2.5 million in international selling, general and administrative expenses resulting from the consolidation of Japan, the acquisition of South Africa, and a full year of Canadian operations, as well as, the Turkey and India joint venture startups.

Impairment charges were \$8.1 million for 2004 (see Note 3 to the Consolidated Financial Statements -Impairment Charges). Impairment charges resulting from the loss of certain large clients consisted of \$7.6 million of goodwill impairment, \$1.2 million for the impairment of other assets partially offset by the reduction of \$1.4 million (net of taxes) of other liabilities related to the PIA Acquisition. In addition there was approximately \$700,000 of goodwill impairment associated with the Canadian subsidiary.

Depreciation and amortization charges of \$1.4 million in 2004 was consistent with \$1.5 million in 2003.

Other Income/Other Expense

Other income was approximately \$754,000 for 2004 versus other expense of \$237,000 for 2003. In 2004, other income consisted of approximately \$640,000 resulting from the release of specific reserves related to the refinancing of the SPGI notes and approximately \$114,000 of foreign currency translation gains. In 2003, other expense consisted primarily of the Company's share of its 50% owned Japan joint venture losses accounted for on the equity method. In 2004, the Japan joint venture was consolidated into the Company's financial statements.

Interest Expense

Interest expense totaled \$220,000 for 2004 and was consistent with interest expense of \$269,000 for 2003.

Income Taxes

The provision for income taxes was \$853,000 and \$58,000 for 2004 and 2003, respectively. During 2004, as a result of the loss of several significant clients, current year losses and the lack of certainty of a return to profitability in the next twelve months, the Company recorded a full valuation allowance against its net deferred tax assets resulting in a charge totaling approximately \$750,000. The 2004 tax provision of \$853,000 consists of the valuation allowance and minimum state taxes of approximately \$103,000. The tax provision for 2003 reflects minimum tax requirements for state filings.

Net (Loss) Income

The SPAR Group had a net loss of approximately \$12.3 million or \$0.65 per basic and diluted share for 2004, compared to a net loss of approximately \$539,000 or \$0.03 per basic and diluted shares for 2003.

Off Balance Sheet Arrangements

None.

Liquidity and Capital Resources

In the twelve months ended December 31, 2005, the Company had a net income of \$878,000.

Net cash provided by operating activities for the year ended December 31, 2005 and 2004, was \$3.4 million, and \$1.4 million, respectively. The increase of \$2.0 million in cash provided by operating activities is primarily due to increases in net income and lower decreases in accounts receivable.

Net cash used in investing activities for the year ended December 31, 2005, was \$0.6 million, compared with net cash used of \$1.3 million for the year for December 31, 2004. The decrease in net cash used in investing activities was a result of lower purchases of property and equipment primarily computer software and equipment and fewer acquisitions of new businesses in 2005.

Net cash used in financing activities for the year ended December 31, 2005 was \$1.9 million, compared with net cash provided by financing activities of \$0.9 million for the year ended December 31, 2004. The increase in cash used was a result of the Company paying down on its lines of credit.

The above activity resulted in a change in cash and cash equivalents for the twelve months ended December 31, 2005 of \$1.0 million.

At December 31, 2005, the Company had positive working capital of \$3.1 million as compared to \$1.0 million at December 31, 2004. The increase in working capital is due to increases in cash, decreases in accounts payable and lines of credit, partially offset by a decrease in accounts receivable and increases in accrued expenses and other current liabilities and accrued expenses due to affiliates. The Company's current ratio was 1.31 and 1.08 at December 31, 2005 and 2004, respectively.

In January 2003, the Company 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 provided a \$15.0 million revolving credit facility

that matured on January 23, 2006. The Credit Facility allowed the Company to borrow up to \$15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). On May 17, 2004, the Credit Facility was amended to among other things, reduce the revolving credit facility from \$15.0 million to \$10.0 million, change the interest rate and increase reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, taxes, depreciation and amortization. The average interest rate for 2005 was 6.9%. At December 31, 2005, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 8.0% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. In connection with the May 17, 2004, amendment, Mr. Robert Brown, a Director, the Chairman, President and Chief Executive Officer and a major stockholder of the Company and Mr. William Bartels, a Director, the Vice Chairman and a major stockholder of the Company, provided personal guarantees totaling \$1.0 million to Webster. On August 20, 2004, the Credit Facility was further amended in connection with the waiver of certain covenant violations (see below). The amendment, among other things, reduced the revolving credit facility from \$10.0 million to \$7.0 million, changed the covenant compliance testing for certain covenants from quarterly to monthly and reduced certain advance rates. On November 15, 2004, the Credit Facility was further amended to delete any required Minimum Net Worth and minimum Fixed Charge Coverage Ratio covenant levels for the year ended December 31, 2004. Those amendments did not change the future covenant levels for 2005.

In January 2006, the Credit Facility was amended to extend its maturity to January 2009 and to reset the Fixed Charge Coverage Ratio, and Minimum Net Worth covenants. It further stipulated that should the Company meet its covenants for the year ended December 31, 2005, which it has, Webster would release Mr. Robert Brown and Mr. William Bartels from their obligation to provide personal guarantees totaling \$1.0 million and certain discretionary reserves. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments.

The Company was not in violation of any covenants at December 31, 2005, and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants in the future. Should the Company be in violation, there are no assurances that Webster will issue such waivers in the future.

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 December 31, 2005, and December 31, 2004, 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 revolving loan balances outstanding under the Credit Facility were \$2.4 million and \$4.1 million at December 31, 2005, and December 31, 2004, respectively. There were letters of credit outstanding under the Credit Facility of \$0.6 million and \$0.7 million at December 31, 2005, and December 31, 2004, respectively. As of December 31, 2005, the Company had unused availability under the Credit Facility of \$3.2 million out of the remaining maximum \$4.0 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

In 2001, the Japanese joint venture SPAR FM Japan, Inc. entered into a revolving line of credit arrangement with Japanese banks for 300 million yen or \$2.7 million (based upon the exchange rate at September 30, 2005). At September 30, 2005, SPAR FM Japan, Inc. had 70 million yen or approximately \$600,000 loan balance outstanding under the line of credit. The average interest rate for 2005 and the interest rate at September 30, 2005 were 1.4%.

The Company's international model is to partner with local merchandising companies and combine their knowledge of the local market with the Company's proprietary software and expertise in the merchandising and marketing business. In 2001, the Company established its first joint venture and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, Turkey, South Africa, India, Romania and China. The Company also announced the establishment of a joint venture subsidiary in Lithuania, which is projected to begin operations in April 2006.

Certain of these joint ventures and joint venture subsidiaries are marginally profitable and certain others are operating at a loss. None of these entities have excess cash reserves. In the event of continued losses, the Company may be required to provide additional cash infusions into these joint ventures and joint venture subsidiaries.

Management believes that based upon the results of Company's cost saving initiatives and the existing credit facilities, sources of cash availability will be sufficient to support ongoing operations over the next twelve months.

However, delays in collection of receivables due from any of the Company's major clients, or a significant further reduction in business from such clients, or the inability to acquire new clients, or the Company's inability to remain profitable, or the inability to obtain bank waivers in the event of future covenant violations 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 December 31, 2005 (in thousands).

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 2,969	\$ 2,969	\$ -	\$ -	\$ -
Operating Lease Obligations	1,987	1,086	840	61	-
Total	\$ 4,956	\$ 4,055	\$ 840	\$ 61	\$ -

In addition to the above table, at December 31, 2005, the Company had approximately \$550,000 in outstanding Letters of Credit.

Item 7A. 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 considers carrying amounts of current assets and liabilities in the consolidated financial statements to approximate the fair value for these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The Company monitors the risks associated with interest rates and financial instrument positions. The Company's investment policy objectives require the preservation and safety of the principal, and the maximization of the return on investment based upon the safety and liquidity objectives.

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At December 31, 2005, the Company's outstanding debt totaled \$3.0 million, which consisted of domestic variable-rate (8%) debt of \$2.4 million and international variable rate (1.4%) debt of \$0.6 million. Based on 2005 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact annual pre-tax earnings and cash flows by approximately \$25,000.

The Company has foreign currency exposure associated with its international 100% owned subsidiary, its 51% owned joint venture subsidiaries and its 50% owned joint ventures. In both 2005 and 2004, these exposures are primarily concentrated in the Canadian dollar, South African rand and Japanese yen. At December 31, 2005, international assets totaled \$5.0 million and international liabilities totaled \$7.5 million. For 2005, international revenues totaled \$14.9 million and the Company's share of the net income was approximately \$167,000.

Investment Portfolio

The Company has no derivative financial instruments or derivative commodity instruments in its cash and cash equivalents and investments. Domestically, excess cash is normally used to pay down its revolving line of credit. Internationally, excess cash is used to fund operations.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. 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 twelve months covered by this report or from the end of the reporting period to the date of this Form 10-K.

The Company has established a plan and has begun to document and test its domestic internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Directors and Executive Officers

The following table sets forth certain information in connection with each person who is or was at December 31, 2005, an executive officer and/or director for the Company.

Name ----	Age ---	Position with SPAR Group, Inc. -----
Robert G. Brown	63	Chairman, Chief Executive Officer, President and Director
William H. Bartels	62	Vice Chairman and Director
Robert O. Aders (1)	78	Director, Chairman Governance Committee
Jack W. Partridge (1)	60	Director, Chairman Compensation Committee
Jerry B. Gilbert (1)	71	Director
Lorrence T. Kellar (1)	68	Director, Chairman Audit Committee
Charles Cimitile	51	Chief Financial Officer, Treasurer and Secretary
Kori G. Belzer	40	Chief Operating Officer
Patricia Franco	45	Chief Information Officer, President of the SPAR International Merchandising Division
James R. Segreto	57	Vice President, Controller

(1) Member of the Board's 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. 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. 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 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 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.

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 Item 13 - Certain Relationships and Related Transactions, 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/Servco, 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 Item 13 - Certain Relationships and Related Transactions, 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, 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.

Audit Committee Composition and Financial Expert

The Audit Committee currently consists of Messrs. Kellar (its Chairman), Aders, Gilbert 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.

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 the Company 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, 2005, or written representations from certain reporting persons for such year, the Company believes that its Insiders complied with all applicable Section 16(a) filing requirements for such year, with the exception that Robert G. Brown and William H. Bartels untimely filed certain Statements of Changes in Beneficial Ownership on Form 4. All such Section 16(a) filing requirements have since been completed by each of the aforementioned individuals.

Ethics Codes

SGRP has adopted codes of ethical conduct applicable to all of its directors, officers and employees, as approved and recommended by the Audit Committee and Governance Committee and adopted by the Board on May 3, 2004, in accordance with Nasdaq Rules. These codes of conduct consist of: (1) the SPAR Group Code of Ethical Conduct for its Directors, Senior Executives and Employees Dated (as of) May 1, 2004; and (2) the SPAR Group Statement of Policy Regarding Personal Securities Transaction in SGRP Stock and Non-Public Information Dated, Amended and Restated as of May 1, 2004, which amends, restates and completely replaces its existing similar statement of policy. Both Committees were involved because authority over ethics codes shifted from the Audit Committee to the Governance Committee with the adoption of the committee charters on May 18, 2004. Copies of these codes and policies are posted and available on the Company's web site (www.SPARinc.com).

Item 11. Executive Compensation and Other Information of SPAR Group, Inc.

Executive Compensation

The following table sets forth all compensation received for services rendered to SGRP in all capacities for the years ended December 31, 2005, 2004, and 2003 (except for amounts paid to SMS, SMSI and SIT, see Item 13 - Certain Relationships and Related Transactions, below) (i) by SGRP's Chief Executive Officer, and (ii) each of the other four most highly compensated executive officers of SGRP and its affiliates who were serving as executive officers of SGRP or performing equivalent functions for SGRP through an affiliate, at December 31, 2005 (collectively, the "Named Executive Officers").

Summary Compensation Table

Name and Principal Positions	Year	Annual Compensation		Long Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Securities Underlying Options (#)(1)	All Other Compensation (\$)(2)
Robert G. Brown Chief Executive Officer, Chairman of the Board, President, and Director	2005	191,100 (3)	--	--	1,230
	2004	114,000 (3)	--	--	1,800
	2003	180,000 (3)	--	--	2,200
William H. Bartels Vice Chairman and Director	2005	191,100 (3)	--	--	698
	2004	114,000 (3)	--	--	1,620
	2003	180,000 (3)	--	--	2,007
Charles Cimitile Chief Financial Officer, Treasurer and Secretary	2005	227,700	20,000	95,000	1,230
	2004	220,000	--	25,000	1,800
	2003	221,700	20,000	20,000	2,200
Kori G. Belzer Chief Operating Officer	2005	152,975	30,000	111,140	888
	2004	147,990	--	25,000	1,495
	2003	147,067	19,000	26,750	1,843
Patricia Franco Chief Information Officer	2005	152,975	30,000	137,500	947
	2004	147,900	10,000	25,000	1,493
	2003	145,875	20,000	37,500	1,718

(1) In June 2004, Mr. Brown and Mr. Bartels voluntarily surrendered for cancellation their options for the purchase of the following shares of common stock under the 2000 Plan: 382,986 and 235,996, respectively. In September 2004, Mr. Cimitile, Ms. Belzer and Ms. Franco voluntarily surrendered for cancellation their options for the purchase of the following shares of common stock under the 2000 Plan: 55,000, 76,140 and 87,500 respectively. Also in September 2004, Ms. Franco voluntarily surrendered for cancellation her options for the purchase 10,000 shares of common stock under the 1995 Plan.

(2) Other compensation represents the Company's 401k contribution.

(3) Does not include amounts paid to SMS, SMSI, SIT and Affinity Insurance Ltd. (see Item 13 - Certain Relationships and Related Transactions, below)

Stock Option Grants in Last Fiscal Year

The following table sets forth information regarding each grant of stock options made during the year ended December 31, 2005, to each of the Named Executive Officers. No stock appreciation rights ("SAR's") were granted during such period to such person.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option(1)	
	Number of Securities Underlying Options Granted(2) (#)	Percent of Total Options Granted to Employees in Period (%)	Exercise Price (\$/Sh)	Expiration Date	5% (\$)	10% (\$)
Charles Cimitile	55,000	16.0	1.26	4/14/15	43,582	110,446
	20,000	2.5	1.75	5/12/15	22,011	55,781
	20,000	2.5	1.10	11/9/15	13,836	35,062
Kori G. Belzer	76,140	22.2	1.26	4/14/15	60,334	152,898
	20,000	5.8	1.75	5/12/15	22,011	55,781
	15,000	4.4	1.10	11/9/15	10,377	26,297
Patricia Franco	97,500	28.4	1.26	4/14/15	77,260	195,791
	25,000	7.3	1.75	5/12/15	27,514	69,726
	15,000	4.4	1.10	11/9/15	10,377	26,297

(1) The potential realizable value is calculated based upon the term of the option at its time of grant. It is calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term of the option.

(2) These options vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

Aggregated Stock Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

The following table sets forth the number of shares of Common Stock of SGRP purchased by each of the Named Executive Officers in the exercise of stock options during the year ended December 31, 2005, the value realized in the purchase of such shares (the market value at the time of exercise less the exercise price to purchase such shares), and the number of shares that may be purchased and value of the exercisable and unexercisable options held by each of the Named Executive Officers at December 31, 2005.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the-Money Options at Fiscal Year-End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert G. Brown	--	--	95,746	--	--	--
William H. Bartels	--	--	58,999	--	--	--
Charles Cimitile	--	--	107,500	97,500	6,875	--
Kori G. Belzer	--	--	101,000	116,140	2,800	--
Patricia Franco	--	--	91,000	137,500	2,800	--

Stock Option and Purchase Plans

SGRP has four stock option plans: the 2000 Stock Option Plan ("2000 Plan"), the Special Purpose Stock Option Plan ("Special Purpose Plan"), the Amended and Restated 1995 Stock Option Plan ("1995 Plan") and the 1995 Director's Plan ("Director's Plan").

On December 4, 2000, SGRP adopted the 2000 Plan as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000 under the 1995 Plan). The options have a term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders for whom the term is five years. The exercise price of nonqualified stock options must be equal to at least 85% of the fair market value of SGRP's common stock at the date of grant (although typically the options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of SGRP's common stock at the date of grant. During 2005, options to purchase 1,334,973 shares of SGRP's common stock were granted, options to purchase 57,625 shares of SGRP's common stock were exercised and options to purchase 440,975 shares of SGRP's stock were voluntarily surrendered and cancelled under this plan. At December 31, 2005, options to purchase 2,088,256 shares of SGRP's common stock remain outstanding under this plan and options to purchase 724,221 shares of SGRP's common stock were available for grant under this plan.

On July 8, 1999, in connection with the merger, SGRP established the Special Purpose Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were 134,114 options granted at \$0.01 per share. Since July 8, 1999, SGRP has not granted any new options under this plan. During 2005, no options to purchase shares of SGRP's common stock were exercised under this plan. At December 31, 2005, options to purchase 4,750 shares of SGRP's common stock remain outstanding under this plan.

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of SGRP's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The exercise price of nonqualified stock options must have been equal to at least 85% of the fair market value of SGRP's common stock at the date of grant. Since 2000, SGRP has not granted any new options under this plan. During 2005, 250 options to purchase shares of SGRP's common stock were exercised. At December 31, 2005, options to purchase 14,375 shares of SGRP's common stock remain outstanding under this plan. The 1995 Plan was superseded by the 2000 Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of SGRP's common stock. Since 2000, SGRP has not granted any new options under this plan. During 2005, no options to purchase shares of SGRP's common stock were exercised under this plan. At December 31, 2005, 20,000 options to purchase shares of SGRP's common stock remained outstanding under this plan. The Director's Plan has been replaced by the 2000 Plan with respect to all new options issued.

In 2001, SGRP adopted its 2001 Employee Stock Purchase Plan (the "ESP Plan"), which replaced its earlier existing plan, and its 2001 Consultant Stock Purchase Plan (the "CSP Plan"). These plans were each effective as of June 1, 2001. The ESP Plan allows employees of the Company, and the CSP Plan allows employees of the affiliates of the Company (see Item 13 - Certain Relationships and Related Transactions, below), to purchase SGRP's Common Stock from SGRP without having to pay any brokerage commissions. On August 8, 2002, the Company's Board approved a 15% discount for employee purchases of Common Stock under the ESP Plan and recommended that its affiliates pay a 15% cash bonus for affiliate consultant purchases of Common Stock under the CSP Plan.

Compensation of Directors

The Compensation Committee administers the compensation plan for its outside Directors as well as the compensation for its executives. Each member of SGRP's Board who is not otherwise an employee or officer of SGRP or any subsidiary or affiliate of SGRP (each, an "Eligible Director") is eligible to receive the compensation contemplated under such plan.

The Compensation Committee administers the compensation of directors pursuant to SGRP's Director Compensation Plan for its outside Directors, as approved and amended by the Board (the "Directors Compensation Plan"), as well as the compensation for SGRP's executives.

In November 2005, the Compensation Committee approved and recommended and the Board adopted a change in the Directors Compensation Plan to provide for the payment of Director Compensation all in cash. Each member of SGRP's Board who is not otherwise an employee or officer of SGRP or any subsidiary or affiliate of SGRP (each a "Non-Employee Director") is eligible to receive director's fees of \$30,000 per annum (plus an additional \$5,000 per annum for

the Audit Committee Chairman), payable quarterly. Prior to November 2005, Director Compensation was paid half in cash and half in stock options to purchase shares of SGRP's common stock.

In addition, upon acceptance of the directorship, each Non-Employee Director receives options to purchase 10,000 shares of SGRP's common stock, options to purchase 10,000 additional shares of SGRP's common stock after one year of service and options to purchase 10,000 additional shares of SGRP's common stock for each additional year of service thereafter. All options above have an exercise price equal to 100% of the fair market value of the SGRP's common stock at the date of grant.

All of those options to Non-Employee Directors have been and will be granted under the 2000 Plan described below, under which each member of the Board is eligible to participate. Non-Employee Directors will be reimbursed for all reasonable expenses incurred during the course of their duties. There is no additional compensation for committee participation, phone meetings, or other Board activities.

Severance Agreements

SGRP has entered into a Change of Control Severance Agreement with each of Patricia Franco, SGRP's Chief Information Officer, and Kori G. Belzer, SGRP's Chief Operating Officer, each providing for a lump sum severance payment and other accommodations from the Company to the employee under certain circumstances if, pending or following a change in control, the employee leaves for good reason or is terminated other than in a termination for cause. The payment is equal to the sum of the employee's monthly salary times a multiple equal to 24 months less the number of months by which the termination of employment followed the change in control plus the maximum bonus that would have been paid to the employee (not to exceed 25% of the employee's annual salary).

Compensation Committee Interlocks and Insider Participation

No member of the Board's Audit, Compensation or Governance Committee was at any time during the year ended December 31, 2005, or at any other time an officer or employee of the Company. No executive officer of the Company or Board member serves as a member of the board of directors, audit, compensation or governance committee of any other entity that has one or more executive officers serving as a member of SGRP's Board, Audit Committee, Compensation Committee or Governance Committee, except for the positions of Messrs. Brown and Bartels as directors and officers of the Company (including each of its subsidiaries) and as directors and officers of each of its affiliates, including SMS, SMSI and SIT (see - Certain Relationships and Related Transactions, below).

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Security Ownership of Certain Beneficial Owners of SGRP

The following table sets forth certain information regarding beneficial ownership of SGRP's common stock as of March 15, 2006 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 -----	Percentage -----
Common Shares	Robert G. Brown (1)	8,644,218 (2)	45.5%
Common Shares	William H. Bartels (1)	5,570,161 (3)	29.4%
Common Shares	Robert O. Aders (1)	164,929 (4)	*
Common Shares	Jack W. Partridge (1)	109,019 (5)	*
Common Shares	Jerry B. Gilbert (1)	102,360 (6)	*
Common Shares	Lorrence T. Kellar (1)	102,387 (7)	*
Common Shares	Charles Cimitile (1)	128,750 (8)	*
Common Shares	Kori G. Belzer (1)	133,235 (9)	*
Common Shares	Patricia Franco (1)	175,122 (10)	*
Common Shares	Richard J. Riordan (11) 300 South Grand Avenue, Suite 2900 Los Angeles, California 90071	1,209,922	6.4%
Common Shares	Heartland Advisors, Inc. (12) 790 North Milwaukee Street Milwaukee, Wisconsin 53202	1,228,000	6.5%
Common Shares	Executive Officers and Directors	15,130,181	80.0%

* Less than 1% (1) The address of such owners is c/o SPAR Group, Inc. 580 White Plains Road, Tarrytown, New York 10591.

(2) Includes 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. Includes 95,747 shares issuable upon exercise of options.

(3) 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 which are disclaimed by Mr. Bartels. Includes 58,999 shares issuable upon exercise of options.

(4) Includes 93,275 shares issuable upon exercise of options.

(5) Includes 98,051 shares issuable upon exercise of options.

(6) Includes 102,360 shares issuable upon exercise of options.

(7) Includes 96,239 shares issuable upon exercise of options.

(8) Includes 128,750 shares issuable upon exercise of options.

(9) Includes 131,285 shares issuable upon exercise of options.

(10) Includes 121,025 shares issuable upon exercise of options.

(11) Share ownership was confirmed with SGRP's stock transfer agent and the principal.

(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 December 31, 2005.

Equity Compensation Plans

The following table contains a summary of the number of shares of Common Stock of SGRP to be issued upon the exercise of options, warrants and rights outstanding at December 31, 2005, the weighted-average exercise price of those outstanding options, warrants and rights, and the number of additional shares of Common Stock remaining available for future issuance under the plans as at December 31, 2005.

Equity Compensation Plan Information			
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	Weighted average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance of options, warrants and rights (#)
Equity compensation plans approved by security holders	2,127,381	\$1.53	724,221
Equity compensation plans not approved by security holders	--	--	--
Total	2,127,381	\$1.53	724,221

Item 13. Certain Relationships and Related Transactions.

Mr. Robert G. Brown, a Director, the Chairman, President and Chief Executive Officer of the Company 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 merchandising specialists in the field (through its independent contractor field force) and approximately 86% of the Company's field management at a total cost of approximately \$20.0 million, \$24.4 million, and \$36.0 million for 2005, 2004, and 2003, 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 5,600 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 44 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 \$770,000, \$320,000, and \$1,350,000 for 2005, 2004, and 2003, 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 \$771,000, \$1,170,000, and \$1,610,000 for 2005, 2004, and 2003, respectively. SIT provided approximately 25,000, 34,000, and 47,000 hours of Internet computer programming services to the Company for 2005, 2004, and 2003, 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 \$30.34, \$34.71, and \$34.24 for 2005, 2004, and 2003, 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's agreements with SMS, SMSI and SIT are periodically reviewed by SGRP's Audit Committee, which includes an examination of the overall fairness of the arrangements. In February 2004, the Audit Committee approved separate amended and restated agreements with each of SMS, SMSI and SIT, effective as of January 1, 2004. The restated agreements extend the contract maturities for four years, strengthened various contractual provisions in each agreement and continued the basic economic terms of the existing agreements, except that the restated agreement with SMSI provides for temporary concessions to the Company by SMSI totaling approximately \$640,000 for 2004. In February and May of 2005, the Audit Committee approved the separate handheld computer leases and amendments.

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 the Company.

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.

Item 14. Principal Accountant Fees and Services.

On October 4, 2004, Ernst & Young LLP ("E&Y") resigned as the independent registered public accounting firm for the Company and its subsidiaries. The resignation was effective upon completion of E&Y's review of the interim financial information for the Company's third fiscal quarter ended September 30, 2004, and the filing of the Company's quarterly report on Form 10-Q for such period.

In January 2005, the Company, with the approval of the Company's Audit Committee, appointed Rehmann Robson ("Rehmann") as its independent registered public accounting firm.

During the Company's fiscal year ended December 31, 2005 and 2004, respectively, the Company and its subsidiaries did not engage Rehmann or E&Y to provide advice regarding financial information systems design or implementation, but did engage Rehmann in 2005 to review the Company's 2004 tax return and preliminary 404 documentation for which Rehmann was paid \$17,502 and \$3,525, respectively. No other non-audit services were performed by Rehmann in 2005 or 2004. 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 the Company's Audit Committee, or (ii) fit within a pre-approved "basket" of non-audit services of limited amount, scope and duration established in advance by the Company'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 non-audit services would be compatible with maintaining the independence of Rehmann.

Audit Fees

During the Company's fiscal year ended December 31, 2005 and 2004, respectively, fees billed by Rehmann for all audit services rendered to the Company and its subsidiaries were \$111,002 and \$132,225, respectively. Fees paid to E&Y for all audit services rendered to the Company and its subsidiaries for the fiscal year ended December 31, 2004 was \$100,203. Audit services principally include fees for the Company's year end and 401K audits and 10-Q filing reviews. Since 2003, as required by law, the choice of the Company's auditor and the audit services to be performed by it have been approved in advance by the Company's Audit Committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

Reports of Independent Registered Public Accounting Firms	
- Rehmann Robson.	F-1
- Gureli Yeminli Mali/Musavirlik A.S.	F-2
- Baker Tilly Klitou and Partner S.R.L.	F-3
- S.S. Kothari Mehta & Co.	F-4
- Ernst & Young LLP.	F-5
Consolidated Balance Sheets as of December 31, 2005, and December 31, 2004.	F-6
Consolidated Statements of Operations for the years ended December 31, 2005, December 31, 2004, and December 31, 2003.	F-7

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2005, December 31, 2004, and December 31, 2003. F-8

Consolidated Statements of Cash Flows for the years ended December 31, 2005, December 31, 2004, and December 31, 2003. F-9

Notes to Consolidated Financial Statements. F-10

2. Financial Statement Schedules.

Schedule II - Valuation and Qualifying Accounts for the three

years ended December 31, 2005. F-33

3. Exhibits.

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

3.6	SPAR Group, Inc. Statement of Policy Respecting Stockholder Communications with Directors, adopted on May 18, 2004 (incorporated by reference to the Company's report on Form
-----	---

- 8-K, as filed with the SEC on May 27, 2004).
- 3.7 SPAR Group, Inc. Statement of Policy Regarding Director Qualifications and Nominations, adopted on May 18, 2004 (incorporated by reference to the Company's report on Form 8-K, as filed with the SEC on May 27, 2004).
 - 4.1 Registration Rights Agreement entered into as of January 21, 1992, by and between RVM Holding Corporation, RVM/PIA, a California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverine (incorporated by reference to the Form S-1).
 - 10.1 2000 Stock Option Plan, as amended, (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
 - 10.2 2001 Employee Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
 - 10.3 2001 Consultant Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
 - 10.4 Amended and Restated Field Service Agreement dated and effective as of January 1, 2004, by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
 - 10.5 Amended and Restated Field Management Agreement dated and effective as of January 1, 2004, by and between SPAR Management Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
 - 10.6 Amended and Restated Programming and Support Agreement dated and effective as of January 1, 2004, by and between SPAR InfoTech, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 21, 2004).
 - 10.7 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2002).
 - 10.8 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2002).
 - 10.9 Stock Purchase and Sale Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2002, as filed with the SEC on August 14, 2002).
 - 10.10 Revolving Credit, Guaranty and Security Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2002, as filed with the SEC on August 14, 2002).
 - 10.11 Term Loan, Guaranty and Security Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to

10.12 Promissory Note in the principal amount of \$764,271.00 by

- STIMULYS, Inc., in favor of SPAR Incentive Marketing, Inc., dated as of September 10, 2004 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.13 Payoff and Release Letter by and between STIMULYS, Inc., and SPAR Incentive Marketing, Inc., dated as of September 10, 2004 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.14 Sales Proceeds Agreement by and between STIMULYS, Inc. and SPAR Incentive Marketing, Inc., dated as of September 10, 2004 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.15 Third Amended and Restated Revolving Credit and Security Agreement by and among Whitehall Business Credit Corporation (the "Lender") with SPAR Marketing Force, Inc., SPAR Group, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., SPAR Group International, Inc., SPAR Technology Group, Inc., SPAR/PIA Retail Services, Inc., Retail Resources, Inc., Pivotal Field Services Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co. and Pivotal Sales Company (collectively, the "Existing Borrowers"), dated as of January 24, 2003 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002, as filed with the SEC on March 31, 2003).
- 10.16 Waiver And Amendment No. 3 To Third Amended And Restated Revolving Credit And Security Agreement entered into as of March 26, 2004 (incorporated by reference to the Company's report on Form 8-K, as filed with the SEC on May 26, 2004).
- 10.17 Joinder, Waiver And Amendment No. 4 To Third Amended And Restated Revolving Credit And Security Agreement entered into as of May 17, 2004 (incorporated by reference to the Company's report on Form 8-K, as filed with the SEC on May 26, 2004).
- 10.18 Waiver and Amendment to Third Amended and Restated Revolving Credit and Security Agreement by and among the Lender and the Borrowers dated as of January 2004 (incorporated by reference to the Company's report on Form 10-K/A for the year ended December 31, 2003, as filed with the SEC on June 28, 2004).
- 10.19 Waiver and Amendment No. 5 to Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of August 20, 2004 (incorporated by reference to the Company's quarterly report of the quarter ended June 30, 2004, as filed with the SEC on August 23, 2004).
- 10.20 Waiver and Amendment No. 6 to Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of November 12, 2004 (incorporated by reference to the Company's quarterly report for the quarter ended September 30, 2004, as filed with the SEC on November 17, 2004).
- 10.21 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of March 31, 2004 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.22 Consent, Joinder, Release and Amendment Agreement dated as of October 31, 2003, by and among the Lender, the Existing Borrowers and SPAR All Store Marketing, Inc., as a Borrower (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2003, as filed with the SEC on March 31, 2004).

- 10.23 Change in Control Severance Agreement between Kori Belzer and SPAR Group, Inc., dated as of August 12, 2004 (incorporated by reference to the Company's quarterly report of the quarter ended June 30, 2004, as filed with the SEC on August 23, 2004).
- 10.24 Change in Control Severance Agreement between Patricia Franco and SPAR Group, Inc., dated as of August 12, 2004 (incorporated by reference to the Company's quarterly report of the quarter ended June 30, 2004, as filed with the SEC on August 23, 2004).
- 10.25 Master Lease Agreement by and between SPAR Marketing Services, Inc. and SPAR Marketing Force, Inc. dated as of November 2004 relating to lease of handheld computer equipment (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.26 Master Lease Agreement by and between SPAR Marketing Services, Inc. and SPAR Canada Company dated as of January 2005 relating to lease of handheld computer equipment (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.27 Joint Venture Agreement dated as of March 26, 2004, by and between Solutions Integrated Marketing Services Ltd. and SPAR Group International, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.28 Joint Venture Shareholders Agreement between Friedshelf 401 (Proprietary) Limited, SPAR Group International, Inc., Derek O'Brien, Brian Mason, SMD Meridian CC, Meridian Sales & Mnrechandisign (Western Cape) CC, Retail Consumer Marketing CC, Merhold Holding Trust in respect of SGRP Meridian (Proprietary) Limited, dated as of June 25, 2004 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.29 Joint Venture Agreement dated as of July 21, 2003, by and between CEO Produksiyon Tanitim ve Arastirma Hizmetleri Ltd Sti and SPAR Group International, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.30 Joint Venture Agreement dated as of May 1, 2001, by and between Paltac Corporation and SPAR Group, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.31 Agreement on Amendment dated as of August 1, 2004, by and between SPAR Group, Inc. and SPAR FM Japan, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.32 Joint Venture Agreement dated as of January 26, 2005, by and between Best Mark Investments Holdings Ltd. and SPAR International Ltd. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.33 Joint Venture Agreement dated as of December 14, 2004, by and between Field Insights S.R.L. and SPAR Group International, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed with the SEC on April 12, 2005).
- 10.34 Amended and Restated Equipment Leasing Schedule 001 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of November 1, 2004, relating to lease of handheld computer equipment (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.35 Amended and Restated Equipment Leasing Schedule 002 to Master

2005, relating to lease of handheld computer equipment (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).

- 10.36 Amended and Restated Equipment Leasing Schedule 003 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of January 31, 2005, relating to lease of handheld computer equipment (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.37 Amended and Restated Equipment Leasing Schedule 001 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Canada Company dated as of January 4, 2005, relating to lease of handheld computer equipment (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.38 Equipment Leasing Schedule 004 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of March 24, 2005, relating to lease of handheld computer equipment (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.39 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of March 31, 2005 (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.40 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of May 11, 2005 (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended March 31, 2005, as filed with the SEC on May 18, 2005).
- 10.41 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of August 10, 2005, with respect to the fiscal quarter ended June 30, 2005 (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended June 30, 2005, as filed with the SEC on August 15, 2005).
- 10.42 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of November 10, 2005, with respect to the fiscal quarter ended September 30, 2005 (incorporated by reference to the Company's quarterly report on Form 10-Q for quarter ended September 30, 2005, as filed with the SEC on November 14, 2005).
- 10.43 Amendment No. 7 to the Third Amended and Restated Revolving Credit and Security Agreement dated as of January 18, 2006, by and among, SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., the Registrant, SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., SPAR Technology Group, Inc., SPAR/PIA Retail Services, Inc., Retail Resources, Inc., Pivotal Field Services, Inc., PIA Merchandising Co., Inc., Pacific Indoor Display, Inc., Pivotal Sales Company, SPAR All Store Marketing Services, Inc., and SPAR Bert Fife, Inc., each as a "Borrower" and collectively as the "Borrowers" thereunder, and Webster Business Credit Corporation (formerly known as Whitehall Business Credit Corporation), as the "Lender" thereunder (incorporated by reference to the Company's report on the Form 8-K, as filed with the SEC on January 26, 2006).
- 14.1 Code of Ethical Conduct for the Directors, Senior Executives and Employees, of SPAR Group, Inc., dated May 1, 2004

(incorporated by reference to the Company's Form 8-K, as filed with the SEC on May 5, 2004).

14.2 Statement of Policy Regarding Personal Securities Transaction in Company Stock and Non-Public Information, as amended and restated on May 1, 2004 (incorporated by reference to the Company's Form 8-K, as filed with the SEC on May 5, 2004).

21.1 List of Subsidiaries.

23.1 Consent of Rehmann Robson.

23.2 Consent of Gureli Yeminli Mali Musavirlik A.S.

23.3 Consent of Baker Tilly Klitou and Partners S.R.L.

23.4 Consent of S.S. Kothari Mehta & Co.

23.5 Consent of Ernst & Young LLP.

31.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and filed herewith.

31.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, and filed herewith.

32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and filed herewith.

32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to the report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPAR Group, Inc.

By: /s/ Robert G. Brown

Robert G. Brown
President, Chief Executive Officer and
Chairman of the Board

Date: March 31, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this amendment to the report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE TITLE

/s/ Robert G. Brown President, Chief Executive Officer, Director,
----- and Chairman of the Board

Robert G. Brown
Date: March 31, 2006

/s/ William H. Bartels Vice Chairman and Director

William H. Bartels
Date: March 31, 2006

/s/ Robert O. Aders Director

Robert O. Aders
Date: March 31, 2006

/s/ Jack W. Partridge Director

Jack W. Partridge
Date: March 31, 2006

/s/ Jerry B. Gilbert Director

Jerry B. Gilbert
Date: March 31, 2006

/s/ Lorrence T. Kellar Director

Lorrence T. Kellar
Date: March 31, 2006

/s/ Charles Cimitile Chief Financial Officer,
----- Treasurer and Secretary (Principal Financial and
Accounting Officer)

Charles Cimitile
Date: March 31, 2006

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
SPAR Group, Inc. and Subsidiaries
Tarrytown, New York

We have audited the accompanying consolidated balance sheets of SPAR Group, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule for these years listed in the index at Item 15. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits. We did not audit the financial statements of SPAR Merchandising Romania, Ltd.; SPAR Turkey, Ltd. (SPAR Alan Pazarlama Hizmetleri Limited Sirketi); or SPAR Solutions India Private Limited as of and for the year ended December 31, 2005. These statements reflect total assets constituting 4.9% of consolidated total assets as of December 31, 2005, and total revenues constituting 2.7% of total consolidated revenue for the year then ended. Such financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for SPAR Merchandising Romania, Ltd.; SPAR Turkey, Ltd. (SPAR Alan Pazarlama Hizmetleri Limited Sirketi); and SPAR Solutions India Private Limited for 2005, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors for 2005, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPAR Group, Inc. and Subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial schedule for those years, when considered in relation to the consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

/s/ Rehmann Robson

*Troy, Michigan
March 16, 2006*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SPAR Alan Pazarlama Hizmetleri Limited Sirketi Istanbul, Turkey

We have audited the accompanying balance sheets of Spar Alan Pazarlama Hizmetleri Limited Sirketi (the "Company") as at December 31, 2005 and the related statement of operations and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and the result of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

*/s/ Gureli Yeminli Mali Musavirlik A.S.
An independent member of Baker Tilly International*

*Istanbul, Turkey
March 10, 2006*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SPAR Merchandising Romania S.R.L.
Bucharest, Romania

We have audited the accompanying balance sheet of Spar Merchandising Romania SRL as of December 31, 2005, and related statements of operations, stockholders' equity, and cash flows for the period from April 20, 2005 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the company as of December 31, 2005, and the results of its operations and its cash flows for the period from April 20, 2005 to December 31, 2005 in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Klitou and Partners S.R.L.

*Bucharest, Romania
March 29, 2006*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SPAR Solutions Merchandising Private Limited New Delhi, India

We have audited the attached balance sheets of SPAR Solutions Merchandising Private Limited, a company incorporated in India, as at 31st December, 2005 and 2004 and also the Statements of Income, Changes in shareholders' equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the company as at 31st December 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ S.S. Kothari Mehta & Co.

*New Delhi, India
March 30, 2006*

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
SPAR Group, Inc. and Subsidiaries
Tarrytown, New York

We have audited the consolidated statements of operations, stockholders' equity and cash flows of SPAR Group, Inc. and Subsidiaries for the year ended December 31, 2003. Our audit also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of SPAR Group, Inc.'s operations and its cash flows for the year ended December 31, 2003, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

*Minneapolis, Minnesota
February 13, 2004*

SPAR Group, Inc. and Subsidiaries

Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31,	
	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,914	\$ 887
Accounts receivable, net	10,656	11,307
Prepaid expenses and other current assets	702	657
	-----	-----
Total current assets	13,272	12,851
Property and equipment, net	1,131	1,536
Goodwill	798	798
Other assets	216	636
	-----	-----
Total assets	\$ 15,417	\$ 15,821
	=====	=====
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,597	\$ 2,158
Accrued expenses and other current liabilities	2,639	2,391
Accrued expenses due to affiliates	1,190	987
Restructuring charges	99	250
Customer deposits	1,658	1,147
Lines of credit	2,969	4,956
	-----	-----
Total current liabilities	10,152	11,889
Other long-term liabilities	10	12
Minority interest	405	206
	-----	-----
Total liabilities	10,567	12,107
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares - 3,000,000		
Issued and outstanding shares - none	-	-
Common stock, \$.01 par value:		
Authorized shares - 47,000,000		
Issued and outstanding shares -		
18,916,847 - 2005		
18,858,972 - 2004	189	189
Treasury stock	(1)	(108)
Accumulated other comprehensive gain (loss)	17	(86)
Additional paid-in capital	11,059	11,011
Accumulated deficit	(6,414)	(7,292)
	-----	-----
Total stockholders' equity	4,850	3,714
	-----	-----
Total liabilities and stockholders' equity	\$ 15,417	\$ 15,821
	=====	=====

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Operations
(In thousands, except per share data)

	Year Ended December 31,		
	2005	2004	2003
Net revenues	\$ 51,586	\$ 51,370	\$ 64,859
Cost of revenues	31,939	33,644	42,338
Gross profit	19,647	17,726	22,521
Selling, general and administrative expenses	17,561	20,222	20,967
Impairment charges	-	8,141	-
Depreciation and amortization	1,031	1,399	1,529
Operating income (loss)	1,055	(12,036)	25
Interest expense	191	220	269
Other (income) expense	(424)	(754)	237
Income (loss) before provision for income taxes and minority interest	1,288	(11,502)	(481)
Provision for income taxes	242	853	58
Net income (loss) before minority interest	1,046	(12,355)	(539)
Minority interest	168	(87)	-
Net income (loss)	\$ 878	\$ (12,268)	\$ (539)
=====			
Basic/diluted net income (loss) per common share:			
Net income (loss) - basic/diluted	\$ 0.05	\$ (0.65)	\$ (0.03)
=====			
Weighted average common shares - basic	18,904	18,859	18,855
=====			
Weighted average common shares - diluted	19,360	18,859	18,855
=====			

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock			Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)Gain	Total Stockholders' Equity
	Shares	Amount	Treasury Stock				
Balance at January 1, 2003	18,825	\$ 188	(30)	\$ 10,919	\$ 5,515	\$ -	\$ 16,592
Stock options exercised and employee stock purchase plan purchases	34	1	570	(86)	-	-	485
Issuance of stock options to non- employees for services	-	-	-	416	-	-	416
Purchase of treasury stock	-	-	(924)	-	-	-	(924)
Comprehensive loss:							
Foreign currency translation loss						(7)	(7)
Net loss					(539)		(539)
Comprehensive loss							(546)
Balance at December 31, 2003	18,859	189	(384)	11,249	4,976	(7)	16,023
Stock options exercised and employee stock purchase plan purchases	-	-	276	(316)	-	-	(40)
Issuance of stock options to non- employees for services	-	-	-	78	-	-	78
Comprehensive loss:							
Foreign currency translation loss						(79)	(79)
Net loss					(12,268)		(12,268)
Comprehensive loss							(12,347)
Balance at December 31, 2004	18,859	189	(108)	11,011	(7,292)	(86)	3,714
Stock options exercised and employee stock purchase plan purchases	58	-	107	(22)	-	-	85
Issuance of stock options to non- employees for services	-	-	-	70	-	-	70
Comprehensive gain:							
Foreign currency translation gain						103	103
Net income					878		878
Comprehensive gain							981
Balance at December 31, 2005	18,917	\$ 189	(1)	\$ 11,059	\$ (6,414)	\$ 17	\$ 4,850

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2005	2004	2003
Operating activities			
Net income (loss)	\$ 878	\$ (12,268)	\$ (539)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Impairment charges	-	8,141	-
Minority interest earnings in subsidiaries	168	(87)	-
Share of loss in joint venture	-	-	270
Deferred tax asset adjustments	-	710	(131)
Depreciation	1,031	1,399	1,529
Issuance of stock options for service	70	78	416
Changes in operating assets and liabilities:			
Accounts receivable	650	2,635	2,516
Prepaid expenses and other assets	375	(126)	(330)
Accounts payable, accrued expenses, other current liabilities and customer deposits	201	756	422
Accrued expenses due to affiliates	203	(104)	133
Restructuring charges	(151)	250	(904)
Net cash provided by operating activities	3,425	1,384	3,382
Investing activities			
Purchases of property and equipment	(628)	(1,260)	(1,456)
Deposit related to acquisition	-	350	(350)
Acquisition of businesses	-	(399)	(1,091)
Net cash used in investing activities	(628)	(1,309)	(2,897)
Financing activities			
Net (payments) borrowings on lines of credit	(1,987)	872	3,936
Other long-term liabilities	29	35	-
Proceeds from employee stock purchase plan and exercised options	85	(40)	485
Payments of loans from stockholders	-	-	(3,951)
Purchase of treasury stock	-	-	(924)
Net cash (used in) provided by financing activities	(1,873)	867	(454)
Translation gain (loss)	103	(79)	(7)
Net change in cash and cash equivalents	1,027	863	24
Cash and cash equivalents at beginning of year	887	24	-
Cash and cash equivalents at end of year	\$ 1,914	\$ 887	\$ 24
Supplemental disclosure of cash flows information			
Interest paid	\$ 132	\$ 180	\$ 241
Income taxes paid	\$ 127	\$ 86	\$ 578

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005

1. Business and Organization

The SPAR Group, Inc. (formerly known as PIA Merchandising Services, Inc.), a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides in-store event staffing, product sampling, Radio Frequency Identification ("RFID") services, technology services and marketing research services.

SPAR Acquisition, Inc., and its subsidiaries (the "SPAR Companies") are the original predecessor of the Company and were founded in 1967. On July 8, 1999, SPAR Companies completed a reverse merger with SGRP (the "PIA Acquisition"), and SGRP then changed its name to SPAR Group, Inc., from PIA Merchandising Services, Inc. (prior to such merger, "PIA"). The SPAR Companies were deemed to have "purchased" PIA and its subsidiaries (the "PIA Companies") for accounting purposes, with the books and records of the Company being adjusted to reflect the historical operating results of the SPAR Companies. In 2002, the Company sold its Incentive Marketing Division, SPAR Performance Group, Inc. ("SPGI").

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, convenience and grocery stores. The International Merchandising Services Division, established in July 2000, currently provides similar merchandising and marketing services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in Turkey, South Africa, India and Romania and through 50% owned joint ventures in Japan and China. In September 2005, the Company entered into a 51% owned joint venture subsidiary in Lithuania which is projected to begin operations in April 2006. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

Domestic Merchandising Services Division

The Company's Domestic Merchandising Services Division provides nationwide merchandising and other marketing services 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 products companies in the United States.

Merchandising 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 primarily under single or multi-year contracts or agreements. 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, and include new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. The Company also provides in-store event staffing services, RFID services, technology services and marketing research services.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

1. Business and Organization (continued)

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. The Company has expanded its international business as follows:

Date Established	Percent Ownership in Subsidiary or Joint Venture	Location
May 2001	50%	Osaka, Japan
June 2003	100%	Toronto, Canada
July 2003	51%	Istanbul, Turkey
April 2004	51%	Durban, South Africa
April 2004	51%	New Delhi, India
December 2004	51%	Bucharest, Romania
February 2005	50%	Hong Kong, China
September 2005	51%	Siauliai, Lithuania

The joint venture in Lithuania is projected to begin operations in April 2006.

Discontinued Operations - Incentive Marketing Division

In the fourth quarter of 2001, the Company made the decision to divest its interest in SPGI.

On June 30, 2002, SPAR Incentive Marketing, Inc. ("SIM"), a wholly-owned subsidiary of the Company, entered into a Stock Purchase and Sale Agreement with Performance Holdings, Inc. ("PHI"), a Delaware corporation headquartered in Carrollton, Texas. Pursuant to that agreement, SIM sold all of the stock of SPGI, its subsidiary, to PHI for \$6.0 million. As a condition of the sale, PHI issued and contributed 1,000,000 shares of its common stock to Performance Holdings, Inc. Employee Stock Ownership Plan, which became the only shareholder of PHI.

The \$6.0 million sales price was evidenced by two Term Loans, an Initial Term Loan totaling \$2.5 million and an Additional Term Loan totaling \$3.5 million (collectively the "Term Loans"). The Term Loans were guaranteed by SPGI and secured by pledges of all assets of PHI and SPGI. The Term Loans had interest rates of 12% per annum through December 31, 2003. On January 1, 2004 the interest rate changed to 8.9% per annum. Because the collection of the notes depended on the future operations of PHI, the \$6.0 million notes were fully reserved.

Also in connection with the sale, the Company agreed to provide a discretionary revolving line of credit to SPGI not to exceed \$2.0 million (the "SPGI Revolver") through September 30, 2005. The SPGI Revolver was secured by a pledge of all the assets of SPGI and was guaranteed by SPGI's parent, Performance Holdings, Inc. The SPGI Revolver provided for advances in excess of the borrowing base through September 30, 2003. As of October 1, 2003, the SPGI Revolver was adjusted, as per the agreement, to include a borrowing base calculation (principally 85% of "eligible" accounts receivable). In September

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

1. Business and Organization (continued)

2003, SPGI requested and the Company agreed to provide advances of up to \$1.0 million in excess of the borrowing base through September 30, 2004. In December of 2003, SPGI changed its name to STIMULYS, Inc ("STIMULYS"). On April 30, 2004, as a result of various defaults by STIMULYS, the Company amended the discretionary line of credit by eliminating advances in excess of STIMULYS' borrowing base and reducing the maximum amount of the revolving line to the greater of \$1.0 million or the borrowing base. Under the SPGI Revolver terms, STIMULYS was required to deposit all of its cash receipts to the Company's lock box.

On September 10, 2004, in consideration for a new Promissory Note totaling \$764,271 (which represented the amount outstanding under the SPGI Revolver at that time) and in the event of a change in control of STIMULYS, a share in the net proceeds resulting from such change in control, the Company terminated the SPGI Revolver and the Term Loans. SPAR also released its security interest in any collateral previously pledged by STIMULYS. The first payment due under the Promissory Note was received on October 29, 2004. Due to the collection risk associated with the Promissory Note, the Company has established a reserve for the remaining amount due, including interest of approximately \$355,000 at December 31, 2004.

As a result of the termination of the SPGI Revolver, the reserve for collection of advances and accrued interest under the SPGI Revolver previously established by the Company totaling approximately \$984,000 was no longer required. The release of this reserve, net of the new reserve required for the Promissory Note, resulted in Other Income totaling approximately \$640,000 for 2004.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company consolidates its 100% owned subsidiaries. The Company also consolidates its 51% owned joint venture subsidiaries and its 50% owned joint ventures where the Company is the primary beneficiary in accordance with Financial Accounting Standards Board Interpretation Number 46, as revised December 2003, Consolidation of Variable Interest Entities ("FIN 46(R)").

In 2004, due to the amendment of a royalty agreement between the Company and its 50% owned Japanese joint venture, the Company has determined that in accordance with FIN 46(R) it is the primary beneficiary of the Japanese joint venture, and has consolidated the Japanese financial results for 2005 and 2004 in accordance with the provisions of FIN 46(R). In connection with the consolidation of the Japanese joint venture's financial results as of and for the period ending September 30, 2004, the Company's consolidated financial statements only include the Japanese joint venture financial results for nine months ended September 30, 2004. In 2005, the Japanese joint venture changed its fiscal year from September 30 to December 31, this report reflects its consolidation for the fiscal years ending September 30, 2005 and 2004. The results for the short period from October 1, 2005 to December 31, 2005 were not material and will be included with the Company's 2006 first quarter reporting on Form 10-Q. In 2003, prior to the amendment of the royalty agreement, the investment in the Japanese joint venture was accounted for using the equity method based upon the Company's 50% ownership.

All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents

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

Notes to Consolidated Financial Statements (continued) December 31, 2005

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

Unbilled Accounts Receivable

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

Doubtful Accounts, Sales Allowances and Credit Risks

The Company continually monitors the validity of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances, net of any applicable reserves or allowances, are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based in part on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$616,000 and \$761,000 at December 31, 2005 and 2004, respectively. Bad debt and sales allowance expenses were \$38,000, \$366,000, and \$825,000 in 2005, 2004, and 2003, respectively.

Property and Equipment

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

Internal Use Software Development Costs

In accordance with SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes certain costs associated with its internally developed software. Specifically, the Company capitalizes the costs of materials and services incurred in developing or obtaining internal use software. These costs include (but are not limited to) the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to the Company's software development projects. Capitalized software development costs are amortized over three years.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

2. Summary of Significant Accounting Policies (continued)

The Company capitalized \$346,000, \$559,000, and \$1,004,000 of costs related to software developed for internal use in 2005, 2004, and 2003, respectively, and amortized capitalized software of approximately \$516,000, \$638,000 and \$690,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

In 2004, the Company recorded an impairment charge against capitalized software costs due to the loss of certain clients during the year (see Note 3 - Impairment Charges).

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may be higher than its fair value. If an asset is considered to be impaired, the impairment charge recognized is the excess of the asset's carrying value over the asset's fair value (see Note 3 - Impairment Charges).

Fair Value of Financial Instruments

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

Excess Cash

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

Major Clients - Domestic

One client accounted for 20%, 14%, and 8% of the Company's domestic net revenues for the years ended December 31, 2005, 2004, and 2003, respectively. This client also accounted for approximately 13% and 29% of the Company's domestic accounts receivable at December 31, 2005 and 2004, respectively.

In addition, approximately 16%, 16%, and 17% of the Company's domestic net revenues for the years ended December 31, 2005, 2004, and 2003, respectively, resulted from merchandising and marketing services performed for manufacturers and others in stores operated by a leading mass merchandising chain. These clients also accounted for approximately 23% and 22% of the Company's domestic accounts receivable at December 31, 2005 and 2004, respectively.

Also, approximately 17% and 4% of the Company's domestic net revenues for the years ended December 31, 2005 and 2004, respectively, resulted from merchandising and marketing services performed for manufacturers and others in stores operated by a leading electronics chain. These clients also accounted for 24% and 16% of the Company's domestic accounts receivable at December 31, 2005 and 2004, respectively.

Another client accounted for 10% of the Company's domestic net revenues for the years ended December 31, 2005. This client also accounted for approximately 5% of the Company's domestic accounts receivable at December 31, 2005.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Rate Fluctuations

The Company has foreign currency exposure associated with its international 100% owned subsidiary, its 51% owned joint venture subsidiaries and its 50% owned joint ventures. In both 2005 and 2004, these exposures are primarily concentrated in the Canadian dollar, South African rand and Japanese yen. At December 31, 2005, international assets totaled \$5.0 million and international liabilities totaled \$7.5 million. For 2005, international revenues totaled \$14.9 million and the Company's share of the net income was approximately \$167,000.

Interest Rate Fluctuations

At December 31, 2005, the Company's outstanding debt totaled \$3.0 million, which consisted of domestic variable-rate (8%) debt of \$2.4 million and international variable rate (1.4%) debt of \$0.6 million. Based on 2005 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact annual pre-tax earnings and cash flows by approximately \$25,000.

Income Taxes

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

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, requires disclosure of the fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. The Company has chosen, under the provisions of SFAS No. 123, to continue to account for employee stock-based transactions under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

2. Summary of Significant Accounting Policies (continued)

Under the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, no compensation cost has been recognized for the stock option grants to Company employees. Compensation cost for the Company's option grants to Company employees has been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net income (loss) and pro forma net income (loss) per share from continuing operations would have been reduced to the adjusted amounts indicated below (in thousands, except per share data):

	Year Ended December 31,		
	2005	2004	2003
Net income (loss), as reported	\$ 878	\$ (12,268)	\$ (539)
Stock based employee compensation expense under the fair market value method	426	454	1,005
Pro forma net income (loss)	\$ 452	\$ (12,722)	\$ (1,544)
Basic and diluted net income (loss) per share, as reported	\$ 0.05	\$ (0.65)	\$ (0.03)
Basic and diluted net income (loss) per share, pro forma	\$ 0.02	\$ (0.67)	\$ (0.08)

The pro forma effect on net income (loss) is not representative of the pro forma effect on net income (loss) in future years because the options vest over several years and additional awards may be made in the future.

The fair value of each option grant is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; volatility factor of expected market price of common stock of 145%, 150%, and 154% for 2005, 2004, and 2003, respectively; risk-free interest rate of 4.37%, 4.23%, and 4.27%; and expected lives of six years.

Net Income (Loss) Per Share

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

Use of Estimates

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

Goodwill

The Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in the first quarter of 2002. Therefore, goodwill is no longer amortized but is subject to annual impairment tests in accordance with that Statement. At June 30, 2004, the Company performed the required impairment test discussed in FAS 142. The Company calculated the fair value of each business

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

2. Summary of Significant Accounting Policies (continued)

unit for which goodwill was recorded to determine if there was an impairment. The fair value of each unit was based upon the estimate of the discounted cash flow generated by the respective business unit. As a result of these calculations, it was determined that there were impairments to the goodwill associated with the PIA Acquisition on July 8, 1999 and acquisition of the Company's Canadian subsidiary in June 2003. Therefore, the Company recorded an impairment charge of approximately \$8.4 million (see Note 3 - Impairment Charges).

Changes to goodwill for the years ended December 31, 2005, 2004, and 2003 were as follows (in thousands):

	2005	2004	2003
	-----	-----	-----
Beginning of the year	\$ 798	\$ 8,749	\$ 7,858
Impairment charges	-	(8,350)	-
Adjustment to merger related and restructure liabilities	-	-	(89)
Acquisitions	-	399	980
	-----	-----	-----
End of the year	\$ 798	\$ 798	\$ 8,749
	=====	=====	=====

Translation of Foreign Currencies

The financial statements of the foreign entities consolidated into SPAR Group, Inc. consolidated financial statements were translated into United States dollar equivalents at exchange rates as follows: balance sheet accounts for assets and liabilities were converted at year-end rates, equity at historical rates and income statement accounts at average exchange rates for the year. The resulting translation gains and losses are reflected in accumulated other comprehensive gain or losses in the statement of stockholders' equity. Foreign currency transaction gains and losses are reflected in net earnings.

Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment, (SFAS 123R). SFAS 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Instead, the Company will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS 123R will be effective for years beginning after January 1, 2006 and allows, but does not require, the Company to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. See Note 2 - Stock-Based Compensation for the pro forma impact on net income and net income per share from calculating stock-based compensation costs under the fair value alternative of SFAS 123. However, the calculation of compensation cost for share-based payment transactions after the effective date of SFAS 123R may be different from the calculation of compensation cost under SFAS 123, but such differences have not yet been quantified.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the 2005 presentation.

3. Impairment Charges

Goodwill

During 2004, in accordance with the requirements of SFAS 142, the Company determined that there were impairments of the goodwill amounts associated with certain of its reporting entities.

In April 2004, the Company's largest client announced that they signed definitive agreements for the sale of its business to two purchasers. The sale was completed on August 2, 2004. This client accounted for 10%, 26%, and 30% of the Company's domestic net revenues for the twelve months ended December 31, 2005, 2004, and 2003, respectively and was the last remaining profitable business related to the PIA Acquisition on July 8, 1999. At June 30, 2004, the Company had \$7.6 million of goodwill remaining that was related to the PIA Acquisition. As a result of the loss of this major client, the Company does not expect a positive cash flow from this business unit. Therefore, the Company has recorded an impairment of the PIA related goodwill resulting in a non-cash charge of \$7.6 million to the results of the operations for 2004.

In June 2003, the Company began its Canadian operations through the acquisition of substantially all of the business and assets of Impulse Marketing Services, Inc. In connection with this acquisition, the Company recorded goodwill of \$712,000. In June 2004, in accordance with the requirements of SFAS 142 the Company evaluated the recorded goodwill. From June 2003 through June 2004 the Canadian subsidiary had operated at a loss. At the time of the evaluation, the Canadian subsidiary was projecting a loss through the end of 2004 and its return to profitability was uncertain. Based upon its evaluation, the Company recorded an impairment of the related goodwill resulting in a non-cash charge of \$712,000 for 2004.

Capitalized Internal Use Software Development Costs

Historically, the Company has capitalized costs of computer software developed for internal use. Some of the costs capitalized were associated with certain clients to whom the Company no longer provides merchandising and marketing services. As a result of the loss of these clients, the Company recorded an impairment charge for the net book value of internally developed software costs of approximately \$442,000 for 2004.

Other Assets and Liabilities

The Company had approximately \$2.1 million accrued for restructure costs and PIA Acquisition related costs. As a result of the PIA business impairment, the Company evaluated these accruals and determined that only \$0.4 million was required. The Company applied the \$1.7 million (\$1.4 million net of tax effect) reduction in PIA related acquisition liabilities against the remaining goodwill thereby reducing the impairment charges recognized for 2004.

In addition to the above, the Company has recorded an impairment of other assets totaling \$68,000 for 2004.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

3. Impairment Charges (continued)

The above net impairment of \$8.1 million is shown in the accompanying consolidated statement of operations in 2004 as "Impairment charges".

In connection with the above Impairment Charges, the Company also recorded a \$750,000 valuation allowance related to deferred tax assets resulting from PIA net operating loss carryforwards recorded as a result of the PIA Acquisition.

4. Supplemental Balance Sheet Information

Accounts receivable, net, consists of the following (in thousands):

	December 31,	
	2005	2004
Trade	\$ 7,666	\$ 8,178
Unbilled	3,461	3,600
Non-trade	145	290
	11,272	12,068
Less:		
Allowance for doubtful accounts	(616)	(761)
	\$ 10,656	\$ 11,307

Property and equipment consists of the following (in thousands):

	December 31,	
	2005	2004
Equipment	\$ 5,202	\$ 5,397
Furniture and fixtures	570	547
Leasehold improvements	568	138
Capitalized software development costs	1,228	1,629
	7,568	7,711
Less accumulated depreciation and amortization	6,437	6,175
	\$ 1,131	\$ 1,536

Accrued expenses and other current liabilities (in thousands):

	December 31,	
	2005	2004
Merger related payables	\$ -	\$ 450
Accrued medical expenses	136	225
Taxes payable	533	345
Accrued accounting and legal expenses	286	192
Accrued salaries payable	937	328
Other	747	851
	\$ 2,639	\$ 2,391

5. Lines of Credit and Subsequent Events

In January 2003, the Company 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 provided a \$15.0 million revolving credit facility that matured on January 23, 2006. The Credit Facility allowed the Company to borrow up to \$15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). On May 17, 2004, the Credit Facility was amended to among other things, reduce the revolving credit facility from \$15.0 million to \$10.0 million, change the interest rate and increase reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, taxes, depreciation and amortization. The average interest rate for 2005 was 6.9%. At December 31, 2005, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 8.0% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. In connection with the May 17, 2004, amendment, Mr. Robert Brown, a Director, the Chairman, President and Chief Executive Officer and a major stockholder of the Company and Mr. William Bartels, a Director, the Vice Chairman and a major stockholder of the Company, provided personal guarantees totaling \$1.0 million to Webster. On August 20, 2004, the Credit Facility was further amended in connection with the waiver of certain covenant violations (see below). The amendment, among other things, reduced the revolving credit facility from \$10.0 million to \$7.0 million, changed the covenant compliance testing for certain covenants from quarterly to monthly and reduced certain advance rates. On November 15, 2004, the Credit Facility was further amended to delete any required Minimum Net Worth and minimum Fixed Charge Coverage Ratio covenant levels for the year ended December 31, 2004. Those amendments did not change the future covenant levels for 2005.

In January 2006, the Credit Facility was amended to extend its maturity to January 2009 and to reset the Fixed Charge Coverage Ratio and Minimum Net Worth covenants. It further stipulated that should the Company meet its covenants for the year ended December 31, 2005, which it has, Webster would release Mr. Robert Brown and Mr. William Bartels from their obligation to provide personal guarantees totaling \$1.0 million and certain discretionary reserves. The Credit Facility also limits certain expenditures including, but not limited to, capital expenditures and other investments.

The Company was not in violation of any covenants at December 31, 2005, and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants in the future. Should the Company be in violation, there are no assurances that Webster will issue such waivers in the future.

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 December 31, 2005 and 2004, 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 revolving loan balances outstanding under the Credit Facility were \$2.4 million and \$4.1 million at December 31, 2005, and December 31, 2004, respectively. There were letters of credit outstanding under the Credit Facility of \$0.6 million and \$0.7 million at December 31, 2005, and December 31, 2004, respectively. As of December 31, 2005, the SPAR Group had unused availability under the Credit Facility of \$3.2 million out of the remaining maximum \$4.0 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

5. Lines of Credit and Subsequent Events (continued)

In 2001, the Japanese joint venture SPAR FM Japan, Inc. entered into a revolving line of credit arrangement with Japanese banks for 300 million yen or \$2.7 million (based upon the exchange rate at September 30, 2005). At September 30, 2005, SPAR FM Japan, Inc. had 70 million yen or approximately \$600,000 loan balance outstanding under the line of credit. The average interest rate for 2005 and the interest rate at September 30, 2005 were 1.4%.

6. Income Taxes

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

	December 31,		
	2005	2004	2003
Current	\$ 242	\$ 103	\$ 189
Deferred	-	750	(131)
	\$ 242	\$ 853	\$ 58

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

	December 31,		
	2005	2004	2003
Provision (benefit) for income taxes at federal statutory rate, net of foreign tax	\$ 334	\$ (3,911)	\$ (77)
State income taxes, net of federal benefit	153	117	95
Permanent differences	14	1,613	41
Change in valuation allowance	(349)	3,013	-
International tax provisions	71	-	-
Other	19	21	(1)
Provision for income taxes	\$ 242	\$ 853	\$ 58

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

6. Income Taxes (continue)

Deferred taxes consist of the following (in thousands):

	December 31,	
	2005	2004
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,405	\$ 5,648
Restructuring	37	266
Deferred revenue	536	384
SIM reserve against loan commitment	147	135
Allowance for doubtful accounts and other receivable	233	288
Other	61	455
Valuation allowance	(6,208)	(6,557)
Total deferred tax assets	211	619
Deferred tax liabilities:		
Capitalized software development costs	211	619
Total deferred tax liabilities	211	619
Net deferred tax assets	\$ -	\$ -

At December 31, 2005, the Company has net operating loss carryforwards (NOLs) of \$8.2 million, related to the PIA Acquisition available to reduce future federal taxable income. The \$8.2 million PIA related net operating loss carryforwards begin to expire in the year 2012. Section 382 of the Internal Revenue Code restricts the annual utilization of the NOLs incurred prior to a change in ownership. Such a change in ownership had occurred in 1999, thereby restricting the NOL's prior to such date available to the Company to approximately \$657,500 per year. In addition, the Company has NOLs related to its prior losses totaling \$6.0 million of which \$1.3 million expires in 2012 and \$4.7 million expires in 2023.

As a result of the loss of several significant clients, 2004 losses and the lack of certainty of continued profitability in 2005, the Company established a valuation allowance equal to the total of its net deferred tax assets of \$6.2 million.

The Company does not provide currently for U.S. income taxes on the undistributed earnings of its foreign subsidiaries since, at the present time, management expects any earnings to be reinvested in the foreign subsidiaries and not distributed.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

7. Commitments and Contingencies

Lease Commitments

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately \$0.9 million, \$1.0 million, and \$0.9 million for 2005, 2004, and 2003, respectively. At December 31, 2005, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

2006	\$	1,086
2007		524
2008		245
2009		71
2010		61

Total	\$	1,987
		=====

International Commitments

The Company's international model is to partner with local merchandising companies and combine their knowledge of the local market with the Company's proprietary software and expertise in the merchandising business. In 2001, the Company established its first joint venture and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, Turkey, South Africa, India, Romania and China. In 2005, the Company also announced the establishment of a joint venture subsidiary in Lithuania, which is projected to begin operations in April of 2006.

Certain of these joint ventures and joint venture subsidiaries are marginally profitable while others are operating at a loss. None of these entities have excess cash reserves. In the event of continued losses, the Company may be required to provide additional cash infusions into these joint ventures and joint venture subsidiaries.

Legal Matters

Safeway Inc. ("Safeway") filed a Complaint against the PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of SGRP, and Pivotal Sales Company ("Pivotal"), a wholly owned subsidiary of PIA Co., and SGRP in Alameda Superior Court, case no. 2001028498 on October 24, 2001, and has subsequently amended it. Safeway alleges causes of action for breach of contract and breach of implied contract. Safeway has most recently alleged monetary damages in the principal sum of \$3,000,000 and alleged interest of \$1,500,000 and has also demanded unspecified costs. 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 them against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment and is seeking damages and injunctive relief. Mediation between the parties occurred in 2004, but did not result in a settlement. PIA Co., Pivotal and SGRP are vigorously defending against Safeway's allegations. It is not possible at this time to determine the likelihood of the outcome of this lawsuit. However, if Safeway prevails respecting its allegations, and PIA Co. and Pivotal lose on their cross-claims and counterclaims, that result could have a material adverse effect on the Company. The Company anticipates that this matter will be resolved in 2006.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

7. Commitments and Contingencies (continued)

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.

8. Treasury Stock

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

The following table summarizes the Company's treasury stock activity for the years 2005, 2004, and 2003.

	Quantity	Amount
	-----	-----
Treasury Stock, January 1, 2003	9,783	\$ 30,073
Purchases	211,315	923,714
Used to fulfill:		
Employee Stock Purchases	(9,848)	(30,297)
Options Exercised	(135,194)	(539,383)
	-----	-----
Treasury Stock, December 31, 2003	76,056	384,107
Used to fulfill:		
Options Exercised	(54,148)	(276,007)
	-----	-----
Treasury Stock, December 31, 2004	21,908	108,100
Used to fulfill:		
Options Exercised	(21,654)	(106,888)
	-----	-----
Treasury Stock, December 31, 2005	254	\$ 1,212
	=====	=====

9. Employee Benefits

Stock Purchase Plans

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

Shares purchased by employees and consultants under the SP Plans were 28,065, 43,023, and 22,561 for 2005, 2004, and 2003, respectively.

The Company's expense resulting from the 15% discount offered to employees and consultants was approximately \$5,000, \$10,000, and \$11,000 for the years ending December 31, 2005, 2004, and 2003, respectively.

Notes to Consolidated Financial Statements (continued) December 31, 2005

9. Employee Benefits (continued)

Retirement/Pension Plans

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Employer contributions were approximately \$27,000, \$97,000, and \$87,000 for 2005, 2004, and 2003, respectively.

In 2003, certain of the Company's employees were covered by union-sponsored, collectively bargained, multi-employer pension plans. Pension expense related to these plans was approximately \$32,000 for the year ended December 31, 2003. There were no employees under union contract in 2005 and 2004.

10. Related-Party Transactions

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 merchandising specialists in the field (through its independent contractor field force) and approximately 86% of the Company's field management at a total cost of approximately \$20.0 million, \$24.4 million, and \$36.0 million for 2005, 2004, and 2003, 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 5,600 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 44 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 \$770,000, \$320,000, and \$1,350,000 for 2005, 2004, and 2003, 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 \$771,000, \$1,170,000, and \$1,610,000 for 2005, 2004, and 2003, respectively. SIT provided approximately 25,000, 34,000, and 47,000 hours of Internet computer programming services to the Company for 2005, 2004, and 2003, 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 \$30.34, \$34.71, and \$34.24 for 2005, 2004, and 2003, 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.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

10. Related-Party Transactions (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"). 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.

Through arrangements with the Company, SMS, SMSI and SIT participate in various benefit plans, insurance policies and similar group purchases by the Company, for which the Company charges them their allocable shares of the costs of those group items and the actual costs of all items paid specifically for them. All transactions between the Company and the above affiliates are paid and/or collected by the Company in the normal course of business.

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

	Year Ended December 31,		
	2005	2004	2003
Services provided by affiliates:			
Independent contractor services (SMS)	\$ 16,333	\$ 19,944	\$ 28,411
Field management services (SMSI)	\$ 3,704	\$ 4,502	\$ 7,600
Handheld computer leases (SMS)	\$ 266	\$ 25	\$ -
Internet and software program consulting services (SIT)	\$ 771	\$ 1,172	\$ 1,607
Accrued expenses due to affiliates (in thousands):			
	December 31,		
	2005	2004	
SPAR Marketing Services, Inc.	\$ 1,190	\$ 987	

In addition to the above, through the services of Affinity Insurance, Ltd., the Company purchased insurance coverage for its casualty and property insurance risk for approximately \$1.1 million for each of the three years ended December 31, 2005, 2004, and 2003. The Company's CEO and Vice Chairman own, through SMSI, a minority (less than 5%) equity interest in Affinity.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

11. Stock Options

SGRP has four stock option plans: the 2000 Stock Option Plan ("2000 Plan"), the Special Purpose Stock Option Plan ("Special Purpose Plan"), the Amended and Restated 1995 Stock Option Plan ("1995 Plan") and the 1995 Director's Plan ("Director's Plan").

On December 4, 2000, SGRP adopted the 2000 Plan as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000 under the 1995 Plan). The options have a term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders for whom the term is five years. The exercise price of nonqualified stock options must be equal to at least 85% of the fair market value of SGRP's common stock at the date of grant (although typically the options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of SGRP's common stock at the date of grant. During 2005, options to purchase 1,334,973 shares of SGRP's common stock were granted, options to purchase 57,625 shares of the Company's common stock were exercised and options to purchase 440,975 shares of SGRP's stock were voluntarily surrendered and cancelled under this plan. At December 31, 2005, options to purchase 2,088,256 shares of SGRP's common stock remain outstanding under this plan and options to purchase 724,221 shares of SGRP's common stock were available for grant under this plan.

On July 8, 1999, in connection with the merger, SGRP established the Special Purpose Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were 134,114 options granted at \$0.01 per share. Since July 8, 1999, SGRP has not granted any new options under this plan. During 2005, no options to purchase shares of the Company's common stock were exercised under this plan. At December 31, 2005, options to purchase 4,750 shares of SGRP's common stock remain outstanding under this plan.

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of SGRP's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The exercise price of nonqualified stock options must have been equal to at least 85% of the fair market value of the Company's common stock at the date of grant. Since 2000, the Company has not granted any new options under this plan. During 2005, 250 options to purchase shares of SGRP's common stock were exercised. At December 31, 2005, options to purchase 14,375 shares of the Company's common stock remain outstanding under this plan. The 1995 Plan was superseded by the 2000 Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of SGRP's common stock. Since 2000, SGRP has not granted any new options under this plan. During 2005, no options to purchase shares of SGRP's common stock were exercised under this plan. At December 31, 2005, 20,000 options to purchase shares of SGRP's common stock remained outstanding under this plan. The Director's Plan has been replaced by the 2000 Plan with respect to all new options issued.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

11. Stock Options (continued)

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

	Shares	Weighted Average Exercise Price
Options outstanding, January 1, 2003	2,098,181	\$ 1.52
Granted	401,020	\$ 3.51
Exercised	(143,641)	1.17
Canceled or expired	(92,750)	2.38
Options outstanding, December 31, 2003	2,262,810	\$ 1.85
Granted	476,417	\$ 1.47
Exercised	(75,802)	0.49
Canceled or expired	(1,372,167)	6.18
Options outstanding, December 31, 2004	1,291,258	\$ 1.66
Granted	1,334,973	\$ 1.32
Exercised	(57,875)	1.20
Canceled or expired	(440,975)	1.30
Options outstanding, December 31, 2005	2,127,381	\$ 1.53
Option price range at end of year	\$0.01 to \$14.00	
	2005	2004
Grant Date weighted average fair value of options granted during the year	\$ 1.32	\$ 1.43
	2003	
		\$ 2.33

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2005	Weighted Average Exercise Price
Less than \$1.00	293,536	7.3 years	\$ 0.74	242,862	\$ 0.71
\$1.01 - \$2.00	1,569,540	7.8 years	1.32	751,549	1.32
\$2.01 - \$4.00	222,805	7.8 years	2.66	132,374	2.65
Greater than \$4.00	41,500	4.1 years	9.37	41,252	9.40
Total	2,127,381			1,168,037	

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

11. Stock Options (continued)

In 2005, the Company recorded an expense of approximately \$70,000 under the provision of SFAS No. 123 dealing with stock option grants to non-employees for stock option grants that were awarded to the employees of the Company's affiliates. The Company determines the fair value of the options granted to non-employees using the Black-Scholes valuation model and expenses that value over the service period. Until an option is vested, 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.

12. Geographic Data

A summary of the Company's net revenue, operating income (loss) and long lived assets by geographic area as of and for the year ended December 31, is as follows (in thousands):

	Year Ended December 31,		
	2005	2004	2003
Net revenue:			

United States	\$ 36,701	\$ 43,163	\$ 64,305
International	14,885	8,207	554
	\$ 51,586	\$ 51,370	\$ 64,859
Total net revenue	\$ 51,586	\$ 51,370	\$ 64,859

	Year Months Ended December 31,		
	2005	2004	2003
Operating income (loss):			

United States	\$ 577	\$ (10,559)	\$ 893
International	478	(1,477)	(868)
	\$ 1,055	\$ (12,036)	\$ 25
Total operating income (loss)	\$ 1,055	\$ (12,036)	\$ 25

	December 31,	
	2005	2004
Long lived assets:		

United States	\$ 1,799	\$ 2,484
International	346	486
	\$ 2,145	\$ 2,970
Total long lived assets	\$ 2,145	\$ 2,970

International revenues disclosed above were based upon revenues reported by the Company's 100% owned foreign subsidiary, its 51% owned foreign joint venture subsidiaries and its 50% owned foreign joint ventures. The joint venture in Japan contributed 11% and 5% of the consolidated net revenue of the Company for the twelve months ended December 31, 2005, and 2004, respectively. For the twelve months ended December 31, 2005, and 2004, the wholly owned Canadian subsidiary contributed 8% and 3% respectively of the consolidated net revenue of the Company. The joint venture subsidiary in South Africa contributed 7% and 8% to the consolidated net revenue of the Company for the twelve months ended

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

12. Geographic Data (continued)

December 31, 2005, and 2004, respectively. Each of the remaining foreign joint venture subsidiaries contributed less than 5% to the consolidated net revenue for the years ending December 31, 2005, and 2004.

13. Restructuring Charges

In 1999, in connection with the PIA Acquisition, the Company's Board of Directors approved a plan to restructure the operations of the PIA Companies. Restructuring costs were composed of committed costs required to integrate the SPAR Companies' and the PIA Companies' field organizations and the consolidation of administrative functions to achieve beneficial synergies and costs savings. At June 30, 2004, the Company evaluated its restructuring reserves and determined that certain restructuring reserves were no longer necessary (see Note 3 - Impairment Charges).

In July 2004, as a result of the loss of several significant clients and the pending sale of the Company's largest client, the Company entered into a plan to restructure and reduce its field force, as well as, its selling, general and administrative cost structure to reflect its lower revenue base. These reductions consist of personnel reductions, personnel related expenses and office closings. As a result of the July restructuring, the Company expensed approximately \$480,000 in the quarter ending September 30, 2004, approximately \$230,000 for severance benefits and approximately \$250,000 for office leases that the Company ceased using. At December 31, 2005, the Company had approximately \$99,000 reserved for future restructure payments that are expected to be paid in 2006. The Company records restructure expenses in the selling, general and administrative section of its consolidated operating statements.

The following table displays a roll forward of the liabilities for restructuring charges from January 1, 2003 to December 31, 2005 (in thousands):

	Employee Separation	Equipment Lease Settlements	Office Lease Settlements	Total
	-----	-----	-----	-----
January 1, 2003 balance	\$ -	\$ 1,169	\$ 420	\$ 1,589
Adjustments in restructuring charges	-	98	(185)	(87)
2003 payments	-	(817)	-	(817)
December 31, 2003, balance	\$ -	\$ 450	\$ 235	\$ 685
Impairment charge (see Note 3 - Impairment Charges)	-	(450)	(235)	(685)
2004 restructure plan	230	-	250	480
2004 payments	(230)	-	-	(230)
December 31, 2004, balance	\$ -	\$ -	\$ 250	\$ 250
2005 payments	-	-	(151)	(151)
December 31, 2005, balance	\$ -	\$ -	\$ 99	\$ 99
	=====	=====	=====	=====

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

14. Net Income (Loss) Per Share

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

	Year Ended December 31,		
	2005	2004	2003

Numerator:			
Net income (loss)	\$ 878	\$ (12,268)	\$ (539)
Denominator:			
Shares used in basic net income (loss) per share calculation	18,904	18,859	18,855
Effect of diluted securities:			
Employee stock options	456	-	-

Shares used in diluted net income (loss) per share calculations	19,360	18,859	18,855
=====			
Basic and diluted net income (loss) per common share:	\$ 0.05	\$ (0.65)	\$ (0.03)

The computation of dilutive loss per share for 2004 and 2003 excluded anti-dilutive stock options to purchase approximately 430,000 and 657,000 shares as of December 31, 2004 and 2003, respectively.

15. Quarterly Financial Data (Unaudited)

Quarterly data for 2005 and 2004 was as follows (in thousands, except earnings per share data):

	Quarter			
	First	Second	Third	Fourth

Year Ended December 31, 2005:				
Net revenues	\$ 14,521	\$ 12,800	\$ 11,060	\$ 13,205
Gross profit	5,870	4,631	3,466	5,680

Net income (loss)	\$ 1,169	\$ 116	\$ (1,140)	\$ 733
=====				
Basic/diluted net income (loss) per common share	\$ 0.06	\$ 0.01	\$ (0.06)	\$ 0.04
=====				
Year Ended December 31, 2004:				
Net revenues	\$ 12,803	\$ 11,932	\$ 10,683	\$ 15,952
Gross profit	4,109	3,115	3,720	6,782

Net (loss) income	\$ (790)	\$ (12,177)	\$ 210	\$ 489
=====				
Basic/diluted net (loss) income per common share	\$ (0.04)	\$ (0.65)	\$ 0.01	\$ 0.03
=====				

2005

Included in the net income for the fourth quarter of 2005 is approximately \$400,000 of other income resulting from the release of a reserve associated with the PIA Acquisition of July 1999.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2005

14. Net Income (Loss) Per Share (continued)

2004

The lost business and subsequent impairment charges were the primary factors for the losses incurred in the first two quarters of 2004. However, primarily as a result of the restructure plan initiated in the third quarter, the Company was profitable in the second half of 2004.

SPAR Group, Inc. and Subsidiaries

Schedule II - Valuation and Qualifying Accounts

(In thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended December 31, 2005:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 761	38	183 (1)	\$ 616
Year ended December 31, 2004:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 515	366	120 (1)	\$ 761
Sales allowances	\$ 448	-	448	\$ -
Year ended December 31, 2003:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 301	377	163 (1)	\$ 515
Sales allowances	\$ -	448	-	\$ 448

(1) Uncollectible accounts written off, net of recoveries

Exhibit 21.1

**SPAR Group, Inc.
List of Subsidiaries**

100 % Owned Subsidiaries.....	State/Country of Incorporation
PIA Merchandising Co., Inc.....	California
PIA Merchandising Limited.....	Nova Scotia, Canada
Pacific Indoor Display Co., Inc.....	California
Pivotal Field Services, Inc.....	Nevada
Pivotal Sales Company.....	California
Retail Resources, Inc.....	Nevada
SPAR Acquisition, Inc.....	Nevada
SPAR All Store Marketing Services, Inc.....	Nevada
SPAR Bert Fife, Inc.....	Nevada
SPAR/Burgoyne Retail Services, Inc. (f/k/a SPAR Retail Information, Inc.).....	Ohio
SPAR Canada Company.....	Nova Scotia, Canada
SPAR Canada, Inc.....	Nevada
SPAR Group International, Inc.....	Nevada
SPAR Inc., (f/k/a SPAR/Burgoyne Information Services, Inc.).....	Nevada
SPAR Incentive Marketing, Inc.....	Delaware
SPAR International LTD.....	Cayman Islands
SPAR Marketing, Inc.....	Nevada
SPAR Marketing, Inc. (f/k/a SPAR Acquisition, Inc.).....	Delaware
SPAR Marketing Force, Inc.....	Nevada
SPAR Megaforce, Inc.....	Nevada
SPAR/PIA Retail Services, Inc.....	Nevada
SPAR Technology Group, Inc. (f/k/a SPARinc.com, Inc.).....	Nevada
SPAR Trademarks, Inc.....	Nevada
51% Owned International Subsidiaries.....	Country
SGRP Meridian (Pty), Ltd.....	South Africa
SPAR Merchandising Romania, Ltd.....	Romania
SPAR Solutions India Private Limited.....	India
SPAR Turkey Ltd.....	Turkey
UAB SPAR RSS Baltic.....	Lithuania
50% Owned International Joint Ventures.....	Country
SPAR China Ltd.....	China
SPAR FM Japan, Inc.....	Japan

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plans, in the Registration Statement Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. of our report dated March 16, 2006, with respect to the December 31, 2005 and 2004 consolidated financial statements and schedule (2005 and 2004 information only) of SPAR Group, Inc. and subsidiaries included in the Annual Report on Form 10-K, for the year ended December 31, 2005.

/s/ Rehmann Robson

*Troy, Michigan
March 24, 2006*

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. and with respect to the December 31, 2005 consolidated financial statements of SPAR Group, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 2005 of as of our report dated 10 March 2006 with respect to the financial statements of SPAR Turkey, Ltd. as of December 31, 2005 and for the year then ended.

*/s/ Gureli Yeminli Mali Musavirlik A.S.
an independent member of Baker Tilly International*

*Istanbul, Turkey
March 10, 2006*

Exhibit 23.3

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. and with respect to the December 31, 2005 consolidated financial statements of SPAR Group, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 2005 of our report dated March 29, 2006 with respect to the financial statements of SPAR Merchandising Romania SRL, as of December 31, 2005 and for the period from April 20, 2005 to December 31, 2005.

/s/ Baker Tilly Klitou and Partners S.R.L.

*Bucharest, Romania
March 29, 2006*

Exhibit 23.4

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 (No. 333-07377) pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 (No. 333-53400) pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 (No. 333-73000) pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 (No. 333-73002) pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 (No. 333-72998) pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. and with respect to the December 31, 2005 consolidated financial statements of SPAR Group, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 2005 of our report dated March 30, 2006 with respect to the financial statements of SPAR Solutions Merchandising Private Limited, as of December 31, 2005 and for the year then ended.

/s/ S. S. Kothari Mehta & Co.

*New Delhi, India
March 30, 2006*

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 No. 333-07377 pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 No. 333-53400 pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 No. 333-73000 pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 No. 333-73002 pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 No. 333-72998 pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. of our report dated February 13, 2004, with respect to the December 31, 2003 consolidated financial statements and schedule of SPAR Group, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 2005.

/s/ Ernst & Young LLP

*Minneapolis, Minnesota
March 28, 2006*

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert G. Brown, certify that:

1. I have reviewed this annual report on Form 10-K of SPAR Group, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures 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 annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2006

/s/ Robert G. Brown

*Robert G. Brown
Chairman, President and
Chief Executive Officer*

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles Cimitile, certify that:

1. I have reviewed this annual report on Form 10-K of SPAR Group, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures 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 annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2006

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

EXHIBIT 32.1

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 (the "Report"), by 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/ Robert G. Brown
Robert G. Brown
Chairman, President and
Chief Executive Officer*

March 31, 2006

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.

EXHIBIT 32.2

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 (the "Report"), by 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/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

March 31, 2006

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.