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

FORM 10-Q

(MARK ONE)
X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the first quarterly period ended MARCH 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 | 33-0684451 |
| State of Incorporation | IRS Employer Identification No. |

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

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: [ X ] Yes [ ] No

Indicate by check whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): [ ] Yes [ X ] No

On March 31, 2005, there were 18,858,972 shares of Common Stock outstanding.

SPAR GROUP, INC.

Index

PART I:.FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

SPAR GROUP, INC.
Consolidated Balance Sheets
(In thousands, except share and per share data)

| | MARCH 31, 2005 | DECEMBER 31, 2004 |
|---|---|---|
| | (Unaudited) | (Note) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 277 | $ 887 |
| Accounts receivable, net | 9,851 | 11,307 |
| Prepaid expenses and other current assets | 400 | 657 |
| Total current assets | 10,528 | 12,851 |
| Property and equipment, net | 1,363 | 1,536 |
| Goodwill | 798 | 798 |
| Other assets | 541 | 636 |
| Total assets | $ 13,230 | $ 15,821 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 1,346 | $ 2,158 |
| Accrued expenses and other current liabilities | 2,527 | 2,391 |
| Accrued expenses due to affiliates | 1,020 | 987 |
| Restructuring charges | 99 | 250 |
| Customer deposits | 1,029 | 1,147 |
| Lines of credit | 2,124 | 4,956 |
| Total current liabilities | 8,145 | 11,889 |
| Other long-term liabilities | 15 | 12 |
| Minority interest | 217 | 206 |
| Total liabilities | 8,377 | 12,107 |
| Commitments and contingencies (Note - 12) | | |
| 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 - | | |
| 18,858,972 - March 31, 2005 | | |
| 18,858,972 - December 31, 2004 | 189 | 189 |
| Treasury stock | (3) | (108) |
| Accumulated other comprehensive loss | (146) | (86) |
| Additional paid-in capital | 10,936 | 11,011 |
| Accumulated deficit | (6,123) | (7,292) |
| Total stockholders' equity | 4,853 | 3,714 |
| Total liabilities and stockholders' equity | $ 13,230 | $ 15,821 |

Note: The Balance Sheet at December 31, 2004, has been derived from the audited financial statements at that date but does not include any of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.



SPAR GROUP, INC.
Consolidated Statements of Operations
(unaudited)
(In thousands, except per share data)

| | THREE MONTHS ENDED MARCH 31, 2005 | MARCH 31 2004 |
|---|---|---|
| Net revenues | $ 14,521 | $ 12,803 |
| Cost of revenues | 8,651 | 8,694 |
| Gross profit | 5,870 | 4,109 |
| Selling, general and administrative expenses | 4,256 | 4,967 |
| Depreciation and amortization | 279 | 362 |
| Operating income (loss) | 1,335 | (1,220) |
| Interest expense | 40 | 35 |
| Income (loss) before provision for income taxes and minority interest | 1,295 | (1,255) |
| Provision (benefit) for income taxes | 15 | (465) |
| Net income (loss) before minority interest | 1,280 | (790) |
| Minority interest | 111 | - |
| Net income (loss) | $ 1,169 | $ (790) |
| Basic/diluted net income (loss) per common share: | | |
| Net income (loss)- basic/diluted | $ 0.06 | $ (0.04) |
| Weighted average common shares - basic | 18,859 | 18,859 |
| Weighted average common shares - diluted | 19,004 | 18,859 |

See accompanying notes.



SPAR GROUP, INC.
Consolidated Statements of Cash Flows
(unaudited) (in thousands)

| | THREE MONTHS ENDED MARCH 31 2005 | THREE MONTHS ENDED MARCH 31, 2004 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income (loss) | $ 1,169 | $ (790) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Minority interest earnings in subsidiaries | 111 | - |
| Depreciation | 279 | 362 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,456 | 2,541 |
| Prepaid expenses and other assets | 352 | (821) |
| Accounts payable, accrued expenses, other current liabilities and customer deposits | (794) | (996) |
| Accrued expenses due to affiliates | 33 | 580 |
| Restructuring charges | (151) | - |
| Net cash provided by operating activities | 2,455 | 876 |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (106) | (301) |
| Acquisition of businesses | - | (453) |
| Net cash used in investing activities | (106) | (754) |
| FINANCING ACTIVITIES | | |
| Net payments on lines of credit | (2,832) | (195) |
| Other long-term liabilities | (97) | 5 |
| Proceeds from employee stock purchase plan and exercised options | 30 | 68 |
| Net cash used in financing activities | (2,899) | (122) |
| Translation loss | (60) | - |
| Net change in cash and cash equivalents | (610) | - |
| Cash and cash equivalents at beginning of period | 887 | - |
| Cash and cash equivalents at end of period | $ 277 | $ - |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | | |
| Interest paid | $ 48 | $ 35 |

See accompanying notes.

1. BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the Company's Annual Report for 2004 on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on April 12, 2005 (the "Company's Annual Report for 2004 on Form 10-K"). The Company's results of operations for the interim periods are not necessarily indicative of its operating results for the entire year.

2. BUSINESS AND ORGANIZATION

The Company is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides database marketing, technology services, teleservices and marketing research.

The Company's operations are divided into two divisions: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Domestic Merchandising Services Division provides merchandising services, in-store product demonstrations, product sampling, database marketing, technology services, teleservices and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, drug store chains, convenience and grocery stores. The International Merchandising Services Division, established in July 2000, currently provides merchandising services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in Turkey, South Africa, India and through a 50% owned joint venture in Japan. The Company is scheduled to start operations in Romania in the second quarter of 2005 through a 51% owned joint venture subsidiary. In February 2005, the Company announced the establishment of a 50% owned joint venture in China. The Company's Chinese joint venture is currently awaiting government approval and expects to begin operations late in the third quarter of 2005.

3. 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 venture where the Company is the primary beneficiary because the Company believes this presentation is fairer and more meaningful. Rule 3A-02 of Regulation S-X, Consolidated Financial Statements of the Registrant and its





Subsidiaries, states that consolidated statements are presumed to be more meaningful, that majority owned subsidiaries (more than 50%) generally should be consolidated, and that circumstances may require consolidation of other subsidiaries to achieve a fairer presentation of its financial condition and results of operations. In addition, the Company has determined that under Financial Accounting Standards Board Interpretation Number 46, as revised December 2003, Consolidation of Variable Interest Entities ("FIN 46(R)"), the

Company is the primary beneficiary of its 51% owned joint venture subsidiaries and its 50% owned joint ventures, which accordingly requires consolidation of those entities into the Company's financial statements. All significant intercompany accounts and transactions have been eliminated.

4. MANAGEMENT'S PLANS CONCERNING CASH FLOW

Management believes that based upon the Company's current level of earnings and the existing credit facilities, funding will be sufficient to support ongoing operations over the next twelve months. The Company is and has been in violation of certain covenants of its Credit Facility (see Note 7 - Lines of Credit) and expects to violate such covenants in the future. The Company's bank, Webster Business Credit Corporation, has issued waivers for past covenant violations; however, there can be no assurances that Webster will continue to issue such waivers in the future.

5. RESTRUCTURING CHARGES

In July 2004, as a result of the loss of several significant customers and the pending sale of the Company's largest customer, 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 consisted 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 ended September 30, 2004, approximately $230,000 for severance benefits and approximately $250,000 for office leases that the Company ceased using. At March 31, 2005, the Company had approximately $99,000 reserved for future restructure payments that are expected to be paid in 2005. The Company records restructure expenses in the selling, general and administrative section of its consolidated operating statements.





6. EARNINGS PER SHARE

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | MARCH 31, 2005 | MARCH 31, 2004 |
| Numerator: | | |
| Net income (loss) | $ 1,169 | $ (790) |
| Denominator: | | |
| Shares used in basic earnings (loss) per share calculation | 18,859 | 18,859 |
| Effect of diluted securities: | | |
| Employee stock options | 145 | - |
| Shares used in diluted earnings (loss) per share calculation | 19,004 | 18,859 |
| Basic and diluted earnings (loss) per common share: | | |
| Net income (loss) - basic and diluted | $ 0.06 | $ (0.04) |

The computation of dilutive loss per share excluded anti-dilutive stock options to purchase approximately 501,000 shares for the three months ended March 31, 2004.

7. LINES OF CREDIT

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 provides a $7.0 million revolving credit facility that matures on January 23, 2006. The Company may borrow up to $7.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The Credit Facility bears interest at a rate based in part upon the earnings before interest, taxes, depreciation and amortization and depending upon the type of borrowing, is calculated based upon Webster's "Alternative Base Rate" or the London Inter Bank Offering Rate ("LIBOR"). At March 31, 2005 there were no LIBOR based loans and the interest rate calculated at Webster's Alternative Base Rate plus 0.75% totaled 6.5% per annum. The average interest rate for the three months ended March 31, 2005 was 6.1% per annum. The Credit Facility is secured by all of the





assets of the Company and its domestic subsidiaries. In addition, 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, provide personal guarantees totaling $1.0 million to Webster. The Credit Facility requires the Company satisfy certain financial covenants, including a minimum "Net Worth", a minimum "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum "EBITDA", as such terms are defined in the Credit Facility. The Credit Facility also limits certain expenditures by the Company, including capital expenditures and other investments.

The Company was in violation of certain covenants at March 31, 2005, and expects to be in violation at future measurement dates. Webster issued a waiver for the March 31, 2005 covenant violations. However, there can be no assurances that Webster will issue such waivers in the future.

The revolving loan balances outstanding under the Credit Facility were $1.2 million and $4.1 million at March 31, 2005, and December 31, 2004, respectively. There were letters of credit outstanding under the Credit Facility of approximately $700,000 at March 31, 2005, and December 31, 2004. As of March 31, 2005, the SPAR Group had unused availability under the Credit Facility of $2.3 million out of the remaining maximum $5.1 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 December 31, 2004). At December 31, 2004, SPAR FM Japan, Inc. had 100 million yen or approximately $900,000 loan balance outstanding under the line of credit. The line of credit is effectively guarantied by the Company and the joint venture partner, Paltac Corporation. The average interest rate on the borrowings under the Japanese line of credit for its short-term bank loans at December 31, 2004 was 1.375% per annum.

8. RELATED-PARTY TRANSACTIONS

Mr. Robert G. Brown, a Director, the Chairman, President and Chief Executive Officer and a major stockholder of the Company, and Mr. William H. Bartels, a Director, the Vice Chairman and a major stockholder of the Company, 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 field representatives (through its independent contractor field force) and approximately 92% of the Company's field management at a total cost of approximately $5.8 million and $7.7 million for the three months ended March 31, 2005, and 2004, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, SMS provides the services of SMS's field force of approximately 6,300 independent contractors to the Company. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, SMSI provides approximately 50 full-time national,





regional and district managers to the Company. For those services, the Company has agreed to reimburse SMS and SMSI for all of their costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective costs, except that for 2004 SMSI agreed to concessions that reduced the premium paid by approximately $145,000 for the three months ended March 31, 2004. Total net premiums (4% of SMS and SMSI costs less 2004 concessions) paid to SMS and SMSI for services rendered were approximately $233,000 and $162,000 for the three months ended March 31, 2005, and 2004, respectively. The Company has been advised that Messrs. Brown and Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations owned by Messrs. Brown and Bartels, they benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services to the Company at a total cost of approximately $210,000 and $380,000 for the three months ended March 31, 2005, and 2004, respectively. SIT provided approximately 6,700 and 10,000 hours of Internet computer programming services to the Company for the three months ended March 31, 2005, and 2004, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004, SIT continues to provide programming services to the Company for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. The average hourly billing rate was $31.27 and $36.62 for the three months ended March 31, 2005, and 2004, respectively. The Company has been advised that no hourly charges or business expenses for Messrs. Brown and Bartels were charged to the Company by SIT for the three months ended March 31, 2005, and 2004, respectively. However, since SIT is a "Subchapter S" corporation owned by Messrs. Brown and Bartels, they 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"). Each lease 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 services in the United States and had a monthly payment of $20,318. 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 services in Canada and had a monthly payment of $3,326. These handheld computers had an original purchase price of $105,000. In May 2005, the Company and SMS amended the lease agreements reducing the total monthly payment from $20,318 to $17,891 for SMF and from $3,326 to $2,972 for SPAR Canada. The amended monthly payments 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):

| | THREE MONTHS ENDED MARCH 31, 2005 | THREE MONTHS ENDED MARCH 31, 2004 |
|---|---|---|
| Services provided by affiliates: | | |
| Independent contractor services (SMS) | $ 4,844 | $ 6,361 |
| Field management services (SMSI) | $ 939 | $ 1,354 |
| Handheld computer leases (SMSI) | $ 63 | $ - |
| Internet and software program consulting services (SIT) | $ 210 | $ 381 |

| Accrued expenses due to affiliates (in thousands): | MARCH 31, 2005 | DECEMBER 31, 2004 |
|---|---|---|
| SPAR Marketing Services, Inc. | $ 1,020 | $ 987 |

In addition to the above, through the services of Affinity Insurance, Ltd., the Company purchases insurance coverage for its casualty and property insurance risk. The Company's CEO and Vice Chairman own, through SMSI, a minority (less than 5%) equity interest in Affinity.

## 9. 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.





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. If compensation cost had been recognized, 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):

| | THREE MONTHS ENDED MARCH 31, 2005 | 2004 |
|---|---|---|
| Net income (loss), as reported | $ 1,169 | $ (790) |
| Stock based employee compensation expense under the fair market value method | 25 | 156 |
| Pro forma net income (loss) | $ 1,144 | $ (946) |
| Basic and diluted net income (loss) per share, as reported | $ 0.06 | $ (0.04) |
| Basic and diluted net income (loss) per share, pro forma | $ 0.06 | $ (0.05) |

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.

Under the provision of SFAS No. 123 dealing with non-employee stock option grants awarded to the employees of the Company's affiliates, for the three months ended March 31, 2005, the Company recorded an expense of approximately $14,000. For the three months ended March 31, 2004, as a result of the decrease in the market price of the Company's stock from December 31, 2003 to March 31, 2004, there was no expense under the provision of SFAS No. 123. The Company determines the fair value of the options granted to non-employees using the Black-Scholes valuation model and recovers amounts previously expensed or 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.

## 10. TREASURY STOCK

The Company initiated a share repurchase program in 2002, which allowed for the 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 from January 1, 2005 to March 31, 2005.

| | Quantity | Amount |
|---|---|---|
| Treasury Stock, January 1, 2005 | 21,908 | $ 108,100 |
| Used to fulfill options exercised | (21,654) | (104,617) |
| TREASURY STOCK, MARCH 31, 2005 | 254 | $ 3,483 |

## 11. CUSTOMER DEPOSITS

In June 2004, the Company received a non-refundable deposit of approximately $900,000 from a customer. The deposit is to be applied to future invoices for services that will be provided by the Company under a master service agreement through December 31, 2006. Each invoice will be reduced by 20% until the deposit is depleted. As of March 31, 2005, the outstanding balance was approximately $870,000.

12. COMMITMENTS AND CONTINGENCIES

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 and Romania. The Company also announced the establishment of a joint venture in China. The Company's Chinese joint venture is currently awaiting government approval and expects to begin operations late in the third quarter of 2005.

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, breach of implied





contract, breach of fiduciary duty, conversion, constructive fraud, breach of trust, unjust enrichment, and accounting fraud. 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., Pivotal and SGRP 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 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 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., Pivotal and SGRP 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 2005.

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.

13. GEOGRAPHIC DATA

A summary of the Company's net revenue, operating income (loss) and long lived assets by geographic area for the three months ended March 31, 2005 and 2004, respectively, and as of March 31, 2005, and December 31, 2004, is as follows (in thousands):

| | THREE MONTHS ENDED MARCH 31, 2005 | THREE MONTHS ENDED MARCH 31, 2004 |
|---|---|---|
| Net revenue: | | |
| United States | $ 10,800 | $ 12,664 |
| International | 3,721 | 139 |

| | | |
|---|---|---|
| Total net revenue | $ 14,521 | $ 12,803 |

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2005 | 2004 |
| Operating income (loss): | | |
| United States | $ 895 | $ (890) |
| International | 440 | (330) |
| Total operating income (loss) | $ 1,335 | $ (1,220) |

| | MARCH 31, | DECEMBER 31, |
|---|---|---|
| Long lived assets: | 2005 | 2004 |
| United States | $ 2,281 | $ 2,484 |
| International | 421 | 486 |
| Total long lived assets | $ 2,702 | $ 2,970 |





International revenues disclosed above were based upon revenues reported by the Company's foreign subsidiaries and joint ventures. For the three months ended March 31, 2005, both the joint venture subsidiaries in Japan and South Africa each contributed 9% to the consolidated net revenue of the Company. The wholly-owned Canadian subsidiary contributed 7% of the consolidated net revenue of the Company.

14. SUPPLEMENTAL BALANCE SHEET INFORMATION

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

| | MARCH 31, 2005 | DECEMBER 31, 2004 |
|---|---|---|
| Trade | $ 5,990 | $ 8,178 |
| Unbilled | 4,365 | 3,600 |
| Non-trade | 172 | 290 |
| | 10,527 | 12,068 |
| Less: | | |
| Allowance for doubtful accounts | (676) | (761) |
| | $ 9,851 | $ 11,307 |

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

| | MARCH 31, 2005 | DECEMBER 31, 2004 |
|---|---|---|
| Equipment | $ 5,406 | $ 5,397 |
| Furniture and fixtures | 547 | 547 |
| Leasehold improvements | 138 | 138 |
| Capitalized software development costs | 1,726 | 1,629 |
| | 7,817 | 7,711 |
| Less accumulated depreciation and amortization | 6,454 | 6,175 |

| | | |
|---|---|---|
| | $ 1,363 | $ 1,536 |

| Prepaid expenses and other current assets (in thousands): | MARCH 31, 2005 | DECEMBER 31, 2004 |
|---|---|---|
| Prepaid insurance | $ 197 | $ 214 |
| Tax refund due | 62 | 62 |
| Prepaid rents | 49 | 49 |
| Other | 92 | 332 |
| | $ 400 | $ 657 |





15. ISSUANCE OF OPTIONS

On April 12, 2005, the Company issued non-qualified stock options to various employees and affiliates to acquire 500,030 shares of stock of SGRP at $1.26 per share, with the normal four year vesting provisions.

16. 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 venture. In the first quarter of 2005, these exposures are primarily concentrated in the Canadian dollar, Japanese yen and South African rand. For the three months ended March 31, 2005, international assets totaled $3.2 million and international liabilities totaled $5.8 million. For three months ended March 31, 2005, international revenues totaled $3.7 million and the Company's share of the net income was approximately $300,000.

17. INTEREST RATE FLUCTUATIONS

The Company is exposed to market risk related to the variable interest rate on its lines of credit. At March 31, 2005, the Company's outstanding debt totaled $2.1 million, which consisted of domestic variable-rate (6.5%) debt of $1.2 million and international variable rate (1.4%) debt of $0.9 million. Based on the three months ending March 31, 2005, average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact pre-tax earnings and cash flows for the three months ended March 31, 2005 by approximately $6,000.





ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

STATEMENTS CONTAINED IN THIS QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2005 (THIS "QUARTERLY REPORT"), OF SPAR GROUP, INC. ("SGRP", AND TOGETHER WITH ITS SUBSIDIARIES, THE "SPAR GROUP" OR THE "COMPANY"), INCLUDE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE

SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT, INCLUDING, IN PARTICULAR AND WITHOUT LIMITATION, THE STATEMENTS CONTAINED IN THE DISCUSSIONS UNDER THE HEADING "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, WHICH CONTAIN CAUTIONARY STATEMENTS 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 AND ANY OTHER CAUTIONARY STATEMENTS CONTAINED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 12, 2005 (THE "COMPANY'S ANNUAL REPORT FOR 2004 ON FORM 10-K"), AND THE CAUTIONARY STATEMENTS CONTAINED IN THIS QUARTERLY REPORT. ALL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED BY THE RISK FACTORS (SEE ITEM 1 - CERTAIN RISK FACTORS) AND OTHER CAUTIONARY STATEMENTS IN THE COMPANY'S ANNUAL REPORT FOR 2004 ON FORM 10-K AND IN THIS QUARTERLY REPORT. 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.

## OVERVIEW

In the United States, the Company provides merchandising services to manufacturers and retailers principally in mass merchandiser, drug store, grocery, and other retail trade classes through its Domestic Merchandising Services Division. Internationally, the Company provides in-store merchandising services through a wholly owned subsidiary in Canada, 51% owned joint venture subsidiaries in Turkey, South Africa and India and a 50% owned joint venture in Japan. In December 2004, the Company established a 51% owned joint venture subsidiary in Romania. In February 2005, the Company





established a 50% owned joint venture in China. For the three months ended March 31, 2005, the Company consolidated Canada, Turkey, South Africa, India and Japan into the Company's financial statements. Romania and China did not have operations for the three months ended March 31, 2005.

## 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, drug store chains and grocery stores. Included in its customers 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, database marketing, technology services, teleservices 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 services business worldwide. The Company has expanded its international business as follows:

May 2001, the Company entered Japan through a 50% owned joint venture headquartered in Osaka.

June 2003, the Company entered Canada by acquiring an existing business through its wholly-owned Canadian subsidiary headquartered in Toronto.

July 2003, the Company entered Turkey through a 51% owned joint venture subsidiary headquartered in Istanbul.

April 2004, the Company entered South Africa through a 51% owned joint venture subsidiary headquartered in Durban.





April 2004, the Company entered India through a 51% owned joint venture subsidiary headquartered in New Delhi.

December 2004, the Company established a 51% owned joint venture subsidiary headquartered in Bucharest, Romania. Operations are expected to start in the second quarter of 2005.

In February 2005, the Company announced the establishment of a 50% owned joint venture headquartered in Hong Kong. The Company's Chinese joint venture is currently awaiting government approval, and operations are expected to start in the third quarter of 2005.

## CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies have been consistently applied in all material respects and address such matters as revenue recognition, depreciation methods, asset impairment recognition, business combination accounting, 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

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 because the Company believes this presentation is fairer and more meaningful. Rule 3A-02 of Regulation S-X, Consolidated Financial Statements of the Registrant and its Subsidiaries, states that consolidated statements are presumed to be more meaningful, that majority owned subsidiaries (more than 50%) generally should be consolidated, and that circumstances may require consolidation of other subsidiaries to achieve a fairer presentation of its financial condition and results. In addition, the Company has determined that under Financial Accounting Standards Board Interpretation Number 46, as revised December 2003, Consolidation of Variable Interest Entities ("FIN 46(R)"), the Company is the primary beneficiary of its 51% owned joint venture subsidiaries and its 50% owned joint ventures, which accordingly requires consolidation of those entities into the Company's financial statements.

REVENUE RECOGNITION

The Company's services are provided under contracts or agreements that consist primarily of service fees and per unit fee arrangements. Revenues under service fee arrangements are recognized when the service is performed. The Company's per unit contracts or agreements provide for fees to be earned based on the retail sales of 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 customer 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 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 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 $676,000 and $761,000 at March 31, 2005, and December 31, 2004, 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, write program code and payroll, related benefits and travel expenses for those employees who are directly involved with and who devote time to its software development projects. Capitalized software development costs are amortized over three years.

The Company capitalized $97,000 and $184,000 of costs related to software developed for internal use in the three months ended March 31, 2005 and 2004, respectively.





RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2005, COMPARED TO THREE MONTHS ENDED MARCH 31, 2004

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

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2005 | | March 31, 2004 | | |
| | Amount | % | Amount | % | Increase (decrease)% |
| Net revenues | $ 14,521 | 100.0% | $ 12,803 | 100.0% | 13.4% |
| Cost of revenues | 8,651 | 59.6 | 8,694 | 67.9 | (0.5) |
| Selling, general and administrative expense | 4,256 | 29.3 | 4,967 | 38.8 | (14.3) |
| Depreciation and amortization | 279 | 1.9 | 362 | 2.8 | (23.0) |
| Interest expense | 40 | 0.3 | 35 | 0.3 | 17.7 |
| Income (loss) before provision for income taxes and minority interest | 1,295 | 8.9 | (1,255) | (9.8) | - |
| Provision (benefit) for income tax | 15 | 0.1 | (465) | (3.6) | - |
| Net income (loss) before minority interest | 1,280 | 8.8 | (790) | (6.2) | - |
| Minority interest | 111 | 0.8 | - | - | - |
| Net income (loss) | $ 1,169 | 8.0% | $ (790) | (6.2)% | - |

NET REVENUES

Net revenues for the three months ended March 31, 2005, were $14.5 million, compared to $12.8 million for the three months ended March 31, 2004, an increase of 13.4%. For the first quarter domestic revenue decreased $1.9 million or 14.7% to $10.8 million, compared to $12.7 million a year ago. The decrease in domestic revenue is a result of the loss of several significant customers partially offset by revenue from new customers. Internationally, revenue for the first quarter increased to $3.7 million from $139,000 last year, primarily as a result of the Japan consolidation, the South African acquisition and a stronger performance from our Canadian operations.





One customer accounted for 17% and 7% of the Company's net revenue for the three months ended March 31, 2005, and 2004, respectively. This customer also accounted for approximately 25% and 29% of accounts receivable at March 31, 2005, and December 31, 2004, respectively.

A second customer accounted for 16% and 44% of the Company's net revenues for the three months ended March 31, 2005 and 2004, respectively. This customer also accounted for approximately 12% and 4% of accounts receivable at March 31, 2005 and December 31, 2004, respectively. In 2004, this customer was a division of a major retailer. This customer was sold by its parent on August 2, 2004. In the first quarter of 2005 the Company performed a project that resulted in $1.9 million of revenue for this customer. Even with this project revenue, the Company saw a significant decline in net revenue from this customer and expects the decline to continue in 2005.

Approximately 10% and 15% of the Company's net revenues for the three months ended March 31, 2005, and 2004, respectively, resulted from merchandising services performed for customers at Kmart. These customers also accounted for approximately 11% and 22% of accounts receivable at March 31, 2005 and December 31, 2004, respectively. While the contractual relationships or agreements are with various customers and not Kmart, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company.

In addition, approximately 10% of the Company's net revenue for the three months ended March 31, 2005 resulted from merchandising services performed for customers at Circuit City. These customers also accounted for approximately 12% and 16% of accounts receivable at March 31, 2005 and December 31, 2004, respectively. While the contractual relationships or agreements are with various customers and not Circuit City, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company.

Failure to attract new large customers could significantly impede the growth of the Company's revenues, which could have a material adverse effect on the Company's future business, results of operations and financial condition.

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 as a percentage of net revenues was 59.6% for the three months ended March 31, 2005, compared to 67.9% for the three months ended March 31, 2004. The decrease is primarily a result of the Company restructuring its domestic field force to reflect its reduction of business.

Approximately 88% and 89% of the Company's domestic cost of revenue in the three months ended March 31, 2005, and 2004, respectively, 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 Note 8 - Related-Party Transactions).





SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resource, legal and accounting expenses.

Selling, general and administrative expenses decreased by $0.7 million, or 14.3%, for the three months ended March 31, 2005, to $4.3 million compared to $5.0 million for the three months ended March 31, 2004. Domestic selling, general and administrative expenses totaled $3.2 million for 2005 and were reduced $1.4 million from $4.6 million in 2004. The reduction of 30.2% was primarily due to cost reduction programs initiated in 2004 as a result of the loss of certain large customers. The domestic cost reductions were partially offset by increases of $0.7 million in international selling, general and administrative expenses resulting from the consolidation of Japan, and the operations of South Africa, Turkey and India joint venture subsidiaries that did not have operations last year.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges of $0.3 million for the three months ended March 31, 2005 was consistent with $0.4 million in the same period for 2004.

INCOME TAXES

The Company recorded an income tax provision of $15,000 for the three months ended March 31, 2005. The provision was primarily for minimum state taxes. There was no provision for federal tax for the three months ended March 31, 2005 since the Company expects to utilize net operating loss carryforwards previously reserved to offset any federal taxes due. For the three months ended March 31, 2004, the income tax benefit represents a combined federal and state income tax rate of 37%.

MINORITY INTEREST

Minority interest of approximately $111,000 resulted from the operations of the 51% owned joint venture subsidiaries and the 50% owned joint venture for the three months ended March 31, 2005.

NET INCOME

The Company had a net income of $1.2 million for the three months ended March 31, 2005, or $0.06 per diluted share, compared to a net loss of $0.8 million, or $0.04 per share, for the corresponding period last year.

LIQUIDITY AND CAPITAL RESOURCES

In the three months ended March 31, 2005, the Company had a net income of $1.2 million.

Net cash provided by operating activities for the three months ended March 31, 2005, was $2.5 million, compared to net cash provided by operating activities of $0.9 million for the three months ended March 31, 2004. The increase of $1.6 million in cash provided by operating activities is primarily due to net operating income, reductions in prepaid expenses and other assets partially offset by lower reductions in accounts receivables, as well as, restructuring payments.

Net cash used in investing activities for the three months ended March 31, 2005, was $0.1 million compared to net cash used in investing activities of $0.8 million for the three months ended March 31, 2004. The decrease in net cash used in investing activities was a result of no acquisitions and lower purchases of property and equipment in 2005.

Net cash used in financing activities for the three months ended March 31, 2005, was $2.9 million, compared to net cash used in financing activities of $0.1 million for the three months ended March 31, 2004. The increase of net cash used in financing activities was primarily a result of higher net payments on the lines of credit.

The above activity resulted in a reduction in cash and cash equivalents for the three months ended March 31, 2005 of $0.6 million.

At March 31, 2005, the Company had positive working capital of $2.4 million, as compared to a positive working capital of $1.0 million at December 31, 2004. The increase in working capital is due primarily to reductions in accounts payable and lines of credit, partially offset by reduced accounts receivable. The Company's current ratio was 1.29 at March 31, 2005 and 1.08 at December 31, 2004.

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 provides a $7.0 million revolving credit facility that matures on January 23, 2006. The Company may borrow up to $7.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The Credit Facility bears interest at a rate based in part upon the earnings before interest, taxes, depreciation and amortization and depending upon the type of borrowing, is calculated based upon Webster's "Alternative Base Rate" or the London Inter Bank Offering Rate ("LIBOR"). At March 31, 2005 there were no LIBOR based loans and the interest rate calculated at Webster's Alternative Base Rate plus 0.75% totaled 6.5% per annum. The average interest rate for the three months ended March 31, 2005 was 6.1% per annum. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. In addition, 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, provide personal guarantees totaling $1.0 million to Webster. The Credit Facility requires the Company satisfy certain financial covenants, including a minimum "Net Worth", a minimum "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum "EBITDA", as such terms are defined in the



Credit Facility. The Credit Facility also limits certain expenditures by the Company, including capital expenditures and other investments.

The Company was in violation of certain covenants at March 31, 2005, and expects to be in violation at future measurement dates. Webster issued a waiver for the March 31, 2005 covenant violations. However, there can be no assurances that Webster will issue such waivers in the future.

The revolving loan balances outstanding under the Credit Facility were $1.2 million and $4.1 million at March 31, 2005, and December 31, 2004, respectively. There were letters of credit outstanding under the Credit Facility of approximately $700,000 at March 31, 2005, and December 31, 2004. As of March 31, 2005, the SPAR Group had unused availability under the Credit Facility of $2.3 million out of the remaining maximum $5.1 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 December 31, 2004). At December 31, 2004, SPAR FM Japan, Inc. had 100 million yen or approximately $900,000 loan balance outstanding under the line of credit. The line of credit is effectively guarantied by the Company and the joint venture partner, Paltac Corporation. The average interest rate on the borrowings under the Japanese line of credit for its short-term bank loans at December 31, 2004 was 1.375% per annum.

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 in Japan and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, Turkey, South Africa, India and Romania. In February 2005, the Company announced the establishment of a joint venture in China. The Company's Chinese joint venture is currently awaiting government approval, and operations are expected to start in the third quarter of 2005.

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.

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 for 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 March 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 Facility | $2,124 | $2,124 | $ - | $ - | $ - |
| Operating Lease Obligations | 1,990 | 1,027 | 944 | 19 | - |
| Total | $4,114 | $3,151 | $ 944 | $ 19 | $ - |

The Company also had approximately $700,000 in outstanding Letters of Credit at March 31, 2005.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's accounting policies for financial instruments and disclosures relating to financial instruments require that the Company's consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and lines of credit. The Company 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 March 31, 2005, the Company's outstanding debt totaled $2.1 million, which consisted of domestic variable-rate (6.5%) debt of $1.2 million and international variable rate (1.4%) debt of $0.9 million. Based on the three months ending March 31, 2005, average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact pre-tax earnings and cash flows for the three months ended March 31, 2005 by approximately $6,000.

The Company has foreign currency exposure associated with its international 100% owned subsidiary, its 51% owned joint venture subsidiaries and its 50% owned joint venture. In the first quarter of 2005, these exposures are primarily concentrated in the Canadian dollar, Japanese yen and South African rand. For the three months ended March 31, 2005, international assets totaled $3.2 million and international liabilities totaled $5.8 million. For three months ended March 31, 2005, international revenues totaled $3.7 million and the Company's share of the net income was approximately $300,000.





ITEM 4. CONTROLS AND PROCEDURES

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

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

The Company has established a plan 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 5. OTHER INFORMATION.

None





PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No change.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

Item 2(d): Not applicable

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Item 3(a): Defaults under Indebtedness: None.
Item 3(b): Defaults under Preferred Stock: Not applicable.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5: OTHER INFORMATION

Not applicable.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

EXHIBITS.

10.1 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, as filed herewith.

10.2 Amended and Restated Equipment Leasing Schedule 002 to Master Lease Agreement by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc., dated as of January 4, 2005, relating to lease of handheld computer equipment, as filed herewith.





10.3 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, as filed herewith.

10.4 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, as filed herewith.

10.5 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, as filed herewith.

10.6 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, as filed herewith.

10.7 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, as filed herewith.

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

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

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

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

REPORTS ON FORM 8-K.

1. Periodic Report on Form 8-K, dated May 5, 2005 filed with the U.S. Securities and Exchange Commission on May 10, 2005, respecting the earnings press release for the first quarter ended March 31, 2005.



SPAR GROUP, INC.

SIGNATURES

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

Date: May 18, 2005 SPAR Group, Inc., Registrant

By: /s/ Charles Cimitile

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Charles Cimitile
Chief Financial Officer, Treasurer,
Secretary and duly authorized signatory

EXHIBIT 10.1

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES * E-COMMERCE

SERVICES DEFINED BY THE RETURN THEY GENERATE

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THIS IS COUNTERPART NO. 1 OF 3 SERIALLY NUMBERED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 001
Dated: as of November 1, 2004
(this "Schedule")
Incorporating by Reference
Master Lease Agreement dated as of November 1, 2004
between
SPAR Marketing Services, Inc., as "Lessor",
and
SPAR Marketing Force, Inc., as "Lessee"
(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 001 IN ORDER TO REFLECT THE CORRECT LOWER LEASE RATE FACTOR AND MONTHLY RENTAL PAYMENT AMOUNTS AND TO AMEND, RESTATE AND COMPLETELY REPLACE THE EXISTING EQUIPMENT LEASING SCHEDULE NO. 001 BY AND BETWEEN LESSOR AND LESSEE DATED AS OF NOVEMBER 1, 2004.

LESSEE AGREES TO LEASE THE HEREIN DESCRIBED EQUIPMENT FROM LESSOR, AND LESSOR BY ACCEPTANCE OF THIS SCHEDULE, AGREES TO LEASE THE EQUIPMENT TO LESSEE ON THE TERMS AND CONDITIONS SET FORTH IN THIS SCHEDULE, WHICH HEREBY INCORPORATES HEREIN BY REFERENCE ALL OF THE TERMS AND PROVISIONS OF THE MASTER AGREEMENT WITH THE SAME FORCE AND EFFECT AS THOUGH FULLY SET FORTH HEREIN.

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Rental Commencement Date: 11/1/04

| Purchased From: | Cost |
|---|---|
| SSE Products, Inc.<br>d/b/a SSE Technologies | |
| Handheld Computer Series | |
| 9500 with supporting modems and cables<br>previously purchased | $400,000.00 |

| | |
|---|---|
| Term: | 36 Months |
| Lease Rate Factor: | 2.83% |
| Monthly Rental Payment: | $11,320.00 |
| Good Faith Deposit Amount: | |

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

SPAR MARKETING SERVICES, INC. CORPORATE OFFICE
* 580 WHITE PLAINS ROAD *TARRYTOWN, NY 10591
Phone 914-332-4100 * Fax 914-332-0741 *
Email: servingyou@sparinc.com * Website: www.sparinc.com

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES *

E-COMMERCE

SERVICES DEFINED BY THE RETURN THEY GENERATE

THIS SCHEDULE, TOGETHER WITH THE MASTER AGREEMENT AND THE OTHER DOCUMENTS REFERRED TO HEREIN AND THEREIN AND/OR EXECUTED IN CONNECTION HEREWITH OR THEREWITH, CONSTITUTE THE ENTIRE AGREEMENT BETWEEN LESSOR AND LESSEE AS TO THE LEASING OF THE EQUIPMENT. LESSEE ACKNOWLEDGES THAT ON OR BEFORE LESSEE'S EXECUTION AND DELIVERY OF THIS SCHEDULE IT RECEIVED A COPY OF THE PURCHASE ORDER AND OTHER PURCHASE CONTRACTS EVIDENCING THE ACQUISITION OF THE EQUIPMENT BY LESSOR .

BY EXECUTION OF THIS SCHEDULE, THE UNDERSIGNED CERTIFIES THAT HE/SHE HAS READ THIS SCHEDULE, HAS EXECUTED AND ENTERED INTO THIS SCHEDULE ON BEHALF OF LESSEE AND IS DULY AUTHORIZED TO DO SO

| LESSOR | LESSEE |
| --- | --- |
| /s/ Robert G. Brown | /s/ Charles Cimitile |
| Robert G. Brown | Charles Cimitile |
| Chairman and Chief Executive Officer | Chief Financial Officer |
| SPAR Marketing Services, Inc. | SPAR Marketing Force, Inc. |

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

---

THIS IS COUNTERPART NO. 1 OF 3 SERIALLY NUMBERED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 002
Dated: as of January 4, 2005
(this "Schedule")
Incorporating by Reference
Master Lease Agreement dated as of November 1, 2004
between
SPAR Marketing Services, Inc., as "Lessor",

and
SPAR Marketing Force, Inc., as "Lessee"
(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 002 IN ORDER TO REFLECT THE CORRECT LOWER LEASE RATE FACTOR AND MONTHLY RENTAL PAYMENT AMOUNTS AND TO AMEND, RESTATE AND COMPLETELY REPLACE THE EXISTING EQUIPMENT LEASING SCHEDULE NO. 002 BY AND BETWEEN LESSOR AND LESSEE DATED AS OF JANUARY 4, 2005.

LESSEE AGREES TO LEASE THE HEREIN DESCRIBED EQUIPMENT FROM LESSOR, AND LESSOR BY ACCEPTANCE OF THIS SCHEDULE, AGREES TO LEASE THE EQUIPMENT TO LESSEE ON THE TERMS AND CONDITIONS SET FORTH IN THIS SCHEDULE, WHICH HEREBY INCORPORATES HEREIN BY REFERENCE ALL OF THE TERMS AND PROVISIONS OF THE MASTER AGREEMENT WITH THE SAME FORCE AND EFFECT AS THOUGH FULLY SET FORTH HEREIN.

.

Rental Commencement Date: 1/4/05

| Purchased From: | Cost |
|---|---|
| SSE Products, Inc.<br>d/b/a SSE Technologies/Insight | |
| Handheld Computer Series 9500 with supporting modems and cables previously purchased | $135,509.18 |

| | |
|---|---|
| Term: | 36 Months |
| Lease Rate Factor: | 2.83% |
| Monthly Rental Payment: | $3,834.91 |



SPAR MARKETING SERVICES, INC. CORPORATE OFFICE
* 580 WHITE PLAINS ROAD *TARRYTOWN, NY 10591
Phone 914-332-4100 * Fax 914-332-0741 *
Email: servingyou@sparinc.com * Website: www.sparinc.com

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES * E-COMMERCE

THIS SCHEDULE, TOGETHER WITH THE MASTER AGREEMENT AND THE OTHER DOCUMENTS REFERRED TO HEREIN AND THEREIN AND/OR EXECUTED IN CONNECTION HEREWITH OR THEREWITH, CONSTITUTE THE ENTIRE AGREEMENT BETWEEN LESSOR AND LESSEE AS TO THE LEASING OF THE EQUIPMENT. LESSEE ACKNOWLEDGES THAT ON OR BEFORE LESSEE'S EXECUTION AND DELIVERY OF THIS SCHEDULE IT RECEIVED A COPY OF THE PURCHASE ORDER AND OTHER PURCHASE CONTRACTS EVIDENCING THE ACQUISITION OF THE EQUIPMENT BY LESSOR .

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| LESSOR | LESSEE |
| --- | --- |
| /s/ Robert G. Brown | /s/ Charles Cimitile |
| Robert G. Brown | Charles Cimitile |
| Chairman and Chief Executive Officer | Chief Financial Officer |
| SPAR Marketing Services, Inc. | SPAR Marketing Force, Inc. |



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EXHIBIT 10.3

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES * E-COMMERCE

SERVICES DEFINED BY THE RETURN THEY GENERATE

THIS IS COUNTERPART NO. 1 OF 3 SERIALLY NUMBERED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 003
Dated: as of January 31, 2005
(this "Schedule")
Incorporating by Reference
Master Lease Agreement dated as of November 1, 2004
between
SPAR Marketing Services, Inc., as "Lessor",
and
SPAR Marketing Force, Inc., as "Lessee"
(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 003 IN ORDER TO REFLECT THE CORRECT LOWER LEASE RATE FACTOR AND MONTHLY RENTAL PAYMENT AMOUNTS AND TO AMEND, RESTATE AND COMPLETELY REPLACE THE EXISTING EQUIPMENT LEASING SCHEDULE NO. 003 BY AND BETWEEN LESSOR AND LESSEE DATED AS OF JANUARY 31, 2005.

LESSEE AGREES TO LEASE THE HEREIN DESCRIBED EQUIPMENT FROM LESSOR, AND LESSOR BY ACCEPTANCE OF THIS SCHEDULE, AGREES TO LEASE THE EQUIPMENT TO LESSEE ON THE TERMS AND CONDITIONS SET FORTH IN THIS SCHEDULE, WHICH HEREBY INCORPORATES HEREIN BY REFERENCE ALL OF THE TERMS AND PROVISIONS OF THE MASTER AGREEMENT WITH THE SAME FORCE AND EFFECT AS THOUGH FULLY SET FORTH HEREIN.

Rental Commencement Date: 1/31/05

| Purchased From: | Cost |
|---|---|
| SSE Products, Inc.<br>d/b/a SSE Technologies/Insight | |
| 105 Handheld Computers Series<br>9550 50% payment, invoice | $83,813.63 |
| #63718 Modems and cords | 11957.83 |
| Cables | 918.44 |
| | $96,689.90 |

| | |
|---|---|
| Term: | 36 Months |
| Lease Rate Factor: | 2.83% |
| Monthly Rental Payment: | $2,736.32 |
| Good Faith Deposit Amount: | |



[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES * E-COMMERCE

THIS SCHEDULE, TOGETHER WITH THE MASTER AGREEMENT AND THE OTHER DOCUMENTS REFERRED TO HEREIN AND THEREIN AND/OR EXECUTED IN CONNECTION HEREWITH OR THEREWITH, CONSTITUTE THE ENTIRE AGREEMENT BETWEEN LESSOR AND LESSEE AS TO THE LEASING OF THE EQUIPMENT. LESSEE ACKNOWLEDGES THAT ON OR BEFORE LESSEE'S EXECUTION AND DELIVERY OF THIS SCHEDULE IT RECEIVED A COPY OF THE PURCHASE ORDER AND OTHER PURCHASE CONTRACTS EVIDENCING THE ACQUISITION OF THE EQUIPMENT BY LESSOR .

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| LESSOR | LESSEE |
|---|---|
| /s/ Robert G. Brown | /s/ Charles Cimitile |
| ------------------------------ | ------------------------------ |
| Robert G. Brown | Charles Cimitile |
| Chairman and Chief Executive Officer | Chief Financial Officer |
| SPAR Marketing Services, Inc. | SPAR Marketing Force, Inc. |

EXHIBIT 10.4

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES * E-COMMERCE

SERVICES DEFINED BY THE RETURN THEY GENERATE

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THIS IS COUNTERPART NO. OF 3 SERIALLY NUMBERED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 001
Dated: as of January 4, 2005
(this "Schedule")
Incorporating by Reference
Master Lease Agreement dated as of January 4, 2005
between
SPAR Marketing Services, Inc., as "Lessor",
and
SPAR Canada Company, as "Lessee"
(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDED AND RESTATED EQUIPMENT LEASING SCHEDULE NO. 001 IN ORDER TO REFLECT THE CORRECT LOWER LEASE RATE FACTOR AND MONTHLY RENTAL PAYMENT AMOUNTS AND TO AMEND, RESTATE AND COMPLETELY REPLACE THE EXISTING EQUIPMENT LEASING SCHEDULE NO. 001 BY AND BETWEEN LESSOR AND LESSEE DATED AS OF JANUARY 4, 2005.

LESSEE AGREES TO LEASE THE HEREIN DESCRIBED EQUIPMENT FROM LESSOR, AND LESSOR BY ACCEPTANCE OF THIS SCHEDULE, AGREES TO LEASE THE EQUIPMENT TO LESSEE ON THE TERMS AND CONDITIONS SET FORTH IN THIS SCHEDULE, WHICH HEREBY INCORPORATES HEREIN BY REFERENCE ALL OF THE TERMS AND PROVISIONS OF THE MASTER AGREEMENT WITH THE SAME FORCE AND EFFECT AS THOUGH FULLY SET FORTH HEREIN.

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Rental Commencement Date: 1/4/05

| Purchased From: | Cost |
|---|---|
| SSE Products, Inc.<br>d/b/a SSE Technologies<br><br>Handheld Computer Series<br><br>9500 with supporting modems and cables<br>previously purchased | $105,000.00 |

| | |
|---|---|
| Term: | 36 Months |
| Lease Rate Factor: | 2.83% |
| Monthly Rental Payment: | $2,971.50 |

THIS SCHEDULE, TOGETHER WITH THE MASTER AGREEMENT AND THE OTHER DOCUMENTS REFERRED TO HEREIN AND THEREIN AND/OR EXECUTED IN CONNECTION HEREWITH OR THEREWITH, CONSTITUTE THE ENTIRE AGREEMENT BETWEEN LESSOR AND LESSEE AS TO THE LEASING OF THE EQUIPMENT. LESSEE ACKNOWLEDGES THAT ON OR BEFORE LESSEE'S EXECUTION AND DELIVERY OF THIS SCHEDULE IT RECEIVED A COPY OF THE PURCHASE ORDER AND OTHER PURCHASE CONTRACTS EVIDENCING THE ACQUISITION OF THE EQUIPMENT BY LESSOR .

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| LESSOR | LESSEE |
| --- | --- |
| /s/ Robert G. Brown | /s/ Charles Cimitile |
| Robert G. Brown | Charles Cimitile |
| Chairman and Chief Executive Officer | Chief Financial Officer |
| SPAR Marketing Services, Inc. | SPAR Marketing Force, Inc. |



SPAR MARKETING SERVICES, INC. CORPORATE OFFICE
* 580 WHITE PLAINS ROAD *TARRYTOWN, NY 10591
Phone 914-332-4100 * Fax 914-332-0741 *
Email: servingyou@sparinc.com * Website: www.sparinc.com

EXHIBIT 10.5

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES * E-COMMERCE

SERVICES DEFINED BY THE RETURN THEY GENERATE

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THIS IS COUNTERPART NO. 1 OF 3 SERIALLY NUMBERED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST IN THIS DOCUMENT MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

EQUIPMENT LEASING SCHEDULE NO. 004
Dated: as of March 24, 2005
(this "Schedule")
Incorporating by Reference
Master Lease Agreement dated as of November 1, 2004
between
SPAR Marketing Services, Inc., as "Lessor",
and
SPAR Marketing Force, Inc., as "Lessee"
(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

LESSEE AGREES TO LEASE THE HEREIN DESCRIBED EQUIPMENT FROM LESSOR, AND LESSOR BY ACCEPTANCE OF THIS SCHEDULE, AGREES TO LEASE THE EQUIPMENT TO LESSEE ON THE TERMS AND CONDITIONS SET FORTH IN THIS SCHEDULE, WHICH HEREBY INCORPORATES HEREIN BY REFERENCE ALL OF THE TERMS AND PROVISIONS OF THE MASTER AGREEMENT WITH THE SAME FORCE AND EFFECT AS THOUGH FULLY SET FORTH HEREIN.

Rental Commencement Date: 3/24/05

| Purchased From: | Cost |
|---|---|
| SSE Products, Inc.<br>d/b/a SSE Technologies/Insight | |
| 105 Handheld Computers Series<br>9550 balance, invoice #63718 | $82,727.35 |

| | |
|---|---|
| Term: | 36 Months |
| Lease Rate Factor: | 2.83% |
| Monthly Rental Payment: | $2,341.18 |





THIS SCHEDULE, TOGETHER WITH THE MASTER AGREEMENT AND THE OTHER DOCUMENTS REFERRED TO HEREIN AND THEREIN AND/OR EXECUTED IN CONNECTION HEREWITH OR THEREWITH, CONSTITUTE THE ENTIRE AGREEMENT BETWEEN LESSOR AND LESSEE AS TO THE

LEASING OF THE EQUIPMENT. LESSEE ACKNOWLEDGES THAT ON OR BEFORE LESSEE'S EXECUTION AND DELIVERY OF THIS SCHEDULE IT RECEIVED A COPY OF THE PURCHASE ORDER AND OTHER PURCHASE CONTRACTS EVIDENCING THE ACQUISITION OF THE EQUIPMENT BY LESSOR.

`

BY EXECUTION OF THIS SCHEDULE, THE UNDERSIGNED CERTIFIES THAT HE/SHE HAS READ THIS SCHEDULE, HAS EXECUTED AND ENTERED INTO THIS SCHEDULE ON BEHALF OF LESSEE AND IS DULY AUTHORIZED TO DO SO

| | |
|---|---|
| /s/ Robert G. Brown | /s/ Charles Cimitile |
| Robert G. Brown | Charles Cimitile |
| Chairman and Chief Executive Officer | Chief Financial Officer |
| SPAR Marketing Services, Inc. | SPAR Marketing Force, Inc. |



SPAR MARKETING SERVICES, INC. CORPORATE OFFICE
* 580 WHITE PLAINS ROAD *TARRYTOWN, NY 10591
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EXHIBIT 10.6

WAIVER TO THIRD AMENDED AND RESTATED
REVOLVING CREDIT AND SECURITY AGREEMENT

THIS WAIVER (this "Waiver") is entered into as of March 31, 2005, by and among SPAR MARKETING FORCE, INC. ("SMF"), SPAR, INC. ("SPAR"), SPAR/BURGOYNE RETAIL SERVICES, INC ("SBRS"), SPAR GROUP, INC. ("SGI"), SPAR INCENTIVE MARKETING, INC. ("SIM"), SPAR TRADEMARKS, INC. ("STM"), SPAR MARKETING, INC. (DE) ("SMIDE"), SPAR MARKETING, INC. (NV) ("SMINV"), SPAR ACQUISITION, INC. ("SAI"), SPAR TECHNOLOGY GROUP, INC. ("STG"), SPAR/PIA RETAIL SERVICES, INC. ("Pia Retail"), RETAIL RESOURCES, INC. ("Retail"), PIVOTAL FIELD SERVICES, INC. ("Pivotal Field"), PIA MERCHANDISING CO., INC. ("PIA"), PACIFIC INDOOR DISPLAY CO. ("Pacific"), PIVOTAL SALES COMPANY ("Pivotal"), SPAR ALL STORE MARKETING SERVICES, INC., ("SAS") and SPAR BERT FIFE, INC. ("SBFI") (each a "Borrower" and collectively "Borrowers") and WEBSTER BUSINESS CREDIT CORPORATION (formerly known as Whitehall Business Credit Corporation) ("Lender").

BACKGROUND

The Borrowers and Lender are parties to that certain Third Amended and Restated Revolving Credit and Security Agreement dated January 24, 2003 (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Lender provides the Borrowers with certain financial accommodations.

The Borrowers have violated certain covenants and have requested Lender waive the resulting Events of Default and Lender is willing to do so.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Lender, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined or amended herein shall have the meanings given to them in the Loan Agreement.

2. Waiver. Subject to the satisfaction of Section 3 below, Lender hereby waives the Event of Default which has occurred as a result Borrowers' non-compliance with Section 12(r) due to Borrowers' failure to achieve EBITDA for October, 2004 and December, 2004 at the requisite level for each such month. Notwithstanding the foregoing, the waiver of the Events of Default set forth above does not establish a course of conduct between Borrowers and Lender and Borrowers hereby agree that Lender is not obligated to waive any future Events of Default under the Loan Agreement.

3. Conditions of Effectiveness. This Waiver shall become effective as of the date hereof, provided that Lender shall have received four (4) copies of this Waiver executed by the Borrowers and the limited guarantors (each a "Limited Guarantor") and the guarantor ("Guarantor") listed on the signature page hereto.

4. Representations, Warranties and Covenants. Each of the Borrowers hereby represents, warrants and covenants as follows:

(a) This Waiver and the Loan Agreement constitute legal, valid and binding obligations of each of the Borrowers and are enforceable against each of the Borrowers in accordance with their respective terms.

(b) Upon the effectiveness of this Waiver, each of the Borrowers hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Waiver.

(c) No Borrower has any defense, counterclaim or offset with respect to the Loan Agreement or the Obligations.

5. Effect on the Loan Agreement.

(a) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(b) Except as set forth in Section 2 hereof, the execution, delivery and effectiveness of this Waiver shall not operate as a waiver of any right, power or remedy of Lender, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

6. Governing Law. This Waiver shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York (other than those conflict of law rules that would defer to the substantive law of another jurisdiction).

7. Release. Borrowers and Guarantors hereby release, remise, acquit and forever discharge Lender, Lender's employees, agents, representatives, consultants, attorneys, fiduciaries, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "Released Parties"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the date of execution hereof, and in any way directly or indirectly arising out of or in any way connected to this Waiver or the Ancillary Agreements (all of the foregoing hereinafter called the "Released Matters"). Borrowers acknowledge that the agreements



in this Section are intended to be in full satisfaction of all or any alleged injuries or damages arising in connection with the Released Matters.

8. Headings. Section headings in this Waiver are included herein for convenience of reference only and shall not constitute a part of this Waiver for any other purpose.

9. Counterparts; Facsimile Signatures. This Waiver may be executed by the parties hereto in one or more counterparts of the entire document or of the signature pages hereto, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement. Any signature received by facsimile transmission shall be deemed an original signature hereto.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Waiver has been duly executed as of the day and year first written above.

WEBSTER BUSINESS CREDIT CORPORATION

By: /s/ Joseph Zautra
-----------------------------------
Name: Joseph Zautra
Its: Vice President

AGREED TO:
----------

SPAR MARKETING FORCE, INC.
SPAR, INC.
SPAR/BURGOYNE RETAIL SERVICES, INC.

SPAR GROUP, INC.
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 CO.
PIVOTAL SALES COMPANY
SPAR GROUP, INC.
SPAR ALL STORE MARKETING SERVICES, INC.
SPAR BERT FIFE, INC.

By: /s/ Charles Cimitile
----------------------------------------------
Name: Charles Cimitile
Title: Chief Financial Officer of each of the foregoing entities

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

CONSENTED AND AGREED TO BY:
---------------------------

/s/ William H. Bartels
------------------------------
WILLIAM H. BARTELS, Limited Guarantor

/s/ Robert G. Brown
------------------------------
ROBERT G. BROWN, Limited Guarantor

PIA MERCHANDISING LIMITED, Guarantor

By: /s/ Charles Cimitile
------------------------------
Name: Charles Cimitile
Its: Chief Financial Officer

EXHIBIT 10.7

WEBSTER BUSINESS CREDIT CORPORATION
One State Street
New York, New York 10004

May 11, 2005

SPAR Group, Inc.
580 White Plains Road
Tarrytown, New York 10591
Attention: Charles Cimitile

Gentlemen:

Reference is hereby made to that certain Third Amended and Restated Revolving Credit and Security Agreement (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") dated as of January 24, 2003 by and among SPAR MARKETING FORCE, INC. ("SMF"), SPAR, INC. ("SPAR"), SPAR/BURGOYNE RETAIL SERVICES, INC ("SBRS"), SPAR GROUP, INC. ("SGI"), SPAR INCENTIVE MARKETING, INC. ("SIM"), SPAR TRADEMARKS, INC. ("STM"), SPAR MARKETING, INC. (DE) ("SMIDE"), SPAR MARKETING, INC. (NV) ("SMINV"), SPAR ACQUISITION, INC. ("SAI"), SPAR TECHNOLOGY GROUP, INC. ("STG"), SPAR/PIA RETAIL SERVICES, INC. ("Pia Retail"), RETAIL RESOURCES, INC. ("Retail"), PIVOTAL FIELD SERVICES, INC. ("Pivotal Field"), PIA MERCHANDISING CO., INC. ("PIA"), PACIFIC INDOOR DISPLAY CO. ("Pacific"), PIVOTAL SALES COMPANY ("Pivotal"), SPAR ALL STORE MARKETING SERVICES, INC., ("SAS") and SPAR BERT FIFE, INC. ("SBFI") (each a "Borrower" and collectively "Borrowers") and WEBSTER BUSINESS CREDIT CORPORATION (formerly known as Whitehall Business Credit Corporation) ("Lender"). All capitalized terms not otherwise defined herein shall have the meanings given to them in the Credit Agreement.

An Event of Default has occurred under the Credit Agreement as a result of Borrowers' non-compliance with (i) Section 12(o) of the Credit Agreement with respect to the fiscal quarter ended March 31, 2005 due to Borrowers' failure to maintain its required Net Worth at the end of such fiscal quarter and (ii) Section 12(p) and Section 12(r) of the Credit Agreement with respect to the fiscal quarter ending March 31, 2005 due to Borrowers' failure to maintain the requisite Fixed Charge Coverage Ratio and EBITDA level for the four fiscal quarters then ended. Borrowers have requested that such Events of Default be waived. By its signature below, Lender hereby waives such Event of Default solely for the fiscal quarter ending March 31, 2005.

Except as specifically provided herein, the Credit Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed. The execution, delivery and effectiveness of this letter agreement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Lender, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

Very truly yours,

WEBSTER BUSINESS CREDIT CORPORATION

By: /s/ Joseph Zautra
-------------------------------
Name: Joseph Zautra
Title: Vice President

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 quarterly report on Form 10-Q for the three-month period ended March 31, 2005 (this "report"), of SPAR Group, Inc. (the "registrant");

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

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

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

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

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

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

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

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

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

Date: May 18, 2005

/s/ Robert G. Brown
-------------------
Robert G. Brown, Chairman, President and
Chief Executive Officer

SPAR GROUP, INC.

EXHIBIT 31.2

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 quarterly report on Form 10-Q for the three-month period ended March 31, 2005 (this "report"), of SPAR Group, Inc. (the "registrant");

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

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

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

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

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

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

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

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

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

Date: May 18, 2005

/s/ Charles Cimitile

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Charles Cimitile, Chief Financial Officer,
Treasurer and Secretary

SPAR GROUP, INC.

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q for the three month period ended March 31, 2005 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and Chief Executive Officer

May 18, 2005

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.

SPAR GROUP, INC.

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q for the three month period ended March 31, 2005 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

May 18, 2005

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.