

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the third quarterly period ended **September 30, 2006**.

OR

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

Commission file number: 0-27824

SPAR Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
State of Incorporation

33-0684451
IRS Employer Identification No.

555 White Plains Road, Suite 250, Tarrytown, New York 10591
(Address of principal executive offices, including zip code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

On September 30, 2006, there were 18,933,932 shares of Common Stock outstanding.

SPAR Group, Inc.

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PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

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

	September 30, 2006	December 31, 2005
	(Unaudited)	(Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,892	\$ 1,914
Accounts receivable, net	11,258	10,656
Prepaid expenses and other current assets	732	702
Total current assets	<u>13,882</u>	<u>13,272</u>
Property and equipment, net	929	1,131
Goodwill	798	798
Other assets	206	216
Total assets	<u>\$ 15,815</u>	<u>\$ 15,417</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,726	\$ 1,597
Accrued expenses and other current liabilities	2,207	2,639
Accrued expenses due to affiliates	1,887	1,190
Restructuring charges	-	99
Customer deposits	655	1,658
Lines of credit	3,249	2,969
Total current liabilities	<u>10,724</u>	<u>10,152</u>
Minority interest and other long-term liabilities	<u>502</u>	<u>415</u>
Total liabilities	<u>11,226</u>	<u>10,567</u>
Commitments and contingencies (Note - 8)		
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 -		

18,933,932 - September 30, 2006		
18,916,847 - December 31, 2005	189	189
Treasury stock	(1)	(1)
Accumulated other comprehensive (loss) gain	(36)	17
Additional paid-in capital	11,367	11,059
Accumulated deficit	(6,930)	(6,414)
Total stockholders' equity	4,589	4,850
Total liabilities and stockholders' equity	\$ 15,815	\$ 15,417

Note: The Balance Sheet at December 31, 2005, is an excerpt 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net revenues	\$ 12,709	\$ 11,060	\$ 41,477	\$ 38,381
Cost of revenues	8,856	7,595	27,853	24,414
Gross profit	3,853	3,465	13,624	13,967
Selling, general and administrative expenses	4,855	4,015	13,794	12,090
Depreciation and amortization	170	261	565	812
Operating (loss) income	(1,172)	(811)	(735)	1,065
Interest expense	65	29	162	102
Other expense (income)	48	199	(542)	608
(Loss) income before provision for income taxes and minority interest	(1,285)	(1,039)	(355)	355
Provision for income taxes	73	15	172	45
(Loss) income before minority interest	(1,358)	(1,054)	(527)	310
Minority interest	34	88	(11)	166
Net (loss) income	\$ (1,392)	\$ (1,142)	\$ (516)	\$ 144
Basic/diluted net (loss) income per common share:				
Net (loss) income - basic/diluted	\$ (0.07)	\$ (0.06)	\$ (0.03)	\$ 0.01
Weighted average common shares - basic	18,934	18,899	18,929	18,876
Weighted average common shares - diluted	18,934	18,899	18,929	19,388

See accompanying notes.

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

Nine Months Ended September 30,

	2006	2005
Operating activities		
Net cash provided by operating activities	\$ 117	\$ 3,864
Investing activities		
Purchases of property and equipment	(363)	(388)
Financing activities		
Net borrowings (payments) on lines of credit	280	(2,538)
Other long-term liabilities	(3)	3
Proceeds from employee stock purchase plan and exercised options	-	83
Net cash provided by (used in) financing activities	277	(2,452)
Translation loss	(53)	(98)
Net change in cash and cash equivalents	(22)	926
Cash and cash equivalents at beginning of period	1,914	887
Cash and cash equivalents at end of period	\$ 1,892	\$ 1,813
Supplemental disclosure of cash flow information		
Interest paid	\$ 153	\$ 104

See accompanying notes.

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

1. Basis of Presentation

The accompanying unaudited, consolidated financial statements of SPAR Group, Inc., a Delaware corporation (“SGRP”), and its subsidiaries (together with SGRP, collectively, the “Company” or the “SPAR Group”) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the Company’s Annual Report for 2005 on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission (the “SEC”) on April 3, 2006, as amended on Form 10-K/A by Amendment No. 1 filed with the SEC on April 26, 2006, and Amendment No. 2 filed with the SEC on June 21, 2006 (the “Company’s Annual Report for 2005 on Form 10-K As Amended”). The Company’s results of operations for the interim periods are not necessarily indicative of its operating results for the entire year.

2. Business and Organization

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

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 and marketing services, in-store event staffing, product sampling, RFID services, technology services and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, electronics store chains, drug store chains, and convenience and grocery stores. The International Merchandising Services Division, established in July 2000, currently provides similar merchandising and marketing services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in Turkey, South Africa, India, Romania, Lithuania and Australia and through 50% owned joint ventures in Japan and China. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

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

3. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Net (loss) income	\$ (1,392)	\$ (1,142)	\$ (516)	\$ 144
Denominator:				
Shares used in basic net (loss) income per share calculation	18,934	18,899	18,929	18,876
Effect of diluted securities:				
Employee stock options	-	-	-	512
Shares used in diluted net (loss) income per share calculation	18,934	18,899	18,929	19,388
Basic and diluted net (loss) income per common share	\$ (0.07)	\$ (0.06)	\$ (0.03)	\$ 0.01

4. Lines of Credit

In January 2003, the Company (other than SGRP's foreign subsidiaries) and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility").

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

The basic interest rate under the Credit Facility is Webster's "Alternative Base Rate" plus 0.75% per annum (a total of 9.0% per annum at September 30, 2006), which automatically changes with each change made by Webster in such Alternative Base Rate. The Company at its option, subject to certain conditions, may elect to have portions of its loans under the Credit Facility bear interest at various LIBOR rates plus 3.25% per annum based on fixed periods of one, two, three or nine months. The actual average interest rate under the Credit Facility was 8.6% per annum for the nine months ended September 30, 2006. The Credit Facility is secured by substantially all of the assets of the Company (other than SGRP's foreign subsidiaries and their assets).

The Company was not in violation of any covenants at September 30, 2006 and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants in the future. Should the Company be in violation, there are no assurances that Webster will issue waivers of such covenant violations in the future.

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

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at September 30, 2006 and December 31, 2005, in accordance with EITF 95-22, *Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement*.

The revolving loan balances outstanding under the Credit Facility were \$2.1 million and \$2.4 million at September 30, 2006 and December 31, 2005, respectively. There were letters of credit outstanding under the Credit Facility of approximately \$453,000 and \$552,000 at September 30, 2006, and December 31, 2005, respectively. As of September 30, 2006, the SPAR Group had unused availability under the Credit Facility of \$1.0 million out of the remaining maximum \$4.4 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

The Japanese joint venture SPAR FM Japan, Inc. has line of credit agreements totaling 100 million Yen or approximately \$850,000 (based upon the exchange rate at September 30, 2006). The outstanding balances under the line of credit agreements were 70 million Yen or approximately \$600,000 at September 30, 2006 and December 31, 2005, respectively (based upon the exchange rate at those dates). The average interest rate was 1.4% per annum for the nine months ended September 30, 2006.

In 2006, the Australian joint venture SPARFACTS Australia Pty. Ltd. entered into a revolving line of credit arrangement with Oxford Funding Pty. Ltd. for \$1.1 million (Australian) or approximately \$820,000 (based upon the exchange rate at September 30, 2006). At September 30, 2006, SPARFACTS

Australia Pty. Ltd. had \$798,000 (Australian) or approximately \$596,000 outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate was 10.9% per annum for the five months ended September 30, 2006.

On October 20, 2006, SPAR Canada Company, a wholly owned subsidiary, entered into a credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$1.0 million (Canadian) or approximately \$880,000 (based upon the exchange rate at November 10, 2006). The Demand Operating Loan provides for borrowing based upon a borrowing base formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions). In November, 2006, SPAR Canada Company borrowed approximately \$100,000 (Canadian) or approximately \$88,000 (based upon the exchange rate at November 10, 2006).

5. Related-Party Transactions

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

SMS and SMSI provided approximately 99% of the Company's domestic merchandising specialists field force (through independent contractors) for both the nine months ended September 30, 2006 and 2005, and approximately 76% and 77% of the Company's domestic field management at a total cost to the Company of approximately \$14.7 million and \$15.5 million for the nine months ended September 30, 2006 and 2005, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, SMS provides the services of SMS's merchandising specialist field force of approximately 3,300 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 49 full-time national, regional and district managers to the Company. For those services, the Company has agreed to reimburse SMS and SMSI for all of their costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective costs. Total net premiums (4% of SMS and SMSI costs) paid to SMS and SMSI for services rendered were approximately \$567,000 and \$596,000 for the nine months ended September 30, 2006, and 2005, respectively. The Company has been advised that Messrs. Brown and

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

Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations and are owned by Messrs. Brown and Bartels, they benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services purchased by the Company at a total cost of approximately \$541,000 and \$610,000 for the nine months ended September 30, 2006 and 2005, respectively. SIT provided approximately 19,000 and 20,000 hours of Internet computer programming services to the Company for the nine months ended September 30, 2006 and 2005, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004, SIT continues to provide programming services to the Company for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. The average hourly billing rate was \$28.39 and \$30.53 for the nine months ended September 30, 2006 and 2005, 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 nine months ended September 30, 2006 and 2005, respectively. However, since SIT is a "Subchapter S" corporation and is owned by Messrs. Brown and Bartels, they benefit from any income of such company allocated to them.

In November 2004 and January 2005, the Company entered into separate operating lease agreements between SMS and the Company's wholly owned subsidiaries, SPAR Marketing Force, Inc. ("SMF") and SPAR Canada Company ("SPAR Canada"). In May 2005, the Company and SMS amended the lease agreements reducing the total monthly payment. Each lease, as amended, has a 36 month term and representations, covenants and defaults customary for the leasing industry. The SMF lease is for handheld computers to be used by field merchandisers in the performance of various merchandising and marketing services in the United States and has a monthly payment of \$17,891. These handheld computers had an original purchase price of \$632,200. The SPAR Canada lease is also for handheld computers to be used by field merchandisers in the performance of various merchandising and marketing services in Canada and has a monthly payment of \$2,972. These handheld computers had an original purchase price of \$105,000. The monthly payments, as amended, are based upon a lease factor of 2.83%.

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

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

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

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2006	2005	2006	2005

Services provided by affiliates:				
Independent contractor services (SMS)	\$	3,098	\$	3,567
	\$	11,915	\$	12,721
Field management services (SMSI)	\$	937	\$	906
Handheld computer leases (SMS)	\$	70	\$	67
Internet and software program consulting services (SIT)	\$	178	\$	186
	\$	541	\$	610

	September 30, 2006	December 31, 2005
Accrued expenses due to affiliates:		
SPAR Marketing Services, Inc. (SMS)	\$ 1,538	\$ 847
SPAR Management Services, Inc. (SMSI)	\$ 256	\$ 238
SPAR Infotech, Inc. (SIT)	\$ 93	\$ 105

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

6. Stock-Based Compensation

As of January 1, 2006, SFAS No. 123(R) became effective and applicable to the Company's accounting for its employee options. The Company had previously followed APB No. 25 and related interpretations when accounting for such options. Under APB No. 25 no compensation expense was recognized by the Company when employee stock options were granted, as the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of grant. Under SFAS No. 123(R), compensation expense is now recognized in the Company's financial statements when employee stock options are granted. Share-based compensation cost is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the employee's requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model. The Black-Scholes calculation was performed for the nine months ended September 30, 2006, utilizing the methodology and assumptions consistent with those used in prior periods, which were disclosed in the Company's previously filed Annual Report on Form 10-K, As Amended.

Share-based compensation expense related to employee stock option grants totaled approximately \$74,000 and \$233,000 for the three months and nine months ended September 30, 2006. Basic and diluted earnings per share were impacted by approximately \$0.01 for the nine month period ended September 30, 2006. In 2005, under the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, no compensation cost was recognized for the stock option grants to Company employees for the three months and

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

nine months ended September 30, 2005. If compensation cost for the three months and nine months ended September 30, 2005, had been recognized by the Company under the fair value method, the Company's net (loss) income and pro forma net (loss) per share would have been reduced to the adjusted amounts indicated below (in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net (loss) income, as reported	\$ (1,142)	\$ 144
Stock based employee compensation expense per the fair market value method	130	341
Pro forma net loss	\$ (1,272)	\$ (197)
Basic and diluted net (loss) income per share, as reported	\$ (0.06)	\$ 0.01
Basic and diluted net loss per share, pro forma	\$ (0.07)	\$ (0.01)

Under the provision of SFAS No. 123 dealing with non-employee stock option grants awarded to the employees of the Company's affiliates, the Company recorded an expense for the three months ended September 30, 2006 and 2005, of approximately \$24,000 and \$18,000 respectively and for the nine months ended September 30, 2006 and 2005, the Company recorded an expense of approximately \$74,000 and \$90,000 respectively.

The Company determines the fair value of the options granted to employees and non-employees using the Black-Scholes valuation model and recovers amounts previously expensed or expenses amounts over the employee's requisite service period which generally is the option's vesting 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.

7. Customer Deposits

Customer deposits at September 30, 2006, were approximately \$655,000 (approximately \$195,000 from domestic operations and approximately \$460,000 from international operations) compared to approximately \$1,658,000 at December 31, 2005 (approximately \$1,246,000 from domestic operations and approximately \$412,000 from international operations). In March 2006, the company recorded revenue totaling \$770,000 resulting from the termination of a customer service agreement.

8. Commitments and Contingencies

International Commitments

The Company's international business model is to partner with local merchandising companies and combine the Company's proprietary software and expertise in the merchandising and marketing services business with their partner's knowledge of the local market. In 2001, the Company established its 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, Romania, China, Lithuania and Australia.

Certain of these joint ventures and joint venture subsidiaries are 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.

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

Legal Matters

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

On May 26, 2006, the jury in this case returned a verdict resulting in a net award of \$1,307,700 to Pivotal, a SGRP subsidiary. This net award is to be paid by Safeway and resulted from separate jury findings that awarded damages to those SGRP subsidiaries on certain claims and damages to Safeway on other claims. In particular, the jury awarded damages to Pivotal of \$5,760,879 for Safeway's interference with Pivotal's contractual relationships with third party manufacturers and also awarded \$782,400 to Pivotal and PIA for Safeway's breach of contract with those SGRP subsidiaries. The jury awarded damages to Safeway of \$5,235,579 for breach of contract by SGRP and those SGRP subsidiaries. Judgment was entered in favor of Pivotal in September 2006 for \$1,307,700. Both parties have filed post trial motions and a Notice of Appeal is expected to follow. Pivotal/SGRP is seeking to have Safeway's judgment overturned. Safeway has asked for a new trial on the judgment found against them. The appellate process is expected to take fourteen to twenty four months to complete.

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.

9. Geographic Data

A summary of the Company's net revenues, operating (loss) income and long lived assets by geographic area for the three months and nine months ended September 30, 2006 and 2005, respectively, and at September 30, 2006 and December 31, 2005, are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<u>Net revenues:</u>				
United States	\$ 6,689	\$ 7,467	\$ 25,376	\$ 27,446
International	6,020	3,593	16,101	10,935

	September 30, 2006		September 30, 2005	
	2006	2005	2006	2005
Total net revenues	\$ 12,709	\$ 11,060	\$ 41,477	\$ 38,381
Operating (loss) income:				
United States	\$ (1,165)	\$ (946)	\$ (426)	\$ 373
International	(7)	135	(309)	692
Total operating (loss) income	\$ (1,172)	\$ (811)	\$ (735)	\$ 1,065

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

	September 30, 2006	December 31, 2005
Long lived assets:		
United States	\$ 1,681	\$ 1,799
International	252	346
Total long lived assets	\$ 1,933	\$ 2,145

International revenues disclosed above were based upon revenues reported by the Company's 100% owned foreign subsidiary, its 51% owned foreign joint venture subsidiaries and its 50% owned foreign joint ventures. During 2005, the Japan joint venture changed from a fiscal year ending September 30 to a calendar year ending December 31. Due to the change of their fiscal year, the operating results reported by the Japan joint venture for the nine months ending September 30, 2006, included not only the operating results for the period, but also the operating results for the calendar fourth quarter of 2005. The inclusion of the fourth quarter operating results increased net revenues and operating income by \$1.3 million and \$13,000, respectively.

Japan accounted for 19% and 13% of the Company's net revenues for the three months ended September 30, 2006 and 2005, respectively, and 17% and 11% of the Company's net revenues for the nine months ended September 30, 2006 and 2005, respectively.

Australia accounted for 10% of the Company's net revenues for the three months ended September 30, 2006, and 5% of the Company's net revenues for the nine months ended September 30, 2006.

Canada accounted for 7% and 9% of the Company's net revenues for the three months ended September 30, 2006 and 2005, respectively, and 7% and 8% of the Company's net revenues for the nine months ended September 30, 2006 and 2005, respectively.

All other international operations accounted for 11% and 10% of the Company's net revenues for the three months ended September 30, 2006 and 2005, respectively, and 10% and 9% of the Company's net revenues for the nine months ended September 30, 2006 and 2005, respectively.

10. Supplemental Balance Sheet Information

	September 30, 2006	December 31, 2005
Accounts receivable, net, consists of the following (in thousands):		
Trade	\$ 7,751	\$ 7,666
Unbilled	2,321	3,461
Non-trade	1,570	145
	11,642	11,272
Less allowance for doubtful accounts	(384)	(616)
Accounts receivable, net	\$ 11,258	\$ 10,656

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(unaudited) (continued)

	September 30, 2006	December 31, 2005
Property and equipment, net, consists of the following (in thousands):		
Equipment	\$ 5,302	\$ 5,202
Furniture and fixtures	607	570
Leasehold improvements	568	568
Capitalized software development costs	1,461	1,228
	<u>7,938</u>	<u>7,568</u>
Less accumulated depreciation and amortization	(7,009)	(6,437)
Property and equipment, net	<u>\$ 929</u>	<u>\$ 1,131</u>

	September 30, 2006	December 31, 2005
Accrued expenses and other current liabilities consist of the following (in thousands):		
Accrued medical and worker compensation expenses	\$ 315	\$ 296
Taxes payable	406	490
Accrued accounting and legal expense	292	286
Accrued salaries payable	773	937
Other	421	630
Accrued expenses and other current liabilities	<u>\$ 2,207</u>	<u>\$ 2,639</u>

11. Foreign Currency Rate Fluctuations

The Company has foreign currency exposure associated with its international 100% owned subsidiary, its 51% owned joint venture subsidiaries and its 50% owned joint ventures. In the nine months ended September 30, 2006, these exposures were primarily concentrated in the Canadian Dollar, South African Rand, Australian Dollar and Japanese Yen. At September 30, 2006, international assets totaled approximately \$5.8 million and international liabilities totaled approximately \$5.3 million. For the nine months ended September 30, 2006, international revenues totaled \$16.1 million and there was an international net income of \$523,000.

12. Interest Rate Fluctuations

The Company is exposed to market risk related to the variable interest rates on its lines of credit. At September 30, 2006, the Company's outstanding debt totaled approximately \$3.2 million, which consisted of domestic variable-rate (9% per annum at that date) debt of approximately \$2.1 million, Japanese joint venture variable rate (1.4% per annum at that date) debt of approximately \$600,000 and Australian joint venture subsidiary variable rate (10.9% per annum at that date) debt of approximately \$596,000. Based on the nine months ending September 30, 2006, average outstanding borrowings under variable-rate debt, a one-percentage point per annum increase in interest rates would have negatively impacted pre-tax earnings and cash flows for the nine months ended September 30, 2006, by approximately \$22,000.

13. Recently Issued Accounting Standards

On September 15, 2006, the FSAB issued SFAS No. 157, "Fair Value Measurements," which provides for enhanced guidance for using the fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and

expands disclosures about fair value measurements. SFAS No. 157 is applicable under other accounting pronouncements that either require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SPAR is in the process of analyzing the implications of SFAS No. 157.

On September 13, 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108 on quantifying financial statement misstatements. In summary, SAB No. 108 states that registrants should use both a balance sheet (iron curtain) approach and an income statement (rollover) approach when quantifying and evaluating the materiality of a misstatement, and contains guidance on correcting errors under the dual approach.

In addition, SAB No. 108 provides transition guidance for correcting errors existing in prior years. If prior-year errors that had been previously considered immaterial (based on the appropriate use of the Company's prior approach) now are considered material based on the approach in this SAB, the Company does not need to restate prior period financial statements. SAB No. 108 is effective for the Company's annual financial statements beginning with the fiscal year ending December 31, 2007, although earlier application is encouraged for any interim period of the Company's 2006 fiscal year filed after September 13, 2006.

While the Company is considering the effects of implementing its provisions, the Company's management does not presently believe that the application of SAB No. 108 will have a material impact on the Company's consolidated financial position or results of operations.

In July 2006, the FASB issued FASB interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 and the provisions of FIN 48 will be applied to all tax positions upon initial adoption of the Interpretation. The cumulative effect of applying the provisions of this Interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the impact of FIN 48 on its financial statements.

14. Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the 2006 presentation.

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SPAR Group, Inc.

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 nine months ended September 30, 2006 (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) that are based on the Company's best estimates. In particular and without limitation, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains such forward-looking statements, which are included in (among other places) the discussions respecting net revenues from significant clients, significant chain work and international joint ventures, federal taxes and net operating loss carryforwards, commencement of operations and future funding of international joint ventures, credit facilities and covenant compliance, cost savings initiatives, liquidity and sources of cash availability. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the Company's actual results, performance and achievements, whether expressed or implied by such forward-looking statements, to not occur 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", "likely", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms. You should carefully consider such risks, uncertainties and other information, disclosures and discussions containing cautionary statements or identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements.

You should carefully review this management discussion and analysis together with the risk factors and other cautionary statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission (the "SEC") on April 3, 2006, as amended on Form 10-K/A by Amendment No. 1 filed with the SEC on April 26, 2006, and Amendment No. 2 filed with the SEC on June 21, 2006 (the "Company's Annual Report for 2005 on Form 10-K As Amended"), including the risk factors described in Item 1 of that annual report under the caption "Certain Risk Factors" and the changes (if any) in such risk factors described in Item 1A of Part II of this Quarterly Report (collectively, "Risk Factors"), as well as the cautionary statements contained in this Quarterly Report. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Risk Factors and other cautionary statements in this Quarterly Report and in the Company's Annual Report for 2005 on Form 10-K As Amended, which are incorporated by reference into this Quarterly Report. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, it cannot assure that such plans, intentions or expectations will be achieved in whole or in part. The Company undertakes no obligation to publicly update or revise any forward-looking statements, or any Risk Factors or other cautionary statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

In the United States, the Company provides merchandising and marketing services to manufacturers and retailers principally in mass merchandiser, electronics, drug store, grocery, and other retail trade classes through its Domestic Merchandising Services Division. Internationally, the Company provides similar in-store merchandising and marketing services through a wholly owned subsidiary in Canada, 51% owned joint venture subsidiaries in Turkey, South Africa, India, Romania, Lithuania and Australia and 50% owned joint ventures in Japan and China. For the nine months ended September 30, 2006, the Company consolidated Canada, Turkey, South Africa, India, Romania, Lithuania, Australia, China and Japan into the Company's financial statements.

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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, electronic store chains, drug store chains and grocery stores. Included in its clients are home entertainment, general merchandise, health and beauty care, consumer goods and food product companies in the United States.

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

International Merchandising Services Division

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

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

Critical Accounting Policies

There were no material changes to the Company's critical accounting policies as reported in the Company's Annual Report for 2005 on Form 10-K As Amended other than SFAS No. 123(R) as adopted as of January 1, 2006 (see Note 6 – Stock-Based Compensation).

SPAR Group, Inc.

Results of Operations

Three months ended September 30, 2006, compared to three months ended September 30, 2005

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 September 30,				
	2006		2005		Increase (decrease) %
	\$	%	\$	%	
Net revenues	\$ 12,709	100.0%	\$ 11,060	100.0%	14.9%
Cost of revenues	8,856	69.7	7,595	68.7	16.6
Selling, general & administrative expense	4,855	38.2	4,015	36.3	20.9
Depreciation and amortization	170	1.3	261	2.4	(35.0)
Interest expense	65	0.5	29	0.2	-
Other expense	48	0.4	199	1.8	(76.2)
Loss before income tax provision and minority interest	(1,285)	(10.1)	(1,039)	(9.5)	23.7
Provision for income taxes	73	0.6	15	0.1	-
Loss before minority interest	(1,358)	(10.7)	(1,054)	(9.6)	28.8
Minority interest	34	0.3	88	0.8	(62.5)
Net loss	\$ (1,392)	(11.0)%	\$ (1,142)	(10.4)%	21.8%

Certain prior year SG&A legal expenses were reclassified to Other expense to conform to the 2006 presentation.

Net Revenues

Net revenues for the three months ended September 30, 2006, were \$12.7 million, compared to \$11.1 million for the three months ended September 30, 2005, an increase of 14.9%. Domestic net revenues for the three months ended September 30, 2006, were \$6.7 million compared to \$7.5 million for the prior year period. The decrease of approximately \$800,000 was primarily due to a reduction in project revenues in 2006 versus 2005. International net revenues for the three months ended September 30, 2006 were \$6.0 million compared to \$3.6 million for the prior year period. The increase of \$2.4 million was primarily due to increases in Japan of approximately \$1.0 million, as well as additional revenues from the new joint ventures which began operations in 2006, Australia \$1.2 million and Lithuania \$155,000.

One domestic client accounted for 12% and 13% of the Company's net revenues for the three months ended September 30, 2006 and 2005, respectively. This client also accounted for approximately 8% and 10% of accounts receivable at September 30, 2006 and December 31, 2005, respectively.

A second domestic client accounted for 8% and 5% of the Company's net revenues for the three months ended September 30, 2006 and 2005, respectively. This client also accounted for approximately 5% and 1% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively.

Approximately 10% of the Company's net revenues for both the three months ended September 30, 2006 and 2005, resulted from merchandising services performed for clients at a leading domestic electronics chain. Services performed for these clients in that electronics chain also accounted for approximately 4% and 8% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively. The Company's contractual relationships or agreements are with various clients and not that retail electronics chain.

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Approximately 6% and 8% of the Company's net revenues for the three months ended September 30, 2006 and 2005, respectively, resulted from merchandising services performed for domestic clients at a leading mass merchandising chain. Services performed for these clients in that chain also accounted for approximately 2% and 8% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively. The Company's contractual relationships or agreements are with various clients and not that retail mass merchandising chain.

The loss of these clients or the loss of the ability to provide merchandising and marketing services in those chains could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition.

Cost of Revenues

Cost of revenues consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues as a percentage of net revenues was 69.7% for the three months ended September 30, 2006, compared to 68.7% for the three months ended September 30, 2005. Domestic cost of revenues as a percentage of net revenues was 73.6% and 71.7% for the three months ended September 30, 2006 and 2005, respectively. The increase is primarily attributable to the mix of business with higher cost project revenues accounting for a greater portion of net revenues in the three months ended September 30, 2006 compared to the prior year. Cost of revenues from international operations as a percentage of net revenues was 65.3% and 62.4% for the three months ended September 30, 2006 and 2005, respectively. The international cost of revenues percentage increase was primarily attributable to an increase in competitive pricing pressures in Canada and higher cost project revenues in Japan accounting for a greater portion of net revenues in the three months ended September 30, 2006 compared to the prior year.

Approximately 82% and 84% of the Company's domestic cost of revenues in the three months ended September 30, 2006 and 2005, respectively, resulted from in-store independent contractor and field management services purchased from certain of the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (see Note 5 - 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 for the three months ended September 30, 2006 totaled approximately \$4.9 million compared to \$4.0 million for the three months ended September 30, 2005. Domestic selling, general and administrative expenses were \$2.8 million for both the three months ended September 30, 2006 and September 30, 2005. International selling, general and administrative expenses for the three months ended September 30, 2006 were approximately \$2.1 million compared to approximately \$1.2 million for the three months ended September 30, 2005. The increase of approximately \$900,000 or 74.8% was primarily due to selling, general and administrative expenses of new joint ventures that began operations in 2006 totaling approximately \$520,000, an increase in Japan costs of approximately \$300,000 and corporate international business development costs of approximately \$100,000.

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Depreciation and Amortization

Depreciation and amortization charges were approximately \$170,000 and \$261,000 for the three months ended September 30, 2006 and 2005, respectively. The decrease of approximately \$100,000 or 35% was due to lower purchases of property and equipment in recent years.

Other Expense

Other expense was approximately \$48,000 for the three months ended September 30, 2006 compared to approximately \$199,000 for the three months ended September 30, 2005. Other expense in 2005 was primarily a result of the reclassification of certain legal expenses to other expense from selling, general and administrative expenses to conform to the 2006 presentation.

Income Taxes

Income taxes were approximately \$73,000 and \$15,000 for the three months ended September 30, 2006 and 2005, respectively. The tax provisions were primarily for minimum state taxes due. There were no tax provisions for federal tax as the Company reported losses for both the three months ended September 30, 2006 and 2005.

Minority Interest

The combined operating results of the 51% owned joint venture subsidiaries and the 50% owned joint ventures generated a net loss for both the three months ended September 30, 2006 and 2005. This loss resulted in a charge to minority interest of approximately \$34,000 and \$88,000, respectively.

Net Loss

The Company had net loss of approximately \$1.4 million for the three months ended September 30, 2006, or \$0.07 per diluted share, compared to a net loss of approximately \$1.1 million, or \$0.06 per diluted share, for the corresponding period last year.

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Results of Operations

Nine months ended September 30, 2006, compared to nine months ended September 30, 2005

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).

	Nine Months Ended September 30,				
	2006		2005		Increase (decrease) %
	\$	%	\$	%	
Net revenues	\$ 41,477	100.0%	\$ 38,381	100.0%	8.1%
Cost of revenues	27,853	67.2	24,414	63.6	14.1
Selling, general & administrative expense	13,794	33.3	12,090	31.5	14.1
Depreciation and amortization	565	1.4	812	2.1	(30.4)
Interest expense	162	0.4	102	0.3	58.4
Other (income) expense	(542)	(1.3)	608	1.6	-
(Loss) income before income tax provision and minority interest	(355)	(0.9)	355	0.9	-
Provision for income taxes	172	0.4	45	0.1	-
(Loss) income before minority interest	(527)	(1.3)	310	0.8	-
Minority interest	(11)	-	166	0.3	-
Net (loss) income	\$ (516)	(1.2)%	\$ 144	0.5%	-

Certain prior year SG&A legal expenses were reclassified to Other expense to conform to the 2006 presentation.

Net Revenues

Net revenues for the nine months ended September 30, 2006, were \$41.5 million, compared to \$38.4 million for the nine months ended September 30, 2005, an increase of 8.1%. Domestic net revenues for the nine months ended September 30, 2006, was \$25.4 million (including \$770,000 in non-recurring revenues from the termination of a service agreement) compared to \$27.4 million for the nine months ended September 30, 2005. The decrease of \$2.0 million or 7.5% was primarily due to a reduction in project revenues in 2006 versus 2005. International net revenues for the nine months ended September 30, 2006 were \$16.1 million compared to \$11.0 million for the prior year period. The increase in International net revenues of \$5.1 million or 47.2% was primarily due to the inclusion of the Japan calendar year fourth quarter 2005 net revenues totaling \$1.3 million as a result of the change in the year end reporting for the Japan joint venture, increased net revenues from Japan and India of \$1.4 million and \$735,000 respectively, as well as additional revenues from new joint ventures that began operations in 2006, Australia with \$1.9 million, Lithuania with \$259,000 and China with \$53,000, offset by a decrease in South Africa net revenues totaling \$696,000, due to the loss of a major client in 2005.

One domestic client accounted for 13% and 17% of the Company's net revenues for the nine months ended September 30, 2006 and 2005, respectively.

This client also accounted for approximately 8% and 10% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively.

A second domestic client accounted for 10% and 9% of the Company's net revenues for the nine months ended September 30, 2006 and 2005, respectively. This client also accounted for approximately 5% and 1% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively.

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Approximately 10% of the Company's net revenues for both the nine months ended September 30, 2006 and 2005 resulted from merchandising services performed for clients at a leading domestic electronics chain. Services performed for these clients in that electronics chain also accounted for approximately 4% and 8% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively. The Company's contractual relationships or agreements are with various clients and not that retail electronics chain.

Approximately 7% and 9% of the Company's net revenues for the nine months ended September 30, 2006 and 2005, respectively, resulted from merchandising services performed for domestic clients at a leading mass merchandising chain. Services performed for these clients in that chain also accounted for approximately 2% and 8% of the Company's accounts receivable at September 30, 2006 and December 31, 2005, respectively. The Company's contractual relationships or agreements are with various clients and not that retail mass merchandising chain.

The loss of these clients or the loss of the ability to provide merchandising and marketing services in those chains could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition.

Cost of Revenues

Cost of revenues consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues as a percentage of net revenues was 67.2% for the nine months ended September 30, 2006, compared to 63.6% for the nine months ended September 30, 2005. Domestic cost of revenues as a percentage of net revenues was 68.6% and 64.8% for the nine months ended September 30, 2006 and 2005, respectively. The increase is primarily attributable to the mix of business, with higher cost project revenues accounting for a greater portion of revenues in the nine months ended September 30, 2006 compared to the prior year. Cost of revenues from international operations as a percentage of net revenues was 64.9% and 60.5% for the nine months ended September 30, 2006 and 2005, respectively. The international cost of revenues percentage increase was primarily attributable to an increase in competitive pricing pressures in Canada and higher cost revenues in Japan accounting for a greater portion of revenue in the nine months ended September 30, 2006 compared to the prior year.

Approximately 85% and 87% of the Company's domestic cost of revenues in the nine months ended September 30, 2006 and 2005, respectively, resulted from in-store independent contractor and field management services purchased from certain of the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (see Note 5 - 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 for the nine months ended September 30, 2006, were approximately \$13.8 million compared to approximately \$12.1 million for the nine months ended September 30, 2005 an increase of approximately \$1.7 million, or 14.1%. Domestic selling, general and administrative expenses for the nine months ended September 30, 2006 were approximately \$7.9 million compared to approximately \$8.6 million for the nine months ended September 30, 2005. The decrease of approximately \$641,000 or 7.5% was primarily due to the reversal of unpaid prior year incentive accruals totaling approximately \$307,000 that increased current year earnings and lower incentive accruals recorded in 2006 compared to 2005 of approximately \$286,000. International selling, general and administrative expenses for the nine months ended September 30, 2006 were approximately \$5.9 million compared to approximately \$3.5 million for the nine months ended September 30, 2005. The increase of approximately \$2.4 million, or 66.5% was primarily due to additional Japan costs of approximately \$544,000 resulting from the additional quarter of expense due to the change in year-end reporting, approximately

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\$784,000 from increased spending in Japan, approximately \$233,000 from increased spending in corporate international business development partially offset by reduced spending in South Africa of approximately \$143,000 and a decrease of approximately \$33,000 for all other existing joint ventures. Approximately \$960,000 of additional selling, general and administrative expenses related to the new joint venture subsidiaries, Australia \$700,000, China \$176,000 and Lithuania \$83,000 which began operations in 2006.

Depreciation and Amortization

Depreciation and amortization charges were approximately \$565,000 and \$812,000 for the nine months ended September 30, 2006 and 2005, respectively. The decrease of approximately \$247,000 or 30% was due to lower purchases of property and equipment in recent years.

Other (Income) Expense

Other income was approximately \$542,000 for the nine months ended September 30, 2006 compared to other expense of approximately \$608,000 for the

nine months ended September 30, 2005. Other income in 2006 was primarily due to the favorable jury award in a lawsuit in the net amount of approximately \$1.3 million, partially offset by related legal expenses for the period of approximately \$1.1 million and the favorable settlement of another lawsuit with a vendor. Other expense in 2005 resulted from the reclassification of certain legal expenses to other expense from selling, general and administrative expenses to conform to the 2006 presentation.

Income Taxes

Income taxes were approximately \$172,000 and \$45,000 for the nine months ended September 30, 2006 and 2005, respectively. The tax provisions were primarily for minimum state taxes due. There were no tax provisions for federal tax for the nine months ended September 30, 2006 and 2005, since the Company expects to utilize net operating loss carry forwards which are available to offset any federal taxes due.

Minority Interest

Minority interest of approximately \$(11,000) and \$166,000 resulted from the net operating losses and profits of the 51% owned joint venture subsidiaries and the 50% owned joint ventures for the nine months ended September 30, 2006 and 2005, respectively.

Net (Loss) Income

The Company had net loss of approximately \$516,000 for the nine months ended September 30, 2006, or \$0.03 per diluted share, compared to a net income of approximately \$144,000, or \$0.01 per diluted share, for the corresponding period last year.

Liquidity and Capital Resources

In the nine months ended September 30, 2006, the Company had a net loss of \$516,000.

Net cash provided by operating activities for the nine months ended September 30, 2006 and September 30, 2005, was approximately \$117,000 and \$3.9 million, respectively. The decrease in net cash provided by operating activities was primarily due to decreases in net income, increases in accounts receivable, other assets and decreases in customer deposits, partially offset by increases in accrued expenses and other current liabilities and accrued expenses due to affiliates.

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Net cash used in investing activities for the nine months ended September 30, 2006 and September 30, 2005, was approximately \$363,000 and \$388,000, respectively. The decrease in net cash used in investing activities was a result of continued decreases in purchases of property and equipment in 2006.

Net cash provided by financing activities for the nine months ended September 30, 2006, was approximately \$277,000, compared to net cash used in financing activities of approximately \$2.5 million for the nine months ended September 30, 2005. The increase of net cash provided by financing activities was primarily a result of increased net borrowings on lines of credit.

The above activity resulted in a decrease in cash and cash equivalents for the nine months ended September 30, 2006, of approximately \$22,000.

At September 30, 2006, the Company had positive working capital of \$3.2 million, as compared to a positive working capital of \$3.1 million at December 31, 2005. The Company's current ratio was 1.29 at September 30, 2006, and 1.31 at December 31, 2005.

In January 2003, the Company (other than SGRP's foreign subsidiaries) and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility").

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

The basic interest rate under the Credit Facility is Webster's "Alternative Base Rate" plus 0.75% per annum (a total of 9.0% per annum at September 30, 2006), which automatically changes with each change made by Webster in such Alternative Base Rate. The Company at its option, subject to certain conditions, may elect to have portions of its loans under the Credit Facility bear interest at various LIBOR rates plus 3.25% per annum based on fixed periods of one, two, three or nine months. The actual average interest rate under the Credit Facility was 8.6% per annum for the nine months ended September 30, 2006. The Credit Facility is secured by substantially all of the assets of the Company (other than SGRP's foreign subsidiaries and their assets).

The Company was not in violation of any covenants at September 30, 2006 and does not expect to be in violation at future measurement dates. However, there can be no assurances that the Company will not be in violation of certain covenants in the future. Should the Company be in violation, there are no assurances that Webster will issue waivers of such covenant violations in the future.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at September 30, 2006 and December 31, 2005, in accordance with EITF 95-22, *Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement*.

The revolving loan balances outstanding under the Credit Facility were \$2.1 million and \$2.4 million at September 30, 2006 and December 31, 2005,

respectively. There were letters of credit outstanding under the Credit Facility of approximately \$453,000 and \$552,000 at September 30, 2006, and December 31, 2005, respectively. As of September 30, 2006, the SPAR Group had unused availability under the Credit Facility of \$1.0 million out of the

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remaining maximum \$4.4 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

The Japanese joint venture SPAR FM Japan, Inc. has line of credit agreements totaling 100 million Yen or approximately \$850,000 (based upon the exchange rate at September 30, 2006). The outstanding balances under the line of credit agreements were 70 million Yen or approximately \$600,000 at September 30, 2006 and December 31, 2005, respectively (based upon the exchange rate at those dates). The average interest rate was 1.4% per annum for the nine months ended September 30, 2006.

In 2006, the Australian joint venture SPARFACTS Australia Pty. Ltd. entered into a revolving line of credit arrangement with Oxford Funding Pty. Ltd. for \$1.1 million (Australian) or approximately \$820,000 (based upon the exchange rate at September 30, 2006). At September 30, 2006, SPARFACTS Australia Pty. Ltd. had \$798,000 (Australian) or approximately \$596,000 outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate was 10.9% per annum for the five months ended September 30, 2006.

On October 20, 2006, SPAR Canada Company, a wholly owned subsidiary, entered into a credit agreement with Royal Bank of Canada providing for a Demand Operating Loan for a maximum borrowing of \$1.0 million (Canadian) or approximately \$880,000 (based upon the exchange rate at November 10, 2006). The Demand Operating Loan provides for borrowing based upon a borrowing base formula as defined in the agreement (principally 75% of eligible accounts receivable less certain deductions). In November, 2006, SPAR Canada Company borrowed approximately \$100,000 (Canadian) or approximately \$88,000 (based upon the exchange rate at November 10, 2006).

The Company's international business model is to partner with local merchandising companies and combine the Company's proprietary software and expertise in the merchandising and marketing services business with their partner's knowledge of the local market. In 2001, the Company established its first 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, Romania, China, Lithuania and Australia.

Certain of these joint ventures and joint venture subsidiaries are 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 operations 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 reduction in business from such clients, or the Company's inability to remain profitable, 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 September 30, 2006 (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	\$ 3,249	\$ 3,249	\$ -	\$ -	\$ -
Operating Lease Obligations	1,835	775	852	208	-
Total	\$ 5,084	\$ 4,024	\$ 852	\$ 208	\$ -

The Company also had approximately \$453,000 in outstanding Letters of Credit at September 30, 2006.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's accounting policies for financial instruments and disclosures relating to financial instruments require that the Company's consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and lines of credit. The Company carries those current assets and liabilities at their stated or face amounts in its consolidated financial statements, as the Company believes those amounts approximate the fair value for these items because of the relatively short period of time between origination of the instrument, asset or liability and their expected realization or payment. The Company monitors the risks associated with interest rates and financial instrument, asset and liability 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 rates on its lines of credit. At September 30, 2006, the Company's outstanding debt totaled approximately \$3.2 million, which consisted of domestic variable-rate (9% per annum at that date) debt of approximately \$2.1 million, Japanese joint venture variable rate (1.4% per annum at that date) debt of approximately \$600,000 and Australian joint venture subsidiary variable rate (10.9% per

annum at that date) debt of approximately \$596,000. Based on the nine months ending September 30, 2006, average outstanding borrowings under variable-rate debt, a one-percentage point per annum increase in interest rates would have negatively impacted pre-tax earnings and cash flows for the nine months ended September 30, 2006, by approximately \$22,000.

The Company has foreign currency exposure associated with its international 100% owned subsidiary, its 51% owned joint venture subsidiaries and its 50% owned joint ventures. In the nine months ended September 30, 2006, these exposures were primarily concentrated in the Canadian Dollar, South African Rand, Australian Dollar and Japanese Yen. At September 30, 2006, international assets totaled approximately \$5.8 million and international liabilities totaled approximately \$5.3 million. For the nine months ended September 30, 2006, international revenues totaled \$16.1 million and there was an international net income of \$523,000.

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 nine 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 and is currently developing a detailed plan to document and test internal controls for its international operations as required by Section 404 of the Sarbanes-Oxley Act of 2002.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

On May 26, 2006, the jury in this case returned a verdict resulting in a net award of \$1,307,700 to Pivotal, a SGRP subsidiary. This net award is to be paid by Safeway and resulted from separate jury findings that awarded damages to those SGRP subsidiaries on certain claims and damages to Safeway on other claims. In particular, the jury awarded damages to Pivotal of \$5,760,879 for Safeway's interference with Pivotal's contractual relationships with third party manufacturers and also awarded \$782,400 to Pivotal and PIA for Safeway's breach of contract with those SGRP subsidiaries. The jury awarded damages to Safeway of \$5,235,579 for breach of contract by SGRP and those SGRP subsidiaries. Judgment was entered in favor of Pivotal in September 2006 for \$1,307,700. Both parties have filed post trial motions and a Notice of Appeal is expected to follow. Pivotal/SGRP is seeking to have Safeway's judgment overturned. Safeway has asked for a new trial on the judgment found against them. The appellate process is expected to take fourteen to twenty four months to complete.

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.

There have been no other new reportable proceedings or material developments in previously reported proceedings since the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission (the "SEC") on April 3, 2006, as amended on Form 10-K/A by Amendment No. 1 filed with the SEC on April 26, 2006, and Amendment No. 2 filed with the SEC on June 21, 2006 (the "Company's Annual Report for 2005 on Form 10-K As Amended").

Item 1A. Risk Factors

The Company's Annual Report for 2005 on Form 10-K As Amended describes various risk factors applicable to the Company and its businesses in Item 1 under the caption "Certain Risk Factors", which risk factors are incorporated by reference into this Quarterly Report. There have been no material changes in the Company's risk factors since the Company's Annual Report for 2005 on Form 10-K As Amended.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

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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

SGRP held its Annual Meeting of Stockholders on August 9, 2006. The meeting was held (1) to elect the Board of Directors and (2) to ratify the appointment of Rehmann Robson as the Company's independent auditors for the year ending December 31, 2006.

Proposal Number 1 – Election of Directors:

Name:	For:	Abstention:
Robert G. Brown	15,474,831	70,964
William H. Bartels	14,475,131	1,070,664
Robert O. Aders	15,451,107	94,688
Jack W. Partridge	15,451,107	94,688
Jerry B. Gilbert	15,451,427	94,368
Lorrence T. Kellar	15,451,427	94,368

Each of the nominees was elected to the Board of Directors of SGRP.

Proposal Number 2 – Ratification of the appointment of Rehmann Robson as the Company's independent public accountant for the fiscal year ending December 31, 2006:

For:	Against:	Abstention:
15,482,141	26,300	37,354

Item 5: Other Information

Certain immaterial changes to the Corporation's 2000 Stock Option Plan were recently adopted by the Corporation's Compensation Committee and Board of Directors. These changes included elimination of potential early termination of options on the retirement, death or disability of an optionee (previously subject to discretionary, but likely, waiver or extension), addition of express references to the Compensation Committee (formed after the plan was adopted) and certain technical revisions addressing changes in applicable tax law since the plan was adopted. The Corporation's 2000 Stock Option Plan as amended is attached to this Quarterly Report on Form 10-Q as Exhibit 10.1.

Item 6: Exhibits

- 10.1 2000 Stock Option Plan, as amended through May 16, 2006.
- 31.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 31.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.

SPAR Group, Inc.

SIGNATURES

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

Date: November 14, 2006

SPAR Group, Inc., Registrant

By: /s/ Charles Cimitile

Charles Cimitile

Chief Financial Officer, Treasurer, Secretary
and duly authorized signatory

**2000 STOCK OPTION PLAN
OF
SPAR GROUP, INC.**

(as amended through May 16, 2006)

Section 1. Purposes of this Plan. This stock option plan (as the same may be supplemented, modified, amended or restated from time to time in the manner provided herein, this "Plan") is intended to provide an incentive to employees (including directors and officers who are employees), and to its directors, officers and consultants who are not employees, of **SPAR Group, Inc.**, a Delaware corporation (the "Company"), or any of its Subsidiaries (as such term is defined in Section 19 hereof), and to offer an additional inducement in obtaining the services of such individuals. Without in any way limiting the foregoing, such consultants include each SPAR Affiliate (as hereinafter defined), and the employees of each SPAR Affiliate (including directors and officers who are employees) and the directors and officers of each SPAR Affiliate who are not its employees, and this Plan is intended to offer an additional inducement in obtaining the services of such individuals. This Plan provides for the grant of "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, as amended (collectively, "Tax Law"), and nonqualified stock options which do not qualify as ISOs ("NQSOs"). The Company makes no representation or warranty, express or implied, as to the qualification of any option as an "incentive stock option" under the Tax Law. Each reference to a consultant in the Plan shall be deemed to include each of the consultant's employees in the case of a consultant that is not a natural person.

Section 2. Stock Subject to this Plan. Subject to the provisions of Section 12, the aggregate number of shares of the Company's Common Stock, par value \$.01 per share ("Common Stock"), for which options may be granted and outstanding under this Plan shall not at any time exceed (a) 3,600,000 shares, minus (b) the sum at such time of (i) the cumulative aggregate number of shares of Common Stock covered by all options issued under this Plan, and (ii) the aggregate number of shares of Common Stock covered by all options issued under the 1995 Plan and remaining outstanding on December 4, 2000, and plus (c) the aggregate number of Voided Option Shares under this Plan and the 1995 Plan. Such shares of Common Stock may, in the discretion of the Board of Directors of the Company (the "Board of Directors"), consist either in whole or in part of authorized but unissued shares of Common Stock or shares of Common Stock held in the treasury of the Company. Subject to the provisions of Section 13 hereof, any shares of Common Stock subject to an option which for any reason expires, is canceled or is terminated unexercised or which ceases for any reason to be exercisable (other than through exercise) shall again become available for the granting of options under this Plan. The Company shall at all times during the term of this Plan reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Plan. "Voided Option Shares" shall the aggregate number of shares of Common Stock covered by options issued under this Plan or the 1995 Plan, as applicable, that after December 4, 2000, through the date of calculation become void, expire, are canceled, terminate unexercised or cease for any reason whatsoever to become exercisable other than through exercise.

Section 3. Administration of this Plan. (a) This Plan will be administered by the Board of Directors of the Company (the "Board"), or by its Compensation Committee or other specifically designated standing committee consisting of two or more directors appointed by the Board of Directors (including the Compensation Committee in this capacity, the "Committee"), as the Board may specify from time to time. Those administering this Plan shall be referred to herein as the "Administrators." Notwithstanding the foregoing, if the Company is or becomes a corporation issuing any class of common equity securities required to be registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), to the extent necessary to preserve any deduction under Section 162(m) of the Tax Law or to comply with Rule 16b-3 promulgated under the Exchange Act, as amended, or any successor rule ("Rule 16b-3"), any Committee appointed by the Board of Directors to administer this Plan shall be comprised of two or more directors each of whom shall be (i) a "non-employee director" within the meaning of Rule 16b-3, and (ii) an "outside director" within the meaning of Treasury Regulation Section 1.162-27(e)(3). The delegation of powers to the Committee shall be consistent with all applicable law (including, without limitation, applicable state law and Rule 16b-3). Unless otherwise provided in the By-Laws (including any applicable Committee Charter) of the Company, by resolution of the Board or applicable law, a majority of the members of the Board or the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, and any acts approved in writing by all members without a meeting, shall be the acts of the Board or the Committee.

(b) Subject to the express provisions of this Plan, the Administrators shall have the authority, in their sole discretion, to determine (among other things): (i) the persons who shall be granted options; (ii) the times when they shall receive options; (iii) whether an option granted to an employee shall be an ISO or a NQSO; the type (*i.e.*, voting or non-voting) and number of shares of Common Stock to be subject to each option; (iv) the term of each option, including any provisions for early termination; (v) the date each option shall become exercisable; including any provisions for early vesting; (vi) whether an option shall be exercisable in whole or in installments, and, if in installments, the number of shares of Common Stock to be subject to each installment; whether the installments shall be cumulative; the date each installment shall become exercisable and the term of each installment; (vii) whether to accelerate the date of exercise of any option or installment; (viii) whether shares of Common Stock may be issued upon the exercise of an option as partly paid, and, if so, the dates when future installments of the exercise price shall become due and the amounts of such installments; (ix) the exercise price of each option; the form of payment of the exercise price; (x) the fair market value of a share of Common Stock; (xi) whether and under what conditions to restrict the pledge, sale or other disposition of any option granted under this Plan, the shares of Common Stock acquired upon the exercise of an option and, if so, whether and under what conditions to waive any such restriction, whether individually, by class or otherwise; (xii) whether and under what conditions to subject the exercise of all or any portion of an option to the fulfillment of certain restrictions or contingencies as specified in the contract referred to in Section 11 hereof (the "Contract"), including (without limitation) restrictions or contingencies relating to (A) entering into a covenant not to compete with the Company, its Parent (if any) (as such term is defined in Section 19 hereof) and any Subsidiaries, (B) financial objectives for the Company, any of its Subsidiaries, a division, a product line or other category and/or (C) the period of continued employment or consulting of the optionee with the Company or any of its Subsidiaries, and to determine whether such restrictions or contingencies have been met; (xiii) the amount, if any, necessary to satisfy the obligation of the Company, any of its Subsidiaries or any Parent to withhold taxes or other amounts; (xiv) whether an optionee Retires or has a Disability (as such terms are defined in Section 19); (xv) to cancel or modify an option either with the consent of the optionee or as provided in the Contract; provided, however, that the modified provision is permitted to be included in an option granted under this Plan on the date of the modification; provided, further, that in the case of a modification (within the meaning of Section 424(h) of the Tax Law) of an ISO, such option as modified would be permitted to be granted on the date of such modification under the terms of this Plan; (xvi) to construe the respective Contracts and this Plan; (xvii) to prescribe, amend and rescind policies, rules and regulations relating to this Plan; (xviii) to approve any provision of this Plan or any option granted under this Plan, or any amendment to either, that under Rule 16b-3 or Section 162(m) of the Tax Law requires the approval of the Board of Directors, a committee of non-employee directors or the stockholders, in order (1) to be exempt under Section 16(b) of the Exchange Act (unless otherwise specifically provided herein) or (2) to preserve any deduction under Section 162(m) of the Tax Law; and (xix) to make all other determinations necessary or advisable for administering this Plan.

(c) The Company will maintain a separate bookkeeping account on its books and records for each optionee for the purpose of recording all options granted, exercised, surrendered or expired and other actions taken with respect thereto, and such books and records shall be conclusive as to the existence and amounts thereof absent manifest error.

(d) Any controversy or claim arising out of or relating to this Plan, any option granted under this Plan or any Contract on the books and records of the Company with respect thereto shall be determined unilaterally by the Administrators in their sole and absolute discretion. The determinations of the Administrators on such matters shall be final, conclusive and binding on all parties.

(e) No present or former Administrator or employee of the Company or any of its subsidiaries or affiliates shall be liable for any action, inaction or determination made in good faith with respect to this Plan, any option granted, exercised, surrendered or expired hereunder or any bookkeeping entry made in connection therewith.

Section 4. Eligibility. The Administrators may from time to time, consistent with the purposes of this Plan, grant options to such directors (whether or not an employee), officers (whether or not an employee), or employees of the Company or any of its Subsidiaries or any consultant thereto (including any SPAR Affiliate) as the Administrators may determine in their sole discretion. Such options granted shall cover such number of shares of Common Stock as the Administrators may determine in their sole discretion; provided, however, that if on the date of grant of an option, any class of common stock of the Company (including without limitation the Common Stock) is required to be registered under Section 12 of the Exchange Act, the maximum number of shares subject to options that may be granted to any employee during any calendar year under this Plan shall be 1,000,000 shares; and provided, further, that the aggregate market value (determined at the time the option is granted) of the shares of Common Stock for which any

eligible employee may be granted ISOs under this Plan or any other plan of the Company, or of a Parent or a Subsidiary of the Company, that are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. The \$100,000 ISO limitation amount shall be applied by taking ISOs into account in the order in which they were granted. Any option (or portion thereof) granted in excess of such ISO limitation amount shall be treated as a NQSO to the extent of such excess.

Section 5. Exercise Price. (a) The exercise price of the shares of Common Stock under each option shall be determined by the Administrators in their sole discretion; provided, however, that (i) except as provided below, the exercise price of an option shall not be less than the fair market value of the Common Stock subject to such option on the date of grant; (ii) if, at the time an ISO is granted, the optionee owns (or is deemed to own under Section 424(d) of the Tax Law) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, of any of its Subsidiaries or of a Parent, the exercise price of such ISO shall not be less than one hundred ten percent (110%) of the fair market value of the Common Stock subject to such ISO on the date of grant; and (iii) the Administrators must first obtain the approval of the Board to grant a NQSO with an exercise price which is less than the fair market value of the shares on the date of the granting of the NQSO; provided, however, that with respect to any NQSO granted to a "covered employee" (as such term is defined in Section 162(m) of the Tax Law), the exercise price of the shares of Common Stock underlying such NQSO shall not be less than the fair market value of such shares on the date of granting of such NQSO.

(b) The fair market value of a share of Common Stock on any day shall be: (i) if the principal market for the Common Stock is a national securities exchange, the closing sales price per share of the Common Stock on such day as reported by such exchange or on a consolidated tape reflecting transactions on such exchange; (ii) if the principal market for the Common Stock is not a national securities exchange and the Common Stock is quoted on the Nasdaq Stock Market ("Nasdaq"), and (A) if actual sales price information is available with respect to the Common Stock, the closing sales price per share of the Common Stock on such day on Nasdaq, or (B) if such information is not available, the average of the closing bid and asked prices per share for the Common Stock on such day on Nasdaq; or (iii) if the principal market for the Common Stock is not a national securities exchange and the Common Stock is not quoted on Nasdaq, the average of the closing bid and asked prices per share for the Common Stock on such day as reported on the OTC Bulletin Board Service or by National Quotation Bureau, Incorporated or a comparable service; provided, however, that if clauses (i), (ii) and (iii) of this subsection are all inapplicable because the Company's Common Stock is not publicly traded, or if no trades have been made or no quotes are available for such day, the fair market value of a share of Common Stock shall be determined by the Administrators by any method consistent with any applicable regulations adopted by the Treasury Department relating to stock options.

Section 6. Term. Each option granted pursuant to this Plan shall be for such term as is established by the Administrators, in their sole discretion, at or before the time such option is granted; provided, however, that the term of each option granted pursuant to this Plan shall be for a period not exceeding ten (10) years from the date of grant thereof, and provided further, that if, at the time an ISO (but not an NQSO) is granted, the optionee owns (or is deemed to own under Section 424(d) of the Tax Law) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, of any of its Subsidiaries or of a Parent, the term of the ISO shall be for a period not exceeding five (5) years from the date of grant. Options shall be subject to earlier termination as hereinafter provided.

Section 7. Exercise. (a) An option (or any installment thereof), to the extent then exercisable, shall be exercised by giving written notice to the Company at its principal office (i) specifying the option being exercised and the number of shares of Common Stock as to which such option is being exercised, and (ii) accompanied by payment in full of the aggregate exercise price therefor (or the amount due on exercise if the applicable Contract permits installment payments) (A) in cash and/or by certified check, (B) with the authorization of the Administrators, with previously acquired shares of Common Stock having an aggregate fair market value (determined in accordance with Section 5), on the date of exercise, equal to the aggregate exercise price of all options being exercised, (C) with a concurrent sale of option shares to the extent permitted by subsection (b) of this Section, or (D) some combination thereof; provided, however, that in no case may shares be tendered if such tender would require the Company to incur a charge against its earnings for financial accounting purposes. The Company shall not be required to issue any shares of Common Stock pursuant to the exercise of any option until all required payments with respect thereto, including payments for any required withholding amounts, have been made.

(b) The Administrators may, in their sole discretion, permit payment of the exercise price of an option by delivery by the optionee of a properly executed notice, together with a copy of the optionee's irrevocable instructions to a broker acceptable to the Administrators to sell all or a portion of the option shares and deliver promptly to the Company the amount of sale or loan proceeds sufficient to pay such exercise price. In connection therewith, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

(c) An optionee shall not have the rights of a stockholder with respect to such shares of Common Stock to be received upon the exercise of an option until the date of issuance of a stock certificate to the optionee for such shares or, in the case of uncertificated shares, until the date an entry is made on the books of the Company's transfer agent representing such shares; provided, however, that until such stock certificate is issued or until such book entry is made, any optionee using previously acquired shares of Common Stock in payment of an option exercise price shall continue to have the rights of a stockholder with respect to such previously acquired shares.

(d) In no case may a fraction of a share of Common Stock be purchased or issued under this Plan.

Section 8. Termination of Relationship; Retirement. (a) Except as may otherwise be expressly provided in the applicable Contract or optionee's written employment or consulting or termination contract, any optionee whose employment or consulting relationship with the Company, its Parent, any of its Subsidiaries and, in the case of consultants, with any Affiliate or other consultant of the Company has terminated for any reason (other than the optionee's Retirement, death or Disability) may exercise any option granted to the optionee as an employee or consultant, to the extent exercisable on the date of such termination, at any time within three (3) months after the date of termination, but not thereafter and in no event after the date the option would otherwise have expired; provided, however, that if such relationship is terminated for Cause (as defined in Section 19), such option shall terminate immediately.

(b) For the purposes of this Plan, an employment or consulting relationship shall be deemed to exist between an individual and the Company if, at the time of the determination, the individual was an officer or employee of the Company, its Parent, any of its Subsidiaries or any of its consultants (including any of its Affiliates). As a result, an individual on military leave, sick leave or other *bona fide* leave of absence shall continue to be considered an employee or consultant for purposes of this Plan during such leave if the period of the leave does not exceed ninety (90) days, or, if longer, so long as the individual's right to re-employment with the Company, any of its Subsidiaries, Parent or Affiliate or other consultant, as the case may be is guaranteed either by statute or by contract or the Company, its Parent, any of its Subsidiaries or Affiliate or other consultant, as the case may be, has consented in writing to longer absence. If the period of leave exceeds ninety (90) days and the individual's right to re-employment is not guaranteed by statute, contract or consent, the employment or consulting relationship shall be deemed to have terminated on the 91st day of such leave.

(c) Except as may otherwise be expressly provided in the applicable Contract, an optionee whose directorship with the Company has terminated for any reason (other than the optionee's Retirement, death or Disability) may exercise the options granted to the optionee as a director who was not an employee of or consultant to the Company or any of its Subsidiaries, to the extent exercisable on the date of such termination, at any time within three (3) months after the date of termination, but not thereafter and in no event after the date the option would otherwise have expired; provided, however, that if the optionee's directorship is terminated for Cause, such option shall terminate immediately.

(d) If any optionee Retires, the options granted to the optionee under this Plan will become fully vested automatically, notwithstanding any vesting schedule in the Contract, and may be exercised by the optionee (i) in the case of an ISO, within 3 months after Retirement, but not beyond the remaining term of the option, or (ii) in the case of any other option, at any time within the remaining term of the option, in each case subject to any other early termination that may be applicable under this Plan.

(e) No option shall be subject to early expiration or termination as provided in Section 8(a), 8(b) or Section 8(c) of this Plan due to the Retirement, death or Disability of the original optionee, subject, however, to all the other provisions of this Plan, including (without limitation) any such other provision for early termination that may become applicable.

(f) Nothing in this Plan or in any option granted under this Plan shall confer on any person any right to continue in the employ of or as a director of or consultant to the Company, its Parent, any of its Subsidiaries or any of their respective Affiliates, or as a director of the Company, or interfere in any

way with any right of the Company, its Parent, any of its Subsidiaries or any of their respective Affiliates to terminate such relationship at any time for any reason whatsoever without liability to the Company, its Parent, any of its Subsidiaries or any of their respective Affiliates.

Section 9. Death or Disability of an Optionee. (a) Except to the extent more favorable treatment may otherwise be expressly accorded to the optionee in the applicable Contract or optionee's written employment or consulting or termination contract, if an optionee dies (i) while the optionee is a director (whether or not an employee), officer (whether or not an employee), or employee of the Company or any of its Subsidiaries or any consultant thereto (including any SPAR Affiliate), (ii) at any time following the original optionee's Retirement from such relationship or termination of such relationship by reason of the optionee's Disability, or (iii) within three (3) months after any other termination of such relationship (unless such other termination was for Cause or without the consent of the Company), the options granted to the optionee under this Plan will become fully vested automatically, notwithstanding any vesting schedule in the Contract, and may be exercised by the optionee's Legal Representative (as such term is defined in Section 19) at any time (A) in the case of an ISO, within one year after death, but not beyond the remaining term of the option, or (B) in the case of any other option, within the remaining term of the option, in each case subject to any other early termination that may be applicable under this Plan.

(b) Except to the extent more favorable treatment may otherwise be expressly accorded to the optionee in the applicable Contract or optionee's written employment or consulting or termination contract, in the event of the termination due to Disability of an optionee's status as a director (whether or not an employee), officer (whether or not an employee), or employee of the Company or any of its Subsidiaries or any consultant thereto (including any SPAR Affiliate), the options granted to the optionee under this Plan will become fully vested automatically, notwithstanding any vesting schedule in the Contract, and may be exercised by the optionee, or by the optionee's Legal Representative, at any time (i) in the case of an ISO, within one year after Disability, but not beyond the remaining term of the option, or (ii) in the case of any other option, within the remaining term of the option, in each case subject to any other early termination that may be applicable under this Plan.

Section 10. Compliance with Securities Laws. (a) It is a condition to the exercise of any option that either (i) a Registration Statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the shares of Common Stock to be issued upon such exercise shall be effective and current at the time of exercise, or (ii) there is an exemption from registration under the Securities Act for the issuance of the shares of Common Stock upon such exercise. Nothing herein shall be construed as requiring the Company to register shares subject to any option under the Securities Act or to keep any Registration Statement effective or current.

(b) The Administrators may require, in their sole discretion, as a condition to the grant or exercise of an option, that the optionee execute and deliver to the Company such optionee's representations and warranties, in form, substance and scope satisfactory to the Administrators, as the Administrators may determine to be necessary or convenient to facilitate the perfection of an exemption from the registration requirements of the Securities Act, applicable state securities laws or other legal requirements, including (without limitation) that (i) the shares of Common Stock to be issued upon exercise of the option are being acquired by the optionee for the optionee's own account, for investment only and not with a view to the resale or distribution thereof, and (ii) any subsequent resale or distribution of shares of Common Stock by such optionee will be made only pursuant to (A) a Registration Statement under the Securities Act which is effective and current with respect to the shares of Common Stock being sold, or (B) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption, the optionee, prior to any offer of sale or sale of such shares of Common Stock, shall provide the Company with a favorable written opinion of counsel satisfactory to the Company, in form, substance and scope satisfactory to the Company, as to the applicability of such Securities Act exemption to the proposed sale or distribution.

(c) In addition, if at any time the Administrators shall determine that the listing or qualification of the shares of Common Stock subject to such option on any securities exchange, Nasdaq or under any applicable law, or that the consent or approval of any governmental agency or regulatory body, is necessary or desirable as a condition to, or in connection with, the granting of an option or the issuance of shares of Common Stock thereunder, such option may not be granted or exercised in whole or in part, as the case may be, unless such listing, qualification, consent or approval shall have been effected or obtained by the Administrators free of any conditions not acceptable to the Administrators.

Section 11. Stock Option Contracts. Each option shall be evidenced by an appropriate Contract duly executed by the Company and the optionee. Such Contract shall contain such terms,

provisions and conditions not inconsistent herewith as may be determined by the Administrators in their sole discretion. The terms of each option and Contract need not be identical.

Section 12. Adjustments upon Changes in Common Stock. (a) Notwithstanding any other provision of this Plan, in the event of any change in the outstanding Common Stock by reason of a stock dividend, recapitalization, spin-off, split-up, combination or exchange of shares or the like that results in a change in the number or kind of shares of Common Stock that were outstanding immediately prior to such event, the aggregate number and kind of shares subject to this Plan, the aggregate number and kind of shares subject to each outstanding option and the exercise price thereof, and the maximum number of shares subject to options that may be granted to any employee in any calendar year, shall be appropriately adjusted by the Board of Directors, whose determination shall be conclusive and binding on all parties. Such adjustment may provide for the elimination of fractional shares that might otherwise be subject to options without payment therefor. Notwithstanding the foregoing, no adjustment shall be made pursuant to this Section 12 if such adjustment (i) would cause this Plan to fail to comply with Section 422 of the Tax Law or with Rule 16b-3 (if applicable to such option), or (ii) would be considered as the adoption of a new plan requiring stockholder approval.

(b) Except as provided below, unless the Administrators shall, in their sole discretion, determine otherwise, upon (i) the dissolution, liquidation or sale of all or substantially all of the business, properties and assets of the Company, (ii) any reorganization, merger or consolidation in which the Company does not survive, (iii) any reorganization, merger, consolidation or exchange of securities in which the Company does survive and any of the Company's stockholders have the opportunity to receive cash, securities of another corporation and/or other property in exchange for their capital stock of the Company, or (iv) any acquisition by any person or group (as defined in Section 13(d) of the Exchange Act) of beneficial ownership of more than fifty percent (50%) of the Company's then outstanding shares of Common Stock (other than ownership by Robert G. Brown, William H. Bartels, their respective families, trusts under which either of them is a trustee or beneficiary, and corporations and other entities under their individual or collective control) (each of the events described in clauses (i), (ii), (iii) and (iv) are referred to herein individually as an "Extraordinary Event"), this Plan and each outstanding option shall terminate. In such event each optionee shall have the right to exercise, in whole or in part, any unexpired option or options issued to the optionee, to the extent that said option is then vested and exercisable pursuant to the provisions of said option or options and this Plan within fifteen (15) Business Days of the Company's giving of written notice to the optionee of such Extraordinary Event.

(c) Except as otherwise expressly provided in this Plan, the applicable Contract or the optionee's written employment or consulting or termination contract, the termination of employment of, or the termination of a consulting or other relationship with, an optionee for any reason shall not, unless the Administrators decide otherwise, accelerate or otherwise affect the number of shares with respect to which an option may be exercised; provided, however, that the option may only be exercised with respect to that number of shares which could have been purchased under the option had the option been exercised by the optionee on the date of such termination.

(d) Notwithstanding anything to the contrary contained in this Plan, or any provision to the contrary contained in a particular Contract, the Administrators, in their sole discretion, at any time, or from time to time, may elect to accelerate the vesting of all or any portion of any option then outstanding. The decision by the Administrators to accelerate an option or to decline to accelerate an option shall be final, conclusive and binding. In the event of the acceleration of the exercisability of options as the result of a decision by the Administrators pursuant to this Section 12, each outstanding option so accelerated shall be exercisable for a period from and after the date of such acceleration and upon such other terms and conditions as the Administrators may determine in their sole discretion; provided, however, that such terms and conditions (other than terms and conditions relating solely to the acceleration of exercisability and the related termination of an option after the stated period) may not adversely affect the rights of any optionee without the consent of the optionee so adversely affected. Any outstanding option that has not been exercised by the holder at the end of such stated period shall terminate automatically and become null and void.

Section 13. Amendments and Termination of this Plan. This Plan was adopted by the Board of Directors on December 4, 2000, and amended by the Board of Directors on June 29, 2001. No option may be granted under this Plan after December 4, 2010. The Board of Directors, without further approval of the Company's stockholders, may at any time suspend or terminate this Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable, including (without limitation) in order that ISOs granted hereunder meet the requirements for "incentive stock options" under the Tax Law, or to comply with the provisions of Rule 16b-3 of the Exchange Act or Section 162(m) of the Tax Law or any

change in applicable laws or regulations, ruling or interpretation of any governmental agency or regulatory body; provided, however, that no amendment shall be effective, without the requisite prior or subsequent stockholder approval, that would (a) except as contemplated in Section 12, increase the maximum number of shares of Common Stock for which options may be granted under this Plan or change the maximum number of shares for which options may be granted to employees in any calendar year, (b) change the eligibility requirements for individuals entitled to receive options hereunder, or (c) make any change for which applicable law or any governmental agency or regulatory body requires stockholder approval. No termination, suspension or amendment of this Plan shall adversely affect the rights of an optionee under any option granted under this Plan without such optionee's consent. The power of the Administrators to construe and administer any option granted under this Plan prior to the termination or suspension of this Plan shall continue after such termination or during such suspension.

Section 14. Non-Transferability. (a) Except as otherwise provided below or in the applicable Contract, no option granted under this Plan shall be transferable other than by will or the laws of descent and distribution, and options may be exercised, during the lifetime of the optionee, only by the optionee or the optionee's Legal Representatives. Except to the extent provided below or in the applicable Contract, options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process, and any such attempted assignment, transfer, pledge, hypothecation or disposition shall be null and void *ab initio* and of no force or effect, unless and to the extent the Board, in the case of NQSOs, has given its express written consent to any pledge or hypothecation to (and subsequent disposition by) a financial institution, which NQSOs shall continue to be subject to the terms and provisions of this Plan and the applicable Contract and may be subject to such additional limits, conditions and provisions as the Board may require in its sole and absolute discretion as a condition of such consent.

(b) The Administrators may, in their discretion, authorize all or a portion of any NQSO granted to an optionee to be on terms which permit transfer by such optionee to (i) the spouse, children or grandchildren of the optionee ("Immediate Family Members"), including (without limitation) adopted children and grandchildren, (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iii) a partnership in which such Immediate Family Members are the only partners, provided that (A) there may be no consideration for any such transfer (other than natural love and affection, the beneficial or equity interests therein received in connection with any such transfer to a trust or partnership, or the legal consideration for such a transfer to be enforceable), and (B) the Contract pursuant to which such options are granted must (1) be specifically approved by the Administrators and (2) expressly provide for transferability in a manner consistent with this Section 14.

(c) Following any permitted transfer, any such options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Sections 7 and 10 reference to "optionee" shall be deemed to refer to the transferee. The provisions in Section 8 hereof respecting the effect of Retirement or other termination of employment and Section 9 respecting the effect of death or Disability shall continue to be applied with respect to the original optionee, following which the options shall be exercisable by the transferee only to the extent, and for the periods specified in the Contract. Any permitted transferee shall be required prior to any transfer of an option or shares of Common Stock acquired pursuant to the exercise of an option to execute a written undertaking to be bound by the provisions of this Plan and the applicable Contract.

Section 15. Withholding Taxes. The Company, or its Subsidiary or Parent, as applicable, may withhold (a) cash or (b) with the consent of the Administrators (in the Contract or otherwise), shares of Common Stock to be issued upon exercise of an option or a combination of cash and shares, having an aggregate fair market value (determined in accordance with Section 5) equal to the amount which the Administrators determine is necessary to satisfy the obligation of the Company, a Subsidiary or Parent to withhold Federal, state and local income taxes or other amounts incurred by reason of the grant, vesting, exercise or disposition of an option or the disposition of the underlying shares of Common Stock. Alternatively, the Company may require the optionee to pay to the Company such amount, in cash, promptly upon demand.

Section 16. Legends; Payment of Expenses. (a) The Company may endorse such legend or legends upon the certificates for shares of Common Stock issued upon exercise of an option under this Plan and may issue such "stop transfer" instructions to its transfer agent in respect of such shares as it determines, in its sole discretion, to be necessary or appropriate to (i) prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act, applicable state securities laws or other legal requirements, (ii) implement the provisions of this Plan or any agreement between the Company and the optionee with respect to such shares of Common Stock, or (iii) permit the Company to determine the

occurrence of a “disqualifying disposition,” as described in Section 421(b) of the Tax Law, of the shares of Common Stock transferred upon the exercise of an ISO granted under this Plan.

(b) The Company shall pay all issuance taxes with respect to the issuance of shares of Common Stock upon the exercise of an option granted under this Plan, as well as all fees and expenses incurred by the Company in connection with such issuance.

Section 17. Use of Proceeds. Except to the extent required by law, the Company’s Certificate of Incorporation, or the Company’s By-laws, the cash proceeds to be received upon the exercise of an option under this Plan shall be added to the general funds of the Company and used for such corporate purposes as the Board of Directors may determine, in its sole discretion.

Section 18. Substitutions and Assumptions of Options of Certain Constituent Corporations. Anything in this Plan to the contrary notwithstanding, the Board of Directors may, without further approval by the stockholders, substitute new options for prior options of a Constituent Corporation (as such term is defined in Section 19) or assume the prior options of such Constituent Corporation.

Section 19. Definitions. (a) “Affiliate” shall mean with respect to the Company, any other corporation or other entity (other than a Parent or a Subsidiary), who directly or indirectly, is in control of, is controlled by or is under common control with the Company. For the purposes of this definition, “control” (including, with correlative meaning, the terms “controlled by” and “under common control with”) as used with respect to any corporation or other entity, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such corporation or other entity, whether through the ownership of capital stock, by contract or otherwise. For purposes of determining whether any option is subject to Section 409A of the Tax Law, the term “Affiliate” shall have the meaning assigned to it in Sections 414(b) or (c) of the Tax Law, as applicable, provided, however, that in applying such provisions, the phrase “at least 50 percent” (or such lower percentage as may be permitted under Section 409A of the Tax Law under the circumstances) shall be used instead of “at least 80 percent” in each place therein that phrase appears for purposes of determining trades or businesses (whether or not incorporated) that are under common control.

(b) “Business Day” shall mean any day other than (i) any Saturday or Sunday or (ii) New Year’s Day, Martin Luther King’s Birthday, Presidents’ Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans’ Day, Thanksgiving, and Christmas.

(c) “Cause,” in connection with the termination of an optionee, shall mean (i) “cause”, as such term (or any similar term, such as “with cause”) is defined in any employment, consulting or other applicable agreement for services or termination agreement between the Company and such optionee, or (ii) in the absence of such an agreement, “cause” as such term is defined in the Contract executed by the Company and such optionee pursuant to Section 11, or (iii) in the absence of both of the foregoing, (A) indictment of such optionee for any illegal conduct, (B) failure of such optionee to adequately perform any of the optionee’s duties and responsibilities in any capacity held with the Company, any of its Subsidiaries or any Parent (other than any such failure resulting solely from such optionee’s physical or mental incapacity), (C) the commission of any act or failure to act by such optionee that involves moral turpitude, dishonesty, theft, destruction of property, fraud, embezzlement or unethical business conduct, or that is otherwise injurious to the Company, any of its Subsidiaries or any Parent or any other affiliate of the Company (or its or their respective employees), whether financially or otherwise, (D) any violation by such optionee of any Company rule or policy, or (E) any violation by such optionee of the requirements of such Contract, any other contract or agreement between the Company and such optionee or this Plan (as in effect from time to time); in each case, with respect to clauses (A) through (E), as determined by the Board of Directors in their sole and absolute discretion.

(d) “Constituent Corporation” shall mean any corporation which engages with the Company, its Parent or any Subsidiary in a transaction to which Section 424(a) of the Tax Law applies (or would apply if the option assumed or substituted were an ISO), or any Parent or any Subsidiary of such corporation.

(e) “Disability” shall mean a permanent and total disability within the meaning of Section 22(e)(3) of the Tax Law.

(f) “Legal Representative” shall mean the executor, administrator or other person who at the time is entitled by law to exercise the rights of a deceased or incapacitated optionee with respect to an option granted under this Plan.

(g) “Parent” shall mean a “parent corporation” within the meaning of Section 424(e) of the Tax Law.

(h) “Retires” and “Retirement” shall mean the voluntary termination by an optionee of such person’s status as a director (whether or not an employee), officer (whether or not an employee), or employee of the Company or any of its Subsidiaries or any consultant thereto (including any SPAR Affiliate), in each case so long as: (i) such person shall be at least 65 years of age or such younger age as (A) may be specifically provided for retirement in the applicable Contract or optionee’s written employment or consulting or termination contract, or (B) the Administrators in their discretion may permit in any particular case or class of cases; and (ii) such person shall not be employed full time by anyone else except as (A) may be otherwise specifically permitted following retirement in the applicable Contract or optionee’s written employment or consulting or termination contract, or (B) the Administrators in their discretion may permit in any particular case or class of cases.

(i) “SPAR Affiliate” and “SPAR Affiliates” shall respectively mean any one or more of SPAR Marketing Services, Inc., SPAR Management Services, Inc., SPAR InfoTech, Inc., and any other Affiliate of any of them or of the Company, including (without limitation) any Affiliated corporation or other entity directly or indirectly under the control of one or more of Robert G. Brown, William H. Bartels, their respective families, and trusts under which either of them is a trustee or beneficiary.

(j) “Subsidiary” shall mean a “subsidiary corporation” within the meaning of Section 424(f) of the Tax Law.

Section 20. No Additional Rights. (a) Neither the adoption of this Plan nor the granting of any option shall: (i) affect or restrict in any way the power of the Company, any of its subsidiaries or any SPAR Affiliate to undertake any corporate action otherwise permitted under applicable law; or (ii) confer upon any optionee the right to continue to be employed by the Company, any of its subsidiaries or any SPAR Affiliate, nor shall it interfere in any way with the right of the Company, any of its subsidiaries or any SPAR Affiliate to terminate the employment of any optionee at any time, with or without cause.

(b) No optionee shall have any rights as a stockholder with respect to shares covered by an option until such time as the optionee is listed as the owner of record of the purchased shares on the books and records of the Company’s transfer agent.

(c) No adjustments will be made for cash dividends or other rights for which the record date is prior to the date the optionee is listed as the owner of record of the purchased shares on the books and records of the Company’s transfer agent .

Section 21. Indemnification. (a) To the maximum extent permitted by law, the Company shall indemnify each Administrator and every other member of the Board, as well as any other employee of the Company, any Subsidiary or any SPAR Affiliate, from and against any and all liabilities and expenses (including any amount paid in settlement or in satisfaction of a judgment and reasonable attorneys fees and expenses) reasonably incurred by the individual in connection with any claims against the individual by reason of any action, inaction or determination by the individual under the Plan. This indemnity shall not apply, however, if: (i) it is determined in the action, lawsuit, or proceeding that the individual is guilty of gross negligence or intentional misconduct in the performance of any duties under the Plan; or (ii) the individual fails to assist the Company in defending against any such claim.

(b) Notwithstanding the above, the Company shall have the right to select counsel and to control the prosecution or defense of the suit.

(c) Furthermore, the Company shall not be obligated to indemnify any individual for any amount incurred through any settlement or compromise of any action unless the Company consents in writing to the settlement or compromise.

Section 22. Governing Law. This Plan, such options as may be granted hereunder, the Contracts and all related matters shall be governed by, and construed in accordance with, the laws of the State of Delaware (other than those that would defer to the substantive laws of another jurisdiction).

Section 23. Construction. Neither this Plan nor any Contract shall be construed or interpreted with any presumption against the Company by reason of the Company causing this Plan or Contract to be drafted. Whenever from the context it appears appropriate, any term stated in either the singular or plural shall include the plural and singular, respectively, and any term stated in the masculine, feminine or neuter gender shall include the other forms as well. Captions and headings have been provided for convenience and shall not affect the meaning or interpretation of this Plan or any Contract.

Section 24. Not Intended to be Nonqualified Deferred Compensation. The Company intends that each option granted under this Plan not constitute “nonqualified deferred compensation” within the meaning of and subject to Section 409A of the Tax Law. To the extent that the Administrators determine that any provision of this Plan or any option or Contract provides for any such nonqualified deferred compensation (in whole or in part), the Administrators at any time may amend this Plan and/or amend, restructure, terminate or replace any Contract to either comply with Section 409A of the Tax Law and/or minimize or eliminate any such nonqualified deferred compensation, in each case notwithstanding anything in this Plan or any applicable Contract to the contrary.

Section 25. Partial Invalidity. The invalidity, illegality or unenforceability of any provision in this Plan, any option or Contract shall not affect the validity, legality or enforceability of any other provision, all of which shall be valid, legal and enforceable to the fullest extent permitted by applicable law.

Section 26. Amendments; Future Stockholder Approval. This Plan was approved by the holders of a majority of the votes present in person or by proxy entitled to vote hereon at a duly held meeting of the Company’s stockholders on August 2, 2001, at which was quorum present. Any amendment to this plan shall be subject to approval (a) by the Board (upon the recommendation of the Committee to the extent provided by any applicable Company by-law, including any applicable committee charter), and (b) if and to the extent required by applicable law or exchange rules, or if the Board otherwise directs that the matter be submitted to the Company’s stockholders, by (i) the holders of a majority of the votes present in person or by proxy entitled to vote hereon at a duly held meeting of the Company’s stockholders at which a quorum is present or (ii) the Company’s stockholders acting in accordance with the provisions of Section 228 of the Delaware General Corporation Law.

**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 September 30, 2006 (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)) [INTENTIONALLY OMITTED IN RELIANCE ON SEC RELEASE NO. 33-8238] 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) [INTENTIONALLY OMITTED IN RELIANCE ON SEC RELEASE NO. 33-8238]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2006

/s/ Robert G. Brown

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

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

I, Charles Cimitile, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended September 30, 2006 (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)) [INTENTIONALLY OMITTED IN RELIANCE ON SEC RELEASE NO. 33-8238] 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) [INTENTIONALLY OMITTED IN RELIANCE ON SEC RELEASE NO. 33-8238]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2006

/s/ Charles Cimitile

Charles Cimitile, Chief Financial Officer,
Treasurer and Secretary

**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 September 30, 2006 (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

November 14, 2006

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

**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 September 30, 2006 (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

November 14, 2006

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