UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the first quarterly period ended MARCH 31, 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	33-0684451
State of Incorporation	IRS Employer Identification No.

580 White Plains Road, Suite 600, Tarrytown, New York 10591
(Address of principal executive offices, including zip code)

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

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

Indicate by check 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 [X]

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

On March 31, 2006, there were 18,918,847 shares of Common Stock outstanding.

SPAR GROUP, INC.

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PART I: FINANCIAL INFORMATION

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ITEM 1: FINANCIAL STATEMENTS

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

	MARCH 31, 2006 (Unaudited)	DECEMBER 31, 2005 (Note)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,312	$ 1,914
Accounts receivable, net	11,577	10,656
Prepaid expenses and other current assets	565	702
Total current assets	13,454	13,272

Property and equipment, net	1,018	1,131
Goodwill	798	798
Other assets	172	216
Total assets	$ 15,442	$ 15,417
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,697	$ 1,597
Accrued expenses and other current liabilities	2,368	2,639
Accrued expenses due to affiliates	1,630	1,190
Restructuring charges	99	99
Customer deposits	798	1,658
Lines of credit	2,687	2,969
Total current liabilities	9,279	10,152
Other long-term liabilities	10	10
Minority interest	421	405
Total liabilities	9,710	10,567
Commitments and contingencies (Note - 11)		
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 -		
18,918,847- March 31, 2006		
18,916,847 - December 31, 2005	189	189
Treasury stock	(1)	(1)
Accumulated other comprehensive (loss) gain	(19)	17
Additional paid-in capital	11,200	11,059
Accumulated deficit	(5,637)	(6,414)
Total stockholders' equity	5,732	4,850
Total liabilities and stockholders' equity	$ 15,442	$ 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.

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

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Net revenue	$ 15,850	$ 14,521
Cost of revenue	9,854	8,651
Gross profit	5,996	5,870
Selling, general and administrative expenses	5,071	4,256
Depreciation and amortization	213	279
Operating income	712	1,335

Interest expense	51	40
Other income	178	-
Income before provision for income taxes and minority interest	839	1,295
Provision for income taxes	45	15
Income before minority interest	794	1,280
Minority interest	17	111
Net Income	$ 777	$ 1,169
Basic/diluted net income per common share:		
Net income- basic/diluted	$ 0.04	$ 0.06
Weighted average common shares - basic	18,918	18,859
Weighted average common shares - diluted	19,071	19,004

See accompanying notes.

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

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
OPERATING ACTIVITIES		
Net cash (used in) provided by operating activities	(184)	2,455
INVESTING ACTIVITIES		
Purchases of property and equipment	(100)	(106)
Net cash used in investing activities	(100)	(106)
FINANCING ACTIVITIES		
Net payments on lines of credit	(282)	(2,832)
Other long-term liabilities	-	(97)
Proceeds from employee stock purchase plan and exercised options	-	30
Net cash used in financing activities	(282)	(2,899)
Translation loss	(36)	(60)
Net change in cash and cash equivalents	(602)	(610)
Cash and cash equivalents at beginning of period	1,914	887
Cash and cash equivalents at end of period	$ 1,312	$ 277
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 44	$ 48

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 on April 3, 2006 (the "Company's Annual Report for 2005 on Form 10-K"). The Company's results of operations for the interim periods are not necessarily indicative of its operating results for the entire year.

2. BUSINESS AND ORGANIZATION

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

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 and Romania and through 50% owned joint ventures in Japan and China. In September 2005, the Company established a 51% owned joint venture subsidiary in Lithuania, which began operations in April 2006. In April 2006, the Company also announced the establishment of a 51% owned joint venture subsidiary in Australia, which is projected to begin operations in the second quarter of 2006. The Company continues to focus on expanding its merchandising and marketing services business throughout the world.

3. PRINCIPLES OF CONSOLIDATION

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

During 2005, the Japan joint venture changed from a fiscal year ending September 30 to a calendar year ending December 31. The Japan joint ventures' operating results for the calendar fourth quarter of 2005 are included in the three months ending March 31, 2006.

All significant intercompany accounts and transactions have been eliminated.

4. NEW ACCOUNTING STANDARDS

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Conditions, a replacement of APB No. 20 and FASB Statement No. 3 ("SFAS No. 154"). SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 "Accounting Changes," previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement is effective for the Company as of January 1, 2006. The Company does not expect the adoption of SFAS No. 154 will have a significant impact on the manner of display of its results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", which replaces SFAS No. 123, "Accounting for Share-based Compensation", and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Statement requires that the calculated cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. The Statement was effective for the Company beginning January 1, 2006. The "modified prospective" method was required upon adoption; accordingly, results of prior periods have not been restated. Under the modified prospective method, the Statement applies to new awards and to awards modified, repurchased or cancelled after the effective date. Additionally, compensation cost for the unvested portion of awards as of the effective date is required to be recognized after the effective date as the awards vest. As of January 1, 2006, the Company implemented SFAS No. 123(R), with share-based compensation expense now reflected in the Company's interim statements of operations. See Note 9 - Stock-Based Compensation below for additional information regarding the adoption of SFAS No. 123(R).

5. RESTRUCTURING CHARGES

In July 2004, as a result of the loss of several significant clients and the pending sale of the Company's largest client, the Company entered into a plan to restructure and reduce its field force, as well as its selling, general and administrative cost structure, to reflect its lower revenue base. These reductions consisted of personnel reductions, personnel related expenses and office closings. At March 31, 2006, the Company had approximately $99,000 reserved for future restructure payments that are expected to be paid in 2006. The Company records restructure expenses in the selling, general and administrative section of its consolidated operating statements.

6. EARNINGS PER SHARE

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

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Numerator:		
Net income	$ 777	$ 1,169

Denominator:		
Shares used in basic earnings per share calculation	18,918	18,859
Effect of diluted securities:		
Employee stock options	153	145
Shares used in diluted earnings per share calculation	19,071	19,004
Basic and diluted earnings per common share	$ 0.04	$ 0.06

7. LINES OF CREDIT

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

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. It further stipulated that should the Company meet its covenants for the year ended December 31, 2005, which it has, Webster would release Mr. Robert Brown and Mr. William Bartels from their obligation to provide personal guarantees totaling $1.0 million and certain discretionary reserves. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments.

The basic interest rate under the Credit Facility is Webster's "Alternative Base Rate" plus 0.75% per annum (a total of 8.5% per annum at March 31, 2006), which automatically changes with each change made by Webster in such Alternate 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 six months. The actual average interest rate under the Credit Facility was 8.2% per annum for the quarter ending March 31, 2006. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries.

The Company was not in violation of any covenants at March 31, 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 such waivers in the future.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at

March 31, 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 March 31, 2006, and December 31, 2005, respectively. There were letters of credit outstanding under the Credit Facility of approximately $552,000 at March 31, 2006, and December 31, 2005. As of March 31, 2006, the SPAR Group had unused availability under the Credit Facility of $1.7 million out of the remaining maximum $4.3 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

In 2001, the Japanese joint venture SPAR FM Japan, Inc. entered into a revolving line of credit arrangement with Japanese banks for 300 million Yen or $2.6 million (based upon the exchange rate at March 31, 2006). At March 31, 2006, SPAR FM Japan, Inc. had a 70 million Yen or approximately $600,000 loan balance outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate at March 31, 2006 and 2005 was 1.4%.

8. 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 in the field (through its independent contractor field force) for both the three months ended March 31, 2006 and 2005, and approximately 86% and 92% of the Company's domestic field management at a total cost to the Company of approximately $5.8 million for both the three months ended March 31, 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 5,500 independent contractors to the Company. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, SMSI provides approximately 44 full-time national, regional and district managers to the Company. For those services, the Company has agreed to reimburse SMS and SMSI for all of their costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective costs. Total net premiums (4% of SMS and SMSI costs) paid to SMS and SMSI for services rendered were approximately $235,000 and $220,000 for the three months ended March 31, 2006, and 2005, respectively. The Company has been advised that Messrs. Brown and Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations and are owned by Messrs. Brown and Bartels, they benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services purchased by the Company at a total cost of approximately $187,000 and $210,000 for the three months ended March 31, 2006, and 2005, respectively. SIT provided approximately 6,400 and 6,700 hours of Internet computer programming services to the Company for the three months ended March 31, 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 $29.07 and $31.27 for the three months ended March 31, 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 three months ended March 31, 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.

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

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Services provided by affiliates:		
Independent contractor services (SMS)	$ 4,820	$ 4,781
Field management services (SMSI)	$ 951	$ 954
Handheld computer leases (SMS)	$ 70	$ 63
Internet and software program consulting services (SIT)	$ 187	$ 210

Accrued expenses due to affiliates (in thousands):	MARCH 31, 2006	DECEMBER 31, 2005
SPAR Marketing Services, Inc.	$ 1,630	$ 1,190

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.

9. 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 in 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 three months ended March 31, 2006, utilizing the methodology and assumptions consistent with those used in prior periods under SFAS No. 123, which were disclosed in the Company's previously filed Annual Report on Form 10-K for the year ended December 31, 2005.

Share-based compensation expense totaled approximately $84,000 for the three months ended March 31, 2006. Basic and diluted earnings per share impacted by approximately $0.004 for the three month period ended March 31, 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 ended March 31, 2005. If compensation cost for the three month ended March 31, 2005, had been recognized by the Company under the fair value method, the Company's net income and pro forma net income per share would have been reduced to the adjusted amounts indicated below (in thousands, except per share data):

	THREE MONTHS ENDED MARCH 31,
	2005
Net income, as reported	$ 1,169
Stock based employee compensation expense per the fair market value method	25
Pro forma net income	$ 1,144
Basic and diluted net income per share, as reported	$ 0.06
Basic and diluted net income per share, pro forma	$ 0.06

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 March 31, 2006 and 2005, of approximately $57,000 and $14,000 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 that vest over the service period. Until an option is vested, the fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

10. CUSTOMER DEPOSITS

Customer deposits at March 31, 2006, were approximately $798,000 (approximately $405,000 from domestic operations and approximately $393,000 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). The decrease is primarily due to the termination of a customer service agreement in March 2006.

11. 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 and has continued this strategy. As of this filing, the Company is currently operating in Japan, Canada, Turkey, South Africa, India, Romania and China. In September 2005, the Company also announced the establishment of a 51% owned joint venture subsidiary in Lithuania which began operations in April 2006. In April 2006, the Company announced the establishment of a 51% owned joint venture subsidiary in Australia, which is projected to begin operations in the second quarter of 2006.

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

LEGAL MATTERS

Safeway Inc. ("Safeway") filed a Complaint against PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of 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 subsequently amended their Complaint twice, dropping various causes of action for breach of trust and breach of fiduciary duties. Safeway's remaining two claims are for breach of contract and breach of implied contract. Safeway has most recently alleged monetary damages in principal and interest of $6,400,000 (an increase of $1,900,000 from the amount previously claimed) and has also demanded unspecified costs. PIA Co. and Pivotal filed cross-claims against Safeway on or about March 11, 2002, and amended them on or about October 15, 2002, alleging causes of action against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment and is seeking damages and injunctive relief. Mediation between the parties occurred in 2004, but did not result in a settlement. Trial commenced in March 2006, and is expected to conclude in late May or early June 2006. PIA Co., Pivotal and SGRP are vigorously defending against Safeway's allegations. It is not possible at this time to determine the likelihood of the outcome of this lawsuit. However, if Safeway prevails in its claims and PIA Co. and Pivotal lose on their cross-claims that result could have a material adverse effect on the Company.

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.

12. GEOGRAPHIC DATA

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

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Net revenue:		
United States	$ 10,818	$ 10,800
International	5,032	3,721
Total net revenue	$ 15,850	$ 14,521

	THREE MONTHS ENDED MARCH 31,	
	2006	2005
Operating income (loss):		
United States	$ 716	$ 895
International	(4)	440
Total operating income	$ 712	$ 1,335

Long lived assets:	MARCH 31, 2006	DECEMBER 31, 2005
United States	$ 1,726	$ 1,799
International	262	346
Total long lived assets	$ 1,988	$ 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 first quarter ending March 31, 2006, included not only the operating results for the quarter, but also the operating results for the calendar fourth quarter of 2005. The inclusion of the fourth quarter operating results increased net revenue and operating income by $1.3 million and $13,000, respectively. The joint venture in Japan contributed 17% and 9% of the consolidated net revenue of the Company for the three months ended March 31, 2006, and 2005, respectively. For the three months ended March 31, 2006, and 2005, the wholly owned Canadian subsidiary contributed 7% of the consolidated net revenue of the Company for both periods. The joint venture subsidiary in South Africa contributed 5% and 9% to the consolidated net revenue of the Company for the three months ended March 31, 2006, and 2005, respectively. The remaining foreign joint venture subsidiaries contributed 4% and 0.5% to the consolidated net revenue for the three month period ending March 31, 2006, and 2005, respectively.

13. SUPPLEMENTAL BALANCE SHEET INFORMATION

Accounts receivable, net, consists of the following (in thousands):	MARCH 31, 2006	DECEMBER 31, 2005
Trade	$ 7,201	$ 7,666
Unbilled	4,578	3,461
Non-trade	346	145
	12,125	11,272
Less allowance for doubtful accounts	(548)	(616)
	$ 11,577	$ 10,656

Property and equipment consists of the following (in thousands):	MARCH 31, 2006	DECEMBER 31, 2005
Equipment	$ 5,181	$ 5,202
Furniture and fixtures	594	570
Leasehold improvements	568	568
Capitalized software development costs	1,318	1,228
	7,661	7,568
Less accumulated depreciation and amortization	(6,643)	(6,437)

	$ 1,018	$ 1,131

Accrued expenses and other current liabilities consist of the following (in thousands):	MARCH 31, 2006	DECEMBER 31, 2005
Accrued medical and worker compensation expenses	$ 193	$ 296
Taxes payable	160	490
Accrued accounting and legal expense	492	286
Accrued salaries payable	974	937
Other	549	630
	$ 2,368	$ 2,639

14. 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 three months ended March 31, 2006, these exposures were primarily concentrated in the Canadian dollar, South African Rand and Japanese Yen. At March 31, 2006, international assets totaled approximately $4.2 million and international liabilities totaled approximately $6.8 million. For the three months ended March 31, 2006, international revenues totaled $5.0 million and there was an international net loss of $44,000.

15. INTEREST RATE FLUCTUATIONS

The Company is exposed to market risk related to the variable interest rates on its lines of credit. At March 31, 2006, the Company's outstanding debt totaled approximately $2.7 million, which consisted of domestic variable-rate (8.5% per annum at that date) debt of $2.1 million and international variable rate (1.4% per annum at that date) debt of $600,000. Based on the three months ending March 31, 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 three months ended March 31, 2006, by approximately $7,000.

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

FORWARD-LOOKING STATEMENTS

STATEMENTS CONTAINED IN THIS QUARTERLY REPORT ON FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 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 ON APRIL 3, 2006 (THE "COMPANY'S ANNUAL REPORT FOR 2005 ON FORM 10-K"), 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 IA 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, 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 and Romania and 50% owned joint ventures in Japan and China. In September 2005, the Company established a 51% owned joint venture subsidiary in Lithuania, which began operations in April 2006. In April 2006, the Company also announced the establishment of a 51% owned joint venture subsidiary in Australia,

which is projected to begin operations in the second quarter of 2006. For the three months ended March 31, 2006, the Company consolidated Canada, Turkey, South Africa, India, Romania, China and Japan into the Company's financial statements.

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:

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

In April 2006, the Company also announced the establishment of a 51% owned joint venture subsidiary in Australia, which is projected to begin operations in the second quarter of 2006.

CRITICAL ACCOUNTING POLICIES

The Company's critical accounting policies have been consistently applied in all material respects and address such matters as revenue recognition, depreciation methods, asset impairment recognition, business combination accounting, and discontinued business accounting. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are appropriate in the circumstances. Four critical accounting policies are consolidation of subsidiaries, revenue recognition, allowance for doubtful accounts and sales allowances, and internal use software development costs:

CONSOLIDATION OF SUBSIDIARIES

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

REVENUE RECOGNITION

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND SALES ALLOWANCES

The Company continually monitors the validity of its accounts receivable based upon current client credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of $548,000 and $616,000 at March 31, 2006, and December 31, 2005, respectively.

INTERNAL USE SOFTWARE DEVELOPMENT COSTS

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

The Company capitalized $90,000 and $97,000 of costs related to software developed for internal use in the three months ended March 31, 2006, and 2005, respectively and amortized capitalized software of approximately $102,000 and $139,000 in the three months ended March 31, 2006, and 2005, respectively.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2006, COMPARED TO THREE MONTHS ENDED MARCH 31, 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 March 31,				
	2006	%	2005	%	Increase (decrease)%
Net revenues	$ 15,850	100.0%	$ 14,521	100.0%	9.2%
Cost of revenues	9,854	62.2	8,651	59.6	13.9
Selling, general & administrative expense	5,071	32.0	4,256	29.3	19.2
Depreciation and amortization	213	1.3	279	1.9	(23.7)
Interest expense	51	0.3	40	0.3	26.1
Other income	178	1.1	-	-	-
Income before income tax provision and minority interest	839	5.3	1,295	8.9	(35.2)
Provision for income taxes	45	0.3	15	0.1	198.0

Income before minority interest	794	5.0	1,280	8.8	(38.0)
Minority interest	17	0.1	111	0.8	(84.8)
Net income	$ 777	4.9%	$ 1,169	8.0%	(33.5)

NET REVENUES

Net revenues for the three months ended March 31, 2006, were $15.9 million, compared to $14.5 million for the three months ended March 31, 2005, an increase of 9.2%. Domestic net revenue for the three months ended March 31, 2006, was $10.9 million (including $770,000 in non-recurring revenues from the termination of a service agreement), and was consistent with the $10.8 million for the prior year period. International net revenue for the three months ended March 31, 2006, increased $1.3 million to $5.0 million from $3.7 million for the prior year period. The increase in International net revenue of $1.3 million was due to the inclusion of the calendar year fourth quarter 2005 net revenue totaling $1.3 million as a result of the change in the year end reporting for the Japan joint venture. Changes in net revenue from the remaining international joint ventures were a net increase of approximately $2,000, consisting of an increase in net revenue in India of approximately $391,000, a decrease of approximately $563,000 in South Africa due to the loss of a client in 2005, and all other joint ventures posting an increase of $174,000.

One domestic client accounted for 13% and 16% of the Company's net revenue for the three months ended March 31, 2006, and 2005, respectively. This client also accounted for approximately 15% and 1% of accounts receivable at March 31, 2006, and December 31, 2005, respectively.

A second domestic client accounted for 12% and 17% of the Company's net revenue for the three months ended March 31, 2006, and 2005, respectively. This client also accounted for approximately 4% and 10% of accounts receivable at March 31, 2006, and December 31, 2005, respectively.

Approximately 10% of the Company's net revenue for both the three months ended March 31, 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 7% and 8% of accounts

receivable at March 31, 2006, and December 31, 2005, respectively. The Company's contractual relationships or agreements are with various clients and not that retail electronics chain.

Approximately 8% and 10% of the Company's net revenues for the three months ended March 31, 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 5% and 8% of accounts receivable at March 31, 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, the loss of the ability to provide merchandising and marketing services in those chains, or the failure to attract new large clients could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition.

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 62.2% for the three months ended March 31, 2006, compared to 59.6% for the three months ended March 31, 2005. For the first quarter domestic cost of revenues as a percentage of net revenues was 61.9% and 59.8% for the three months ended March 31, 2006, and 2005, respectively. The increase is primarily attributable to the mix of business with higher cost project revenue accounting for a greater portion of revenue in the three months ended March 31, 2006. Cost of revenues from International Operations as a percentage of net revenues was 62.7% and 59.0% for the three months ended March 31, 2006, and 2005, respectively. The international cost of revenue percentage increase was primarily attributable to an increase in competitive pricing pressures, particularly within the Canadian operations.

Approximately 59% and 66% of the Company's cost of revenue in the three months ended March 31, 2006, and 2005, respectively, resulted from in-store independent contractor and field management services purchased from the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (see Note 8 - Related-Party Transactions).

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

Selling, general and administrative expenses increased by approximately $815,000, or 19.2%, for the three months ended March 31, 2006, to $5.1 million compared to $4.3 million for the three months ended March 31, 2005. Domestic selling, general and administrative expenses, while consistent at $3.2 million, included litigation costs of approximately $350,000 and $57,000 for the three months ended March 31, 2006, and 2005 respectively. Internationally, selling, general and administrative expenses increased by approximately $793,000, or 75.2%, to $1.9 million for the three months ended March 31, 2006, from approximately $1.1 million for the three months ended March 31, 2005. The increase of approximately $793,000 was primarily due to the Japan joint venture; approximately $554,000 resulting from the additional quarter of expense due to the change in year-end reporting and approximately $232,000 from increased spending due to a change in the joint ventures' cost structure. All other International operations contributed a net increase of $7,000.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges of approximately $213,000 for the three months ended March 31, 2006, were consistent with approximately $279,000 for those charges in the same period for 2005.

OTHER INCOME

The Company recorded other income of $175,000 for the three months ended March 31, 2006, resulting from the favorable settlement of a vendor lawsuit.

INCOME TAXES

The Company recorded an income tax provision of $45,000 for the three months ended March 31, 2006. The provision was primarily for minimum state taxes. There was no provision for federal tax for the three months ended March 31, 2006, 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 $17,000 and $111,000 resulted from the operating profits and losses of the 51% owned joint venture subsidiaries and the 50% owned joint ventures for the three months ended March 31, 2006, and 2005, respectively.

NET INCOME

The Company had net income of $777,000 for the three months ended March 31, 2006, or $0.04 per diluted share, compared to a net income of $1.2 million, or $0.06 per diluted share, for the corresponding period last year.

LIQUIDITY AND CAPITAL RESOURCES

In the three months ended March 31, 2006, the Company had a net income of $777,000.

Net cash used by operating activities for the three months ended March 31, 2006, was $184,000 compared to net cash provided by operating activities for the three months ended March 31, 2005 of $2.5 million. The decrease in net cash provided in operating activities was a result of increased accounts receivable and decreases in accrued expenses and customer deposits partially offset by increases in accrued expenses due to affiliates and accounts payable.

Net cash used in investing activities was approximately $100,000 for the three months ended March 31, 2006, and 2005.

Net cash used in financing activities for the three months ended March 31, 2006, was approximately $282,000, compared to net cash used in financing activities of $2.9 million for the three months ended March 31, 2005. The decrease of net cash used in financing activities was primarily a result of lower net payments on lines of credit.

The above activity resulted in a decrease in cash and cash equivalents for the three months ended March 31, 2006, of approximately $602,000.

At March 31, 2006, the Company had positive working capital of $4.2 million, as compared to a positive working capital of $3.1 million at December 31, 2005. The increase in working capital is due primarily to reductions in lines of credit, and accounts payable, as well as an increase in cash, partially offset by reduced accounts receivable and increases in accrued expenses and other current liabilities. The Company's current ratio was 1.45 at March 31, 2006, and 1.31 at December 31, 2005.

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

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. It further stipulated that should the Company meet its covenants for the year ended December 31, 2005, which it has, Webster would release Mr. Robert Brown and Mr. William Bartels from their obligation to provide personal guarantees totaling $1.0 million and certain discretionary reserves. The Credit Facility also limits certain expenditures, including, but not limited to, capital expenditures and other investments.

The basic interest rate under the Credit Facility is Webster's "Alternative Base Rate" plus 0.75% per annum (a total of 8.5% per annum at March 31, 2006), which automatically changes with each change made by Webster in such Alternate 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 six months. The actual average interest rate under the Credit Facility was 8.2% per annum for the quarter ending March 31, 2006. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries.

The Company was not in violation of any covenants at March 31, 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 such waivers in the future.

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at March 31, 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 March 31, 2006, and December 31, 2005, respectively. There were letters of credit outstanding under the Credit Facility of approximately $552,000 at March 31, 2006, and December 31, 2005. As of March 31, 2006, the SPAR Group had unused availability under the Credit Facility of $1.7 million out of the remaining maximum $4.3 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

In 2001, the Japanese joint venture SPAR FM Japan, Inc. entered into a revolving line of credit arrangement with Japanese banks for 300 million Yen or $2.6 million (based upon the exchange rate at March 31, 2006). At March 31, 2006, SPAR FM Japan, Inc. had a 70 million Yen or approximately $600,000 loan balance outstanding under the line of credit (based upon the exchange rate at that date). The average interest rate at March 31, 2006 and 2005 was 1.4%.

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 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. In September 2005, the Company also announced

the establishment of a 51% owned joint venture subsidiary in Lithuania which will begin operations in April 2006. In April 2006, the Company announced the establishment of a 51% owned joint venture subsidiary in Australia, which is projected to begin operations in the second quarter of 2006.

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

Management believes that based upon the results of Company's cost saving initiatives and the existing credit facilities, sources of cash availability will be sufficient to support ongoing operations over the next twelve months. However, delays in collection of receivables due from any of the Company's major clients, or a significant reduction in business from such clients, or the inability to acquire new clients, or the Company's inability to remain profitable, each could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

CERTAIN CONTRACTUAL OBLIGATIONS

The following table contains a summary of certain of the Company's contractual obligations by category as of March 31, 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	$2,687	$2,687	$ -	$ -	$ -
Operating Lease Obligations	1,597	858	693	46	-
Total	$4,284	$3,545	$ 693	$ 46	$ -

The Company also had approximately $552,000 in outstanding Letters of Credit at March 31, 2006.

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 March 31, 2006, the Company's outstanding debt totaled approximately $2.7 million, which consisted of domestic variable-rate (8.5% per annum at that date) debt of $2.1 million and international variable rate (1.4% per annum at that date) debt of $600,000. Based on the three months ending March 31, 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 three months ended March 31, 2006, by approximately $7,000.

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 three months ended March 31, 2006, these exposures were primarily concentrated in the Canadian dollar, South African Rand and Japanese Yen. At March 31, 2006, international assets totaled approximately $4.2 million and international liabilities totaled approximately $6.8 million. For the three months ended March 31, 2006, international revenues totaled $5.0 million and there was an international net loss of $44,000.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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 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 subsequently amended their Complaint twice, dropping various causes of action for breach of trust and breach of fiduciary duties. Safeway's remaining two claims are for breach of contract and breach of implied contract. Safeway has most recently alleged monetary damages in principal and interest of $6,400,000 (an increase of $1,900,000 from the amount previously claimed) and has also demanded unspecified costs. PIA Co. and Pivotal filed cross-claims against Safeway on or about March 11, 2002, and amended them on or about October 15, 2002, alleging causes of action against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment and is seeking damages and injunctive relief. Mediation between the parties occurred in 2004, but did not result in a settlement. Trial commenced in March 2006, and is expected to conclude in late May or early June 2006. PIA Co., Pivotal and SGRP are vigorously defending against Safeway's allegations. It is not possible at this time to determine the likelihood of the outcome of this lawsuit. However, if Safeway prevails in its claims and PIA Co. and Pivotal lose on their cross-claims that result could have a material adverse effect on 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 on April 3, 2006 (the "Company's Annual Report for 2005 on Form 10-K").

ITEM 1A. RISK FACTORS

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

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

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

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

Not applicable.

ITEM 5: OTHER INFORMATION

Not applicable.

ITEM 6: EXHIBITS

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.

SIGNATURES

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

Date: May 15, 2006 SPAR Group, Inc., Registrant

By: /s/ Charles Cimitile

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

EXHIBIT 31.1

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

I, Robert G. Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended March 31, 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: May 15, 2006

/s/ Robert G. Brown

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

Ex-1

SPAR GROUP, INC.

EXHIBIT 31.2

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

I, Charles Cimitile, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended March 31, 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: May 15, 2006

/s/ Charles Cimitile

Charles Cimitile, Chief Financial Officer,
Treasurer and Secretary

Ex-2

EXHIBIT 32.1

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

In connection with the quarterly report on Form 10-Q for the three month period ended March 31, 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

May 15, 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.

SPAR GROUP, INC.

EXHIBIT 32.2

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

In connection with the quarterly report on Form 10-Q for the three month period ended March 31, 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
May 15, 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.