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

FORM 10-K

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

(Mark One)

X --- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2003

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 or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

580 White Plains Road, Tarrytown, New York	10591
(Address of principal executive offices)	(Zip Code)

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

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

Securities registered pursuant to section 12(g) of the Act: Common Stock, par value $.01 per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ].

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Rule 12b-2 of the Act.) YES [ ] NO [X]

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2003, based on the closing price of the Common Stock as reported by the Nasdaq National Market on such date, was approximately $20,892,441.

The number of shares of the Registrant's Common Stock outstanding as of December 31, 2003, was 18,858,972 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

INDEX

PART I

		Page
Item 1.	Business	2
Item 2.	Properties	14
Item 3.	Legal Proceedings	15
Item 4.	Submission of Matters to a Vote of Security Holders	15

PART II

Item 5.	Market for Registrant's Common Equity and Related Shareholder Matters	16
Item 6.	Selected Financial Data	16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	27
Item 8.	Financial Statements and Supplementary Data	27
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	27
Item 9A.	Controls and Procedures	27

PART III

Item 10.	Directors and Executive Officers of the Registrant	28
Item 11.	Executive Compensation and Other Information of SPAR Group, Inc.	30
Item 12.	Security Ownership of Certain Beneficial Owners and Management	34

Item 13.	Certain Relationships and Related Transactions	35
Item 14.	Principal Accountant Fees and Services	36
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	37
	Signatures	39

PART I

STATEMENTS CONTAINED IN THIS ANNUAL REPORT ON FORM 10-K OF SPAR GROUP, INC. ("SGRP", AND TOGETHER WITH ITS SUBSIDIARIES, THE "SPAR GROUP" OR THE "COMPANY"), INCLUDE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT, INCLUDING, IN PARTICULAR AND WITHOUT LIMITATION, THE STATEMENTS CONTAINED IN THE DISCUSSIONS UNDER THE HEADINGS "BUSINESS" AND "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS". FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS, WHETHER EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS, TO NOT OCCUR OR BE REALIZED OR TO BE LESS THAN EXPECTED. SUCH FORWARD-LOOKING STATEMENTS GENERALLY ARE BASED UPON THE COMPANY'S BEST ESTIMATES OF FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENT, CURRENT CONDITIONS AND THE MOST RECENT RESULTS OF OPERATIONS. FORWARD-LOOKING STATEMENTS MAY BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY", "WILL", "EXPECT", "INTEND", "BELIEVE", "ESTIMATE", "ANTICIPATE", "CONTINUE" OR SIMILAR TERMS, VARIATIONS OF THOSE TERMS OR THE NEGATIVE OF THOSE TERMS. YOU SHOULD CAREFULLY CONSIDER SUCH RISKS, UNCERTAINTIES AND OTHER INFORMATION, DISCLOSURES AND DISCUSSIONS WHICH CONTAIN CAUTIONARY STATEMENTS IDENTIFYING IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROVIDED IN THE FORWARD-LOOKING STATEMENTS.

ALTHOUGH THE COMPANY BELIEVES THAT ITS PLANS, INTENTIONS AND EXPECTATIONS REFLECTED IN OR SUGGESTED BY SUCH FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CANNOT ASSURE THAT SUCH PLANS, INTENTIONS OR EXPECTATIONS WILL BE ACHIEVED IN WHOLE OR IN PART. YOU SHOULD CAREFULLY REVIEW THE RISK FACTORS DESCRIBED HEREIN AND ANY OTHER CAUTIONARY STATEMENTS CONTAINED IN THIS ANNUAL REPORT ON FORM 10-K. ALL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED BY THE RISK FACTORS (SEE ITEM 1 - CERTAIN RISK FACTORS) AND OTHER CAUTIONARY STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K. THE COMPANY UNDERTAKES NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

Item 1. Business.

GENERAL

SPAR Group, Inc., a Delaware corporation ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), is a supplier of merchandising and other marketing services both throughout the United States and internationally. The Company's operations are divided into two divisions: the Merchandising Services Division and the International Division. The Merchandising Services Division provides merchandising services, product demonstrations, product sampling, database marketing, teleservices and marketing research to manufacturers and retailers with product distribution primarily in mass merchandisers, drug chains and grocery stores in the United States. The International Division, established in July 2000, currently provides merchandising services in Japan, Canada and Turkey.

Continuing Operations

Merchandising Services Division

The Company provides nationwide merchandising and other marketing services to home entertainment, PC software, general merchandise, health and beauty care, consumer goods and food products companies in mass merchandisers, drug chains and retail grocery stores in the United States. Merchandising services primarily consist of regularly scheduled dedicated routed services and special projects provided at the store level for a specific retailer or multiple manufacturers primarily under single or multi-year contracts or agreements. Services also include stand-alone large-scale implementations such as new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. 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, placing and/or removing point of purchase and other related media advertising. Specific in-store services can be initiated by retailers or manufacturers, and include new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. In 2003, the Company added in-store product demonstration and in-store product sampling services

to its merchandising service offerings. Marketing services consist of database marketing, teleservices and marketing research.

The Company's Merchandising Services Division consists of the following wholly owned subsidiaries, (1) SPAR Marketing, Inc. ("SMI") (an intermediate holding company), SPAR Marketing Force, Inc. ("SMF"), SPAR Marketing, Inc., ("SMNEV"), SPAR/Burgoyne Retail Services, Inc. ("SBRS"), and SPAR, Inc. ("SINC"") (collectively, the "SPAR Marketing Companies"), and SPAR All Store Marketing Services, Inc. ("SASMS"), SPAR Megaforce, Inc. ("SMEGA") and SPAR Bert Fife, Inc. ("SFIFE"); and (2) PIA Merchandising, Co., Inc., Pacific Indoor Display d/b/a Retail Resources, Pivotal Sales Company and PIA Merchandising Ltd. (collectively, "PIA" or the "PIA Companies"). The SPAR Marketing Companies are the original predecessor of the current Company and were founded in 1967. The PIA Companies, first organized in 1943, are also a predecessor of the Company and a supplier of in-store merchandising services throughout the United States, and were deemed "acquired" by the SPAR Marketing Companies for accounting purposes pursuant to the Merger on July 8, 1999 (see Merger and Restructuring, below).

International Division

In July 2000, the Company established its International Division, through a wholly owned subsidiary, SPAR Group International, Inc. ("SGI"), to focus on expanding its merchandising services business worldwide. In May 2001, the Company entered into a joint venture with a large Japanese distributor to provide merchandising services in Japan. In June 2003, the Company expanded its merchandising services into Canada. In July 2003, the Company established a joint venture based in Istanbul to provide merchandising services throughout Turkey. The start-up joint venture is 51% owned by the Company.

Discontinued Operations

Incentive Marketing Division

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

Technology Division

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

INDUSTRY OVERVIEW

Merchandising Services Division

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

The Company believes merchandising services previously undertaken by retailers and manufacturers have been increasingly outsourced to third parties. Historically, retailers staffed their stores as needed to ensure inventory levels, the advantageous display of new items on shelves, and the maintenance of shelf schematics. In an effort to improve their margins, retailers decreased their own store personnel and increased their reliance on manufacturers to perform such services. Initially, manufacturers attempted to satisfy the need for merchandising services in retail

stores by utilizing their own sales representatives. However, manufacturers discovered that using their own sales representatives for this purpose was expensive and inefficient. Therefore, manufacturers have increasingly outsourced the merchandising services to third parties capable of operating at a lower cost by (among other things) serving multiple manufacturers simultaneously.

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

International Division

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

the Company maintains offices in Greece and Australia to assist in its international efforts. The Company is actively pursuing expansion into various other markets.

MERGER AND RESTRUCTURING

On July 8, 1999, SG Acquisition, Inc., a Nevada corporation ("PIA Acquisition"), a wholly owned subsidiary of the Company, then named PIA Merchandising Services, Inc. ("PIA Delaware"), merged into and with SPAR Acquisition, Inc., a Nevada corporation ("SAI") (the "Merger"), pursuant to the Agreement and Plan of Merger dated as of February 28, 1999, as amended (the "Merger Agreement"), by and among the Company and certain of the PIA Companies and SPAR Marketing Companies (among others). In connection with the Merger, PIA Delaware changed its name to SPAR Group, Inc. (which is referred to post-Merger individually as "SGRP" and together with its subsidiaries as the "SPAR Group", or the "Company"). Although the SPAR Marketing Companies and SPGI became subsidiaries of PIA Delaware (now SGRP) as a result of this "reverse" Merger, the transaction has been accounted for as a purchase by the SPAR Marketing Companies of the PIA Companies, with the books and records of the Company being adjusted to reflect the historical operating results of the SPAR Marketing Companies (together with certain intermediate holding companies and subsidiaries formed after the merger, the "SPAR Companies").

BUSINESS STRATEGY

As the marketing services industry continues to grow, consolidate and expand both in the United States and internationally, large retailers and manufacturers are increasingly outsourcing their marketing needs to third-party providers. The Company believes that offering marketing services on a national and global basis will provide it with a competitive advantage. Moreover, the Company believes that successful use of and continuous improvements to a sophisticated technology infrastructure, including its proprietary Internet-based software, is key to providing clients

with a high level of customer service while maintaining efficient, low cost operations. The Company's objective is to become an international retail merchandising and marketing service provider by pursuing its operating and growth strategy, as described below.

Increased Sales Efforts:

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

New Products:

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

Acquisitions:

The Company is seeking to acquire businesses or enter into joint ventures or other arrangements with companies that offer similar merchandising services both in the United States and worldwide. The Company believes that increasing industry expertise, adding product segments, and increasing its geographic breadth will allow it to service its clients more efficiently and cost effectively. As part of its acquisition strategy, the Company is actively exploring a number of potential acquisitions, predominately in its core merchandising service businesses (which includes in-store product demonstration businesses). Through such acquisitions, the Company may realize additional

operating and revenue synergies and may leverage existing relationships with manufacturers, retailers and other businesses to create cross-selling opportunities. However, there can be no assurance that any of the acquisitions will occur or whether, if completed, the integration of the acquired businesses will be successful or the anticipated efficiencies and cross-selling opportunities will occur.

In February 2003, the Company purchased the business and certain assets of All Store Marketing Services, Inc. ("ASMS"), a Texas corporation that specialized in providing in-store product demonstrations. In connection with the acquisition of ASMS, the Company entered into an employment agreement with the President of ASMS for a period of two years. In June 2003, the Company purchased the business and certain assets of Impulse Marketing Solutions ("IMS"), a Canadian company that specialized in providing merchandising services in Canada. In connection with the purchase of the business and certain assets of IMS, the Company entered into a consulting agreement with a corporation that furnishes the services of the former President and a second senior officer of IMS, which agreement expires on December 31, 2006. In July 2003, the Company entered into a joint venture agreement with a company based in Istanbul to provide retail-merchandising services throughout Turkey. The start-up joint venture limited liability company will operate under the English name of SPAR Turkey Ltd. and is 51% owned by the Company. In December of 2003, the Company acquired the business and certain assets of NMI Acquisition Partners, LLC (also known as Megaforce), a Georgia company that specialized in providing in-store merchandising services throughout the United States, and employs the former President of Megaforce. In December of 2003, the Company entered into an agreement to purchase the business and certain assets of Bert Fife & Associates, Inc., and related Companies ("Fife"), which specialized in providing in-store product demonstrations. As part of the agreement the Company entered into a one year consulting agreement with the President of Fife. The purchase was completed in January 2004. The effect of these acquisitions and joint ventures was not considered material to the Company's financial statements or results of operations for 2003.

Improve Operating Efficiencies:

The Company will continue to seek greater operating efficiencies. The Company believes that its existing field force and technology infrastructure can support additional customers and revenue in the Merchandising Services Division. At the corporate level, the Company will continue to streamline certain administrative functions, such as accounting and finance, insurance, strategic marketing and legal support.

Leverage and Improve Technology:

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

DESCRIPTION OF SERVICES

The Company currently provides a broad array of merchandising and other marketing services on a national, regional and local basis to leading home

entertainment, general merchandise, consumer goods, food, and health and beauty care manufacturers and retail companies through its Merchandising Services Division.

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

Merchandising Services Division

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

Syndicated Services

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

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

Dedicated Services

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

Project Services

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

Other Marketing Services

Other marketing services performed by the Company include:

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

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

Database Marketing - Managing proprietary information to permit easy access, analysis and manipulation for use in direct marketing campaigns.

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

Teleservices - Maintaining a teleservices center in its Auburn Hills, Michigan, facility that performs inbound and outbound telemarketing services, including those on behalf of certain of the Company's manufacturing clients.

The Company believes that providing merchandising and other marketing services timely, accurately and efficiently, as well as, delivering timely and accurate reports to its clients, are two key components of its success. The Company has developed Internet-based logistic deployment, communications, and reporting systems that improve the productivity of its merchandising specialists and provide timely data and reports to its customers. The Company's merchandising specialists use hand-held computers, personal computers and laptop computers to report through the Internet and Interactive Voice Response (IVR) to report through its Auburn Hills teleservices center the status of each store they service upon completion. Merchandising specialists may report on store conditions (e.g. out of stocks, inventory, display placement) or scan and process new orders for products. This information is analyzed and displayed on graphical execution maps, which can be accessed by both the Company and its customers via the Internet. These execution maps visually depict the status of every merchandising project in real time.

Through the Company's automated labor tracking system, its merchandising specialists communicate work assignment completion information via the Internet or telephone, enabling the Company to report hours, mileage, and other completion information for each work assignment on a daily basis and providing the Company with daily, detailed tracking of work completion. This technology allows the Company to schedule its merchandising specialists more efficiently, quickly quantify the benefits of its services to customers, rapidly respond to customers' needs and rapidly implement programs. The Company believes that its technological capabilities provide it with a competitive advantage in the marketplace.

International Division

The Company believes another current trend in business is globalization. As companies expand into foreign markets they will need assistance in marketing their products. As evidenced in the United States, retailer and manufacturer sponsored merchandising programs are both expensive and inefficient. The Company also believes that the difficulties encountered by these programs are only exacerbated by the logistics of operating in foreign markets. This environment has created an opportunity for the Company to exploit its Internet-based technology and business model that are successful in the United States. In July 2000, the Company established its International Division to cultivate foreign markets, modify the necessary systems and implement the Company's business model worldwide by expanding its merchandising services business off shore. The Company formed an International Division task force consisting of members of the Company's information technology, operations and finance groups to evaluate and develop foreign markets. In 2001, the Company and a leading Japanese based distributor established a joint venture to provide the latest in-store merchandising services to the Japanese market. In 2003, the Company expanded its international presence to Canada and Turkey by acquiring a Canadian merchandising company and entering into a start-up joint venture in Turkey. Key to the Company's international strategy is the translation of several of its proprietary Internet-based logistical, communications and reporting software applications into the native language of any market the Company enters. As a result of this requirement for market penetration, the Company has developed translation software that can quickly convert its

proprietary software into various languages. Through its computer facilities in Auburn Hills, Michigan, the Company provides worldwide access to its proprietary logistical, communications and reporting software. In addition, the Company maintains offices in Greece and Australia to assist in its international efforts. The Company is actively pursuing expansion into various other markets.

SALES AND MARKETING

Merchandising Services Division

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

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

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

International Division

The Company's marketing efforts within its International Division are designed to develop new business internationally. The Company maintains offices in Greece and Australia to assist in these efforts. The Division's corporate business development team targets specific areas and develops strategic relationships to cultivate business for worldwide expansion.

CUSTOMERS

Merchandising Services Division

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

- Mass Merchandisers
- Drug
- Grocery
- Other retail trade groups (e.g. Discount, Home Centers)

The Company also provides database, research and other marketing services to the automotive and consumer packaged goods industries.

One customer, a division of a major retailer, accounted for 30%, 26% and 25% of the Company's net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This customer also accounted for approximately 30%, 43% and 24% of accounts receivable at December 31, 2003, 2002 and 2001, respectively. In late 2003, the customer's parent company announced that it was exploring strategic opportunities, including the sale of this division. In the

event of a sale, there can be no assurances that any purchaser will continue to use the services of the Company. The loss of this business could have a material adverse effect on the Company's business, results of operations and financial condition.

A second customer accounted for 10%, 11% and 9% of the Company's net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This second customer also accounted for approximately 9%, 5% and 4% of accounts receivable at December 31, 2003, 2002 and 2001, respectively. As of March 2004, the Company will no longer be providing services for this customer. Failure to attract new large customers could significantly impede the growth of the Company's revenues, which could have a material adverse effect on the Company's future business, results of operations and financial condition.

In addition, approximately 17%, 24% and 31% of net revenues for the years ended December 31, 2003, 2002 and 2001, respectively, resulted from merchandising services performed for manufacturers and others at Kmart. Kmart filed for protection under the U.S. Bankruptcy Code in January of 2002 and emerged from bankruptcy in May of 2003. During its time in bankruptcy, Kmart closed a number of stores in the United States. While the Company's customers and the resultant contractual relationships are with various manufacturers and not Kmart, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company. As of August 31, 2003, one customer discontinued its merchandising programs with the Company. Some, but not all, of these programs were performed at Kmart stores. This customer accounted for 10%, 17% and 12% of the business generated from Kmart for the twelve-months ended December 31, 2003, 2002 and 2001, respectively.

International Division

The Company believes that the potential international customers for this division have similar profiles to its Merchandising Services Division customers. The Company is currently operating in Japan, Canada and Turkey. The Company is actively pursuing expansion to Europe and other markets.

COMPETITION

The marketing services industry is highly competitive.

Competition in the Company's Merchandising Services Division arises from a number of large enterprises, many of which are national in scope. The Company also competes with a large number of relatively small enterprises with specific client, channel or geographic coverage, as well as with the internal marketing and merchandising operations of its clients and prospective clients. The Company believes that the principal competitive factors within its industry include development and deployment of technology, breadth and quality of client services, cost, and the ability to execute specific client priorities rapidly and consistently over a wide geographic area. The Company believes that its current structure favorably addresses these factors and establishes it as a leader in the mass merchandiser and chain drug store channels of trade. The Company also believes it has the ability to execute major national in-store initiatives and develop and administer national retailer programs. Finally, the Company believes

that, through the use and continuing improvement of its proprietary Internet software, other technological efficiencies and various cost controls, the Company will remain competitive in its pricing and services.

TRADEMARKS

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

EMPLOYEES

As of December 31, 2003, the Company's Merchandising Services Division's labor force consisted of approximately 6,750 people, of which approximately 170 full-time employees and approximately 500 part-time employees are employed by the Company and approximately 6,000 independent contractors and

approximately 80 full-time employees are furnished principally through related parties, (see Item 13 - Certain Relationships and Related Transactions, below), of which 243 full-time employees were engaged in operations and 13 were engaged in sales. The Company considers its relations with its employees to be good. The Company's Merchandising Services Division also utilized the services of its affiliate, SPAR Management Services, Inc. ("SMSI"), to schedule and supervise its field force, including its own part-time employees as well as the independent contractors furnished by another affiliate SPAR Marketing Services, Inc. ("SMS") (see Item 13 - Certain Relationships and Related Transactions, below).

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

CERTAIN RISK FACTORS

There are various risks associated with the Company's growth and operating strategy. Certain (but not all) of these risks are discussed below.

Dependency on Largest Customers

One customer, a division of a major retailer, accounted for 30%, 26% and 25% of the Company's net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This customer also accounted for approximately 30%, 43% and 24% of accounts receivable at December 31, 2003, 2002 and 2001, respectively. In late 2003, the customer's parent company announced that it was exploring strategic opportunities including the sale of this division. In the event of a sale, there can be no assurances that any purchaser will continue to use the services of the Company. The loss of this business could have a material adverse effect on the Company's business, results of operations and financial condition.

A second customer accounted for 10%, 11% and 9% of the Company's net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This second customer also accounted for approximately 9%, 5% and 4% of accounts receivable at December 31, 2003, 2002 and 2001, respectively. As of March 2004, the Company will no longer be providing services for this customer. Failure to attract new large customers could significantly impede the growth of the Company's revenues, which could have a material adverse effect on the Company's future business, results of operations and financial condition.

In addition, approximately 17%, 24% and 31% of net revenues for the years ended December 31, 2003, 2002 and 2001, respectively, resulted from merchandising services performed for manufacturers and others at Kmart. Kmart filed for protection under the U.S. Bankruptcy Code in January of 2002 and emerged from bankruptcy in May of 2003. During its time in bankruptcy, Kmart closed a number of stores in the United States. While the Company's customers and the resultant contractual relationships are with various manufacturers and not Kmart, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company. As of August 31, 2003, one customer discontinued its merchandising programs with the Company. Some but not all of these programs were performed at Kmart stores. This customer accounted for 10%, 17%, and 12% of the business generated from Kmart for the twelve-months ended December 31, 2003 2002 and 2001, respectively.

Dependence on Trend Toward Outsourcing

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

could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Failure to Successfully Compete

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

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

Variability of Operating Results and Uncertainty in Customer Revenue

The Company has experienced and, in the future, may experience fluctuations in quarterly operating results. Factors that may cause the Company's quarterly operating results to vary and from time to time and may result in reduced revenue include: (i) the number of active customer projects; (ii) customer delays, changes and cancellations in projects; (iii) the timing requirements of customer projects; (iv) the completion of major customer projects; (v) the timing of new engagements; (vi) the timing of personnel cost increases; and (vii) the loss of major customers. In particular, the timing of revenues is difficult to forecast for the home entertainment industry because timing is dependent on the commercial success of particular product releases of customers. In the event that a particular release is not widely accepted by the public, the Company's revenue could be significantly reduced. In addition, the Company is subject to revenue uncertainties resulting from factors such as unprofitable customer work and the failure of customers to pay. The Company attempts to mitigate these risks by dealing primarily with large credit-worthy customers, by entering into written agreements with its customers and by using project budgeting systems. These revenue fluctuations could materially and adversely affect the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Failure to Develop New Products

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

Inability to Identify, Acquire and Successfully Integrate Acquisitions

Another key component of the Company's growth strategy is the acquisition of businesses across the United States and worldwide that offer similar merchandising or marketing services. The successful implementation of this strategy depends upon the Company's ability to identify suitable acquisition candidates, acquire such businesses on acceptable terms and

integrate their operations successfully with those of the Company. There can be no assurance that such candidates will be available or, if such candidates are available, that the price will be attractive or that the Company will be able to identify, acquire or integrate such businesses successfully. In addition, in pursuing such acquisition opportunities, the Company may compete with other entities with similar growth strategies, these competitors may be larger and have greater financial and other resources than the Company. Competition for these acquisition targets could also result in increased prices of acquisition targets and/or a diminished pool of companies available for acquisition.

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

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

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

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

Reliance on the Internet

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

Economic and Retail Uncertainty

The markets in which the Company operates are cyclical and subject to the effects of economic downturns. The current political, social and economic conditions, including the impact of terrorism on consumer and business behavior, make it difficult for the Company, its vendors and its customers to accurately

forecast and plan future business activities. Substantially all of the Company's key customers are either retailers or those seeking to do product merchandising at retailers. If the retail industry experiences a significant economic downturn, a reduction in product sales could significantly decrease the Company's revenues. The Company also has risks associated with its customers changing their business plans and/or reducing their marketing budgets in response to economic conditions, which could also significantly decrease the Company's revenues. Such revenue decreases could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Significant Stockholders: Voting Control and Market Illiquidity

Mr. Robert G. Brown, founder, director, Chairman, President and Chief Executive Officer of the Company, beneficially owns approximately 45.7% of the Company's outstanding Common Stock, and Mr. William H. Bartels, founder, director, and Vice Chairman of the Company beneficially owns approximately 29.7% of the Company's outstanding Common Stock. These stockholders have, should they choose to act together, and under certain circumstances Mr. Brown acting alone has, the ability to control all matters requiring stockholder approval, including the election of directors and the approval of mergers and other business combination transactions.

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

Dependence Upon and Potential Conflicts in Services Provided by Affiliates

The success of the Company's business is dependent upon the successful execution of its field services by SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), as well as the programming services provided by SPAR Infotech, Inc. ("SIT"), each of which is an affiliate, but not a subsidiary, of the Company, and none of which is consolidated in the Company's financial statements. SMS provides substantially all of the field representatives used by the Company in conducting its business (85% of field expense in 2003), and SMSI provides substantially all of the field management services used by the Company in conducting its business. These services provided to the Company by SMS and SMSI are on a cost-plus basis pursuant to contracts that are cancelable on 60 days notice prior to December 31 of each year, commencing in 1997, or with 180 days notice at any other time. SIT provides substantially all of the Internet programming services and other computer programming needs used by the Company in conducting its business (see Item 13 - Certain Relationships and Related Transactions, below), which are provided to the Company by SIT on an hourly charge basis pursuant to a contract that is cancelable on 30 days notice. The Company has determined that the services provided by SMS, SMSI and SIT are at rates favorable to the Company.

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

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

business, revenues and profits.

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

The Company has not paid dividends in the past, intends to retain any earnings or other cash resources to finance the expansion of its business and for general corporate purposes, and does not intend to pay dividends in the future.

Risks Associated with International Joint Ventures

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

Item 2. Properties.

The Company maintains its corporate headquarters in approximately 6,000 square feet of leased office space located in Tarrytown, New York, under a lease with a term expiring in May 2004. The Company is exploring various leasing options, including an extension of its existing lease.

The Company leases certain office and storage facilities for its divisions and subsidiaries under operating leases, which expire at various dates during the next five years. Most of these leases require the Company to pay minimum rents, subject to periodic adjustments, plus other charges, including utilities, real estate taxes and common area maintenance.

The following is a list of the locations where the Company maintains leased facilities for its division offices and subsidiaries:

Location	Office Use
Tarrytown, NY	Corporate Headquarters
Auburn Hills, MI	Regional Office, Warehouse and Teleservices Center
Eden Prairie, MN	Regional Office
Cincinnati, OH	Regional Office
Largo, FL	Regional Office
Toronto, Ontario CAN	Regional Office

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

Item 3. Legal Proceedings.

On October 24, 2001, Safeway Inc., a former customer of the PIA Merchandising Co., Inc., and Pivotal Sales Company, filed a complaint alleging damages of approximately $3.6 million plus interest and costs and alleged punitive damages in an unspecified amount against the Company in Alameda County Superior Court, California, Case No. 2001028498 with respect to (among other things) alleged breach of contract. On or about December 30, 2002, the Court approved the filing of Safeway Inc.'s Second Amended Complaint, which alleges causes of action for (among other things) breach of contract against the Company, PIA Merchandising Co., Inc. and Pivotal Sales Company. The Second Amended Complaint was filed with the Court on January 13, 2003, and does not specify the amount of monetary damages sought. No punitive or exemplary damages are sought in Safeway Inc.'s Second Amended Complaint. This case is being vigorously contested by the Company.

The Company is a party to various legal actions and administrative

proceedings arising in the normal course of business. In the opinion of Company management, disposition of these matters are not anticipated to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters.

Price Range of Common Stock

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

	2002		2003	
	High	Low	High	Low
First Quarter	$ 2.41	$ 1.60	$ 3.60	$ 2.42
Second Quarter	2.50	2.00	5.55	3.05
Third Quarter	2.82	1.96	5.32	3.17
Fourth Quarter	4.92	1.91	4.57	3.00

As of December 31, 2003, there were approximately 600 beneficial shareholders of the Company's Common Stock.

Dividends

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

Item 6. Selected Financial Data.

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

SPAR Group, Inc.
Condensed Consolidated Statements of Operations

(In thousands, except per share data)

	Year Ended December 31,				
	2003	2002	2001	2000	1999(2)
STATEMENT OF OPERATIONS DATA:					
Net revenues	$ 64,859	$ 69,612	$ 70,891	$ 81,459	$ 79,613
Cost of revenues	42,338	40,331	40,883	50,278	50,499

Gross profit	22,521	29,281	30,008	31,181	29,114
Selling, general and administrative expenses	20,967	18,804	19,380	24,761	23,213
Depreciation and amortization	1,529	1,844	2,682	2,383	1,204
Operating income	25	8,633	7,946	4,037	4,697
Other expense (income)	237	(26)	107	(790)	(90)
Interest expense	269	363	561	1,326	976
(Loss) income from continuing operations before provision for income taxes	(481)	8,296	7,278	3,501	3,811
Income tax provision	58	2,998	3,123	780	3,743
(Loss) income from continuing operations	(539)	5,298	4,155	2,721	68
Discontinued operations:					
Loss from discontinued operations net of tax benefits of $935, $858 and $595, respectively	-	-	(1,597)	(1,399)	(563)
Estimated loss on disposal of discontinued operations, including provision of $1,000 for losses during phase-out period and disposal costs net of tax benefit of $2,618	-	-	(4,272)	-	-
Net (loss) income	$ (539)	$ 5,298	$ (1,714)	$ 1,322	$ (495)
Unaudited pro forma data (1)					
Income from continuing operations before provision for income taxes					$ 3,811
Pro forma income tax provision					1,840
Pro forma income from continuing operations					1,971
Pro forma loss from discontinued operations net of pro forma tax benefit of $429					(729)
Pro forma net income					$ 1,242
Basic/diluted net (loss) income per common share:					
Actual/Pro forma (loss) income from continuing operations	$ (0.03)	$ 0.28	$ 0.23	$ 0.15	$ 0.13
Discontinued operations:					
Actual/Pro forma loss from discontinued operations	-	-	(0.09)	(0.08)	(0.05)
Estimated loss on disposal of discontinued operations	-	-	(0.23)	-	-
Loss from discontinued operations	-	-	(0.32)	(0.08)	(0.05)
Actual/Pro-forma net (loss) income	$ (0.03)	$ 0.28	$ (0.09)	$ 0.07	$ 0.08
Actual/Pro forma weighted average shares outstanding - basic	18,855	18,761	18,389	18,185	15,361
Actual/Pro forma weighted average shares outstanding - diluted	18,855	19,148	18,467	18,303	15,367

	December 31,				
	2003	2002	2001	2000	1999(2)
BALANCE SHEET DATA:					
Working capital (deficiency)	$ 4,085	$ 6,319	$ 8,476	$ (2,273)	$ (639)
Total assets	27,870	28,800	41,155	48,004	54,110
Current portion of long-term debt	4,084	-	57	1,143	1,147
Line of credit and long-term debt, net	270	383	13,287	10,093	16,009
Total stockholders' equity	16,023	16,592	10,934	12,240	10,886

(1) The unaudited pro forma income tax information is presented in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," as if the Company had been subject to federal and state income taxes for all periods presented.

(2) In July 1999, PIA and the Spar Companies merged with the SPAR Companies deemed the accounting acquirer. The results of operations include the results of PIA from the acquisition date forward.

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

Overview

In the United States, the Company provides merchandising services to manufacturers and retailers principally in mass merchandiser, drug store, grocery, and other retail trade classes through its Merchandising Services Division. Internationally, the Company provides in-store merchandising services through a wholly owned subsidiary in Canada and a 50% owned joint venture in Japan. The Company also owns a 51% interest in a joint venture established to provide merchandising services in Turkey. The Company accounts for its investment in the Japanese joint venture utilizing the equity method and consolidates both Canada and Turkey into the Company's financial statements.

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

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

SIM's results (including those of SPGI) were reclassified as discontinued operations for all periods presented. The results of operations of the discontinued business segment are shown separately below net income from continuing operations. Accordingly, the 2002 consolidated statements of operations of the Company have been prepared, and its 2001 and 2000 consolidated statement of operations have been restated, to report the results of discontinued operations of SIM (including those of SPGI) separately from the continuing operations of the Company, and the following discussions reflect such restatement.

In October 2002, the Company dissolved its Technology Division that was established in March 2000 for the purpose of marketing its proprietary Internet-based computer software. The operations of this subsidiary were not material.

Critical Accounting Policy & Estimates

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Note 2 to the Financial Statements. These 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. Three critical accounting policies are revenue recognition, allowance for doubtful accounts and sales allowance, and internal use software development costs:

Revenue Recognition

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

Allowance for Doubtful Accounts and Sales Allowance

The Company continually monitors the collectability of its accounts receivable based upon current customer credit information and other information available. Utilizing this information, the Company has established an allowance for doubtful accounts of $515,000 and $301,000

at December 31, 2003 and 2002, respectively. The Company also recorded a sales allowance of $448,000 to properly reflect potential customer credits as of December 31, 2003.

Internal Use Software Development Costs

The Company under the rules of SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, capitalizes certain costs incurred in connection with developing or obtaining internal use software. Capitalized software development costs are amortized over three years.

The Company capitalized $1,004,000, $772,000 and $430,000 of costs related to software developed for internal use in 2003, 2002 and 2001, respectively.

Results of operations

The following table sets forth selected financial data and such data as a percentage of net revenues for the periods indicated.

	Year Ended December 31, 2003		Year Ended December 31, 2002		Year Ended December 31, 2001	
			(dollars in millions)			
	Dollars	%	Dollars	%	Dollars	%
Net revenues	$ 64.9	100.0%	$ 69.6	100.0%	$ 70.9	100.0%
Cost of revenues	42.3	65.3	40.3	57.9	40.9	57.7
Selling, general & administrative expenses	21.0	32.3	18.8	27.0	19.4	27.4
Depreciation & amortization	1.5	2.3	1.8	2.6	2.7	3.8
Other income & expenses, net	0.5	0.8	0.4	0.6	0.6	0.8
(Loss) income from continuing operations before income tax provision	(0.4)	(0.7)	8.3	11.9	7.3	10.3
Income tax provision	0.1	0.1	3.0	4.3	3.1	4.4
(Loss) income from continuing operations	(0.5)	(0.8)%	5.3	7.6%	4.2	5.9%
Discontinued operations:						
Loss from discontinued operations, net of tax benefits	-		-		(1.6)	
Estimated loss on disposal of discontinued operations, net of tax benefits	-		-		(4.3)	
Net (loss) income	$ (0.5)		$ 5.3		$ (1.7)	

Results from continuing operations for the twelve months ended December 31, 2003, compared to twelve months ended December 31, 2002

Net Revenues

Net Revenues from operations for the twelve months ended December 31, 2003, were $64.9 million, compared to $69.6 million for the twelve months ended December 31, 2002, a 6.8% decrease. The decrease of 6.8% in net revenues is primarily attributed to decreased business in mass merchandiser chains. The decrease in net revenues was caused by decreased per unit fee revenue resulting from lower retail sales of customer products and the loss of a particular client, partially offset by increases in service fee revenue.

Cost of Revenues

Cost of revenues from operations consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues increased by $2.0 million in 2003 and as a percentage of net revenues was 65.3% for the twelve months ended December 31, 2003, compared to 57.9% for the twelve months ended December 31, 2002, a 5.0% increase. Approximately 85% and 76% of the field services were purchased from the Company's affiliate, SMS, in 2003 and 2002, respectively (see Item 13 - Certain Relationships and Related Transactions, below). SMS's increased share of field services resulted from its more favorable cost structure. The increase in cost as a percentage of net revenues is primarily a result of a decrease in per

unit fee revenues that do not have a proportionate decrease in cost. As discussed above under Critical Accounting Policies/Revenue Recognition, the Company's revenue consists of: (1) service fee revenue, which is earned when the merchandising services are performed and, therefore, has proportionate costs in the period the services are performed; and (2) per unit fee revenue, which is earned when the client's product is sold to the consumer at retail, not when the services are performed and, therefore, does not have proportionate costs in the period the revenue is earned. Since the merchandising service and the related costs associated with per unit fee revenue are normally performed prior to the retail sale, and the retail sales of client products are influenced by numerous factors including consumer tastes and preferences, and not solely by the merchandising service performed, in any given period, the cost of per unit fee revenues may not be directly proportionate to the per unit fee revenue.

Operating Expenses

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information systems, executive compensation, human resource expenses, legal and accounting expenses. The following table sets forth the operating expenses as a percentage of net revenues for the time periods indicated:

	Year Ended December 31, 2003		Year Ended December 31, 2002		Increase (decrease)
	(dollars in millions)				
	Dollars	%	Dollars	%	%
Selling, general & administrative	$ 21.0	32.3%	$ 18.8	27.0%	12.0%
Depreciation and amortization	1.5	2.3	1.8	2.6	(17.1)%
Total operating expenses	$ 22.5	34.6%	$ 20.6	29.6%	9.4%

Selling, general and administrative expenses increased by $2.2 million, or 12.0%, for the twelve months ended December 31, 2003, to $21.0 million compared to $18.8 million for the twelve months ended December 31, 2002. This increase was due primarily to increases in travel related expense $0.4 million, postage and material expense $0.6 million, stock option expense for non-employees $0.4 million and increase in bad debt expense $0.6 million.

Depreciation and amortization decreased by $315,000 for the twelve months ended December 31, 2003, primarily due to older, higher priced assets becoming fully depreciated.

Interest Expense

Interest expense decreased $94,000 to $269,000 for the twelve months ended December 31, 2003, from $363,000 for the twelve months ended December 31, 2002, due to decreased debt levels as well as decreased interest rates in 2003.

Income Taxes

The provision for income taxes was $0.1 million and $3.0 million for the twelve months ended December 31, 2003 and December 31, 2002, respectively. The tax provision for 2003 reflects minimum tax requirements for state filings. The effective tax rate was 36.1% for 2002.

Net (Loss) Income

The SPAR Group had a net loss of approximately $539,000 or $0.03 per basic and diluted share for the twelve months ended December 31, 2003, compared to a net income of approximately $5.3 million or $0.28 per basic and diluted shares for the twelve months ended December 31, 2002 because of the factors described above.

Off Balance Sheet Arrangements

None.

Results from continuing operations for the twelve months ended December 31, 2002, compared to twelve months ended December 31, 2001

Net Revenues

Net Revenues from continuing operations for the twelve months ended December 31, 2002, were $69.6 million, compared to $70.9 million for the twelve months ended December 31, 2001, a 1.8% decrease. The decrease of 1.8% in net revenues is primarily attributed to decreased business in mass merchandiser and drug store chains.

Cost of Revenues

Cost of revenues from continuing operations consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues as a percentage of net revenues of 57.9% for the twelve months ended December 31, 2002, was consistent with the 57.7% for the twelve months ended December 31, 2001. Approximately 76% and 37% of the field services were purchased from the Company's affiliate, SMS, in 2002 and 2001, respectively (see Item 13 - Certain Relationships and Related Transactions, below). SMS's increased share of field services resulted from its more favorable cost structure.

Operating Expenses

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information systems, executive compensation, human resource expenses, legal and accounting expenses. The following table sets forth the operating expenses as a percentage of net revenues for the time periods indicated:

	Year Ended December 31, 2002		Year Ended December 31, 2001		Increase (decrease)
	(dollars in millions)				
	Dollars	%	Dollars	%	%
Selling, general & administrative	$ 18.8	27.0%	$ 19.4	27.4%	(3.0) %
Depreciation and amortization	1.8	2.6	2.7	3.8	(31.3)
Total operating expenses	$ 20.6	29.6%	$ 22.1	31.2%	(6.4)%

Selling, general and administrative expenses decreased by $0.6 million, or 3.0%, for the twelve months ended December 31, 2002, to $18.8 million compared to $19.4 million for the twelve months ended December 31, 2001. This decrease was due primarily to a reduction in the SG&A work force and related expenses, as well as lower information technology costs.

Depreciation and amortization decreased by $0.9 million for the twelve months ended December 31, 2002, primarily due to the change in accounting rules for goodwill amortization adopted by the Company effective January 1, 2002.

Interest Expense

Interest expense decreased $0.2 million to $0.4 million for the twelve months ended December 31, 2002, from $0.6 million for the twelve months ended December 31, 2001, due to decreased debt levels, as well as decreased interest rates in 2002.

Income Taxes

The provision for income taxes was $3.0 million and $3.1 million for the twelve months ended December 31, 2002 and December 31, 2001, respectively. The effective tax rate was 36.1% and 42.9% for 2002 and 2001, respectively. The decrease in the effective tax rate in 2002 is primarily due to the non-amortization of goodwill (as discussed in Note 2 to the financial statements) that was previously expensed in 2001 and was not deductible for tax purposes.

Discontinued Operations

	Six Months Ended June 30, 2002		Year Ended December 31, 2001	
	(dollars in millions)			
	Dollars	%	Dollars	%
Net revenues	$ 15.7	100.0%	$ 31.2	100.0%
Cost of revenues	13.1	83.2	26.0	83.4
Selling, general and administrative expenses	2.8	17.9	5.7	18.4
Depreciation and amortization	0.1	0.8	1.2	3.4

The Incentive Marketing Division was divested in June 2002 under a plan adopted in 2001. Net revenues from the Incentive Marketing Division for the six months ended June 30, 2002, were $15.7 million, compared to $31.2 million for the twelve months ended December 31, 2001.

Cost of revenues in the Incentive Marketing Division consists of direct labor, independent contractor expenses, food, beverages, entertainment and travel costs. Cost of revenue as a percentage of net revenues of 83.2%, for the six months ended June 30, 2002, was consistent with 83.4% for the twelve months ended December 31, 2001.

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization. Selling, general and administrative expenses which include corporate overhead, project management, information systems, executive compensation, human resource expenses, legal and accounting expenses were $2.8 million for the six months ended June 30, 2002, and $5.7 million for the twelve months ended December 31, 2001. Depreciation and amortization was $0.1 million for the six months ended June 30, 2002 compared to $1.2 million for the twelve months ended December 31, 2001, reflecting the change in accounting rules for goodwill adopted by the Company effective January 1, 2002.

Net Income/(Loss)

The SPAR Group had a net income from continuing operations of approximately $5.3 million or $0.28 per basic and diluted share for the twelve months ended December 31, 2002, compared to a net income from continuing operations of approximately $4.2 million or $0.23 per basic and diluted shares for the twelve months ended December 31, 2001. The increase in net income from continuing operations is primarily the result of substantial reductions in selling, general and administrative expenses and a change in accounting for goodwill amortization. The SPAR Group had a net income of approximately $5.3 million or $0.28 per basic and diluted share for the twelve months ended December 31, 2002, compared to a net loss of $1.7 million or $0.09 per basic and diluted share for the twelve months ended December 31, 2001. The increase in total net income includes the effect of the $4.3 million loss in 2001 on disposal of discontinued operations.

Liquidity and Capital Resources

In the twelve months ended December 31, 2003, the Company had a net loss of $539,000. Net cash provided by operating activities for the twelve months ended December 31, 2003, was $3.4 million, compared with net cash provided by operations of $12.7 million for the twelve months ended December 31,

2002. Cash provided by operating activities in 2003 was primarily a result of decreases in accounts receivable, increases in accounts payable and other current liabilities, partially offset by decreases in restructuring charges, and by increases in prepaid expenses and deferred tax assets and net operating losses.

Net cash used in investing activities for the twelve months ended December 31, 2003, was $2.9 million, compared with net cash used of $1.2 million for the twelve months ended December 31, 2002. The net cash used in investing activities in 2003 resulted primarily from the purchases of property and equipment and acquisition of businesses.

Net cash used in financing activities for the twelve months ended December 31, 2003, was $0.5 million, compared with net cash used in financing activities of $11.5 million for the twelve months ended December 31, 2002. The net cash used in financing activities in 2003 was primarily due to payments to shareholders and purchases of treasury stock, partially offset by borrowings on the line of credit.

The above activity resulted in no change in cash and cash equivalents for the twelve months ended December 31, 2003 as all excess cash is utilized to pay down the line of credit.

At December 31, 2003, the Company had positive working capital of $4.1 million as compared to $6.3 million at December 31, 2002. The decrease in working capital is due to decreases in accounts receivable and deferred taxes, increases in other current liabilities and accounts payable, and an increase in the Company's bank line of credit, partially offset by, increases in prepaid expenses. The Company's current ratio was 1.35 and 1.53 at December 31, 2003 and 2002, respectively.

In January 2003, the Company and Whitehall Business Credit Corporation ("Whitehall"), as successor to the business of IBJ Whitehall Business Credit Corporation, entered into the Third Amended and Restated Revolving Credit and Security Agreement and related documents (as amended, collectively, the "New Credit Facility"). The New Credit Facility provides the Company with a $15.0 million revolving credit facility that matures on January 23, 2006. The New Credit Facility allows the Company to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The New Credit Facility bears interest at Whitehall's "Alternative Base Rate" (a total of 4.0% per annum at December 31, 2003) or LIBOR plus two and one-half percent and is secured by all the assets of the Company and its subsidiaries.

The New Credit Facility replaces a previous 1999 agreement, as amended, between the Company and Whitehall (the "Old Credit Facility") that was scheduled to mature on February 28, 2003. The Old Credit Facility provided for a $15.0 million revolving credit facility, as well as, a $2.5 million term loan. The old revolving facility allowed the Company to borrow up to $15.0 million based upon a borrowing base formula as defined in the old agreement (principally 85% of "eligible" accounts receivable). The term loan under the Old Credit Facility amortized in equal monthly installments of $83,334 and was repaid in full as of December 31, 2001.

Both Credit Facilities contain an option for Whitehall to purchase 16,667 shares of Common Stock of the Company for $0.01 per share in the event that the Company's average closing share price over a ten consecutive trading day period exceeds $15.00 per share. This option expired on July 31, 2003.

The New Credit Facility contains certain financial covenants (amending, restating, and replacing those contained in the Old Credit Facility) that must be met by the Borrowers on a consolidated basis, among which are a minimum "Net Worth", a "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum EBITDA, as such terms are defined in the respective agreement. The Company was in compliance with such financial covenants at December 31, 2003, except for the "Fixed Charge Coverage Ratio" and minimum "EBITDA", for which the Company has secured a waiver from Whitehall.

The balances outstanding on the revolving line of credit were $4.1 million under the New Revolving Facility at December 31, 2003, and $148,000 under the Old Revolving Facility as of December 31, 2002. In addition, the Company had outstanding Letters of Credit of $737,337 at December 31, 2003, and

$842,418 at December 31, 2002. As of December 31, 2003, based upon the borrowing base formula, the Company had availability of $4.6 million of the $10.9 million unused revolving line of credit under the New Revolving Facility.

In April 2003, all previously outstanding amounts due certain stockholders under certain notes were paid in full.

Management believes that based upon the Company's current working capital position and the existing credit facilities, funding 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, could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

In connection with the sale of SPGI on June 30, 2002, the Company agreed to provide a discretionary revolving line of credit to SPGI not to exceed $2.0 million (the "Revolver") through September 30, 2005. The Revolver is secured by a pledge of all the assets of SPGI and is guaranteed by PHI. The SPGI Revolver provides for advances in excess of the borrowing base through September 30, 2003. As of October 1, 2003, the SPGI Revolver was adjusted, as per the agreement, to include a borrowing base calculation (principally 85% of "eligible" accounts receivable). In September 2003, SPGI requested and the Company agreed to provide advances of up to $1.0 million in excess of the borrowing base through September 30, 2004. Under the Revolver terms, SPGI is required to deposit all of its cash to the Company's lockbox. At December 31, 2003, the Company had cash deposits due SPGI totaling approximately $794,000.

Certain Contractual Obligations

The following table contains a summary of certain of the Company's contractual obligations by category as of December 31, 2003 (in thousands).

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
New Credit Facility	$ 4,084	$ 4,084	$ -	$ -	$ -
Operating Lease Obligations	2,221	947	1,163	111	
Total	$ 6,305	$ 5,031	$ 1,163	$ 111	$ -

In addition to the above table, the Company had agreed to provide a discretionary line of credit to SPGI not to exceed $2.0 million through September 30, 2005. At December 31, 2003, the Company had $737,337 in outstanding Letters of Credit.

In May 2001, the Company and Paltac, Inc. ("Paltac"), a large Japanese distributor, entered into a joint venture to create a Japanese company, SPAR FM. SPAR FM entered into a Yen 300 million Revolving Credit Agreement with a Japanese bank. The bank required Paltac guarantee the outstanding balance on the revolving credit facility. As part of the joint venture agreement, should Paltac be required to make a payment on its guarantee to the bank, then the Company has agreed to remit to Paltac 50% of any such payment up to a maximum of Yen 150 million or approximately $1.4 million. As of December 31, 2003, SPAR FM has borrowed Yen 100 million under its Revolving Credit Agreement. Therefore, the Company's current exposure to Paltac respecting outstanding loans to SPAR FM at December 31, 2003 would be Yen 50 million or approximately $470,000.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company is exposed to market risk related to the variable interest rate on the line of credit and the variable yield on its cash and cash

equivalents. 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 long term debt. The Company considers carrying amounts of current assets and liabilities in the consolidated financial statements to approximate the fair value for these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The carrying amount of debt due to certain stockholders approximates fair value because the obligation bears interest at a market rate. The Company monitors the risks associated with interest rates and financial instrument positions. The Company's investment policy objectives require the preservation and safety of the principal, and the maximization of the return on investment based upon the safety and liquidity objectives.

Currently, the Company's international operations are not material and, therefore, the risk related to foreign currency exchange rates is not material.

Investment Portfolio

The Company has no derivative financial instruments or derivative commodity instruments in its cash and cash equivalents and investments. Excess cash is normally used to pay down its revolving line of credit.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of the end of the period covering this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. There were no material changes in the Company's internal control over financial reporting during the fourth quarter of 2003.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Directors and Executive Officers

The following table sets forth certain information in connection with each person who is or was at December 31, 2003, an executive officer and/or director for the Company or performing an equivalent function for the Company through an affiliate.

Name	Age	Position with SPAR Group, Inc. and its affiliates
Robert G. Brown.	61	Chairman, Chief Executive Officer, President and Director
William H. Bartels	60	Vice Chairman and Director
Robert O. Aders (1)	76	Director, Chairman Governance Committee
Jack W. Partridge (1)	58	Director, Chairman Compensation Committee

Jerry B. Gilbert (1)	69	Director
Lorrence T. Kellar (1)	66	Director, Chairman Audit Committee
Charles Cimitile	49	Chief Financial Officer, Treasurer and Secretary
Kori G. Belzer	38	Chief Operating Officer, SPAR Management Services, Inc.
Patricia Franco	43	Sr. Vice President, SPAR Infotech, Inc.
James R. Segreto	55	Controller

----
(1) Member of the Board's Governance, Compensation and Audit Committees

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

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

Robert O. Aders serves as a Director of the Company and has done so since July 8, 1999. Mr. Aders has served as Chairman of The Advisory Board, Inc., an international consulting organization since 1993, and also as President Emeritus of the Food Marketing Institute ("FMI") since 1993. Immediately prior to his election to the Presidency of FMI in 1976, Mr. Aders was Acting Secretary of Labor in the Ford Administration. Mr. Aders was the Chief Executive Officer of FMI from 1976 to 1993. He also served in The Kroger Co., in various executive positions from 1957-1974 and was Chairman of the Board from 1970 to 1974. Mr. Aders also serves as a Director of Source-Interlink Co., Checkpoint Systems, Inc., Sure Beam Corporation and Telepanel Systems, Inc.

Jack W. Partridge serves as a Director of the Company and has done so since January 29, 2001. Mr. Partridge is President of Jack W. Partridge & Associates. He previously served as Vice Chairman of the Board of The Grand Union Company from 1998 to 2000. Mr. Partridge's service with Grand Union followed a distinguished 23-year career with The Kroger Company, where he served as Group Vice President, Corporate Affairs, and as a member of the Senior Executive Committee, as well as various other executive positions. Mr. Partridge has been a leader in industry and community affairs for over two decades. He has served as Chairman of the Food Marketing Institute's Government Relations Committee, the Food and Agriculture Policy Task Force, and as Chairman of the Board of The Ohio Retail Association. He has also served as Vice Chairman of the Cincinnati Museum Center and a member of the boards of the United Way of Cincinnati, the Childhood Trust, Second Harvest and the Urban League.

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

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

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

Kori G. Belzer serves as the de facto chief operating officer of the Company's field force through her position as Chief Operating Officer of SPAR Management Services, Inc. ("SMSI"), and of SPAR Marketing Services, Inc. ("SMS"), each an affiliate of the Company (see Item 13 - Certain Relationships and Related Transactions), and has done so since January 1, 2003, as determined by the Company's Audit Committee. Prior to 2003, Ms. Belzer served as Chief Operating Officer of SMSI and SMS from 2000 through 2002, as Vice President Operations of SMS from 1997 through 2000, and as Regional Director of SMS from 1995 through 1997. Prior to 1995, she served as Client Services Manager for SPAR/Servco, Inc.

Patricia Franco serves as the de facto chief information officer of the Company through her position as Senior Vice President of SPAR Infotech, Inc. ("SIT"), an affiliate of the Company (see Item 13 - Certain Relationships and Related Transactions), also serves as the de facto President of the International Division, and has done so since January 1, 2003, as determined by the Company's Audit Committee. Prior to 2003, Ms. Franco served in various management capacities with SIT, SMS and their affiliates.

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

Section 16(a) Beneficial Ownership Reporting Compliance.

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

Based solely on its review of the copies of such forms received by it for the year ended December 31, 2003, or written representations from certain reporting persons for such year, the Company believes that its Insiders complied with all applicable Section 16(a) filing requirements for such year, with the exception that Robert G. Brown, William H. Bartels, Jack W. Partridge, Robert O. Aders, and Jerry B. Gilbert untimely filed certain Statements of Changes in Beneficial Ownership on Form 4. Kori Belzer and Patricia Franco became filers in March of 2004. All such Section 16(a) filing requirements have since been completed by each of the aforementioned individuals.

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

Executive Compensation

The following table sets forth all compensation received for services

rendered to the Company in all capacities for the years ended December 31, 2003, 2002 and 2001 (i) by the Company's Chief Executive Officer, and (ii) each of the other four most highly compensated executive officers of the Company and its affiliates, who were serving as executive officers of the Company or performing equivalent functions for the Company through an affiliate, at December 31, 2003 (collectively, the "Named Executive Officers").

Summary Compensation Table

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Positions	Year	Salary ($)	Bonus ($)	Securities Underlying Options (#)(1)	All Other Compensation ($)(2)
Robert G. Brown	2003	180,000	--	--	2,200
Chief Executive Officer, Chairman of the	2002	164,340	--	--	2,040
Board, President, and Director	2001	141,202	--	765,972	--
William H. Bartels	2003	180,000	--	--	2,007
Vice Chairman and Director	2002	164,340	--	--	2,040
	2001	139,230	--	471,992	--
Charles Cimitile	2003	221,700	20,000	20,000	2,200
Chief Financial Officer, Treasurer and Secretary	2002	215,564	15,000	20,000	2,040
	2001	188,000	--	75,000	--
Kori G. Belzer Chief Operating Officer, SPAR Management Services, Inc.	2003	147,067	19,000	26,750	1,843
Patricia Franco Sr. Vice President, SPAR Infotech, Inc.	2003	145,875	20,000	37,500	1,718

----

(1) In January 2001, each of the above officers voluntarily surrendered for cancellation their options for the purchase of the following numbers of shares of common stock under the 1995 Plan: Mr. Brown - 765,972; Mr. Bartels - 471,992; Mr. Cimitile - 75,000.

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

Summary Additional Compensation Table (from affiliated Companies)

Robert G. Brown and William H. Bartels (the "SMS Principals") are the sole owners of SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI"), and SPAR Infotech, Inc. ("SIT"), which provide significant services to the Company as more fully described in Item 13 - Certain Relationships and Related Transactions. Although the SMS Principals were not paid any salaries as officers of SMS, SMSI or SIT, each of those companies are "Subchapter S" corporations, and accordingly the SMS Principals benefit from any income of such companies allocated to them, all of which income (or substantially all of which income, but not loss, in the case of SIT) is earned from the performance of services for the Company. The following table sets forth all income allocated to the SMS Principals by SMS, SMSI or SIT for the years ended December 31, 2003, 2002 and 2001.

Name	Year	SMS Income	SMSI Income	SIT Income (Loss) (1)
Robert G. Brown	2003	$ 667,756	$ 177,214	$ 33,591
	2002	494,987	174,092	(85,183)
	2001	211,117	16,477	(227,370)
William H. Bartels	2003	$ 424,937	$ 112,773	$ 21,376
	2002	314,992	110,787	(54,208)
	2001	134,348	10,486	(144,690)

(1) The subchapter "S" income/loss allocated to the SMS Principals by SIT

includes losses on activities unrelated to the Company's business.

Stock Option Grants in Last Fiscal Year

The following table sets forth information regarding each grant of stock options made during the year ended December 31, 2003, to each of the Named Executive Officers. No stock appreciation rights ("SAR's") were granted during such period to such person.

Name	Individual Grants: Number of Securities Underlying Options Granted (2)(#)	Percent of Total Options Granted to Employees in Period (%)	Exercise Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option (1): 5% ($)	10% ($)
Charles Cimitile	20,000	5.0	2.99	2/13/13	37,608	95,306
Kori G. Belzer	20,500	5.0	2.99	2/13/13	38,548	97,688
	6,000	1.5	3.80	5/9/13	14,339	36,337
	250	0.1	4.65	8/7/13	731	1,853
	26,750	6.6			53,618	135,878
Patricia Franco	20,500	5.1	2.99	2/13/13	38,548	97,688
	16,000	4.0	3.80	5/9/13	38,237	96,900
	750	0.2	4.65	8/7/13	2,193	5,558
	250	0.1	3.89	11/5/13	612	1,550
	37,500	9.4			79,590	201,696

----

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

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

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

The following table sets forth the number of shares of Common Stock of the Company purchased by each of the Named Executive Officers in the exercise of stock options during the year ended December 31, 2003, the value realized in the purchase of such shares (the market value at the time of exercise less the exercise price to purchase such shares), and the number of shares that may be purchased and value of the exercisable and unexercisable options held by each of the Named Executive Officers at December 31, 2003.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#): Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End ($): Exercisable	Unexercisable
Robert G. Brown	--	--	95,746	382,986	$181,917	$702,779
William H. Bartels	--	--	58,999	235,996	112,098	437,713
Charles Cimitile	--	--	98,750	41,250	196,206	36,569
Kori G. Belzer	--	--	81,000	76,140	156,134	86,603
Patricia Franco	--	--	97,250	66,250	168,122	46,996

Stock Option and Purchase Plans

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

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of the Company's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The exercise price of nonqualified stock options must have been equal to at least 85% of the fair market value of the Company's common stock at the date of grant. Since 2000, the Company has not granted any new options under this Plan. At December 31, 2003, options to purchase 43,250 shares of the Company's common stock remain outstanding under this Plan. The 1995 Plan was superseded by the 2000 Stock Option Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of the Company's common stock. Since 2000, the Company has not granted any new options under this Plan. During 2003, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2003, 20,000 options to purchase shares of the Company's common stock remained outstanding under this Plan. The Director's Plan has been replaced by the 2000 Plan with respect to all new options issued.

On July 8, 1999, in connection with the merger, the Company established the Special Purpose Stock Option Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were 134,114 options granted at $0.01 per share. Since July 8, 1999, the Company has not granted any new options under this plan. During 2003, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2003, options to purchase 25,750 shares of the Company's common stock remain outstanding under this Plan.

On December 4, 2000, the Company adopted the 2000 Plan, as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000 under the 1995 Plan). The options have a term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders for whom the term is five years. The exercise price of nonqualified stock options must be equal to at least 85% of the fair market value of the Company's common stock at the date of grant (although typically the options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of the Company's common stock at the date of grant. During 2003, options to purchase 401,020 shares of the Company's common stock were granted, options to purchase 143,641 shares of the Company's common stock were exercised and

options to purchase 86,500 shares of the Company's stock were cancelled under this Plan. At December 31, 2003, options to purchase 2,180,060 shares of the Company's common stock remain outstanding under this Plan and options to purchase 743,344 shares of the Company's common stock were available for grant under this Plan.

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

Compensation of Directors

The Company's Compensation Committee administers the compensation plan for its outside Directors as well as the compensation for its executives. Each member of the Company's Board who is not otherwise an employee or officer of the

Company or any subsidiary or affiliate of the Company (each, an "Eligible Director") is eligible to receive the compensation contemplated under such plan.

In January 2001, the Company adopted the Director Compensation Plan, which was amended by the Compensation Committee in February of 2003. Under the amended plan, each non-employee director receives thirty thousand dollars ($30,000) per annum (increased from twenty thousand dollars ($20,000) per annum for 2002 and 2001) and the Chairman of the Audit Committee will receive an additional $5,000 per annum. Payments are made quarterly in equal installments. It is intended that each quarterly payment will be 50% in cash ($3,750, up from $2,500 for 2002 and 2001) and 50% ($3,750, up from $2,500 for 2002 and 2001) in stock options to purchase shares of the Company's common stock with an exercise price of $0.01 per share (plus an additional $1,250 per quarter for the Chairman of the Audit Committee, half in cash and half in $.01 stock options). The number of shares of the Company's common stock that can be purchased under each $.01 stock option granted will be determined based upon the closing stock price at the end of each quarter. In addition upon acceptance of the directorship, each non-employee director receives options to purchase 10,000 shares of the Company's common stock with an exercise price equal to 100% of the fair market value of the Company's common stock at the date of grant, 10,000 additional options to purchase shares of the Company's common stock with an exercise price equal to 100% of the fair market value of the Company's common stock at the date of grant after one year of service and 10,000 additional options to purchase shares of the Company's common stock with an exercise price equal to 100% of the fair market value of the Company's common stock at the date of grant for each additional year of service thereafter. All of the options have been and will be granted under the 2000 Plan described above, under which each member of the SPAR Board is eligible to participate. Non-employee directors will be reimbursed for all reasonable expenses incurred during the course of their duties. There is no additional compensation for committee participation, phone meetings, or other Board activities.

Compensation Committee Interlocks and Insider Participation

No member of the Board's Compensation Committee was at any time during the year ended December 31, 2003, or at any other time an officer or employee of the Company. No executive officer or board member of the Company serves as a member of the board of directors or compensation committee of any other entity, that has one or more executive officers serving as a member of the Company's Board or Compensation Committee, except for the positions of Messrs. Brown and Bartels as directors and officers of the Company (including each of its subsidiaries) and each of its affiliates, including SMS, SMSI and SIT (see Item 13 - Certain Relationships and Related Transactions, below).

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

Security Ownership of Certain Beneficial Owners of the Company

The following table sets forth certain information regarding beneficial ownership of the Company's common stock as of March 22, 2004 by: (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the Company's common stock; (ii) each of the Company's directors; (iii) each of the Named Executive Officers in the Summary Compensation Table; and (iv) the Company's directors and such Named Executive Officers as a group. Except as indicated in the footnotes to this table, the persons named in the table, based on information provided by such persons, have sole voting and sole investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

Title of Class	Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage
Common Shares	Robert G. Brown (1)	8,727,266 (2)	45.7%
Common Shares	William H. Bartels (1)	5,638,379 (3)	29.7%
Common Shares	Robert O. Aders (1)	86,203 (4)	*
Common Shares	Jack W. Partridge (1)	30,668 (5)	*

Common Shares	Jerry B. Gilbert (1)	24,009 (6)	*
Common Shares	Lorrence T. Kellar (1)	14,310 (7)	*
Common Shares	Charles Cimitile (1)	109,647 (8)	*
Common Shares	Kori G. Belzer (1)	116,718 (9)	*
Common Shares	Patricia Franco (1)	162,675 (10)	*
Common Shares	Heartland Advisors, Inc. (11) 790 North Milwaukee Street Milwaukee, Wisconsin 53202	1,300,000	6.9%
Common Shares	Executive Officers and Directors	14,909,875	79.4%

* Less than 1%

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

(2) Includes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees. Includes 325,539 shares issuable upon exercise of options.

(3) Excludes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees, beneficial ownership of which are disclaimed by Mr. Bartels. Includes 229,275 shares issuable upon exercise of options.

(4) Includes 36,203 shares issuable upon exercise of options.

(5) Includes 19,700 shares issuable upon exercise of options.

(6) Includes 24,009 shares issuable upon exercise of options.

(7) Includes 13,310 shares issuable upon exercise of options.

(8) Includes 108,750 shares issuable upon exercise of options.

(9) Includes 115,515 shares issuable upon exercise of options.

(10) Includes 109,875 shares issuable upon exercise of options.

(11) All information regarding share ownership is taken from and furnished in reliance upon the Schedule 13G (Amendment No. 9), filed by Heartland Advisors, Inc. with the Securities and Exchange Commission on December 31, 2003.

Equity Compensation Plans

The following table contains a summary of the number of shares of Common Stock of the Company to be issued upon the exercise of options, warrants and rights outstanding at December 31, 2003, the weighted-average exercise price of those outstanding options, warrants and rights, and the number of additional shares of Common Stock remaining available for future issuance under the plans as at December 31, 2003.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	Weighted average exercise price of outstanding options, warrants and rights ($)	Number of securities remaining available for future issuance of options, warrants and rights (#)
Equity compensation plans approved by security holders	2,269,060	$1.85	743,344
Equity compensation plans not approved by security holders	--	--	--
Total	2,269,060	$1.85	743,344

Item 13. Certain Relationships and Related Transactions.

Mr. Robert G. Brown, a Director, the Chairman and the Chief Executive Officer of the Company, and Mr. William H. Bartels, a Director and the Vice Chairman of the Company (collectively, the "SMS Principals"), are the sole stockholders and executive officers and directors of SPAR Marketing Services,

Inc. ("SMS") and SPAR Management Services, Inc. ("SMSI"), and SPAR Infotech, Inc. ("SIT").

SMS and SMSI (through SMS) provided approximately 92% of the Company's field representatives (through its independent contractor field force) and substantially all of the Company's field management services at a total cost of approximately $36.0 million and $30.5 million for the twelve months ended December 31, 2003, and 2002, respectively. Under the terms of the Field Service Agreement, SMS provides the services of approximately 6,000 field representatives and SMSI provides approximately 80 full-time national, regional and district managers to the Company as they may request from time to time, for which the Company has agreed to pay SMS and SMSI (through SMS) for all of their costs of providing those services plus 4%. However, SMS may not charge the Company for any past taxes or associated costs for which the SMS Principals have agreed to indemnify the Company. Although the SMS Principals were not paid any salaries as officers of SMS or SMSI, SMS and SMSI are "Subchapter S" corporations, and accordingly, the SMS Principals benefit from any income of such companies allocated to them (see Item 11 - Summary Additional Compensation Table - Affiliated Companies above).

Ms. Kori Belzer is the Chief Operating Officer of SMSI and SMS. The Company's Audit Committee has determined that Ms. Belzer functions (and has functioned since January 1, 2003) as the de facto chief operating officer of the Company's field force, which as noted above, is managed by SMSI and largely provided by SMS, and accordingly, Ms. Belzer has been included in the Company's list of Named Executive Officers in Item 10 above. Ms. Belzer's compensation and business expenses are part of the costs covered by the "cost plus" contract described above, and accordingly, are indirectly paid by the Company. Ms. Belzer also participates in the CSP Plan and, from time to time, receives options to purchase the Company's stock pursuant to the 2000 Plan (see Item 10-Stock Option and Purchase Plans). Ms. Belzer's compensation is reviewed annually by the Company's Compensation Committee.

SIT provided Internet computer programming services to the Company at a total cost of approximately $1,607,400 and $1,626,000 for the twelve months ended December 31, 2003 and 2002, respectively. Under the terms of the programming agreement between the Company and SIT effective as of October 1, 1998, as amended (the "Programming Agreement"), SIT continues to provide programming services to the Company as the Company may request from time to time, for which the Company has agreed to pay SIT competitive hourly wage rates and to reimburse SIT's out-of-pocket expenses. Although the SMS Principals were not paid any salaries as officers of SIT, SIT is a "Subchapter S" corporation, and accordingly the SMS Principals would benefit from any income allocated to them.

Ms. Patricia Franco is a Senior Vice President of SIT and is in charge of its day-to-day operations. The Company's Audit Committee has determined that Ms. Franco functions (and has functioned since January 1, 2003) as the de facto chief information officer of the Company, as well as the de facto President of the International Division and accordingly, Ms. Franco has been included in the Company's list of Named Executive Officers in Item 10 above. Ms. Franco's compensation is paid by SIT, which charges the Company $80.00 per hour for time spent by Ms. Franco on Company matters. For the year ended December 31, 2003, the Company paid $132,600 to SIT for the use of Ms. Franco's services. Ms. Franco also participates in the CSP Plan and, from time to time, receives options to purchase the Company's stock pursuant to the 2000 Plan (see Item 10 - Stock Option and Purchase Plans). Ms. Franco's compensation is reviewed annually by the Company's Compensation Committee.

The Company's agreements with SMS, SMSI and SIT are periodically reviewed by the Company's Audit Committee, which includes an examination of the overall fairness of the arrangements and the resulting income to the SMS Principals. In February 2004, the Audit Committee approved separate amended and restated agreements with each of SMS, SMSI and SIT, effective as of January 1, 2004. The restated agreements extend the contract maturities for four years, strengthened various contractual provisions in each agreement and continued the basic economic terms of the existing agreements, except that the restated agreement with SMSI provides for a temporary reduction in SMSI's fees for 2004.

In July 1999, SMF, SMS and SIT entered into a Software Ownership Agreement with respect to Internet job scheduling software jointly developed by

such parties. In addition, SPAR Trademarks, Inc. ("STM"), SMS and SIT entered into trademark licensing agreements whereby STM has granted non-exclusive royalty-free licenses to SIT, SMS and SMSI for their continued use of the name "SPAR" and certain other trademarks and related rights transferred to STM, a wholly owned subsidiary of the Company.

The SMS Principals also own, through SMSI, a minority (less than 5%) equity interest in Affinity Insurance Ltd., which provides certain insurance to the Company.

In April 2003, all previously outstanding amounts due certain stockholders under certain notes were paid in full.

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

Item 14. Principal Accountant Fees and Services.

The Company and its subsidiaries did not engage Ernst & Young LLP ("E&Y") to provide advice regarding financial information systems design or implementation, but did engage E&Y for tax consulting services related to the PHI/SPGI ESOP in 2003 and 2002 (for which E&Y was paid $3,778 and $13,500 respectively), due diligence services for the IMS acquisition during 2003 (for which E&Y was paid $14,334) and for tax services in 2003 and 2002 (for which E&Y was paid $2,295 and $13,500 respectively). No other non-audit services were performed by E&Y in 2003 or 2002. Since 2003, as required by law, each non-audit service performed by the Company's auditor either (i) was approved in advance on a case-by-case basis by the Company's Audit Committee, or (ii) fit within a pre-approved "basket" of non-audit services of limited amount, scope and duration established in advance by the Company's Audit Committee. In connection with the standards for independence of the Company's independent public accountants promulgated by the Securities and Exchange Commission, the Audit Committee considers (among other things) whether the provision of such non-audit services would be compatible with maintaining the independence of E&Y.

Audit Fees

During the Company's fiscal year ended December 31, 2003 and 2002, respectively, fees billed by Ernst & Young LLP for all audit services rendered to the Company and its subsidiaries were $179,362 and $143,000, respectively. Audit services principally include fees for the Company's audits and 10-Q filing reviews. Since 2003, as required by law, the choice of the Company's auditor and the audit services to be performed by it have been approved in advance by the Company's Audit Committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

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

Independent Auditors' Report.	F-1
Consolidated Balance Sheets as of December 31, 2003, and December 31, 2002.	F-2
Consolidated Statements of Operations for the years ended December 31, 2003, December 31, 2002, and December 31, 2001.	F-3
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, December 31, 2002, and December 31, 2001.	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2003, December 31, 2002, and December 31, 2001.	F-5
Notes to Financial Statements.	F-6

2. Financial Statement Schedules.

Schedule II - Valuation and Qualifying Accounts for the three years ended December 31, 2003.	F-27

3. Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name PIA), as amended (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1")), and the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes the Company's name to SPAR Group, Inc.) (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the 3rd Quarter ended September 30, 1999).
3.2	By-laws of the Company (referred to therein under its former name PIA) (incorporated by reference to the above referenced Form S-1).
4.1	Registration Rights Agreement entered into as of January 21, 1992, by and between RVM Holding Corporation. RVM/PIA, a California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverine (incorporated by reference to the Form S-1).
10.1	2000 Stock Option Plan, as amended, (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
10.2	2001 Employee Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
10.3	2001 Consultant Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
10.4	Service Agreement dated as of January 4, 1999, by and between SPAR Marketing Force, Inc., and SPAR Marketing Services, Inc. (incorporated by reference to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 1999).
10.5	Business Manager Agreement dated as of July 8, 1999, by and between SPAR Marketing Force, Inc., and SPAR Marketing Services, Inc. (incorporated by reference to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 1999).

10.6	Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002.)
10.7	Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002.)
10.8	[Reserved.]
10.9	Stock Purchase and Sale Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2002).
10.10	Revolving Credit, Guaranty and Security Agreement by and among

Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2002).

10.11 Term Loan, Guaranty and Security Agreement by and among Performance Holdings, Inc. and SPAR Incentive Marketing, Inc., effective as of June 30, 2002 (incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2002).

10.12 Amendment No. 7 to Second Amended and Restated Revolving Credit, Term Loan and Security Agreement by and among the SPAR Borrowers and the Lender, effective as of October 31, 2002 (incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2002).

10.13 Third Amended and Restated Revolving Credit and Security Agreement by and among Whitehall Business Credit Corporation (the "Lender") with SPAR Marketing Force, Inc., SPAR Group, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., SPAR Group International, Inc., SPAR Technology Group, Inc., SPAR/PIA Retail Services, Inc., Retail Resources, Inc., Pivotal Field Services Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co. and Pivotal Sales Company (collectively, the "Existing Borrowers"), dated as of January 24, 2003 (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002).

10.14 Consent, Joinder, Release and Amendment Agreement dated as of October 31, 2003, by and among the Lender, the Existing Borrowers and SPAR All Store Marketing, Inc., as a Borrower, as filed herewith.

21.1 List of Subsidiaries.

23.1 Consent of Ernst & Young LLP.

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

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

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

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

(b) Reports on Form 8-K.

None.

SIGNATURES

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

SPAR Group, Inc.

By: /s/ Robert G. Brown

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

Board

Date: March 30, 2004

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

SIGNATURE	TITLE
/s/ Robert G. Brown Robert G. Brown Date: March 30, 2004	President, Chief Executive Officer, Director and Chairman of the Board
/s/ William H. Bartels William H. Bartels Date: March 30, 2004	Vice Chairman and Director
/s/ Robert O. Aders Robert O. Aders Date: March 30, 2004	Director
/s/ Jack W. Partridge Jack W. Partridge Date: March 30, 2004	Director
/s/ Jerry B. Gilbert Jerry B. Gilbert Date: March 30, 2004	Director
/s/ Lorrence T. Kellar Lorrence T. Kellar Date: March 30, 2004	Director
/s/ Charles Cimitile Charles Cimitile Date: March 30, 2004	Chief Financial Officer Treasurer and Secretary (Principal Financial and Accounting Officer)

Report of Independent Auditors

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

We have audited the consolidated balance sheets of SPAR Group, Inc. and Subsidiaries, as of December 31, 2003 and 2002 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in

all material respects, the financial position of SPAR Group, Inc. and Subsidiaries at December 31, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, present fairly in all materiel respects the information set forth therein.

As discussed in Note 2, the Company adopted Statement of Accounting Standards No. 142, effective January 1, 2002.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 13, 2004

SPAR Group, Inc. and Subsidiaries

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

	December 31, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ -
Accounts receivable, net	13,942	16,458
Prepaid expenses and other current assets	415	783
Deferred income taxes	1,305	903
Total current assets	15,662	18,144
Property and equipment, net	2,099	1,972
Goodwill	8,749	7,858
Deferred income taxes	434	705
Other assets	926	121
Total assets	$ 27,870	$ 28,800
Liabilities and stockholders' equity Current liabilities:		
Accounts payable	$ 1,445	$ 422
Accrued expenses and other current liabilities	4,367	5,140
Accrued expenses, due to affiliates	996	958
Restructuring charges, current	685	1,354
Due to certain stockholders	-	3,951
Line of credit, short term	4,084	-
Total current liabilities	11,577	11,825
Line of credit	-	148
Restructuring charges, long term	-	235
Other long term liabilities	270	-
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value:		
Authorized shares - 3,000,000		
Issued and outstanding shares - none	-	-
Common stock, $.01 par value:		
Authorized shares - 47,000,000		
Issued and outstanding shares -		
18,858,972 - 2003		
18,824,527 - 2002	189	188

Additional paid-in capital	11,249	10,919
Accumulated other comprehensive loss	(7)	-
Retained earnings	4,976	5,515
Treasury stock	(384)	(30)
Total stockholders' equity	16,023	16,592
Total liabilities and stockholders' equity	$ 27,870	$ 28,800

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

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

	Year Ended December 31,		
	2003	2002	2001
Net revenues	$ 64,859	$ 69,612	$ 70,891
Cost of revenues	42,338	40,331	40,883
Gross profit	22,521	29,281	30,008
Selling, general, and administrative expenses	20,967	18,804	19,380
Depreciation and amortization	1,529	1,844	2,682
Operating income	25	8,633	7,946
Other expense (income)	237	(26)	107
Interest expense	269	363	561
(Loss) income from continuing operations before provision for income taxes	(481)	8,296	7,278
Provision for income taxes	58	2,998	3,123
Net (loss) income from continuing operations	(539)	5,298	4,155
Discontinued operations:			
Loss from discontinued operations, net of tax benefit of $938	-	-	(1,597)
Estimated loss on disposal of discontinued operations, net of tax benefit of $2,618	-	-	(4,272)
Net (loss) income	$ (539)	$ 5,298	$ (1,714)
Basic/diluted net (loss) income per common share:			
(Loss) income from continuing operations	$ (0.03)	$ 0.28	$ 0.23
Loss from discontinued operations	-	-	(0.32)
Net (loss) income	$ (0.03)	$ 0.28	$ (0.09)
Weighted average shares outstanding - basic	18,855	18,761	18,389
Weighted average shares outstanding - diluted	18,855	19,148	18,467

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity
(In thousands)

	Common Stock					Accumulated	Total
				Additional		Other	Stock-
			Treasury	Paid-In	Retained	Comprehensive	holders'
	Shares	Amount	Stock	Capital	Earnings	(Loss)	Equity
Balance at December 31, 2000	18,272	$ 182	$ -	$ 10,127	$ 1,931	$ -	$ 12,240
Stock options exercised and employee stock purchase plan purchases	311	4	-	404	-		408
Net loss	-	-	-	-	(1,714)		(1,714)
Balance at December 31, 2001	18,583	186	-	10,531	217	-	10,934
Stock options exercised and employee stock purchase plan purchases	242	2	-	388	-		390
Purchase of treasury stock	-	-	(30)	-	-		(30)
Net income	-	-	-	-	5,298		5,298
Balance at December 31, 2002	18,825	188	(30)	10,919	5,515	-	16,592
Stock options exercised and employee stock purchase plan purchases	34	1	570	(86)	-	-	485
Issuance of stock options to non-employees for services	-	-	-	416	-	-	416
Purchase of treasury stock	-	-	(924)	-	-	-	(924)
Comprehensive loss:							
Foreign currency translation loss						(7)	(7)
Net loss					(539)		(539)
Comprehensive loss							(546)
Balance at December 31, 2003	18,859	$ 189	$ (384)	$ 11,249	$ 4,976	$ (7)	$ 16,023

See accompanying notes.

SPAR Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2003	2002	2001
Operating activities			
Net (loss) income	$ (539)	$ 5,298	$ (1,714)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,529	1,844	2,217
Amortization	-	-	1,630
Estimated loss on disposal of discontinued operations	-	-	4,272
Issuance of stock options for services	416	-	-
Share of loss in joint venture	270	-	-
Changes in operating assets and liabilities:			
Accounts receivable	2,516	4,686	13
Prepaid expenses and other current assets	(87)	(354)	318
Deferred income taxes	(131)	2,022	1,710
Accounts payable, accrued expenses and other current liabilities	288	(191)	(7,202)
Restructuring charges	(904)	(593)	(1,487)
Net cash provided by (used in) operating activities	3,358	12,712	(243)
Investing activities			
Purchases of property and equipment	(1,456)	(1,172)	(1,744)
Deposit related to acquisition	(350)	-	-
Acquisition of businesses	(1,091)	-	-

Net cash used in investing activities	(2,897)	(1,172)	(1,744)
Financing activities			
Net borrowings (payments) on line of credit	3,936	(11,139)	3,526
Payments on long-term debt	-	(57)	(1,465)
Payments to certain stockholders	(3,951)	(704)	(482)
Proceeds from employee stock purchase plan and exercised options	485	390	408
Purchase of treasury stock	(924)	(30)	-
Net cash (used in) provided by financing activities	(454)	(11,540)	1,987
Net effect of exchange rates on cash	(7)	-	-
Net decrease in cash	-	-	-
Cash at beginning of year	-	-	-
Cash at end of year	-	$ -	$ -
Supplemental disclosure of cash flow information			
Interest paid	$ 241	$ 686	$1,892
Income taxes paid	$ 578	$ 200	$ 68

See accompanying notes

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2003

1. Business and Organization

The SPAR Group, Inc., a Delaware corporation, ("SGRP"), and its subsidiaries (together with SGRP, the "SPAR Group" or the "Company"), is a supplier of merchandising and other marketing services throughout the United States and internationally. The Company also provides database marketing, teleservices and marketing research. In 2002, the Company sold its Incentive Marketing Division, SPAR Performance Group, Inc. ("SPGI"). The Company's continuing operations are now divided into two divisions: the Merchandising Services Division and the International Division. The Merchandising Services Division provides merchandising services, in-store product demonstrations, product sampling, database marketing, teleservices and marketing research to manufacturers and retailers with product distribution primarily in mass merchandisers, drug store chains and grocery stores in the United States. The International Division established in July 2000, currently provides merchandising services through a joint venture in Japan and the acquisition of a merchandising company in Canada in June 2003. The Company has also established a start-up joint venture in Turkey. The Company continues to focus on expanding its merchandising services business throughout the world.

Merchandising Services Division

The Company's Merchandising Services Division provides nationwide merchandising and other marketing services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug store chains and retail grocery stores. Included in its customers are home entertainment, PC software, general merchandise, health and beauty care, consumer goods and food products companies in the United States.

Merchandising services primarily consist of regularly scheduled dedicated routed services and special projects provided at the store level for a specific retailer or single or multiple manufacturers primarily under single or multi-year contracts or agreements. Services also include stand-alone large-scale implementations. These services may include sales enhancing activities such as ensuring that client products authorized for distribution are

in stock and on the shelf, adding new products that are approved for distribution but not presently on the shelf, setting category shelves in accordance with approved store schematics, ensuring that shelf tags are in place, checking for the overall salability of client products and setting new and promotional items and placing and/or removing point of purchase and other related media advertising. Specific in-store services can be initiated by retailers or manufacturers, and include new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. In 2003, the Company added in-store product demonstration and in-store product sampling services to its merchandising service offerings. The Company also provides database marketing, teleservices and marketing research services.

1. Business and Organization (continued)

International Division

In July 2000, the Company established its International Division to focus on expanding its merchandising services business worldwide. In May 2001, the Company entered into a joint venture with a large Japanese distributor to provide merchandising services in Japan. In June 2003, the Company expanded its merchandising services into Canada through the purchase of the business and certain assets of Impulse Marketing Services Inc. In July 2003, the Company entered into a joint agreement with a company based in Istanbul to provide retail-merchandising services throughout Turkey. The start-up joint venture will operate under the name SPAR Turkey Ltd. and is 51% owned by the Company.

Discontinued Operations - Incentive Marketing Division

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

On June 30, 2002, SPAR Incentive Marketing, Inc. ("SIM"), a wholly-owned subsidiary of the Company, entered into a Stock Purchase and Sale Agreement with Performance Holdings, Inc. ("PHI"), a Delaware corporation headquartered in Carrollton, Texas. SIM sold all of the stock of its subsidiary, SPGI, to PHI for $6.0 million. As a condition of the sale, PHI issued and contributed 1,000,000 shares of its common stock to Performance Holdings, Inc. Employee Stock Ownership Plan, which became the only shareholder of PHI. In December of 2003, SPGI changed its name to STIMULYS, Inc.

The $6.0 million sales price was evidenced by two Term Loans, an Initial Term Loan totaling $2.5 million and an Additional Term Loan totaling $3.5 million (collectively the "Term Loans"). The Term Loans are guarantied by SPGI and secured by pledges of all the assets of PHI and SPGI. The Term Loans bear interest at a rate of 12% per annum through December 31, 2003. On January 1, 2004, and on January 1 each year thereafter, the interest rate is adjusted to equal the higher of the median or mean of the High Yield Junk Bond interest rate as reported in the Wall Street Journal (or similar publication or service if the Wall Street Journal no longer reports such rate) on the last business day in the immediately preceding December. The Initial Term Loan is required to be repaid in quarterly installments that increase over the term of the loan, commencing March 31, 2003, with a balloon payment required at maturity on June 30, 2007. In addition to the preceding payments of the Initial Term Loan, PHI is required to make annual mandatory prepayments of the Term Loans on February 15th of each year, commencing on February 15, 2004, equal to:

- 40% of the amount of Adjusted Cash Flow (as defined in the Revolver) for the immediately preceding fiscal year ended December 31; and
- 35% of the amount of excess targeted Adjusted Cash Flow (as defined in the Revolver) for the immediately preceding fiscal year ended December 31.

These payments will be applied first to accrued and unpaid interest on the Term Loans and Revolver, then to the Additional Term Loan until repaid, and then to the Initial Term Loan. Because collection of the notes depends on the future operations of PHI, the $6.0 million notes were fully reserved pending collection. At December 31, 2003, PHI and SPGI were in default of various covenants under the agreements.

1. Business and Organization (continued)

In addition to the Term Loans, SIM agreed to provide a discretionary revolving line of credit to SPGI not to exceed $2.0 million (the "Revolver"). The Revolver is secured by a pledge of all the assets of SPGI and is guarantied by PHI. The Revolver provides for advances in excess of the borrowing base through September 30, 2005. Through September 30, 2003, the Revolver calculated interest at the higher of the Term Loans interest rate or the prime commercial lending rate as announced in the Wall Street Journal plus 4.0% per annum. In September 2003, SPGI requested and the Company agreed to provide advances of up to $1.0 million in excess of the borrowing base through September 30, 2004. As of October 1, 2003, the Revolver includes a borrowing base calculation (principally 85% of eligible accounts receivable).

Due to the speculative nature of the loan, and as a result of various defaults, the Company has included in other current liabilities an $0.8 million reserve against the $2.0 million Revolver commitment.

In December 2001, the Company reviewed the goodwill associated with SPGI and recorded an impairment of goodwill totaling $4.3 million, net of taxes, including a $1.0 million reserve recorded in 2001 for the cost to dispose of SPGI and the anticipated losses through the date of divestiture, June 30, 2002.

The Company continues to assess whether SPGI is a variable interest entity under FASB Interpretation No. 46 "Consolidation of Variable Interest Entities", and, if so, whether or not the Company may be required to consolidate SPGI in its financial statements.

Operating losses of $682,000 incurred from January 1, 2002, through June 30, 2002, the date of divestiture, were charged against such $1.0 million reserve. In addition, $318,000 of costs to dispose of SPGI were also charged against such reserve. The 2001 consolidated statements of operations were restated to report the results of discontinued operations separately from continuing operations. Operating results of the discontinued operations are summarized as follows (in thousands):

	Six Months Ended June 30, 2002	Year Ended December 31, 2001
Net sales	$ 15,735	$ 31,202
Less:		
Cost of sales	13,092	26,032
Selling, general and administrative expenses	2,814	5,736
Interest expense	383	804
Depreciation	128	306
Amortization	-	859
Operating loss	(682)	(2,535)
Provision for income tax benefit	(259)	(938)
Net loss	$ (423)	$ (1,597)

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of SPAR Group, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents

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

Revenue Recognition

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

Unbilled Accounts Receivable

Unbilled accounts receivable represent services performed but not billed.

Allowance for Doubtful Accounts and Sales Allowance

The Company continually monitors the collectability of its accounts receivable based upon current customer credit information and other information available. Utilizing this information, the Company has established an allowance for doubtful accounts of $515,000 and $301,000 at December 31, 2003 and 2002, respectively. The Company also recorded a sales allowance of $448,000 to properly reflect potential customer credits as of December 31, 2003.

Property and Equipment

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

Internal Use Software Development Costs

The Company under the rules of SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, capitalizes certain costs incurred in connection with developing or obtaining internal use software. Capitalized software development costs are amortized over three years.

The Company capitalized $1,004,000, $772,000 and $430,000 of costs related to software developed for internal use in 2003, 2002 and 2001, respectively.

2. Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment, whenever events or changes in circumstances indicate that the carrying amounts may not be

recoverable and the undiscounted cash flows estimated to be generated by those total assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Fair Value of Financial Instruments

The Company's balance sheets include the following financial instruments: accounts receivable, accounts payable and a line of credit. The Company considers the carrying amounts of current assets and liabilities in the financial statements to approximate the fair value for these financial instruments, because of the relatively short period of time between origination of the instruments and their expected realization or payment. The carrying amount of the line of credit approximates fair value because the obligation bears interest at a floating rate. The carrying amount of long-term debt to certain stockholders approximates fair value because the current effective interest rates reflect the market rate for unsecured debt with similar terms and remaining maturities.

Concentration of Credit Risk and Other Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company has minimal cash, as excess cash is generally utilized to pay its bank line of credit.

One customer, a division of a major retailer, accounted for 30%, 26% and 25% of the Company's net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This customer also accounted for approximately 30%, 43% and 24% of accounts receivable at December 31, 2003, 2002 and 2001, respectively. In late 2003, the customer's parent company announced that it was exploring strategic opportunities including the sale of this division. In the event of a sale, there can be no assurances that any purchaser will continue to use the services of the Company. The loss of this business could have a material adverse effect on the Company's business, results of operations and financial condition.

A second customer accounted for 10%, 11% and 9% of the Company's net revenues for the years ended December 31, 2003, 2002 and 2001, respectively. This second customer also accounted for approximately 9%, 5% and 4% of accounts receivable at December 31, 2003, 2002 and 2001, respectively. As of March 2004, the Company will no longer be providing services for this customer. Failure to attract new large customers could significantly impede the growth of the Company's revenues, which could have a material adverse effect on the Company's future business, results of operations and financial condition.

2. Summary of Significant Accounting Policies (continued)

In addition, approximately 17%, 24% and 31% of net revenues for the years ended December 31, 2003, 2002 and 2001, respectively, resulted from merchandising services performed for manufacturers and others at Kmart. Kmart filed for protection under the U.S. Bankruptcy Code in January of 2002 and emerged from bankruptcy in May of 2003. During its time in bankruptcy, Kmart closed a number of stores in the United States. While the Company's customers and the resultant contractual relationships are with various manufacturers and not Kmart, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company. As of August 31, 2003, one customer discontinued its merchandising programs with the Company. Some but not all of these programs were performed at Kmart stores. This customer accounted for 10%, 17% and 12% of the business generated from Kmart for the twelve-months ended December 31, 2003, 2002 and 2001, respectively.

Income Taxes

Deferred tax assets and liabilities represent the future tax return consequences of certain timing differences that will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are

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

Stock-Based Compensation

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

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

2. Summary of Significant Accounting Policies (continued)

	Twelve Months Ended December 31,		
	2003	2002	2001
Net (loss) income, as reported	$ (539)	$ 5,298	$(1,714)
Stock based employee compensation (benefit) expense Under the fair market value method	1,005	1,844	(1,129)
Pro forma net (loss) income	$(1,544)	$ 3,454	$ (585)
Basic and diluted net (loss) income per share, as reported	$ (0.03)	$ 0.28	$ (0.09)
Basic and diluted net (loss) income per share, pro forma	$ (0.08)	$ 0.18	$ (0.03)

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

The fair value of each option grant is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; volatility factor of expected market price of common stock of 154%, 172% and 187% for 2003, 2002 and 2001, respectively; risk-free interest rate of 4.27%, 4.03% and 5.14%; and expected lives of six years.

Net (Loss) Income Per Share

Basic net (loss) income per share amounts are based upon the weighted average number of common shares outstanding. Diluted net (loss) income per share amounts are based upon the weighted average number of common and potential common shares

outstanding except for periods in which such potential common shares are anti-dilutive. Potential common shares outstanding include stock options, using the treasury stock method.

Use of Estimates

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

2. Summary of Significant Accounting Policies (continued)

Goodwill

The Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, in the first quarter of 2002. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. During 2003, the Company performed the required impairment tests of goodwill. As a result of these tests, there was no effect on the earnings and financial position of the Company.

The following table presents the results of the Company for all periods presented on a comparable basis (in thousands except per share information):

	2003	2002	2001
Reported net (loss) income	$ (539)	$ 5,298	$ (1,714)
Add: Goodwill amortization	-	-	771
Adjusted net (loss) income	$ (539)	$ 5,298	$ (943)
Basic and diluted net (loss) income per share:			
Reported net (loss) income	$ (0.03)	$ 0.28	$ (0.09)
Add: Goodwill amortization	-	-	0.04
Adjusted net (loss) income	$ (0.03)	$ 0.28	$ (0.05)

Prior to 2002, the Company amortized all goodwill over 15 years.

Changes to goodwill for the years ended December 31, 2003 and 2002 were as follows:

	2003	2002
Beginning of the year	$ 7,858	$ 8,357
Changes in deferred tax assets related to use of PIA net operating losses acquired	-	(499)
Adjustment to merger related and restructure liabilities	(89)	-
Acquisitions	980	-
End of the year	$ 8,749	$ 7,858

In 2003, the Company completed two acquisitions totaling approximately $1.1 million. The purchase prices were allocated to the fair value of the assets acquired with approximately $0.1 million in equipment and the remainder of $1.0 million allocated to tax deductible goodwill.

In 2003, the Company also paid approximately $0.4 million as a deposit related to a third acquisition that closed in 2004. The total purchase price will approximate $0.9 million.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the 2003 presentation.

3. Supplemental Balance Sheet Information

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

	December 31, 2003	December 31, 2002
Trade	$ 10,333	$ 11,016
Unbilled	4,551	5,743
Non-trade	21	-
	14,905	16,759
Less:		
- Allowance for doubtful accounts	(515)	(301)
- Sales allowance	(448)	-
	$ 13,942	$ 16,458

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

	December 31, 2003	December 31, 2002
Equipment	$ 4,784	$ 4,175
Furniture and fixtures	550	509
Leasehold improvements	141	138
Capitalized software development costs	2,128	2,216
	7,603	7,038
Less accumulated depreciation and amortization	5,504	5,066
	$ 2,099	$ 1,972

3. Supplemental Balance Sheet Information (continued)

Accrued expenses and other current liabilities consists of the following (in thousands):

	December 31, 2003	December 31, 2002
Accrued salaries and other related costs	$ 343	$ 623
Accrued merger related costs	1,495	1,945
Due to SPGI (STIMULYS) (cash deposits)	794	917
Other	1,735	1,655
	$ 4,367	$ 5,140

4. Line of Credit and Long-Term Liabilities

In January 2003, the Company and Whitehall Business Credit Corporation ("Whitehall"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility") including amendments made by the Consent, Joinder, Release and Amendment Agreement dated as of October 31, 2003. The Credit Facility provides a $15.0 million revolving credit facility that matures on January 23, 2006. The Credit Facility allows the Company to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The Credit Facility bears interest at Whitehall's "Alternative Base Rate" (a total of 4.0% per annum at December 31, 2003) or LIBOR plus two and one-half percent and is secured by all the assets of the Company and its subsidiaries.

The Credit Facility contains certain financial covenants which must be met by the Company on a consolidated basis, among which are a minimum "Net Worth", a "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum EBITDA, as such terms are defined in the agreement. The Company was in compliance with such financial covenants at December 31, 2003, except for the "Fixed Charge Coverage Ratio", and minimum EBITDA, for which the Company has secured a waiver from Whitehall.

Because of the requirement to maintain a lock box arrangement with Whitehall and Whitehall's ability to invoke a subjective acceleration clause at its discretion, borrowings are classified as current at December 31, 2003, in accordance with EITF 95-22.

The balances outstanding on the revolving line of credit under the Credit Facility were $4.1 million and $148,000 at December 31, 2003 and December 31, 2002, respectively. As of December 31, 2003, based upon the borrowing base formula, the SPAR Group had availability under the Credit Facility of $4.6 million of the $10.9 million unused revolving line of credit.

A prior credit facility contained an option for Whitehall to purchase 16,667 shares of Common Stock of the Company for $0.01 per share in the event that the Company's average closing share price over a ten consecutive trading day period exceeds $15.00 per share. This option expired on July 31, 2003.

5. Income Taxes

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

	December 31, 2003	December 31, 2002	December 31, 2001
Current	$ 189	$ 476	$ 109
Deferred	(131)	2,522	3,014
	$ 58	$ 2,998	$ 3,123

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

	December 31, 2003	December 31, 2002	December 31, 2001
Provision for income taxes at federal statutory rate	$ (77)	$ 2,821	$ 2,475
State income taxes, net of federal benefit	95	175	317
Permanent differences	41	(48)	317
Other	(1)	50	14
Provision for income taxes	$ 58	$ 2,998	$ 3,123

5. Income Taxes (continued)

Deferred taxes consist of the following (in thousands):

	December 31, 2003	December 31, 2002
Deferred tax assets:		
Net operating loss carryforwards	$ 3,876	$ 3,876
Restructuring	309	454
Accrued compensation and related benefits	-	160
SIM reserve against loan commitment	304	320
Allowance for doubtful accounts and other receivable	323	114
Other	559	206
Valuation allowance	(3,126)	(3,126)
Total deferred tax assets	2,245	2,004
Deferred tax liabilities:		
Capitalized software development costs	506	396
Total deferred tax liabilities	506	396
Net deferred tax assets	$ 1,739	$ 1,608

At December 31, 2003, the Company has net operating loss carryforwards (NOL's) of $10.2 million, primarily related to the PIA reverse merger, available to reduce future federal taxable income. The Company's net operating loss carryforwards begin to expire in the year 2012. Section 382 of the Internal Revenue Code restricts the annual utilization of the NOL's incurred prior to a

change in ownership. Such a change in ownership had occurred in 1999, thereby restricting the NOL's prior to such date available to the Company to approximately $657,500 per year.

The Company has established a valuation allowance for the deferred tax assets related to the available NOL's that are deductible for years subsequent to 2005 totaling $3,126,000. The $3,126,000 valuation allowance at December 31, 2003, when realized will result in a reduction of goodwill associated with the PIA acquisition. Due to the loss in 2003, the Company did not reduce the valuation allowance or goodwill associated with PIA NOL's. In 2002, the Company reduced the valuation allowance and goodwill by $499,000.

6. Commitments and Contingencies

Lease Commitments

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately $0.9 million, $1.0 million, and $1.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. At December 31, 2003, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

2004	$ 947
2005	651
2006	512
2007	91
2008	20

Joint Venture Guarantee

In May 2001, the Company and Paltac, Inc. ("Paltac"), a large Japanese distributor, entered into a joint venture to create a Japanese company, SPAR FM. SPAR FM entered into a Yen 300 million Revolving Credit Agreement with a Japanese bank. The bank required Paltac guarantee the outstanding balance on the revolving credit facility. As part of the joint venture agreement, should Paltac be required to make a payment on its guarantee to the bank, then the Company has agreed to remit to Paltac 50% of any such payment up to a maximum of Yen 150 million or approximately $1.4 million. As of December 31, 2003, SPAR FM has borrowed Yen 100 million under its Revolving Credit Agreement. Therefore, the Company's current exposure to Paltac respecting outstanding loans to SPAR FM at December 31, 2003 would be Yen 50 million or approximately $470,000. The Company has recorded approximately Yen 0.3 million in long-term liabilities for its share of the cumulative losses associated with this joint venture.

Legal Matters

On October 24, 2001, Safeway Inc., a former customer of the PIA Merchandising Co., Inc. and Pivotal Sales Company, filed a complaint alleging damages of approximately $3.6 million plus interest and costs and alleged punitive damages in an unspecified amount against the Company in Alameda County Superior Court, California, Case No. 2001028498 with respect to (among other things) alleged breach of contract. On or about December 30, 2002, the Court approved the filing of Safeway Inc.'s Second Amended Complaint, which alleges causes of action for (among other things) breach of contract against the Company, PIA Merchandising Co., Inc. and Pivotal Sales Company. The Second Amended Complaint was filed with the Court on January 13, 2003, and does not specify the amount of monetary damages sought. No punitive or exemplary damages are sought in Safeway Inc.'s Second Amended Complaint. This case is being vigorously contested by the Company.

The Company is a party to various legal actions and administrative proceedings arising in the normal course of business. In the opinion of Company management, disposition of these matters are not anticipated to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

7. Employee Benefits

Retirement/Pension Plans

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Employer contributions were approximately $87,000, $117,000 and $118,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Certain of the Company's employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Pension expense related to these plans was approximately $32,000, $60,000 and $77,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Stock Purchase Plans

The Company has Employee and Consultant Stock Purchase Plans (the "SP Plans"). The SP Plans allow employees and consultants of the Company to purchase common stock without having to pay any commissions on the purchases. On August 8, 2002, the Company's Board of Directors approved a 15% discount for employee purchases and recommended that its affiliates approve a 15% cash bonus for affiliate consultant purchases. The maximum amount that any employee or consultant can contribute to the SP Plans per quarter is $6,250, and the total number of shares reserved by the Company for purchase under the SP Plans is 500,000. During 2003, the Company transferred from Treasury Stock, for purchase under the plans, 9,848 shares at a weighted average price of $3.04 and purchased 12,713 shares at a weighted average price of $3.57. During 2002 and 2001, the Company issued 10,104 shares, and 2,638 shares of common stock, at a weighted average price of $2.51 and $1.90 per share, respectively.

8. Related-Party Transactions

The Company. is affiliated through common ownership with SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI") and SPAR Infotech, Inc. ("SIT"). The Company's CEO and Vice Chairman are sole owners of these affiliates. SMS and SMSI (through SMS) provided approximately 92% of the Company's field representatives (through its independent contractor field force) and substantially all of the Company's field management services. Under the terms of the Field Service Agreement, SMS provides the services of approximately 6,000 field representatives and SMSI provides approximately 80 full-time national, regional and district managers to the Company as they may request from time to time, for which the Company has agreed to pay SMS for all of its costs of providing those services plus 4%.

SIT provided Internet computer-programming services to the Company. Under the terms of the programming agreement between the Company and SIT effective as of October 1, 1998, SIT continues to provide programming services to the Company, for which the Company has agreed to pay SIT competitive hourly wage rates and to reimburse SIT's out-of-pocket expenses.

8. Related-Party Transactions (continued)

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

	Twelve Months Ended December 31,		
	2003	2002	2001

Services provided by affiliates:			
Independent contractor services (SMS)	$28,411	$ 23,262	$ 8,337
Field management services (SMSI)	$ 7,600	$ 7,280	$ 6,779
Internet and software program consulting services (SIT)	$ 1,607	$ 1,626	$ 1,185
Services provided to affiliates:			
Field management services (SMSI)	$ 805	$ 732	$ 390

Balance due to affiliates included in accrued expenses (in thousands):	December 31, 2003	2002	2001
SPAR Marketing Services, Inc.	$ 996	$ 932	$ 611
SPAR Infotech, Inc.	-	26	-
	$ 996	$ 958	$ 611

In addition to the above, through the services of Affinity Insurance, Ltd., the Company purchased insurance coverage for its casualty and property insurance risk for approximately $1.1 million for each of the three years ended December 31, 2003, 2002 and 2001. The Company's CEO and Vice Chairman own, through SMSI, a minority (less than 5%) equity interest in Affinity.

9. Stock Options

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

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of the Company's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The exercise price of nonqualified stock options must have been equal to at least 85% of the fair market value of the Company's common stock at the date of grant. Since 2000, the Company has not granted any new options under this Plan. At December 31, 2003, options to purchase 43,250 shares of the Company's common stock remain outstanding under this Plan. The 1995 Plan was superseded by the 2000 Stock Option Plan with respect to all new options issued.

9. Stock Options (continued)

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of the Company's common stock. Since 2000, the Company has not granted any new options under this Plan. During 2003, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2003, 20,000 options to purchase shares of the Company's common stock remained outstanding under this Plan. The Director's Plan has been replaced by the 2000 Plan with respect to all new options issued.

On July 8, 1999, in connection with the merger, the Company established the Special Purpose Stock Option Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were 134,114 options granted at $0.01

per share. Since July 8, 1999, the Company has not granted any new options under this plan. During 2003, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2003, options to purchase 25,750 shares of the Company's common stock remain outstanding under this Plan.

On December 4, 2000, the Company adopted the 2000 Plan, as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000 under the 1995 Plan). The options have a term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders for whom the term is five years. The exercise price of nonqualified stock options must be equal to at least 85% of the fair market value of the Company's common stock at the date of grant (although typically the options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of the Company's common stock at the date of grant. During 2003, options to purchase 401,020 shares of the Company's common stock were granted, options to purchase 143,641 shares of the Company's common stock were exercised and options to purchase 86,500 shares of the Company's stock were cancelled under this Plan. At December 31, 2003, options to purchase 2,180,060 shares of the Company's common stock remain outstanding under this Plan and options to purchase 743,344 shares of the Company's common stock were available for grant under this Plan.

9. Stock Options (continued)

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

	Shares	Weighted Average Exercise Price
Granted	2,564,844	$ 1.31
Exercised	(309,492)	1.30
Canceled or expired	(2,761,474)	5.00
Options outstanding, December 31, 2001	2,483,727	$ 1.42
Granted	332,792	$ 2.01
Exercised	(230,463)	1.23
Canceled or expired	(487,875)	5.05
Options outstanding, December 31, 2002	2,098,181	$ 1.52
Granted	401,020	$ 3.51
Exercised	(143,641)	1.17
Canceled or expired	(86,500)	2.38
Options outstanding, December 31, 2003	2,269,060	$ 1.85
Option price range at end of year	$0.01 to $14.00	

	2003	2002	2001
Grant Date weighted average fair value of options granted during the year	$ 2.33	$ 1.60	$ 1.28

9. Stock Options (continued)

The following table summarizes information about stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
Less than $1.00	184,972	7.2 years	$0.45	147,222	$0.38
$1.01 - $2.00	1,513,088	6.5 years	1.35	1,270,614	1.32
$2.01 - $4.00	473,750	8.9 years	3.02	62,194	2.61
Greater than $4.00	97,250	7.8 years	6.69	27,000	11.67
Total	2,269,060			1,507,030	

Outstanding warrants are summarized below:	Shares Subject to Warrants	Exercise Price Per Share
Balance, December 31, 2003	96,395	$2.78 - $8.51

The above warrants expire at various dates during 2004.

In 2003, the Company recorded an expense of $415,000 under the provision of SFAS No. 123 dealing with stock option grants to non-employees for stock option grants that were awarded to the employees of the Company's affiliates. The Company determines the fair value of the options granted to non-employees using the Black-Scholes valuation model and expenses that value over the service period. Until an option is vested, the fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

10. Notes Payable to Certain Stockholders

In April 2003, all previously outstanding amounts due certain stockholders under certain notes bearing interest at 8.0% were paid in full.

11. Segments

As a result of the Company's divestiture of its Incentive Marketing Division, the Company now operates solely in the Merchandising Services Industry Segment both in the domestic and international markets.

12. Restructuring Charges

In 1999, the Company's Board of Directors approved a plan to restructure the operations of the PIA Companies. Restructuring costs were composed of committed costs required to integrate the SPAR Companies and the PIA Companies' field organizations and the consolidation of administrative functions to achieve beneficial synergies and costs savings.

The following table displays a roll forward of the liabilities for restructuring charges from December 31, 2000 to December 31, 2003 (in thousands):

	Employee Separation	Equipment Lease Settlements	Office Lease Settlements	Total
December 31, 2000 balance	$ 487	$ 2,770	$ 544	$ 3,801
Adjustments in restructuring charges	(132)	-	-	(132)
2001 payments	(355)	(1,008)	(124)	(1,487)
December 31, 2001 balance	$ -	$ 1,762	$ 420	$ 2,182
2002 payments	-	(593)	-	(593)
December 31, 2002 balance	$ -	$ 1,169	$ 420	$ 1,589
Adjustments in restructuring charges	-	98	(185)	(87)
2003 payments		(817)		(817)
December 31, 2003, balance	$ -	$ 450	$ 235	$ 685

All remaining restructuring charges at December 31, 2003 are expected to be utilized in 2004. Management believes that the remaining reserves for restructuring are adequate to complete its plan.

13. Net (Loss) Income Per Share

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

	Twelve Months Ended December 31, 2003	2002	2001
Numerators:			
Net (loss) income from continuing operations	$ (539)	$ 5,298	$ 4,155
Loss from operations of discontinued division	-	-	(5,869)
Net (loss) income	$ (539)	$ 5,298	$ (1,714)
Denominator:			
Shares used in basic net (loss) income per share calculation	18,855	18,761	18,389
Effect of diluted securities:			
Employee stock options	-	387	78
Shares used in diluted net (loss) income per share calculations	18,855	19,148	18,467
Basic and diluted net (loss) income per common share:			
(Loss) income from continuing operations	$ (0.03)	$ 0.28	$ 0.23
Loss from operations of discontinued division	-	-	(0.32)

Net (loss) income	$ (0.03)	$ 0.28	$ (0.09)

The computation of dilutive loss per share excluded anti-dilutive stock options to purchase 657,000 shares as of December 31, 2003.

14. Quarterly Financial Data (Unaudited)

Quarterly data for 2003 and 2002 was as follows (in thousands, except earnings per share data):

	Quarter			
	First	Second	Third	Fourth
Year Ended December 31, 2003:				
Net revenues	$ 18,738	$ 17,351	$ 16,615	$ 12,155
Gross profit	7,487	6,205	5,235	3,594
Net income (loss)	$ 1,278	$ 608	$ (345)	$ (2,080)
Basic/diluted net income (loss) per common share	$ 0.07	$ 0.03	$ (0.02)	$ (0.11)
Year Ended December 31, 2002:				
Net revenues	$ 16,046	$ 17,542	$ 17,775	$ 18,249
Gross profit	6,295	6,951	7,015	9,020
Net income	$ 482	$ 1,068	$ 1,213	$ 2,535
Basic/diluted net income per common share	$ 0.03	$ 0.06	$ 0.06	$ 0.13

In the fourth quarter 2003, the Company experienced certain charges to revenue and cost of sales that are not expected to recur in the future. These charges accounted for approximately 50% of the loss in 2003 fourth quarter.

However, the Company did experience lower revenues from per unit fee contracts in the fourth quarter caused by decreased retail sales of some of the Company's larger clients products and the loss of a particular client earlier in the year.

SPAR Group, Inc. and Subsidiaries

Schedule II - Valuation and Qualifying Accounts

(In thousands)

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

Year ended December 31, 2002: Deducted from asset accounts:				
Allowance for doubtful accounts	$ 325	$ 262	$ 286	$ 301
Year ended December 31, 2001: Deducted from asset accounts:				
Allowance for doubtful accounts	$2,648	$ 472	$2,795	$ 325

(1) Uncollectible accounts written off, net of recoveries.

EXHIBIT 10.14

CONSENT, JOINDER, RELEASE AND AMENDMENT AGREEMENT

THIS CONSENT, JOINDER, RELEASE AND AMENDMENT AGREEMENT (this "Agreement") is entered into as of October 31, 2003, by and among SPAR MARKETING FORCE, INC. ("SMF"), SPAR, INC. ("SPAR"), SPAR/BURGOYNE RETAIL SERVICES, INC ("SBRS"), SPAR GROUP, INC. ("SGI"), SPAR INCENTIVE MARKETING, INC. ("SIM"), SPAR TRADEMARKS, INC. ("STM"), SPAR MARKETING, INC. (DE) ("SMIDE"), SPAR MARKETING, INC. (NV) ("SMINV"), SPAR ACQUISITION, INC. ("SAI"), SPAR GROUP INTERNATIONAL, INC. ("International"), SPAR TECHNOLOGY GROUP, INC. ("STG"), SPAR/PIA RETAIL SERVICES, INC. ("Pia Retail"), RETAIL RESOURCES, INC. ("Retail"), PIVOTAL FIELD SERVICES, INC. ("Pivotal Field"), PIA MERCHANDISING CO., INC. ("PIA"), PACIFIC INDOOR DISPLAY CO. ("Pacific"), PIVOTAL SALES COMPANY ("Pivotal") (each an "Existing Borrower" and collectively, "Existing Borrowers"), SPAR ALL STORE MARKETING SERVICES, INC., ("SAS") and WHITEHALL BUSINESS CREDIT CORPORATION ("Lender").

BACKGROUND

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

SGI, the direct or indirect parent of all of the other Existing Borrowers, has formed SAS, a Nevada corporation that is a wholly-owned Subsidiary of SGI, and Spar Canada, Inc., a Nevada corporation ("SCI"), that is a wholly-owned Unrestricted Subsidiary (as defined herein) of SGI. SCI has formed SPAR Canada Company, a Nova Scotia unlimited liability company ("SCC") as a wholly-owned Unrestricted Subsidiary of SCI.

The Existing Borrowers and SAS (together, but excluding International, each a "Borrower" and collectively the "Borrowers") each desire to add SAS as a Borrower and release International as a Borrower under (and as defined in) the Loan Agreement, and the Lender has agreed to do so. In addition, the consent of Lender under the Loan Agreement was required in connection with the formation of SAS, SCI and SCC, which consent is hereby given. To avoid the necessity of obtaining the consent of Lender for certain transactions in the future, Lender and Borrowers seek to amend the Loan Agreement to permit certain new acquisitions and investments.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Lender, and for other

good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

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

2. Joinder and Release.

(a) SAS hereby consents to being added and obligated as an additional Borrower under the Loan Agreement and the Ancillary Agreements, and the Borrowers and the Lender hereby agree that all references to "Borrower" or "Borrowers" thereunder and under the Ancillary Agreements shall be deemed to include SAS, and the definition of "Borrower" and "Borrowers" in the Loan Agreement is hereby amended to include SAS.

(b) Effective as of the Amendment No. 1 Effective Date, SAS hereby adopts the Loan Agreement and assumes in full, and acknowledges that it is jointly and severally liable for, the payment, discharge, satisfaction, and performance of all Obligations under the Loan Agreement and under the Ancillary Agreements. SAS hereby grants to Lender a continuing lien and security interest in all presently existing and hereafter arising Collateral that it now or hereafter owns or has an interest in, wherever located, to secure the prompt repayment of any and all Obligations owed to Lender and to secure the prompt performance by Borrowers of each and all of their covenants and obligations under the Loan Agreement and under the Ancillary Agreements. Lender's Lien and security interest in the Collateral shall attach to all Collateral without

further act on the part of Lender or SAS.

(c) Lender hereby releases International as a Borrower under the Loan Agreement and the Ancillary Agreements, and Borrowers and Lender hereby agree that all references to "Borrower" or "Borrowers" thereunder and under the Ancillary Agreements shall be deemed to exclude International.

3. Amendment. Subject to the satisfaction of Section 5 below, the Loan Agreement is hereby amended as follows:

(a) The definition of "Borrower" and "Borrowers" appearing in the preamble of the Loan Agreement are hereby amended to delete International.

(b) Section 1(A) is amended as follows:

(i) The definition of "EBITDA" is amended by deleting clause (iv) appearing therein and by inserting, in lieu thereof, the following:

"(iv) capitalized expenses of any Borrower or Guarantor which expenses were previously deducted from net income in calculating Earnings Before Interest and Taxes".

(ii) The following defined terms are amended and restated in its entirety to provide as follows:

"Fixed Charge Coverage Ratio" shall mean with respect to any fiscal period the ratio of (a) (i) EBITDA of Borrowers on a consolidated basis, minus (ii) Non-Financed Capital Expenditures made during such period (including, without limitation, capitalized expenditures for software) to (b) Fixed Charges.

"Fixed Charges" shall mean the sum (without duplication) with respect to any fiscal period of (i) all interest payments made on the Loans hereunder during such period, plus (ii) all dividends or other distributions to stockholders and other payments made or paid with respect to any indebtedness for money borrowed (excluding the principal amount of Revolving Advances but including all payments made on capitalized leases) during such period (including, without limitation, payments permitted under Section 12(n)(iii)), plus (iii) income or franchise taxes paid in cash during such period, plus (iv) payments on the Shareholders Notes during such period under Section 12(n)(iv) of this Agreement, plus, (v) PIA and SPAR Merger Payments made during such period, plus, (vi) capitalized expenses incurred in connection with investments made by any Borrower in any Unrestricted Subsidiary during such period, plus, (vii) the remainder for such period (excluding all capital contributions and loans made prior to September 1, 2003) of (A) all capital contributions and/or loans made by any Borrower to any Unrestricted Subsidiary during such period, minus, (B) all returns of capital, distributions and/or repayment of loans made to such Borrower from or on behalf of such Unrestricted Subsidiary during such period.

(iii) The following defined terms are added in their appropriate alphabetical order to provide as follows:

"Aggregate Consideration" shall mean, for all Borrowers with respect to each acquisition, an amount equal to the sum of (i) the cash purchase price for the assets acquired pursuant to such acquisition, plus, (ii) the aggregate amount of liabilities assumed for such acquisition, plus, (iii) any amounts payable to any Seller where aggregate payments are in excess of $250,000 per year for all employees, plus, (iv) Excess Contingent Payments, the payment of which is incurred in connection with the closing of the proposed acquisition (included in each of (i) through (iii) are payments which may be deferred so long as the amount of such payment is known at the time of the closing of the proposed acquisition).

"Amendment No. 1" shall mean the Consent, Joinder and Amendment to the Loan Agreement, dated as of October 31, 2003, among the Borrowers (including SAS) and Lender.

"Amendment No. 1 Effective Date" shall mean the date which all of the conditions precedent set forth in Section 5 of Amendment No. 1 have been satisfied.

"Contingent Payments" shall mean payments made to any Seller, in connection with the acquisition by any Borrower of all or a portion of the stock or all or substantially all of the assets of such Seller, which payments shall be contingent on the financial performance of the entity being acquired.

"Contract Criteria" shall mean the criteria utilized by any Borrower in determining Contingent Payments, which criteria shall be linked to earnings.

"Excess Contingent Payments" shall mean the remainder (which at no time shall be less than zero) of (a) Contingent Payments, minus (b) the remainder (which at no time shall be less than zero) of with respect to the acquired business (i) the product of (x) the projected Contract Criteria and (y) the number of years Contingent Payments will be made, minus (ii) the product of (x) the actual corresponding Contract Criteria for the four (4) quarter period ending no more than three (3) months prior to such acquisition and (y) the number of years Contingent Payments will be made. Schedule 1 attached hereto and made a part hereof sets forth examples of the above calculation. In the event a criteria, other than the Contract Criteria, is used by any Borrower in determining Contingent Payments, Borrower shall equate such criteria to a Contract Criteria and provide Lender with an estimate and analysis substantially similar to those set forth on Schedule 1. Upon receipt of such estimate and analysis, Lender shall determine the allowable Excess Contingent Payments.

"Permitted Acquisitions" shall mean the acquisition of all or a portion of the assets of a Person, formed or incorporated under the laws of any State or Commonwealth of the United States of America, by one or more Borrowers (a) that occurs at a time when (i) aggregate Undrawn Availability (inclusive of the Supplemental Amount) is greater than $2,500,000 after giving effect to the proposed acquisition and (ii) no Default or Event of Default has occurred or would occur after giving effect to the proposed acquisition; (b) with Aggregate Consideration in an amount not to exceed $1,500,000 in the aggregate from the Amendment No. 1

Effective Date through the last day of the Term, for all such transactions for all Borrowers; (c) that has not specifically been consented to by Lender and (d) pursuant to documentation in form and substance reasonably satisfactory to Lender and its counsel; provided, however, that in the event the acquiring entity of any acquisition is not a Borrower, (x) such acquiring entity would be required to be joined as a Borrower under the Loan Agreement pursuant to a Joinder Agreement substantially in the form of Exhibit 1 to Amendment No. 1 or (y) provided that Lender did not approve such acquiring entity to be joined as a Borrower under the Loan Agreement, such acquiring entity would be required to become a Guarantor pursuant to a Guaranty in form and substance satisfactory to Lender and, as security for all of the obligations under the Guaranty, to pledge all of its assets to Lender pursuant to a Guarantor Security Agreement in form and substance satisfactory to Lender."

"SAS" shall mean SPAR All Store Marketing Services, Inc., a

Nevada corporation.

"SCC" shall mean SPAR Canada Company, a Nova Scotia unlimited liability company.

"SCI" shall mean SPAR Canada, Inc., a Nevada corporation.

"Seller" shall mean any entity engaged in the sale of all or a portion of the stock or all or substantially all of the assets of a business or any person having an equity, membership, partnership or other capital interest in the Seller pursuant to an acquisition, employment or consulting agreement.

"Spar FM Credit Facility" shall mean that certain credit facility entered into between Spar, FM, a joint venture and Mizuho and UFJ in the amount of $2,400,000 pursuant to which Paltac, Inc. has guaranteed the entire amount of such credit facility and SGI has indemnified Paltac, Inc. for fifty percent (50%) of the outstanding principal balance at any one time.

"Unrestricted Subsidiary" shall mean any Subsidiary of any Borrower designated as such by the Board of Directors of such Borrower. The Board of Directors may designate any Subsidiary of such Borrower to be an Unrestricted Subsidiary if (i) such Subsidiary is formed primarily for the purpose of investing in or investing in an entity that is investing in entities, joint ventures or other businesses established under the laws of a foreign country, (ii) such Subsidiary is and remains a wholly-owned Subsidiary of

such Borrower, (iii) no Default or Event of Default is existing or will occur as a consequence of such investment, (iv) such Subsidiary and each of its Subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee, or otherwise become directly or indirectly liable with respect to any indebtedness pursuant to which the obligee has recourse to any Collateral of any Borrower or any Guarantor, and (v) such Subsidiary has not guaranteed or otherwise directly or indirectly provided credit support for any indebtedness of any Borrower or any Guarantor or any Subsidiary of any Borrower or any Guarantor. Each such designation shall be evidenced by filing with Lender a certified copy of the resolution giving effect to such designation and a certificate of the Secretary or other authorized officer certifying that such designation complied with the foregoing conditions. International, SCI and SCC are hereby designated Unrestricted Subsidiaries as of Amendment No. 1 Effective Date and shall remain as such provided the only assets of such entities consist of direct or indirect ownership interests in other Unrestricted Subsidiaries or entities, joint ventures or other businesses established under the laws of a foreign country. Any Subsidiary or joint venture of an Unrestricted Subsidiary shall be deemed an Unrestricted Subsidiary for purposes of this Agreement. Any Subsidiary deemed an Unrestricted Subsidiary shall neither be joined as a Borrower under the Loan Agreement nor become a Guarantor.

(iv) The definition of "Permitted Lien" is hereby amended by the addition of the following new clause at the end thereof (before the period):

"; and (x) liens upon any asset or property of any Unrestricted Subsidiary."

(c) Section 2(j) is amended and restated in its entirety to provide as follows:

"(a) In no event shall the aggregate outstanding balance of Revolving Advances plus Letters of Credit utilized by, or for the benefit of, (a) STG exceed $2,000,000 or (b) PIA Retail, Retail and Pivotal

exceed $500,000 individually."

(d) Section 12(n)(i) is amended and restated in its entirety to provide as follows:

> "(i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt) whether secured or unsecured other than Borrowers' indebtedness to Lender, except for (A) purchase money indebtedness incurred in the purchase of Equipment in the ordinary course of business so long as each obligation for purchase

> money indebtedness is secured only by the Equipment purchased, (B) obligations constituting indebtedness under GAAP arising under capitalized leases entered into in the ordinary course of business, (C) indebtedness of SCC guaranteed (on an unsecured basis) by SGI in an amount not to exceed $500,000, and (D) indebtedness incurred in connection with the closing of any Permitted Acquisitions (except for indebtedness assumed as permitted under and subject to the limitations contained in the definition of "Permitted Acquisitions"); provided, however, that the aggregate amounts permitted under clauses (A) and (B) shall not exceed $2,000,000 per annum in the aggregate for all Borrowers in any fiscal year.

(e) Section 12(n)(ii) is amended and restated in its entirety to provide as follows:

> "(ii) declare, pay or make any dividend or distribution on any shares of its common stock or preferred stock or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock issued by it; provided, however, Borrowers shall be permitted to make stock purchases in the aggregate of up to (x) $900,000 during fiscal year ending December 31, 2003 (the "2003 Limit"); provided, that up to $300,000 of any unutilized 2003 Limit may be carried over and utilized in any succeeding fiscal years, and (y) $500,000 during any fiscal year ending after January 1, 2004, provided, that the Borrowers shall have average Undrawn Availability of not less than $2,500,000 for the ten day period prior to each such buyback and would have Undrawn Availability of not less than $2,500,000 after giving affect to each such buyback;"

(f) Section 12(n)(v) is amended by deleting the word "and" before clause (E) and adding the following new clause at the end thereof (before the semi-colon):

> "and (F) any investment made by any Borrower in any Unrestricted Subsidiary, in the form of a capitalized expense, capital contribution or loan, for purposes of investing in or investing in an entity which is investing in entities or participating in joint ventures formed under the laws of a foreign country, provided that such investment shall not exceed $500,000 in the aggregate for all Borrowers made in all Unrestricted Subsidiaries during any fiscal year (with such limitation for fiscal year 2003 to be applicable only with respect to investments during the period September 1, 2003 through December 31, 2003).

(g) Section 12(n)(vi) is amended by deleting the word "or" before clause (D) and adding the following new clause at the end thereof (before the semi-colon):

", or (E) in connection with the Spar FM Credit Facility up to an amount not to exceed $1,200,000 in the aggregate;

(h) Section 12(n)(vii) is amended and restated in its entirety to provide as follows:

"(vii) enter into any merger, consolidation or other reorganization with or into any other Person (other than a Borrower) or, other than pursuant to a Permitted Acquisition, acquire all or a portion of the stock or all or substantially all of the assets of any Person (other than a Borrower or an Unrestricted Subsidiary) or permit any other Person (other than a Borrower) to consolidate with or merge with it (so long as the surviving Person of any merger or consolidation with a Borrower or the acquiring Person of any acquisition of a Borrower is a Borrower);"

(i) Section 12(n)(viii) is amended and restated in its entirety to provide as follows:

"(viii) form any Subsidiary or enter into any partnership, joint venture or similar arrangement other than an Unrestricted Subsidiary or pursuant to a Permitted Acquisition;"

(j) Section 12(n)(xi) is amended and restated in its entirety to provide as follows:

"(xi) enter into any transaction with any Affiliate, except in ordinary course on arms-length terms, and except for investments, capital contributions and loans permitted in Unrestricted Subsidiaries hereunder and the repayment thereof;"

(k) Section 19(viii) is amended and restated in its entirety to provide as follows:

"(viii) any lien created hereunder or under any Ancillary Agreement for any reason ceases to be or is not a valid and perfected lien having a first priority interest, excluding, however, (i) liens upon Collateral that may be collected, sold or otherwise disposed of from time to time as contemplated under this Agreement or any Ancillary Agreement, (ii) liens whose perfection lapses through the action or inaction of Lender notwithstanding accurate information timely provided to Lender by Borrowers, (iii) liens upon any asset or property of any Unrestricted Subsidiary, or (iv) liens upon Collateral having a value secured in an amount not to exceed $100,000 in the aggregate for all Borrowers;"

(l) Section 19(xi) is amended and restated in its entirety to provide as follows:

"(xi) any Guarantor or any Subsidiary (other than an Unrestricted Subsidiary, provided, however, outstanding liabilities of such Unrestricted Subsidiary shall not exceed $500,000) shall (i) apply for or consent to the appointment of, or the taking possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the

benefit of creditors, (iv) commence a voluntary case under the federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within forty-five (45) days, (x) any petition filed against it in any involuntary case under such bankruptcy laws, or (y) any proceeding or petition seeking the appointment of a receiver, custodian, trustee or liquidator of itself or all or a substantial part of its property or (viii) take any action for the purpose of effecting any of the foregoing;

4. Consent. Subject to the satisfaction of Section 5 below Lender hereby consents to (i) the formation and joinder of SAS, (ii) the acquisition by SAS pursuant to, and on substantially the terms set forth in, the Asset Purchase and Sale Agreement dated as of February 28, 2003 between All Store Marketing Services, Inc. and SAS, (iii) the formation of SCI and (iv) the formation of and acquisition by SCC pursuant to, and substantially on the terms set forth in, the Asset Purchase and Sale Agreement dated (as of) June 14, 2003, between SCC and Kaboom Entertainment Inc., and the Consulting Agreement dated (as of) June 14, 2003, between Devco Productions Inc. and SCC.

5. Conditions of Effectiveness. This Agreement shall become effective as of the date hereof, provided that the following conditions shall have been satisfied (unless any condition is waived by Lender): Lender shall have received (i) four (4) copies of this Agreement executed by the Borrowers (including SAS), (ii) an Officer's Certificate, together with attachments, substantially identical to those provided in connection with the closing of the Loan Agreement as same applies to SAS, (iii) an opinion of counsel from Jenkens & Gilchrist Parker Chapin LLP covering the items which were opined upon in its January 24, 2003 opinion letter as such items apply to SAS, (iv) a Secretary's Certificate and resolutions, all in form and substance satisfactory to Lender and its counsel for SAS, (v) four (4) executed copies of an amendment to the Pledge Agreement of SGI, pursuant to which all of the stock of SAS is pledged to Lender, such amendment to be in form and substance satisfactory to Lender, (vi) stock certificates and stock powers with respect to all of the stock of SAS, and (vii) such other certificates, instruments, documents, agreements and opinions of counsel as may be required by Lender or its counsel, each of which shall be in form and substance satisfactory to Lender and its counsel.

6. Representations, Warranties and Covenants. Each of the Borrowers (including SAS) hereby represents, warrants and covenants as follows:

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

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

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

7. Effect on the Loan Agreement.

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

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

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

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

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

[Remainder of page intentionally left blank]

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

SPAR MARKETING FORCE, INC.

By:___________________________
Name:
Title:

SPAR, INC.

By:___________________________
Name:
Title:

SPAR MARKETING FORCE, INC.

By:___________________________
Name:
Title:

SPAR, INC.

By:___________________________
Name:
Title:

SPAR/BURGOYNE RETAIL SERVICES, INC.

By:___________________________
Name:
Title:

SPAR INCENTIVE MARKETING, INC.

By:___________________________
Name:
Title:

SPAR TRADEMARKS, INC.

By:____________________________
Name:
Title:

SPAR MARKETING, INC. (DE)

By:____________________________
Name:
Title:

SPAR MARKETING, INC. (NV)

By:____________________________
Name:
Title:

SPAR ACQUISITION, INC.

By:____________________________
Name:
Title:

SPAR GROUP INTERNATIONAL, INC.

By:____________________________
Name:
Title:

SPAR TECHNOLOGY GROUP, INC.

By:____________________________
Name:
Title:

SPAR/PIA RETAIL SERVICES, INC.

By:____________________________
Name:
Title:

RETAIL RESOURCES, INC.

By:____________________________
Name:
Title:

PIVOTAL FIELD SERVICES, INC.

By:____________________________
Name:
Title:

PIA MERCHANDISING CO., INC.

By:____________________________
Name:
Title:

PACIFIC INDOOR DISPLAY CO.

By:___________________________
Name:
Title:

PIVOTAL SALES COMPANY

By:___________________________
Name:
Title:

SPAR GROUP, INC.

By:___________________________
Name:
Title:

SPAR ALL STORE MARKETING
SERVICES, INC.

By:___________________________
Name:
Title:

WHITEHALL BUSINESS CREDIT
CORPORATION

By:___________________________
Name:
Its:

Schedule I

Example 1:

If the contract criteria for a Contingent Payment of $150,000 per year for 5 years required that the acquired business must have EBIT of $500,000 for each year, and the historical EBIT for the last twelve months of the acquired business prior to acquisition was $600,000, the Excess Contingent Payments would be $750,000, calculated as follows:

(a) Contingent Payments = $750,000 ($150,000 x 5)

minus

(b) The remainder (but not less than zero) of:

(i) the projected contract criteria results for the payment period = $2,500,000 ($500,000 projected EBIT x 5),

minus

(ii) actual corresponding contract criteria = $3,000,000 ($600,000 EBIT x 5).

Equals $750,000 minus ($2,500,000 minus $3,000,000) = $750,000.

Example 2:

If the contract criteria for a Contingent Payment of $150,000 per year for 5 years required that the acquired business must have EBIT of $500,000 for each

year, and the historical EBIT for the last twelve months of the acquired business prior to acquisition was $200,000, the Excess Contingent Payments would be $0, calculated as follows:

(a) Contingent Payments = $750,000 ($150,000 x 5)

minus

(b) The remainder (but not less than zero) of:

(i) the projected contract criteria results for the payment period = $2,500,000 ($500,000 projected EBIT x 5),

minus

(ii) Actual corresponding contract criteria = $1,000,000 ($200,000 EBIT x 5).

Equals $750,000 minus ($2,500,000 minus $1,000,000) = $0.

Example 3:

If the contract criteria for a Contingent Payment of $150,000 per year for 5 years required that the acquired business must have EBIT of $500,000 for each year, and the historical EBIT for the last twelve months of the acquired business prior to acquisition was $400,000, the Excess Contingent Payments would be $250,000, calculated as follows:

(a) Contingent Payments = $750,000 ($150,000 x 5)

minus

(b) The remainder (but not less than zero) of:

(i) the projected contract criteria results for the payment period = $2,500,000 ($500,000 projected EBIT x 5),

minus

(ii) Actual corresponding contract criteria = $2,000,000 ($400,000 EBIT x 5).

Equals $750,000 minus ($2,500,000 minus $2,000,000) = $250,000.

Example 4:

[Excess Contingent Payment calculation when Contingent Payments are based upon a percentage of sales]

Exhibit 21.1

SPAR Group, Inc.
List of Subsidiaries

Subsidiary	State of Incorporation
PIA Merchandising Co., Inc.	California
PIA Merchandising Limited	Nova Scotia
Pacific Indoor Display Co.	California
Pivotal Field Services	Nevada
Pivotal Sales Company	California
Retail Resources, Inc.	Nevada
SPAR Acquisition, Inc.	Nevada
SPAR All Store Marketing Services, Inc.	Nevada
SPAR Bert Fife, Inc.	Nevada
SPAR/Burgoyne Retail Services, Inc. (f/k/a SPAR Retail Information, Inc.)	Ohio
SPAR Canada Company	Nova Scotia
SPAR Canada, Inc.	Nevada
SPAR Group International, Inc.	Nevada
SPAR Inc. (f/k/a SPAR/Burgoyne Information Services, Inc.)	Nevada
SPAR Incentive Marketing, Inc.	Delaware
SPAR International LTD.	Cayman Islands
SPAR Japan, Inc.	Japan
SPAR Marketing, Inc.	Nevada
SPAR Marketing, Inc. (f/k/a SPAR Acquisition, Inc.)	Delaware
SPAR Marketing Force, Inc.	Nevada
SPAR Megaforce, Inc.	Nevada
SPAR/PIA Retail Services, Inc.	Nevada
SPAR Technology Group, Inc. (f/k/a SPARinc.com, Inc.)	Nevada
SPAR Trademarks, Inc.	Nevada
SPAR Turkey, Inc.	Turkey

Exhibit 23.1

Consent of Independent Auditors

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

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 29, 2004

EXHIBIT 31.1

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

I, Robert G. Brown, certify that:

1. I have reviewed this annual report on Form 10-K of SPAR Group, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 30, 2004

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and
Chief Executive Officer

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 annual report on Form 10-K of SPAR Group, Inc.;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

(a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 30, 2004

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

EXHIBIT 32.1

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report"), by SPAR Group, Inc. (the "Registrant"), the undersigned hereby certifies that, to his knowledge:

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

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

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and
Chief Executive Officer

March 30, 2004

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

EXHIBIT 32.2

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Report"), by SPAR Group, Inc. (the "Registrant"), the undersigned hereby certifies that, to his knowledge:

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

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

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

March 30, 2004

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.