

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, 2004

OR

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

Commission file number 0-27824

SPAR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0684451
(I.R.S. Employer
Identification No.)

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

10591
(Zip Code)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding twelve months (or for such shorter period that the
Registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES NO

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

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

The aggregate market value of the Common Stock of the Registrant held by
non-affiliates of the Registrant on June 30, 2004, based on the closing price of
the Common Stock as reported by the Nasdaq Small Cap Market on such date, was
approximately \$4,799,006.

The number of shares of the Registrant's Common Stock outstanding as of
December 31, 2004, was 18,858,972 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

Statements contained in this Annual Report on Form 10-K of SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), include "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, 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

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. In 2002, the Company sold its Incentive Marketing Division, SPAR Performance Group, Inc. ("SPGI"). The Company's operations are divided into two divisions: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Domestic Merchandising Services Division provides merchandising services, in-store event staffing, product sampling, database marketing, technology services, teleservices and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, drug store chains, convenience and grocery stores. The International Merchandising Services Division established in July 2000, currently provides similar merchandising services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in India, South Africa and Turkey, and through a 50% owned joint venture in Japan. The Company recently established a 50% owned joint venture in China and a 51% owned joint venture subsidiary in Romania and expects to offer merchandising services in these countries in 2005.

Continuing Operations

Domestic Merchandising Services Division

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

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

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

International Merchandising Services Division

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

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

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

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

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

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

December 2004, the Company established a 51% owned joint venture subsidiary headquartered in Bucharest, Romania.

In February 2005, the Company announced the establishment of a 50% owned joint venture headquartered in Hong Kong, China.

Discontinued Operations

Incentive Marketing Division

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

Technology Division

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

INDUSTRY OVERVIEW

Domestic Merchandising Services Division

According to industry estimates over two billion dollars are spent annually on domestic retail merchandising 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

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products and providing in-store event staffing services. The Company provides other marketing 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 or remodeled approximately every twenty-four months. Both retailers and manufacturers are seeking third parties to help them meet the increased demand for these labor-intensive services.

International Merchandising Services Division

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

PIA ACQUISITION

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

BUSINESS STRATEGY

As the marketing services industry continues to grow, consolidate and expand both in the United States and internationally, large retailers and manufacturers are increasingly outsourcing their 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 its industry expertise, adding product segments, and increasing its geographic breadth will allow it to service its clients more efficiently and cost effectively. As part of its acquisition strategy, the Company is actively exploring a number of potential acquisitions, predominately in its core merchandising service businesses (which includes in-store event staffing services). 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 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. In April 2004, the Company established a joint venture subsidiary in South Africa. The joint venture subsidiary is headquartered in Durban and is owned 51% by the Company. Also in April 2004, the Company announced the establishment of a joint venture subsidiary in India and started operations during the third quarter. The joint venture subsidiary is headquartered in New Delhi and is 51% owned by the Company. In January 2005, the Company announced the establishment of a joint venture subsidiary in Romania and is owned 51% by the Company. In February 2005, the Company announced the establishment of a joint venture in China which is 50% owned by the Company.

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 Domestic 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 Domestic Merchandising Services Division.

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

Domestic Merchandising Services Division

The Company provides a broad array of merchandising services on a national, regional, and local basis to manufacturers and retailers in the United States. 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:

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

Dedicated Services

Dedicated services consist of merchandising services, generally as

described above, which are performed for a specific retailer or manufacturer by a dedicated organization, including a management team working exclusively

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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:

Event Staffing Services - Performing in-store product demonstrations or product sampling.

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 that will be critical to 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 the status of each store they service upon completion either through the Internet or using Interactive Voice Response ("IVR") through its Auburn Hills telecommunication center. Merchandising specialists report on a variety of issues such as store conditions (e.g. out of stocks, inventory, display placement) or they may scan and process new orders for products. This information is reported, analyzed and displayed in a variety of reports that can be accessed by both the Company and its customers via the Internet. These reports can depict the status of every merchandising project in real time.

Through the Company's automated labor tracking system, its merchandising specialists communicate work assignment completion information via the Internet or telephone, enabling the Company to report hours, 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.

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International Merchandising Services Division

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

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

SALES AND MARKETING

Domestic Merchandising Services Division

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

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

The Company's business development process includes a due diligence period to determine the objectives of the prospective client, the work required to satisfy those objectives and the market value of such work to be performed. The Company employs a formal cost development and proposal process that determines the cost of each element of work required to achieve the prospective client's objectives. These costs, together with an analysis of market rates, are

used in the development of a formal quotation that is then reviewed at various levels within the organization. The pricing of this internal proposal must meet the Company's objectives for profitability, which are established as part of the business planning process. After approval of this quotation, a detailed proposal is presented to and approved by the prospective client.

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International Merchandising Services Division

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

CUSTOMERS

Domestic Merchandising Services Division

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

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

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

One customer accounted for 14%, 8%, and 6% of the Company's net revenues for the years ended December 31, 2004, 2003, and 2002, respectively. This customer also accounted for approximately 29%, 13%, and 4% of accounts receivable at December 31, 2004, 2003, and 2002, respectively.

In addition, approximately 16%, 17%, and 24% of net revenues for the years ended December 31, 2004, 2003, and 2002, respectively, resulted from merchandising services performed for manufacturers and others in stores operated by Kmart. These customers also accounted for approximately 22% of accounts receivable at December 31, 2004. 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.

Another customer, a division of a major retailer, accounted for 26%, 30%, and 26% of the Company's net revenues for the years ended December 31, 2004, 2003, and 2002, respectively. This customer also accounted for approximately 4%, 30%, and 43% of accounts receivable at December 31, 2004, 2003, and 2002, respectively. On August 2, 2004, this customer was sold by its parent.

International Merchandising Services Division

The Company believes that the potential international customers for this division have similar profiles to its Domestic Merchandising Services Division customers. The Company is currently operating in Japan, Canada, Turkey, South Africa and India. The Company announced the establishment of a 51% owned joint venture subsidiary in Romania in late 2004 and a 50% owned joint venture in China in early 2005. The Company is actively pursuing expansion into Europe and other markets.

COMPETITION

The marketing services industry is highly competitive. The Company's competition in the Domestic and International Merchandising Services Divisions arises from a number of large enterprises, many of which are national or international in scope. The Company also competes with a large number of relatively small enterprises with specific client, channel or geographic coverage, as well as with the internal marketing and merchandising operations of its clients and prospective clients. The Company believes that the principal competitive factors within its industry include development and deployment of technology, breadth and quality of client services, cost, and the ability to execute specific client priorities rapidly and consistently over a wide geographic area. The Company believes that its current structure favorably addresses these factors and establishes it as a leader in the mass merchandiser and chain drug store channels of trade. The Company also believes it has the ability to execute major national and international in-store initiatives and develop and administer national and international retailer programs. Finally, the Company believes that, through the use and continuing improvement of its proprietary Internet software, other technological efficiencies and various cost controls, the Company will remain competitive in its pricing and services.

TRADEMARKS

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

EMPLOYEES

Worldwide the Company utilizes a labor force of approximately 7,700 people.

As of December 31, 2004, the Company's Domestic Merchandising Services Division's labor force consisted of approximately 6,500 people. Approximately 150 were full-time employees and 15 were part-time employees of the Company. Of the 150 full-time Company employees, 143 were engaged in operations and 7 were engaged in sales. The Company's Domestic Merchandising Services Division utilizes the services of its affiliate, SPAR Management Services, Inc. ("SMSI"), to schedule and supervise its field force, which consists of the independent contractors furnished by another affiliate SPAR Marketing Services, Inc. ("SMS") (see Item 13 - Certain Relationships and Related Transactions, below) as well as the Company's field employees. Approximately 6,300 independent contractors and approximately 50 full-time field managers are furnished principally through SMS and SMSI, respectively.

As of December 31, 2004, the Company's International Merchandising Services Division's labor force consisted of approximately 1,200 people. Approximately 50 full-time employees were engaged in operations and 3 were engaged in sales. The International Division's field force consisted of approximately 700 full time employees, 70 part time employees and approximately 380 independent contractors.

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

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

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.

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Dependency on Largest Customers

As discussed above in Customers, the Company does a significant amount of business with one customer and performs a significant amount of services in Kmart. The loss of this customer or the loss of Kmart related business and the failure to attract new large customers, could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence on Trend Toward Outsourcing

The business and growth of the Company depends in large part on the continued trend toward outsourcing of 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) seasonality of customer products; (iii) customer delays, changes and cancellations in projects; (iv) the timing requirements of customer projects; (v) the completion of major customer projects; (vi) the timing of new engagements; (vii) the timing of personnel cost increases; and (viii) 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. 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

or oral 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

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products or to complete the development or implementation of a particular product for use on a large scale, or the failure of such products to achieve market acceptance, could adversely affect the Company's ability to achieve a significant part of its growth strategy and the absence of such growth could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

Inability to Identify, Acquire and Successfully Integrate Acquisitions

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

The successful integration of these acquisitions also may involve a number of additional risks, including: (i) the inability to retain the 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. In addition, any acquired business could perform significantly worse than expected.

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

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

The timing, size and success of acquisition efforts and any associated capital commitments cannot be readily predicted. Future acquisitions may be financed by issuing shares of the Company's Common Stock, cash, or a combination of Common Stock and cash. If the Company's Common Stock does not maintain a sufficient market value, or if potential acquisition candidates are otherwise unwilling to accept the Company's Common Stock as part of the consideration for the sale of their businesses, the Company may be required to obtain additional capital through debt or equity financings. To the extent the Company's Common Stock is used for all or a portion of the consideration to be paid for future acquisitions, dilution may be experienced by existing stockholders. 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.

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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 45.5% of the Company's outstanding Common Stock, and Mr. William H. Bartels, founder, director, and Vice Chairman of the Company beneficially owns approximately 29.4% 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 Small Cap Market, the trading volume in such stock may be limited and an investment in the Company's securities may be illiquid because the founders own a significant amount of the Company's stock.

Dependence Upon and Potential Conflicts in Services Provided by Affiliates

The success of the Company's domestic business is dependent upon the successful execution of its field services by SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), as well as the programming services provided by SPAR Infotech, Inc. ("SIT"), each of which is an affiliate, but not a subsidiary, of the Company, and none of which is consolidated in the Company's financial statements. SMS provides substantially all of the field representatives used by the Company in conducting its domestic business (87% of field expense in 2004), 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 and SIT (collectively, the "SPAR Affiliates") are owned solely by Mr. Robert G. Brown, founder, director, Chairman, President and Chief Executive Officer of the Company, and Mr. William H. Bartels, founder, director, and Vice Chairman of the Company, each of whom are also directors and executive officers of each of the SPAR Affiliates (see Item 13 - Certain Relationships and Related Transactions, below). In the event of any dispute in the business relationships between the Company and one or more of the SPAR Affiliates, it is possible that Messrs. Brown and Bartels may have one or more conflicts of interest with respect to those relationships and could cause one or more of the SPAR Affiliates to renegotiate or cancel their contracts with the Company or otherwise act in a way that is not in the Company's best interests.

While the Company's relationships with SMS, SMSI and SIT are excellent, there can be no assurance that the Company could (if necessary under the circumstances) replace the field 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.

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

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

Risks Associated with International Joint Ventures

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

Risks Associated with Foreign Currency

The Company also has foreign currency exposure associated with its international joint venture subsidiaries and joint ventures. In 2004, these exposures are primarily concentrated in the Canadian dollar, Japanese yen and South African rand.

Risks Associated with International Business

The Company's expansion strategy includes expansion into various countries around the world. While the Company endeavors to limit its exposure by entering only countries where the political, social and economic environments are conducive to doing business in that country there can be no assurances that the respective business environments will remain favorable.

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 2006.

The Company leases certain office and storage facilities for its corporate headquarters, 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.

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

Location	Office Use	Approximate Square Footage
Domestic:		
Tarrytown, NY	Corporate Headquarters	6,000
Auburn Hills, MI	Regional Office and Warehouse	27,000
Cincinnati, OH	Regional Office	5,300
International:		
Canada		
Toronto, Ontario	Headquarters	4,000
Japan		
Osaka	Headquarters	1,200
Tokyo	Regional Office	1,000
Nagoya	Regional Office	600
Hukuoka	Regional Office	400
Turkey		
Istanbul	Headquarters	4,600
South Africa		
Durban	Headquarters	3,100
Port Elizabeth	Regional Office	900
Western Cape	Regional Office	2,900
Johannesburg	Regional Office	2,000
India		
New Delhi	Headquarters	4,300

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.

Safeway Inc. ("Safeway"), filed a Complaint against the PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of the Company, and Pivotal Sales Company ("Pivotal"), a wholly owned subsidiary of PIA Co., and SGRP in Alameda Superior Court, case no. 2001028498 on October 24, 2001, and has subsequently amended it. Safeway alleges causes of action for breach of contract, breach of implied contract, breach of fiduciary duty, conversion, constructive fraud, breach of trust, unjust enrichment, and accounting fraud. Safeway has most recently alleged monetary damages in the principal sum of \$3,000,000 and probable interest of \$1,000,000 and has also demanded unspecified costs. PIA Co., Pivotal and SGRP filed cross-claims against Safeway on or about March 11, 2002, and amended them on or about October 15, 2002, alleging causes of action by them against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment and seeking damages and injunctive relief. Mediation between the parties occurred in 2004, but did not result in a settlement. PIA Co., Pivotal and SGRP are vigorously defending Safeway's allegations. It is not possible at this time to determine the likelihood of the outcome of this lawsuit. However, if Safeway prevails respecting its allegations, and PIA Co., Pivotal and SGRP lose on their cross-claims and counterclaims, that result could have a material adverse effect on the Company. The Company anticipates that this matter will be resolved in 2005.

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

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

None.

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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 Small Cap Market.

	2004		2003	
	High	Low	High	Low
First Quarter	\$ 3.44	\$ 2.30	\$ 3.60	\$ 2.42
Second Quarter	2.33	0.85	5.55	3.05
Third Quarter	1.50	0.75	5.32	3.17
Fourth Quarter	1.80	0.36	4.57	3.00

As of December 31, 2004, there were approximately 700 beneficial shareholders of the Company's Common Stock.

Dividends

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

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

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.

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SPAR Group, Inc.
Condensed Consolidated Statements of Operations

(In thousands, except per share data)

Year Ended December 31,

	2004	2003	2002	2001	2000
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$ 51,370	\$ 64,859	\$ 69,612	\$ 70,891	\$ 81,459
Cost of revenues	33,644	42,338	40,331	40,883	50,278
Gross profit	17,726	22,521	29,281	30,008	31,181
Selling, general and administrative expenses	20,222	20,967	18,804	19,380	24,761
Impairment charges	8,141	-	-	-	-
Depreciation and amortization	1,399	1,529	1,844	2,682	2,383
Operating (loss) income	(12,036)	25	8,633	7,946	4,037
Other (income) expense	(754)	237	(26)	107	(790)
Interest expense	220	269	363	561	1,326
(Loss) income from continuing operations before provision for income taxes and minority interest	(11,502)	(481)	8,296	7,278	3,501
Income tax provision	853	58	2,998	3,123	780
(Loss) income from continuing operations before minority interest	(12,355)	(539)	5,298	4,155	2,721
Minority interest	87	-	-	-	-
Discontinued operations:					
Loss from discontinued operations net of tax benefits of \$935 and \$858, respectively	-	-	-	(1,597)	(1,399)
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	\$ (12,268)	\$ (539)	\$ 5,298	\$ (1,714)	\$ 1,322
Basic/diluted net (loss) income per common share:					
Net (loss) income from continuing operations	\$ (0.65)	\$ (0.03)	\$ 0.28	\$ 0.23	\$ 0.15
Discontinued operations:					
Loss from discontinued operations	-	-	-	(0.09)	(0.08)
Estimated loss on disposal of discontinued operations	-	-	-	(0.23)	-
Net loss from discontinued operations	-	-	-	(0.32)	(0.08)
Basic/diluted net (loss) income	\$ (0.65)	\$ (0.03)	\$ 0.28	\$ (0.09)	\$ 0.07
Weighted average shares outstanding					
- basic	18,859	18,855	18,761	18,389	18,185
- diluted	18,859	18,855	19,148	18,467	18,303

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December 31,

	2004	2003	2002	2001	2000
BALANCE SHEET DATA:					
Working capital (deficiency)	\$ 962	\$ 4,085	\$ 6,319	\$ 8,476	\$ (2,273)
Total assets	\$ 15,821	\$ 28,137	\$ 28,800	\$ 41,155	\$ 48,004
Lines of credit, current	\$ 4,956	\$ 4,084	\$ -	\$ 57	\$ 1,143
Lines of credit and other long-term debt(1)	\$ 218	\$ 270	\$ 383	\$ 13,287	\$ 10,093
Total stockholders' equity	\$ 3,714	\$ 16,023	\$ 16,592	\$ 10,934	\$ 12,240

(1) Prior to 2003, the Company's lines of credit were charged to long-term liabilities (net of current portion).

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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 Domestic Merchandising Services Division. Internationally, the Company provides in-store merchandising services through a wholly owned subsidiary in Canada, 51% owned joint venture subsidiaries in Turkey, South Africa and India and a 50% owned joint venture in Japan. In December 2004, the Company established a 51% owned joint venture subsidiary in Romania. In February 2005, the Company established a 50% owned joint venture in China. In 2004, the Company consolidated Canada, Turkey, South Africa, India and Japan into the Company's financial statements. Romania did not have operations in 2004.

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 (see Item 6 - Selected Financial Data, above).

Critical Accounting Policies & Estimates

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Note 2 to the 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. Four critical accounting policies are consolidation of subsidiaries, revenue recognition, allowance for doubtful accounts and sales allowances, and internal use software development costs:

Consolidation of subsidiaries

The Company consolidates its 100% owned subsidiaries. The Company also consolidates its 51% owned joint venture subsidiaries and its 50% owned joint ventures where the Company is the primary beneficiary because the Company believes this presentation is fairer and more meaningful. Rule 3A-02 of Regulation S-X, Consolidated Financial Statements of the Registrant and its Subsidiaries, states that consolidated statements are presumed to be more meaningful, that majority owned subsidiaries (more than 50%) generally should be consolidated, and that circumstances may require consolidation of other subsidiaries to achieve a fairer presentation of its financial condition and results. In addition, the Company has determined that under Financial Accounting Standards Board Interpretation Number 46, as revised December 2003, Consolidation of

Variable Interest Entities ("FIN 46(R)"), the Company is the primary beneficiary of its 51% owned joint venture subsidiaries and its 50% owned joint ventures, which accordingly requires consolidation of those entities into the Company's financial statements.

Revenue Recognition

The Company's services are provided under contracts or agreements that consist primarily of service fees and per unit fee arrangements. Revenues under service fee arrangements are recognized when the service is performed.

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The Company's per unit contracts or agreements provide for fees to be earned based on the retail sales of client's products to consumers. The Company recognizes per unit fees in the period such amounts become determinable and are reported to the Company.

Allowance for Doubtful Accounts and Sales Allowances

The Company continually monitors the validity of its accounts receivable based upon current customer credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$761,000 and \$515,000 at December 31, 2004 and 2003, respectively. The Company also recorded a reserve for sales allowances for potential customer credits of \$448,000 at December 31, 2003. Bad debt and sales allowance expenses were \$366,000, \$825,000, and \$262,000 in 2004, 2003, and 2002, respectively.

Internal Use Software Development Costs

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

The Company capitalized \$559,000, \$1,004,000, and \$772,000 of costs related to software developed for internal use in 2004, 2003, and 2002, respectively.

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

Results of operations

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

	Year Ended December 31, 2004		Year Ended December 31, 2003		Year Ended December 31, 2002	
	(dollars in millions)					
	Dollars	%	Dollars	%	Dollars	%
Net revenues	\$ 51.4	100.0%	\$ 64.9	100.0%	\$ 69.6	100.0%
Cost of revenues	33.6	65.5	42.3	65.3	40.3	57.9
Selling, general & administrative expenses	20.2	39.4	21.0	32.3	18.8	27.0
Impairment charges	8.1	15.8	-	-	-	-

Depreciation & amortization	1.4	2.7	1.5	2.3	1.8	2.6
Other (income) expenses, net	(0.4)	(1.0)	0.5	0.8	0.4	0.6
(Loss) income before income tax provision	(11.5)	(22.4)	(0.4)	(0.7)	8.3	11.9
Provision for income taxes	0.9	1.7	0.1	0.1	3.0	4.3
(Loss) income before minority interest	(12.4)	(24.1)%	(0.5)	(0.8)%	5.3	7.6%
Minority interest	0.1	0.2	-	-	-	-
Net (loss) income	\$ (12.3)	(23.9)%	\$ (0.5)	(0.8)%	\$ 5.3	7.6%

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

Net Revenues

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

Cost of Revenues

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

Operating Expenses

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

	Year Ended December 31, 2004		Year Ended December 31, 2003		Increase (decrease)
	Dollars	(dollars in millions) %	Dollars	%	
Selling, general & administrative	\$ 20.2	39.4%	\$ 21.0	32.3%	(3.6)%
Impairment charges	8.1	15.8	-	-	-
Depreciation and amortization	1.4	2.8	1.5	2.3	(8.5)%
Total operating expenses	\$ 29.7	58.0%	\$ 22.5	34.6%	32.3%

Selling, general and administrative expenses decreased by \$0.8 million, or 3.6%, for the twelve months ended December 31, 2004, to \$20.2 million compared to \$21.0 million for the twelve months ended December 31, 2003. Domestic selling, general and administrative expenses totaled \$16.7 million for 2004 and were reduced \$3.3 million from \$19.9 million in 2003. The reduction of

16.1% was a result of cost reduction programs initiated in 2004 as a result of the loss of certain large customers partially offset by restructure costs of \$480,000 expensed in 2004 compared to no expense in 2003. Restructure costs included office lease and employee severance costs. The domestic cost reductions were partially offset by increases of \$2.5 million in international selling, general and administrative expenses resulting from the consolidation of Japan, the acquisition of South Africa, and a full year of Canadian operations, as well as, the Turkey and India joint venture startups.

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

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

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Other Income/Other Expense

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

Interest Expense

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

Income Taxes

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

Net (Loss) Income

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

Off Balance Sheet Arrangements

None.

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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, 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	%	Dollars	%	
	(dollars in millions)				
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 of \$0.4 million, postage and material expense of \$0.6 million, stock option expense for non-employees of \$0.4 million and increase in bad debt expense of \$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 average debt levels as well as decreased interest rates in 2003.

Income Taxes

The provision for income taxes was \$58,000 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.

Liquidity and Capital Resources

In 2004, the Company had a net loss of \$12.3 million. Included in the net loss were non-cash charges of \$8.1 million for impairment, \$0.7 million for deferred tax asset valuation adjustments, \$1.4 million for depreciation and \$0.1 million for minority interests in losses of subsidiaries.

Net cash provided by operating activities for 2004, was \$1.4 million, compared with net cash provided by operations of \$3.4 million for 2003. The decrease of \$2.0 million in cash provided by operating activities is primarily due to net operating losses offset by decreases in deferred taxes and restructuring charges.

Net cash used in investing activities for 2004, was \$1.3 million, compared with net cash used of \$2.9 million for 2003. The decrease in net cash used in investing activities resulted was a result of fewer acquisitions of new businesses and lower purchases of property and equipment in 2004.

Net cash provided by financing activities for 2004, was \$0.9 million, compared with net cash used in financing activities of \$0.5 million for 2003. The increase in net cash provided by financing activities in 2004 was primarily a result of the consolidation of our Japan joint venture into the Company's financial statements in 2004.

The above activity resulted in a change in cash and cash equivalents for 2004 of \$0.9 million.

At December 31, 2004, the Company had positive working capital of \$1.0 million as compared to \$4.1 million at December 31, 2003. The decrease in working capital is due to decreases in accounts receivable and deferred taxes, increases in accounts payable, customer deposits and lines of credit, partially offset by increases in cash and decreases in accrued expenses and other current liabilities, accrued expenses due to affiliates and restructuring charges. The Company's current ratio was 1.08 and 1.34 at December 31, 2004 and 2003, respectively.

In January 2003, the Company and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provided a \$15.0 million revolving credit facility that matures on January 23, 2006. The Credit Facility allowed the Company to borrow up to \$15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). On May 17, 2004, the Credit Facility was amended to among other things, reduce the revolving credit facility from \$15.0 million to \$10.0 million, change the interest rate and increase reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, taxes, depreciation and amortization.

The average interest rate for 2004 was 5.1%. At December 31, 2004, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 6.0% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. In connection with the May 17, 2004, amendment, Mr. Robert Brown, a

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Director, the Chairman, President and Chief Executive Officer and a major stockholder of the Company and Mr. William Bartels, a Director, the Vice Chairman and a major stockholder of the Company, provided personal guarantees totaling \$1.0 million to Webster. On August 20, 2004, the Credit Facility was further amended in connection with the waiver of certain covenant violations (see below). The amendment, among other things, reduced the revolving credit facility from \$10.0 million to \$7.0 million, changed the covenant compliance testing for certain covenants from quarterly to monthly and reduced certain advance rates. On November 15, 2004, the Credit Facility was further amended to delete any required minimum Net Worth and minimum Fixed Charge Coverage Ratio covenant levels for the period ending December 31, 2004. The amendments did not change the future covenant levels. The Credit Facility also limits certain expenditures including, but not limited to, capital expenditures and other investments.

The Company was in violation of certain monthly covenants at December 31, 2004, and expects to be in violation at future measurement dates. Webster issued a waiver for the December 31, 2004 covenant violations. However, there can be no assurances that Webster will issue such waivers in the future.

Because of the requirement to maintain a lock box arrangement with Webster, Webster's ability to invoke a subjective acceleration clause at its discretion and the expected future covenant violations, borrowings under the Credit Facility are classified as current at December 31, 2004, and December 31, 2003, in accordance with EITF 95-22. Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement.

The revolving loan balances outstanding under the Credit Facility were \$4.1 million at December 31, 2004, and December 31, 2003. There were letters of credit outstanding under the Credit Facility of \$0.7 million at December 31, 2004, and December 31, 2003. As of December 31, 2004, the Company had unused availability under the Credit Facility of \$1.4 million out of the remaining maximum \$2.2 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

In 2001, the Japanese joint venture SPAR FM Japan, Inc. entered into a revolving line of credit arrangement with Japanese banks for 300 million yen or \$2.7 million (based upon the exchange rate at September 30, 2004). At September 30, 2004, SPAR FM Japan, Inc. had 100 million yen or approximately \$900,000 loan balance outstanding under the line of credit. The line of credit is effectively guaranteed by the Company and the joint venture partner, Paltac Corporation. The average interest rates on the borrowings under the Japanese line of credit for its short-term bank loans at September 30, 2004 and 2003 were 1.375% and 1.375% per annum, respectively.

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

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

Management believes that based upon the results of Company's cost saving initiatives and the existing credit facilities, sources of cash availability will be sufficient to support ongoing operations over the next twelve months. However, delays in collection of receivables due from any of the Company's major clients, or a significant further reduction in business from such clients, or

the inability to acquire new clients, or the Company's inability to remain profitable, or the inability to obtain bank waivers for future covenant violations could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

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Certain Contractual Obligations

The following table contains a summary of certain of the Company's contractual obligations by category as of December 31, 2004 (in thousands).

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facilities	\$ 4,956	\$ 4,956	\$ -	\$ -	\$ -
Operating Lease Obligations	1,468	776	651	41	-
Total	\$ 6,424	\$ 5,732	\$ 651	\$ 41	\$ -

In addition to the above table, at December 31, 2004, the Company had \$737,337 in outstanding Letters of Credit.

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

The Company's accounting policies for financial instruments and disclosures relating to financial instruments require that the Company's consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and lines of credit. The Company considers carrying amounts of current assets and liabilities in the consolidated financial statements to approximate the fair value for these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization. The Company monitors the risks associated with interest rates and financial instrument positions. The Company's investment policy objectives require the preservation and safety of the principal, and the maximization of the return on investment based upon the safety and liquidity objectives.

The Company is exposed to market risk related to the variable interest rate on its lines of credit. As of December 31, 2004, the variable interest rate on the Company's lines of credit were 6.0% on its domestic line of credit and 1.4% on its Japanese line of credit.

The Company has foreign currency exposure associated with its international 100% owned subsidiary, its 51% owned joint venture subsidiaries and its 50% owned joint ventures. In 2004, these exposures are primarily concentrated in the Canadian dollar, Japanese yen and South African rand. At December 31, 2004, international assets totaled \$2.8 million and international liabilities totaled \$3.8 million. For 2004, international revenues totaled \$8.2 million and the Company's share of the net losses was approximately \$500,000.

Investment Portfolio

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

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

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

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

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

Item 9B. Other Information.

In November 2004 and January 2005, the Company entered into separate operating lease agreements between SMS and the Company's wholly owned subsidiaries, SPAR Marketing Force, Inc. ("SMF") and SPAR Canada Company ("SPAR Canada"). Each lease has a 36 month term and has representations, covenants and defaults customary for the leasing industry. The leases are for handheld computers to be used by field merchandisers in the performance of various merchandising services in the United States and Canada (see Item 13 - Certain Relationships and Related Transactions).

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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, 2004, an executive officer and/or director for the Company.

Name ----	Age ---	Position with SPAR Group, Inc. -----
Robert G. Brown	62	Chairman, Chief Executive Officer, President and Director
William H. Bartels	61	Vice Chairman and Director
Robert O. Aders (1)	77	Director, Chairman Governance Committee
Jack W. Partridge (1)	59	Director, Chairman Compensation Committee

Jerry B. Gilbert (1)	70	Director
Lorrence T. Kellar (1)	67	Director, Chairman Audit Committee
Charles Cimitile.	50	Chief Financial Officer, Treasurer and Secretary
Kori G. Belzer	39	Chief Operating Officer
Patricia Franco.	44	Chief Information Officer
James R. Segreto	56	Vice President, Controller

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

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

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

Robert O. Aders serves as a Director of SGRP and has done so since July 8, 1999. He has served as the Chairman of the Governance Committee since May 9, 2003. Mr. Aders has served as Chairman of The Advisory Board, Inc., an international consulting organization since 1993, and also as President Emeritus of the Food Marketing Institute ("FMI") since 1993. Immediately prior to his election to the Presidency of FMI in 1976, Mr. Aders was Acting Secretary of Labor in the Ford Administration. Mr. Aders was the Chief Executive Officer of FMI from 1976 to 1993. He also served in The Kroger Co., in various executive positions from 1957 to 1974 and was Chairman of the Board from 1970 to 1974. Mr. Aders also serves as a Director of Checkpoint Systems, Inc., Sure Beam Corporation and Telepanel Systems, Inc.

Jack W. Partridge serves as a Director of SGRP and has done so since January 29, 2001. He has served as the Chairman of the Compensation Committee of SGRP since May 9, 2003. Mr. Partridge is President of Jack W. Partridge & Associates. He previously served as Vice Chairman of the Board of The Grand Union Company from 1998 to 2000. Mr. Partridge's service with Grand Union followed a distinguished 23-year career with The Kroger Company, where he served as Group Vice President, Corporate Affairs, and as a member of the Senior Executive Committee, as well as various other executive positions. Mr. Partridge has been a leader in industry and community affairs for over 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 SGRP and has done so since June 4, 2001. Mr. Gilbert served as Vice President of Customer Relations for Johnson & Johnson's Consumer and Personal Care Group of Companies from 1989 to 1997. Mr. Gilbert joined Johnson & Johnson in 1958 and from 1958 to 1989 held various executive positions. Mr. Gilbert also served on the Advisory Boards of the Food Marketing Institute, the National Association of Chain Drug Stores and the General Merchandise Distributors Council (GMDC) where he was elected the first

President of the GMDC Educational Foundation. He was honored with lifetime achievement awards from GMDC, Chain Drug Review, Drug Store News and the Food Marketing Institute. He is the recipient of the prestigious National Association of Chain Drug Stores (NACDS) Begley Award, as well as the National Wholesale Druggists Association (NWDA) Tim Barry Award. In June 1997, Mr. Gilbert received an Honorary Doctor of Letters Degree from Long Island University.

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

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

Kori G. Belzer serves as the Chief Operating Officer of SGRP and has done so since January 1, 2004. Ms. Belzer also serves as Chief Operating Officer of SPAR Management Services, Inc. ("SMSI"), and SPAR Marketing Services, Inc. ("SMS"), each an affiliate of SGRP (see Item 13 - Certain Relationships and Related Transactions, below), and has done so since 2000. The Audit Committee determined that Ms. Belzer also served during 2003 as the de facto chief operating officer of SGRP through her position as Chief Operating Officer of SMSI and SMS. Prior to 2000, Ms. Belzer served as Vice President Operations of SMS from 1997 to 2000, and as Regional Director of SMS from 1995 to 1997. Prior to 1995, she served as Client Services Manager for SPAR/Servco, Inc.

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Patricia Franco serves as the Chief Information Officer of SGRP and President of the SPAR International Merchandising Services Division and has done so since January 1, 2004. Ms. Franco also serves as Senior Vice President of SPAR Infotech, Inc. ("SIT"), an affiliate of SGRP (see Item 13 - Certain Relationships and Related Transactions, below), and has done so since January 1, 2003. The Audit Committee determined that Ms. Franco also served during 2003 as the de facto chief information officer of SGRP as well as, the de facto President of the SPAR International Merchandising Services Division, through her position as Senior Vice President of SIT. Prior to 2003, Ms. Franco served in various management capacities with SIT, SMS and their affiliates.

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

Audit Committee Composition and Financial Expert

The Audit Committee currently consists of Messrs. Kellar (its Chairman), Aders, Gilbert and Partridge, each of whom has been determined by the Governance Committee and the Board to meet the independence requirements for audit committee members under Nasdaq Rule 4200(a)(14). In connection with his re-nomination as a Director, the Governance Committee and the Board re-determined that Mr. Kellar was qualified to be the "audit committee financial expert" as required by applicable law and the SEC Rules.

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Exchange Act ("Section 16(a)") requires 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, 2004, 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 and Robert O. Aders 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.

Ethics Codes

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

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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, 2004, 2003, and 2002 (except for amounts paid to SMS, SMSI and SIT, see Item 13 - Certain Relationships and Related Transactions, below) (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, 2004 (collectively, the "Named Executive Officers").

Summary Compensation Table

Name and Principal Positions	Year	Annual Compensation		Long Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Securities Underlying Options (#) (1)	All Other Compensation (\$ (2)
Robert G. Brown Chief Executive Officer, Chairman of the Board, President, and Director	2004	114,000 (3)	--	--	1,800
	2003	180,000 (3)	--	--	2,200
	2002	164,340 (3)	--	--	2,040
William H. Bartels Vice Chairman and Director	2004	114,000 (3)	--	--	1,620
	2003	180,000 (3)	--	--	2,007
	2002	164,340 (3)	--	--	2,040
Charles Cimitile Chief Financial Officer, Treasurer and Secretary	2004	220,000	--	25,000	1,800
	2003	221,700	20,000	20,000	2,200
	2002	215,564	15,000	20,000	2,040
Kori G. Belzer Chief Operating Officer	2004	147,990	--	25,000	1,495
	2003	147,067	19,000	26,750	1,843

Patricia Franco	2004	147,900	10,000	25,000	1,493
Chief Information Officer	2003	145,875	20,000	37,500	1,718

(1) In June 2004, Mr. Brown and Mr. Bartels voluntarily surrendered for cancellation their options for the purchase of the following shares of common stock under the 2000 Plan: 382,986 and 235,996, respectively.

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

- (2) Other compensation represents the Company's 401k contribution.
(3) Does not include amounts paid to SMS, SMSI, SIT and Affinity Insurance Ltd. (see Item 13 - Certain Relationships and Related Transactions, below)

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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, 2004, to each of the Named Executive Officers. No stock appreciation rights ("SAR's") were granted during such period to such person.

Name	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option(1)	
	Number of Securities Underlying Options Granted(2) (#)	Percent of Total Options Granted to Employees in Period (%)	Exercise Price (\$/Sh)	Expiration Date	Assumed Annual Rates of Stock Price Appreciation for Option(1)		
					5% (\$)	10% (\$)	
Charles Cimitile	25,000	16.1	2.39	3/31/14	37,596	95,226	
Kori G. Belzer	25,000	16.1	2.39	3/31/14	37,596	95,226	
Patricia Franco	25,000	16.1	2.39	3/31/14	37,596	95,226	

- (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, 2004, 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, 2004.

Shares Acquired	Value	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)	Value of Unexercised In-the-Money Options at Fiscal Year-End (\$)

Name	on Exercise (#)	Realized (\$)	Exercisable	Unexercisable	Exercisable	Unexercisable
Robert G. Brown	--	--	--	95,746	--	--
William H. Bartels	--	--	--	58,999	--	--
Charles Cimitile	--	--	25,000	85,000	10,625	--
Kori G. Belzer	--	--	11,500	94,500	4,513	88
Patricia Franco	--	--	11,500	79,500	4,513	88

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 (the "Special Purpose 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. During 2004, 1,500 options to purchase shares of the Company's common stock were exercised and options to purchase 26,625 shares of the Company's stock were cancelled

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under this plan. At December 31, 2004, options to purchase 15,125 shares of the Company's common stock remain outstanding under this plan. The 1995 Plan was superseded by the 2000 Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of the Company's common stock. Since 2000, the Company has not granted any new options under this plan. During 2004, no options to purchase shares of the Company's common stock were exercised under this plan. At December 31, 2004, 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 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 2004, 21,000 options to purchase shares of the Company's common stock were exercised under this plan. At December 31, 2004, options to purchase 4,750 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 2004, options to purchase 476,417 shares of the Company's common stock were granted, options to purchase 53,302 shares of the Company's common stock were exercised and options to purchase 1,345,542 shares of the Company's stock were voluntarily surrendered and cancelled under this plan. At December 31, 2004, options to purchase 1,251,383 shares of the Company's common stock remain outstanding under this plan and options to purchase 1,618,719 shares of the

Company's common stock were available for grant under this plan.

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

Compensation of Directors

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

Under the Directors Compensation Plan, each member of SGRP's Board who is not otherwise an employee or officer of SGRP or any subsidiary or affiliate of SGRP (each, a "Non-Employee Director") is eligible to receive director's fees of \$30,000 per annum (plus an additional \$5,000 per annum for the Audit Committee Chairman), payable quarterly. Each quarterly installment of such director's fees (\$7,500 plus an additional \$1,250 for the Audit Committee Chairman) is paid half in cash and half in stock options to purchase shares of SGRP's common stock. Prior to May 2004, SGRP issued such stock options with an exercise price of \$0.01 per share. The number of option shares issued was calculated by dividing the amount of compensation to be paid in stock options by the closing stock price at the end of each quarter. In May 2004, the Compensation Committee approved and recommended and the Board adopted a change in this policy to instead issue such stock options for the purchase of common stock with an exercise price equal to 100% of the fair

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market value of SGRP's common stock at the end of each quarter. The number of option shares to be issued will be equal to three times the quotient of the amount of compensation to be paid in stock options divided by the closing stock price at the end of each quarter. The Compensation Committee and the Board determined that this revised policy more fairly compensated the Non-Employee Directors.

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

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

Severance Agreements

The Company has entered into a Change of Control Severance Agreement with each of Patricia Franco, the Company's Chief Information Officer, and Kori G. Belzer, the Company's Chief Operating Officer, each providing for a lump sum severance payment and other accommodations from the Company to the employee

under certain circumstances if, pending or following a change in control, the employee leaves for good reason or is terminated other than in a termination for cause. The payment is equal to the sum of the employee's monthly salary times a multiple equal to 24 months less the number of months by which the termination of employment followed the change in control plus the maximum bonus that would have been paid to the employee (not to exceed 25% of the employee's annual salary).

Compensation Committee Interlocks and Insider Participation

No member of the Board's Compensation Committee was at any time during the year ended December 31, 2004, 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 15, 2005 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)	8,622,407 (2)	45.5%
Common Shares	William H. Bartels (1)	5,549,842 (3)	29.4%
Common Shares	Robert O. Aders (1)	134,543 (4)	*
Common Shares	Jack W. Partridge (1)	78,633 (5)	*
Common Shares	Jerry B. Gilbert (1)	71,974 (6)	*
Common Shares	Lorrence T. Kellar (1)	68,602 (7)	*
Common Shares	Charles Cimitile (1)	107,500 (8)	*
Common Shares	Kori G. Belzer (1)	97,951 (9)	*
Common Shares	Patricia Franco (1)	141,998 (10)	*
Common Shares	Richard J. Riordan (11) 300 South Grand Avenue, Suite 2900 Los Angeles, California 90071	1,209,922	6.4%
Common Shares	Heartland Advisors, Inc. (12) 790 North Milwaukee Street Milwaukee, Wisconsin 53202	1,300,000	6.9%
Common Shares	Executive Officers and Directors	14,873,450	79.0%

* Less than 1%

- (1) The address of such owners is c/o SPAR Group, Inc. 580 White Plains Road, Tarrytown, New York 10591.
- (2) Includes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees. Includes 95,747 shares issuable upon exercise of options.
- (3) Excludes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees, beneficial ownership of which are disclaimed by Mr. Bartels. Includes 58,999 shares issuable upon exercise of options.

- (4) Includes 62,889 shares issuable upon exercise of options.
- (5) Includes 67,665 shares issuable upon exercise of options.
- (6) Includes 71,974 shares issuable upon exercise of options.
- (7) Includes 62,454 shares issuable upon exercise of options.
- (8) Includes 107,500 shares issuable upon exercise of options.
- (9) Includes 96,000 shares issuable upon exercise of options.
- (10) Includes 88,500 shares issuable upon exercise of options.
- (11) Share ownership was confirmed with the Company's stock transfer agent and the principal.
- (12) All information regarding share ownership is taken from and furnished in reliance upon the Schedule 13G (Amendment No. 9), filed by Heartland Advisors, Inc. with the Securities and Exchange Commission on December 31, 2004.

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, 2004, 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, 2004.

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	1,291,258	\$1.66	1,618,719
Equity compensation plans not approved by security holders	--	--	--
Total	1,291,258	\$1.66	1,618,719

Item 13. Certain Relationships and Related Transactions.

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

SMS and SMSI provided approximately 99% of the Company's field representatives (through its independent contractor field force) and approximately 92% of the Company's field management at a total cost of approximately \$24.0 million, \$36.0 million, and \$30.5 million for 2004, 2003, and 2002, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, SMS provides the services of SMS's field force of approximately 6,300 independent contractors to the Company. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, SMSI provides approximately 50 full-time national, regional and district managers to the Company. For those services, the Company has agreed to reimburse SMS and SMSI for all of their costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective costs, except that for 2004 SMSI agreed to concessions that reduced the premium paid by approximately \$640,000 for 2004. Total net premiums (4% of SMS and SMSI costs less 2004 concessions) paid to SMS and SMSI for services rendered were approximately \$320,000, \$1,350,000, and \$1,100,000 for 2004, 2003, and 2002, respectively. The Company has been advised that Messrs. Brown and Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS

and SMSI are "Subchapter S" corporations, Messrs. Brown and Bartels benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services to the Company at a total cost of approximately \$1,170,000, \$1,610,000, and \$1,630,000 for 2004, 2003, and 2002, respectively. SIT provided approximately 34,000, 47,000, and 46,000 hours of Internet computer programming services to the Company for 2004, 2003, and 2002, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004, SIT continues to provide programming services to the Company for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. The average hourly billing rate was \$34.71, \$34.24, and \$35.10 for 2004, 2003, and 2002, respectively. The Company has been advised that no hourly charges or business expenses for Messrs. Brown and Bartels were charged to the Company by SIT for 2004. However, since SIT is a "Subchapter S" corporation, Messrs. Brown and Bartels benefit from any income of such company allocated to them.

In November 2004 and January 2005, the Company entered into separate operating lease agreements between SMS and the Company's wholly owned subsidiaries, SPAR Marketing Force, Inc. ("SMF") and SPAR Canada Company ("SPAR Canada"). Each lease has a 36 month term and has representations, covenants and defaults customary for the leasing industry. The SMF lease has a monthly payment of \$20,318 and is for handheld computers to be used by field merchandisers in the performance of various merchandising services in the United States. These handheld computers had an original purchase price of \$632,200. The SPAR Canada lease has a monthly payment of \$3,326 and is for handheld

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computers to be used by field merchandisers in the performance of various merchandising services in Canada. These handheld computers had an original purchase price of \$105,000.

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. In February 2004, the Audit Committee approved separate amended and restated agreements with each of SMS, SMSI and SIT, effective as of January 1, 2004. The restated agreements extend the contract maturities for four years, strengthened various contractual provisions in each agreement and continued the basic economic terms of the existing agreements, except that the restated agreement with SMSI provides for temporary concessions to the Company by SMSI totalling approximately \$640,000 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.

Messrs. Brown and Bartels also collectively own, through SMSI, a minority (less than 5%) equity interest in Affinity Insurance Ltd., which provides certain insurance to the Company.

In 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 could have a material adverse effect on the Company.

Item 14. Principal Accountant Fees and Services.

On October 4, 2004, Ernst & Young LLP ("E&Y") resigned as the independent registered public accounting firm for the Company and its subsidiaries. The resignation was effective upon completion of E&Y's review of the interim financial information for the Company's third fiscal quarter ended

September 30, 2004, and the filing of the Company's quarterly report on Form 10-Q for such period.

In January 2005, the Company, with the approval of the Company's Audit Committee, appointed Rehmann Robson ("Rehmann") as its independent registered public accounting firm to audit the financial statements of the Company for its year ending December 31, 2004.

The Company and its subsidiaries did not engage Rehmann or E&Y to provide advice regarding financial information systems design or implementation, but did engage E&Y for tax consulting services related to the PHI/SPGI ESOP in 2003 (for which E&Y was paid \$3,778), due diligence services for the IMS acquisition during 2003 (for which E&Y was paid \$14,334) and for tax services in 2003 (for which E&Y was paid \$2,295). No other non-audit services were performed by Rehmann or E&Y in 2004 or 2003. Since 2003, as required by law, each non-audit service performed by the Company's auditor either (i) was approved in advance on a case-by-case basis by the Company's Audit Committee, or (ii) fit within a pre-approved "basket" of non-audit services of limited amount, scope and duration established in advance by the Company's Audit Committee. In connection with the standards for independence of the Company's independent public accountants promulgated by the Securities and Exchange Commission, the Audit Committee considers (among other things) whether the provision of such non-audit services would be compatible with maintaining the independence of Rehmann or E&Y.

Audit Fees

During the Company's fiscal year ended December 31, 2004 and 2003, respectively, fees billed by E&Y for all audit services rendered to the Company and its subsidiaries were \$100,203 and \$179,362, 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.

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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:

Reports of Independent Registered Public Accounting Firms	
- Rehmann Robson.	F-1
- Ernst & Young LLP.	F-2
Consolidated Balance Sheets as of December 31, 2004, and December 31, 2003.	F-3
Consolidated Statements of Operations for the years ended December 31, 2004, December 31, 2003, and December 31, 2002.	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2004, December 31, 2003, and December 31, 2002.	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2004, December 31, 2003, and December 31, 2002.	F-6
Notes to Financial Statements.	F-7
2. Financial Statement Schedules.	
Schedule II - Valuation and Qualifying Accounts for the three years ended December 31, 2004.	F-30

3. Exhibits.

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

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- 3.7 SPAR Group, Inc. Statement of Policy Regarding Director Qualifications and Nominations, adopted on May 18, 2004 (incorporated by reference to the Company's report on Form 8-K, as filed on May 27, 2004).
- 4.1 Registration Rights Agreement entered into as of January 21, 1992, by and between RVM Holding Corporation, RVM/PIA, a California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverine (incorporated by reference to the Form S-1).
- 10.1 2000 Stock Option Plan, as amended, (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.2 2001 Employee Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.3 2001 Consultant Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).
- 10.4 Amended and Restated Field Service Agreement dated and effective as of January 1, 2004, by and between SPAR Marketing Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed on May 21, 2004).

- 10.5 Amended and Restated Field Management Agreement dated and effective as of January 1, 2004, by and between SPAR Management Services, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed on May 21, 2004).
- 10.6 Amended and Restated Programming and Support Agreement dated and effective as of January 1, 2004, by and between SPAR InfoTech, Inc., and SPAR Marketing Force, Inc. (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed on May 21, 2004).
- 10.7 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002).
- 10.8 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc. (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2002).
- 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 Promissory Note in the principal amount of \$764,271.00 by STIMULYS, Inc., in favor of SPAR Incentive Marketing, Inc., dated as of September 10, 2004, as filed herewith.

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- 10.13 Payoff and Release Letter by and between STIMULYS, Inc., and SPAR Incentive Marketing, Inc., dated as of September 10, 2004, as filed herewith.
- 10.14 Sales Proceeds Agreement by and between STIMULYS, Inc. and SPAR Incentive Marketing, Inc., dated as of September 10, 2004, as filed herewith.
- 10.15 Third Amended and Restated Revolving Credit and Security Agreement by and among Whitehall Business Credit Corporation (the "Lender") with SPAR Marketing Force, Inc., SPAR Group, Inc., SPAR, Inc., SPAR/Burgoynes 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).
- 10.16 Waiver And Amendment No. 3 To Third Amended And Restated Revolving Credit And Security Agreement entered into as of March 26, 2004 (incorporated by reference to the Company's

report on Form 8-K, as filed on May 26, 2004).

- 10.17 Joinder, Waiver And Amendment No. 4 To Third Amended And Restated Revolving Credit And Security Agreement entered into as of May 17, 2004 (incorporated by reference to the Company's report on Form 8-K, as filed on May 26, 2004).
- 10.18 Waiver and Amendment to Third Amended and Restated Revolving Credit and Security Agreement by and among the Lender and the Borrowers dated as of January 2004 (incorporated by reference to the Company's report on Form 10-K/A for the year ended December 31, 2003, as filed on June 28, 2004).
- 10.19 Waiver and Amendment No. 5 to Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of August 20, 2004 (incorporated by reference to the Company's quarterly report of the quarter ended June 30, 2004, as filed on August 23, 2004).
- 10.20 Waiver and Amendment No. 6 to Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of November 12, 2004 (incorporated by reference to the Company's quarterly report for the quarter ended September 30, 2004, filed November 17, 2004).
- 10.21 Waiver to the Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of March 31, 2004, as filed herewith.
- 10.22 Consent, Joinder, Release and Amendment Agreement dated as of October 31, 2003, by and among the Lender, the Existing Borrowers and SPAR All Store Marketing, Inc., as a Borrower (incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 2003).
- 10.23 Change in Control Severance Agreement between Kori Belzer and SPAR Group, Inc., dated as of August 12, 2004 (incorporated by reference to the Company's quarterly report of the quarter ended June 30, 2004, as filed on August 23, 2004).
- 10.24 Change in Control Severance Agreement between Patricia Franco and SPAR Group, Inc., dated as of August 12, 2004 (incorporated by reference to the Company's quarterly report of the quarter ended June 30, 2004, as filed on August 23, 2004).

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- 10.25 Master Lease Agreement by and between SPAR Marketing Services, Inc. and SPAR Marketing Force, Inc. dated as of November 2004 relating to lease of handheld computer equipment, as filed herewith.
- 10.26 Master Lease Agreement by and between SPAR Marketing Services, Inc. and SPAR Canada Company dated as of January 2005 relating to lease of handheld computer equipment, as filed herewith.
- 10.27 Joint Venture Agreement dated as of March 26, 2004, by and between Solutions Integrated Marketing Services Ltd. and SPAR Group International, Inc. as filed herewith.
- 10.28 Joint Venture Shareholders Agreement between Friedshelf 401 (Proprietary) Limited, SPAR Group International, Inc., Derek O'Brien, Brian Mason, SMD Meridian CC, Meridian Sales & Mrechandisign (Western Cape) CC, Retail Consumer Marketing CC, Merhold Holding Trust in respect of SGRP Meridian (Proprietary) Limited, dated as of June 25, 2004, as filed herewith.

- 10.29 Joint Venture Agreement dated as of July 21, 2003, by and between CEO Produksiyon Tanitim ve Arastirma Hizmetleri Ltd Sti and SPAR Group International, Inc., as filed herewith.
- 10.30 Joint Venture Agreement dated as of May 1, 2001, by and between Paltac Corporation and SPAR Group, Inc., as filed herewith.
- 10.31 Agreement on Amendment dated as of August 1, 2004, by and between SPAR Group, Inc. and SPAR FM Japan, Inc., as filed herewith.
- 10.32 Joint Venture Agreement dated as of January 26, 2005, by and between Best Mark Investments Holdings Ltd and SPAR International Ltd. as filed herewith.
- 10.33 Joint Venture Agreement dated as of December 14, 2004, by and between Field Insights S.R.L. and SPAR Group International, Inc., as filed herewith.
- 14.1 Code of Ethical Conduct for the Directors, Senior Executives and Employees, of SPAR Group, Inc., dated May 1, 2004 (incorporated by reference to the Company's Form 8-K filed on May 5, 2004).
- 14.2 Statement of Policy Regarding Personal Securities Transaction in Company Stock and Non-Public Information, as amended and restated on May 1, 2004 (incorporated by reference to the Company's Form 8-K filed on May 5, 2004).
- 21.1 List of Subsidiaries.
- 23.1 Consent of Rehmann Robson.
- 23.2 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.

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- 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.

Form 8-K - Changes in Registrant's Certifying Accountant filed on October 8, 2004, respecting the resignation of Ernst & Young LLP as the Company's Independent Auditors.

Form 8-K - Results of Operations and Financial Condition filed on November 12, 2004, attaching press release respecting financial results for the third quarter ended September 30, 2004.

Form 8-K - Unscheduled Material Events filed on February 4, 2005 respecting, appointment of Rehmann Robson as the Company's Independent Auditors.

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

We have audited the consolidated balance sheet of SPAR Group, Inc. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule (2004 information only) listed in the Index at Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule (2004 information only) based on our audit.

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

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

/s/ Rehmann Robson

Troy, Michigan
February 28, 2005

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Report of Registered Public Accounting Firm

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

We have audited the consolidated balance sheet of SPAR Group, Inc. and Subsidiaries, as of December 31, 2003 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two 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 consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPAR Group, Inc. and Subsidiaries at December 31, 2003, and the consolidated results

of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

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

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SPAR Group, Inc. and Subsidiaries

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

	December 31,	
	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 887	\$ 24
Accounts receivable, net	11,307	13,942
Prepaid expenses and other current assets	657	658
Deferred income taxes	-	1,305
Total current assets	12,851	15,929
Property and equipment, net	1,536	2,099
Goodwill	798	8,749
Deferred income taxes	-	434
Other assets	636	926
Total assets	\$ 15,821	\$ 28,137
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,158	\$ 1,373
Accrued expenses and other current liabilities	2,391	4,081
Accrued expenses due to affiliates	987	1,091
Restructuring charges	250	685
Customer deposits	1,147	530
Lines of credit	4,956	4,084
Total current liabilities	11,889	11,844
Other long-term liabilities	12	270
Minority interest	206	-
Total liabilities	12,107	12,114
Commitments and contingencies (Note - 7)		

Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares - 3,000,000		
Issued and outstanding shares - none	-	-
Common stock, \$.01 par value:		
Authorized shares - 47,000,000		
Issued and outstanding shares -		
18,858,972 - 2004 and 2003	189	189
Treasury stock	(108)	(384)
Accumulated other comprehensive loss	(86)	(7)
Additional paid-in capital	11,011	11,249
Accumulated (deficit) retained earnings	(7,292)	4,976
	-----	-----
Total stockholders' equity	3,714	16,023
	-----	-----
Total liabilities and stockholders' equity	\$ 15,821	\$ 28,137
	=====	=====

See accompanying notes.

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

	Year Ended December 31,		
	2004	2003	2002

Net revenues	\$ 51,370	\$ 64,859	\$ 69,612
Cost of revenues	33,644	42,338	40,331

Gross profit	17,726	22,521	29,281
Selling, general and administrative expenses	20,222	20,967	18,804
Impairment charges	8,141	-	-
Depreciation and amortization	1,399	1,529	1,844

Operating (loss) income	(12,036)	25	8,633
Interest expense	220	269	363
Other (income) expense	(754)	237	(26)

(Loss) income before provision for income taxes and minority interest	(11,502)	(481)	8,296
Provision for income taxes	853	58	2,998

Net (loss) income before minority interest	(12,355)	(539)	5,298
Minority interest	87	-	-

Net (loss) income	\$ (12,268)	\$ (539)	\$ 5,298
	=====		
Basic/diluted net (loss) income per common share:			
Net (loss) income - basic/diluted	\$ (0.65)	\$ (0.03)	\$ 0.28
	=====		
Weighted average common shares - basic	18,859	18,855	18,761
	=====		
Weighted average common shares - diluted	18,859	18,855	19,148
	=====		

See accompanying notes.

SPAR Group, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(In thousands)

	Common Stock			Additional Paid-In Capital	Earnings Retained	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
	Shares	Amount	Treasury Stock				
Balance at January 31, 2002	18,583	\$ 186	\$ -	\$ 10,531	\$ -	\$ -	\$ 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
Stock options exercised and employee stock purchase plan purchases	-	-	276	(316)	-	-	(40)
Issuance of stock options to non- employees for services	-	-	-	78	-	-	78
Comprehensive loss:							
Foreign currency translation loss						(79)	(79)
Net loss					(12,268)		(12,268)
Comprehensive loss							(12,347)
Balance at December 31, 2004	18,859	\$ 189	\$ (108)	\$ 11,011	\$ (7,292)	\$ (86)	\$ 3,714

See accompanying notes.

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

	Year Ended December 31,		
	2004	2003	2002
Operating activities			
Net (loss) income	\$ (12,268)	\$ (539)	\$ 5,298
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Impairment charges	8,141	-	-
Minority interest earnings in subsidiaries	(87)	-	-
Share of loss in joint venture	-	270	-
Deferred tax asset adjustments	710	(131)	2,022
Depreciation	1,399	1,529	1,844
Issuance of stock options for service	78	416	-
Changes in operating assets and liabilities:			
Accounts receivable	2,635	2,516	4,686
Prepaid expenses and other assets	(126)	(330)	(354)
Accounts payable, accrued expenses, other current liabilities and customer deposits	756	422	(538)
Accrued expenses due to affiliates	(104)	133	347
Restructuring charges	250	(904)	(593)
Net cash provided by operating activities	1,384	3,382	12,712

Investing activities			
Purchases of property and equipment	(1,260)	(1,456)	(1,172)
Deposit related to acquisition	350	(350)	-
Acquisition of businesses	(399)	(1,091)	-
	-----	-----	-----
Net cash used in investing activities	(1,309)	(2,897)	(1,172)
Financing activities			
Net borrowings (payments) on lines of credit	872	3,936	(11,139)
Other long-term liabilities	35	-	(57)
Proceeds from employee stock purchase plan and exercised options	(40)	485	390
Payments to certain stockholders	-	(3,951)	(704)
Purchase of treasury stock	-	(924)	(30)
	-----	-----	-----
Net cash provided by (used in) financing activities	867	(454)	(11,540)
Translation loss	(79)	(7)	-
Net change in cash	863	24	-
Cash at beginning of period	24	-	-
	-----	-----	-----
Cash at end of period	\$ 887	\$ 24	\$ -
	=====	=====	=====
Supplemental disclosure of cash flows information			
Interest paid	\$ 180	\$ 241	\$ 686
	=====	=====	=====
Income taxes paid	\$ 86	\$ 578	\$ 200
	=====	=====	=====

See accompanying notes.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2004

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, technology services, teleservices and marketing research.

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

The Company's continuing operations are now divided into two divisions: the Domestic Merchandising Services Division and the International Merchandising Services Division. The Domestic Merchandising Services Division provides merchandising services, in-store product demonstrations, product sampling, database marketing, technology services, teleservices and marketing research to manufacturers and retailers in the United States. The various services are primarily performed in mass merchandisers, drug store chains, convenience and grocery stores. The International Merchandising Services Division, established in July 2000, currently provides merchandising services through a wholly owned subsidiary in Canada, through 51% owned joint venture subsidiaries in Turkey, South Africa, India and Romania and through 50% owned joint ventures in Japan and China. The Company continues to focus on expanding its merchandising services business throughout the world.

Domestic Merchandising Services Division

The Company's Domestic Merchandising Services Division provides nationwide

merchandising and other marketing services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug store chains and retail grocery stores. Included in its customers are home entertainment, general merchandise, health and beauty care, consumer goods and food products companies in the United States.

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

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

1. Business and Organization (continued)

International Merchandising Services Division

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

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

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

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

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

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

December 2004, the Company established a 51% owned joint venture subsidiary headquartered in Bucharest, Romania.

In February 2005, the Company announced the establishment of a 50% owned joint venture headquartered in Hong Kong, China.

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 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.

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

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

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

1. Business and Organization (continued)

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

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Company consolidates its 100% owned subsidiaries. The Company also consolidates its 51% owned joint venture subsidiaries and its 50% owned joint ventures where the Company is the primary beneficiary because the Company believes this presentation is fairer and more meaningful. Rule 3A-02 of Regulation S-X, Consolidated Financial Statements of the Registrant and its Subsidiaries, states that consolidated statements are presumed to be more meaningful, that majority owned subsidiaries (more than 50%) generally should be consolidated, and that circumstances may require consolidation of other subsidiaries to achieve a fairer presentation of its financial condition and results. In addition, the Company has determined that under Financial Accounting

Standards Board Interpretation Number 46, as revised December 2003, Consolidation of Variable Interest Entities ("FIN 46(R)"), the Company is the primary beneficiary of its 51% owned joint venture subsidiaries and its 50% owned joint ventures, which accordingly requires consolidation of those entities into the Company's financial statements. All significant intercompany accounts and transactions have been eliminated.

In 2004, due to the amendment of a royalty agreement between the Company and its 50% owned Japanese joint venture, the Company has determined that in accordance with FIN 46(R) it is the primary beneficiary of the Japanese joint venture, and has consolidated the Japanese financial results for 2004 in accordance with the provisions of FIN 46(R). The Japanese joint venture's fiscal year ended on September 30, 2004 and accordingly its financial statements were audited as of that date. In connection with the consolidation the Company began reporting the Japanese joint venture's financial results as of and for the period ending September 30, 2004. Therefore, for 2004, the Company's consolidated financial statements only include the Japanese joint venture financial results for nine months ended September 30, 2004. In 2004, the Japanese joint venture recorded revenue of approximately \$2.6 million, total assets of approximately \$822,000, total liabilities of approximately \$1.2 million and a deficit of approximately \$445,000. In 2003 and 2002, prior

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

to the amendment of the royalty agreement, the investment in the Japanese joint venture was accounted for using the equity method based upon the Company's 50% ownership.

At December 31, 2004, international assets totaled \$2.8 million and international liabilities totaled \$3.8 million. For 2004, international revenues totaled \$8.2 million and the Company's share of the net losses was approximately \$500,000.

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

Unbilled Accounts Receivable

Unbilled accounts receivable represent services performed but not billed.

Doubtful Accounts, Sales Allowances and Credit Risks

The Company continually monitors the validity of its accounts receivable based upon current customer credit information and financial condition. Balances that are deemed to be uncollectible after the Company has attempted reasonable collection efforts are written off through a charge to the bad debt allowance and a credit to accounts receivable. Accounts receivable balances are stated at the amount that management expects to collect from the outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to bad debt allowance based on management's assessment of the current status of individual accounts. Based on management's assessment, the Company established an allowance for doubtful accounts of \$761,000 and \$515,000

at December 31, 2004 and 2003, respectively. The Company also recorded a reserve for sales allowances for potential customer credits of \$448,000 at December 31, 2003. Bad debt and sales allowance expenses were \$366,000, \$825,000, and \$262,000 in 2004, 2003, and 2002, respectively.

Property and Equipment

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

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) December 31, 2004

2. Summary of Significant Accounting Policies (continued)

Internal Use Software Development Costs

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

The Company capitalized \$559,000, \$1,004,000, and \$772,000 of costs related to software developed for internal use in 2004, 2003, and 2002, respectively.

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

Impairment of Long-Lived Assets

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

Fair Value of Financial Instruments

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

Excess Cash

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

Major Customers

One customer accounted for 14%, 8%, and 6% of the Company's net revenues for the years ended December 31, 2004, 2003, and 2002, respectively. This customer also accounted for approximately 29%, 13%, and 4% of accounts receivable at December 31, 2004, 2003, and 2002, respectively.

In addition, approximately 16%, 17%, and 24% of net revenues for the years ended December 31, 2004, 2003, and 2002, respectively, resulted from merchandising services performed for manufacturers and others in stores operated by Kmart. These customers also accounted for approximately 22% of accounts receivable at December 31, 2004. While the Company's customers and the resultant contractual

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

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.

Another customer, a division of a major retailer, accounted for 26%, 30%, and 26% of the Company's net revenues for the years ended December 31, 2004, 2003, and 2002, respectively. This customer also accounted for approximately 4%, 30%, and 43% of accounts receivable at December 31, 2004, 2003, and 2002, respectively. On August 2, 2004, this customer was sold by its parent.

As discussed above, the Company does a significant amount of business with one customer and performs a significant amount of services in Kmart. The loss of this customer or the loss of Kmart related business and the failure to attract new large customers, 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.

Foreign Currency Rate Fluctuations

The Company has foreign currency exposure associated with its international wholly owned subsidiaries, 51% owned joint venture subsidiaries and 50% owned joint ventures. In 2004, these exposures are primarily concentrated in the Canadian dollar, South African rand and Japanese yen. At December 31, 2004, international assets totaled \$2.8 million and international liabilities totaled \$3.8 million. For 2004, international revenues totaled \$8.2 million and the Company's share of the net losses was approximately \$500,000.

Interest Rate Fluctuations

At December 31, 2004 the Company's outstanding debt totaled \$5.0 million, which consisted of domestic variable-rate (6.0%) debt of \$4.1 million and international variable rate (1.4%) debt of \$0.9 million. Based on 2004 average outstanding borrowings under variable-rate debt, a one-percentage point increase in interest rates would negatively impact annual pre-tax earnings and cash flows by approximately \$50,000.

Income Taxes

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

Stock-Based Compensation

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

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

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):

	Twelve Months Ended December 31,		
	2004	2003	2002
Net (loss) income, as reported	\$ (12,268)	\$ (539)	\$ 5,298
Stock based employee compensation expense under the fair market value method	454	1,005	1,844
Pro forma net (loss) income	\$ (12,722)	\$ (1,544)	\$ 3,454
Basic and diluted net (loss) income per share, as reported	\$ (0.65)	\$ (0.03)	\$ 0.28
Basic and diluted net (loss) income per share, pro forma	\$ (0.67)	\$ (0.08)	\$ 0.18

The pro forma effect on net (loss) income is not representative of the pro forma effect on net (loss) 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 150%, 154%, and 172% for 2004, 2003, and 2002, respectively; risk-free interest rate of 4.23%, 4.27%, and 4.03%; 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 and are calculated using the treasury stock method.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

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. Therefore, goodwill is no longer amortized but is subject to annual impairment tests in accordance with that Statement. At June 30, 2004, the Company performed the required impairment test discussed in FAS 142. The Company calculated the fair value of each business unit for which goodwill was recorded to determine if there was an impairment. The fair value of each unit was based upon the estimate of the discounted cash flow generated by the respective business unit. As a result of these calculations, it was determined that there were impairments to the goodwill associated with the PIA Acquisition on July 8, 1999 and acquisition of the Company's Canadian subsidiary in June 2003. Therefore, the Company recorded an impairment charge of approximately \$8.4 million (see Note 3 - Impairment Charges).

Changes to goodwill for the years ended December 31, 2004, 2003, and 2002 were as follows:

	2004	2003	2002
	-----	-----	-----
Beginning of the year	\$ 8,749	\$ 7,858	\$ 8,357
Impairment charges	(8,350)	-	-
Changes in deferred tax assets related to use of PIA net operating losses acquired	-	-	(499)
Adjustment to merger related and restructure liabilities	-	(89)	-
Acquisitions	399	980	-
	-----	-----	-----
End of the year	\$ 798	\$ 8,749	\$ 7,858
	=====	=====	=====

Translation of Foreign Currencies

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

Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS 123 (revised 2004), Share-Based Payment, (SFAS 123R). SFAS 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB Opinion No. 25,

Accounting for Stock Issued to Employees. Instead, the Company will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS 123R will be effective for periods beginning after June 15, 2005 and allows, but does not require, the Company to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. See Note 2 - Stock-Based Compensation for the pro forma impact on net income and net income per share from calculating stock-based compensation costs under the fair value alternative of SFAS

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

123. However, the calculation of compensation cost for share-based payment transactions after the effective date of SFAS 123R may be different from the calculation of compensation cost under SFAS 123, but such differences have not yet been quantified.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform to the 2004 presentation.

3. Impairment Charges

Goodwill

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

In April 2004, the Company's largest customer announced that they signed definitive agreements for the sale of its business to two purchasers. The sale was completed on August 2, 2004. This customer accounted for 26%, 30%, and 26% of the Company's net revenues for the twelve months ended December 31, 2004, 2003, and 2002, respectively and was the last remaining profitable business related to the PIA Acquisition on July 8, 1999. At June 30, 2004, the Company had \$7.6 million of goodwill remaining that was related to the PIA Acquisition. As a result of the loss of this major client, the Company does not expect a positive cash flow from this business unit. Therefore, the Company has recorded an impairment of the PIA related goodwill resulting in a non-cash charge of \$7.6 million to the results of the operations for 2004.

In June 2003, the Company began its Canadian operations through the acquisition of substantially all of the business and assets of Impulse Marketing Services, Inc. In connection with this acquisition, the Company recorded goodwill of \$712,000. At the time of the acquisition, it was expected that the Canadian subsidiary would be profitable. However, the Canadian subsidiary has operated at a loss since its acquisition. As a result of the continued losses and the failure to attract new customers the Company does not expect to receive positive cash flow from this unit. Therefore, the Company has recorded an impairment of the related goodwill resulting in a non-cash charge of \$712,000 for 2004.

Capitalized Internal Use Software Development Costs

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

Other Assets and Liabilities

Also, in connection with the PIA Acquisition, certain tax deferred assets related to the PIA net operating loss carry forward benefits were recognized. The Company also recorded as an impairment charge, a \$750,000 valuation allowance on these deferred tax assets.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

3. Impairment Charges (continued)

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

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

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

4. Supplemental Balance Sheet Information

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

	December 31,	
	2004	2003
Trade	\$ 8,178	\$ 10,333
Unbilled	3,600	4,551
Non-trade	290	21
	12,068	14,905
Less:		
Allowance for doubtful accounts	(761)	(515)
Sales allowances	-	(448)
	\$ 11,307	\$ 13,942

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

	December 31,	
	2004	2003
Equipment	\$ 5,397	\$ 4,784
Furniture and fixtures	547	550
Leasehold improvements	138	141
Capitalized software development costs	1,629	2,128
	7,711	7,603
Less accumulated depreciation and amortization	6,175	5,504
	\$ 1,536	\$ 2,099

December 31,

Prepaid expenses and other current assets (in thousands):

	2004	2003
Prepaid insurance	\$ 214	\$ 245
Tax refund due	62	244
Prepaid rents	49	70
Other	332	99
	\$ 657	\$ 658

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

4. Supplemental Balance Sheet Information (continued)

	December 31,	
	2004	2003
Accrued expenses and other current liabilities (in thousands):		
Merger related payables	\$ 450	\$ 1,495
STIMULYS cash deposits	-	794
SPGI Revolver	-	740
Accrued medical expenses	225	100
Taxes payable	345	139
Accrued accounting and legal expenses	192	219
Accrued salaries payable	328	241
Other	851	353
	\$ 2,391	\$ 4,081

5. Lines of Credit

In January 2003, the Company and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provided a \$15.0 million revolving credit facility that matures on January 23, 2006. The Credit Facility allowed the Company to borrow up to \$15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). On May 17, 2004, the Credit Facility was amended to among other things, reduce the revolving credit facility from \$15.0 million to \$10.0 million, change the interest rate and increase reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, taxes, depreciation and amortization. The average interest rate for 2004 was 5.1%. At December 31, 2004, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 6.0% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its domestic subsidiaries. In connection with the May 17, 2004, amendment, Mr. Robert Brown, a Director, the Chairman, President and Chief Executive Officer and a major stockholder of the Company and Mr. William Bartels, a Director, the Vice Chairman and a major stockholder of the Company, provided personal guarantees totaling \$1.0 million to Webster. On August 20, 2004, the Credit Facility was further amended in connection with the waiver of certain covenant violations (see below). The amendment, among other things, reduced the revolving credit facility from \$10.0 million to \$7.0 million, changed the covenant compliance testing for certain covenants from quarterly to monthly and reduced certain advance rates. On November 15, 2004, the Credit Facility was further amended to delete any required minimum Net Worth and minimum Fixed Charge Coverage Ratio covenant levels for the period ending December 31, 2004. The amendments did not change the future covenant levels. The Credit Facility also limits certain expenditures including, but not limited to,

capital expenditures and other investments.

The Company was in violation of certain monthly covenants at December 31, 2004, and expects to be in violation at future measurement dates. Webster issued a waiver for the December 31, 2004 covenant violations. However, there can be no assurances that Webster will issue such waivers in the future.

Because of the requirement to maintain a lock box arrangement with Webster, Webster's ability to invoke a subjective acceleration clause at its discretion, and the expected future covenant violations, borrowings under the Credit Facility are classified as current at December 31, 2004 and 2003, in accordance with EITF 95-22. Balance Sheet Classification of Borrowings Outstanding Under Revolving Credit Agreements That Include Both a Subjective Acceleration Clause and a Lock-Box Agreement.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

5. Lines of Credit (continued)

The revolving loan balances outstanding under the Credit Facility were \$4.1 million at December 31, 2004, and December 31, 2003. There were letters of credit outstanding under the Credit Facility of \$0.7 million at December 31, 2004, and December 31, 2003. As of December 31, 2004, the SPAR Group had unused availability under the Credit Facility of \$1.4 million out of the remaining maximum \$2.2 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

In 2001, the Japanese joint venture SPAR FM Japan, Inc. entered into a revolving line of credit arrangement with Japanese banks for 300 million yen or \$2.7 million (based upon the exchange rate at September 30, 2004). At September 30, 2004, SPAR FM Japan, Inc. had 100 million yen or approximately \$900,000 loan balance outstanding under the line of credit. The line of credit is effectively guaranteed by the Company and the joint venture partner, Paltac Corporation. The average interest rates on the borrowings under the Japanese line of credit for its short-term bank loans at September 30, 2004 and 2003 were 1.375% and 1.375% per annum, respectively.

6. Income Taxes

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

	December 31,		
	2004	2003	2002
Current	\$ 103	\$ 189	\$ 476
Deferred	750	(131)	2,522
	\$ 853	\$ 58	\$ 2,998

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,		
	2004	2003	2002

(Benefit) provision for income taxes at federal statutory rate	\$ (3,911)	\$ (77)	\$ 2,821
State income taxes, net of federal benefit	117	95	175
Permanent differences	1,613	41	(48)
Change in valuation allowance	3,013	-	-
Other	21	(1)	50
	-----	-----	-----
Provision for income taxes	\$ 853	\$ 58	\$ 2,998
	=====	=====	=====

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

6. Income Taxes (continue)

Deferred taxes consist of the following (in thousands):

	December 31,	
	2004	2003
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,230	\$ 3,876
Restructuring	266	309
Deferred revenue	384	-
SIM reserve against loan commitment	135	304
Allowance for doubtful accounts and other receivable	288	323
Other	455	559
Valuation allowance	(6,139)	(3,126)
	-----	-----
Total deferred tax assets	619	2,245
Deferred tax liabilities:		
Capitalized software development costs	619	506
	-----	-----
Total deferred tax liabilities	619	506
	-----	-----
Net deferred tax assets	\$ -	\$ 1,739
	=====	=====

At December 31, 2004, the Company has net operating loss carryforwards (NOLs) of \$10.2 million, related to the PIA Acquisition available to reduce future federal taxable income. The \$10.2 million PIA related net operating loss carryforwards begin to expire in the year 2012. Section 382 of the Internal Revenue Code restricts the annual utilization of the NOLs incurred prior to a change in ownership. Such a change in ownership had occurred in 1999, thereby restricting the NOL's prior to such date available to the Company to approximately \$657,500 per year. In addition, the Company has NOLs related to its current losses totaling \$4.1 million. The \$4.1 million net operating loss carryforwards begin to expire in the year 2023.

As a result of the loss of several significant clients, current year losses and the lack of certainty of a return to profitability in the next twelve months, the Company has established a valuation allowance equal to the total of its net deferred tax assets of \$6.1 million.

The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries since, at the present time, management considers them to be permanently invested in the subsidiary.

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

7. Commitments and Contingencies

Lease Commitments

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately \$1.0 million, \$0.9 million, and \$1.0 million for 2004, 2003, and 2002, respectively. At December 31, 2004, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

2005	\$	776
2006		569
2007		82
2008		40
2009		1

Total	\$	1,468
		=====

International Commitments

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

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

Legal Matters

Safeway Inc. ("Safeway"), filed a Complaint against the PIA Merchandising Co., Inc. ("PIA Co."), a wholly owned subsidiary of the Company, and Pivotal Sales Company ("Pivotal"), a wholly owned subsidiary of PIA Co., and SGRP in Alameda Superior Court, case no. 2001028498 on October 24, 2001, and has subsequently amended it. Safeway alleges causes of action for breach of contract, breach of implied contract, breach of fiduciary duty, conversion, constructive fraud, breach of trust, unjust enrichment, and accounting fraud. Safeway has most recently alleged monetary damages in the principal sum of \$3,000,000 and probable interest of \$1,000,000 and has also demanded unspecified costs. PIA Co., Pivotal and SGRP filed cross-claims against Safeway on or about March 11, 2002, and amended them on or about October 15, 2002, alleging causes of action by them against Safeway for breach of contract, interference with economic relationship, unfair trade practices and unjust enrichment and seeking damages and injunctive relief. Mediation between the parties occurred in 2004, but did not result in a settlement. PIA Co., Pivotal and SGRP are vigorously defending Safeway's allegations. It is not possible at this time to determine the likelihood of the outcome of this lawsuit. However, if Safeway prevails respecting its allegations, and PIA Co., Pivotal and SGRP lose on their cross-claims and counterclaims, that result could have a material adverse effect on the Company. The Company anticipates that this matter will be resolved in 2005.

In addition to the above, the Company is a party to various other legal actions and administrative proceedings arising in the normal course of business. In the opinion of Company's management, disposition

SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

7. Commitments and Contingencies (continued)

of these other matters are not anticipated to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

8. Treasury Stock

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

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

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

9. Employee Benefits

Stock Purchase Plans

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

Shares purchased by employees and consultants under the SP Plans were 43,023, 22,561, and 10,104 for 2004, 2003, and 2002, respectively.

The Company's expense as a result of the 15% discount offered to employees and consultants were approximately \$10,000, \$11,000, and \$4,000 for 2004, 2003, and 2002, respectively.

Retirement/Pension Plans

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Employer contributions were approximately \$97,000, \$87,000, and \$117,000 for 2004, 2003, and 2002, respectively.

9. Employee Benefits (continued)

In 2003 and 2002, certain of the Company's employees were covered by union-sponsored, collectively bargained, multi-employer pension plans. Pension expense related to these plans was approximately \$32,000 and \$60,000 for the years ended December 31, 2003 and 2002, respectively. There were no employees under union contract in 2004.

10. Related-Party Transactions

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

SMS and SMSI provided approximately 99% of the Company's field representatives (through its independent contractor field force) and approximately 92% of the Company's field management at a total cost of approximately \$24.0 million, \$36.0 million, and \$30.5 million for 2004, 2003, and 2002, respectively. Pursuant to the terms of the Amended and Restated Field Service Agreement dated as of January 1, 2004, SMS provides the services of SMS's field force of approximately 6,300 independent contractors to the Company. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004, SMSI provides approximately 50 full-time national, regional and district managers to the Company. For those services, the Company has agreed to reimburse SMS and SMSI for all of their costs of providing those services and to pay SMS and SMSI each a premium equal to 4% of their respective costs, except that for 2004 SMSI agreed to concessions that reduced the premium paid by approximately \$640,000 for 2004. Total net premiums (4% of SMS and SMSI costs less 2004 concessions) paid to SMS and SMSI for services rendered were approximately \$320,000, \$1,350,000, and \$1,100,000 for 2004, 2003, and 2002, respectively. The Company has been advised that Messrs. Brown and Bartels are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations, Messrs. Brown and Bartels benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services to the Company at a total cost of approximately \$1,170,000, \$1,610,000, and \$1,630,000 for 2004, 2003, and 2002, respectively. SIT provided approximately 34,000, 47,000, and 46,000 hours of Internet computer programming services to the Company for 2004, 2003, and 2002, respectively. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004, SIT continues to provide programming services to the Company for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. The average hourly billing rate was \$34.71, \$34.24, and \$35.10 for 2004, 2003, and 2002, respectively. The Company has been advised that no hourly charges or business expenses for Messrs. Brown and Bartels were charged to the Company by SIT for 2004. However, since SIT is a "Subchapter S" corporation, Messrs. Brown and Bartels benefit from any income of such company allocated to them.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

10. Related-Party Transactions (continued)

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

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

	Twelve Months Ended December 31,		
	2004	2003	2002
Services provided by affiliates:			
Independent contractor services (SMS)	\$ 19,944	\$ 28,411	\$ 23,262
Field management services (SMSI)	\$ 4,502	\$ 7,600	\$ 7,280
Internet and software program consulting services (SIT)	\$ 1,172	\$ 1,607	\$ 1,626
Accrued expenses due to affiliates (in thousands):			
	December 31,		
	2004	2003	
SPAR Marketing Services, Inc.	\$ 987	\$ 1,091	

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, 2004, 2003, and 2002. The Company's CEO and Vice Chairman own, through SMSI, a minority (less than 5%) equity interest in Affinity.

11. 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 ("Special Purpose 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. During 2004, 1,500 options to purchase shares of the Company's common stock were exercised and options to purchase 26,625 shares of the Company's stock were cancelled under this plan. At December 31, 2004, options to purchase 15,125 shares of the Company's common stock remain outstanding under this plan. The 1995 Plan was superseded by the 2000 Plan with respect to all new options issued.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

11. 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

2004, no options to purchase shares of the Company's common stock were exercised under this plan. At December 31, 2004, 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 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 2004, 21,000 options to purchase shares of the Company's common stock were exercised under this plan. At December 31, 2004, options to purchase 4,750 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 2004, options to purchase 476,417 shares of the Company's common stock were granted, options to purchase 53,302 shares of the Company's common stock were exercised and options to purchase 1,345,542 shares of the Company's stock were voluntarily surrendered and cancelled under this plan. At December 31, 2004, options to purchase 1,251,383 shares of the Company's common stock remain outstanding under this plan and options to purchase 1,618,719 shares of the Company's common stock were available for grant under this plan.

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

11. Stock Options (continued)

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

	Shares	Weighted Average Exercise Price
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	(92,750)	2.38
Options outstanding, December 31, 2003	2,262,810	\$ 1.85
Granted	476,417	\$ 1.47
Exercised	(75,802)	0.49
Canceled or expired	(1,372,167)	6.18

Options outstanding, December 31, 2004	-----		
	1,291,258		\$ 1.66
Option price range at end of year	\$0.01 to \$14.00		
	2004	2003	2002

Grant Date weighted average fair value of options granted during the year	\$ 1.43	\$ 2.33	\$ 1.60

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

11. Stock Options (continued)

The following table summarizes information about stock options outstanding at December 31, 2004:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2004	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2004	Weighted Average Exercise Price
Less than \$1.00	273,536	8.1 years	\$ 0.71	230,336	\$ 0.70
\$1.01 - \$2.00	783,347	7.0 years	1.31	697,972	1.30
\$2.01 - \$4.00	192,875	8.4 years	2.75	61,196	2.88
Greater than \$4.00	41,500	5.1 years	9.37	41,126	9.42
Total	1,291,258			1,030,630	

In 2004, the Company recorded an expense of approximately \$103,000 under the provision of SFAS No. 123 dealing with stock option grants to non-employees for stock option grants that were awarded to the employees of the Company's affiliates. The Company determines the fair value of the options granted to non-employees using the Black-Scholes valuation model and expenses that value over the service period. Until an option is vested, the fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

12. 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.

13. Geographic Data

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

	Twelve Months Ended December 31,		
	2004	2003	2002
Net revenue:			
United States	\$ 43,163	\$ 64,305	\$ 69,612

International	8,207	554	-
Total net revenue	\$ 51,370	\$ 64,859	\$ 69,612

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

13. Geographic Data (continued)

	Twelve Months Ended December 31,		
	2004	2003	2002
Operating (loss) income:			
United States	\$ (10,559)	\$ 893	\$ 9,100
International	(1,477)	(868)	(467)
Total operating (loss) income	\$ (12,036)	\$ 25	\$ 8,633

	December 31,	
	2004	2003
Long lived assets:		
United States	\$ 2,484	\$ 11,632
International	486	576
Total long lived assets	\$ 2,970	\$ 12,208

International revenues disclosed above were based upon revenues reported by the Company's foreign subsidiaries and joint ventures. No one international geographic market is greater than 10% of consolidated net revenue for the twelve months ended December 31, 2004.

14. Restructuring Charges

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

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

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SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
December 31, 2004

14. Restructuring Charges (continued)

The following table displays a roll forward of the liabilities for restructuring charges from January 1, 2001 to December 31, 2004 (in thousands):

	Employee Separation	Equipment Lease Settlements	Office Lease Settlements	Total
January 1, 2001 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
Impairment charge (see Note 3 - Impairment Charges)	-	(450)	(235)	(685)
2004 restructure plan	230	-	250	480
2004 payments	(230)	-	-	(230)
December 31, 2004, balance	\$ -	\$ -	\$ 250	\$ 250

15. 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,		
	2004	2003	2002
Numerator:			
Net (loss) income	\$ (12,268)	\$ (539)	\$ 5,298

Denominator:			
Shares used in basic net (loss) income per share calculation	18,859	18,855	18,761
Effect of diluted securities:			
Employee stock options	-	-	387

Shares used in diluted net (loss) income per share calculations	18,859	18,855	19,148
	=====		
Basic and diluted net (loss) income per common share:	\$ (0.65)	\$ (0.03)	\$ 0.28

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

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16. Quarterly Financial Data (Unaudited)

Quarterly data for 2004 and 2003 was as follows (in thousands, except earnings per share data):

	Quarter			
	First	Second	Third	Fourth

Year Ended December 31, 2004:				
Net revenues	\$ 12,803	\$ 11,932	\$ 10,683	\$ 15,952
Gross profit	4,109	3,115	3,720	6,782

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

2004

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

2003

In the fourth quarter 2003, the Company experienced certain charges to revenue and cost of sales that did not occur in 2004. These charges accounted for approximately 50% of the loss in 2003 fourth quarter. The Company also experienced lower revenues from per unit fee contracts in the fourth quarter resulting from decreased retail sales of some of the Company's larger clients' products, as well as 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	Balance at End of Period
Year ended December 31, 2004:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 515	\$ 366	\$ 120 (1)	\$ 761
Sales allowances	\$ 448	\$ -	\$ 448	\$ -
Year ended December 31, 2003:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 301	\$ 377	\$ 163 (1)	\$ 515
Sales allowances	\$ -	\$ 448	\$ -	\$ 448
Year ended December 31, 2002:				
Deducted from asset accounts:				
Allowance for doubtful accounts	\$ 325	\$ 262	\$ 286 (1)	\$ 301

(1) Uncollectible accounts written off, net of recoveries

PROMISSORY NOTE

New York, New York
(as of) September 10, 2004

U.S.\$764,271.00

FOR VALUE RECEIVED, the undersigned, STIMULYS, INC. (f/k/a SPAR Performance Group, Inc.), a corporation organized under the laws of the State of Delaware and currently having an address at 2245 Keller Way, Carrollton, Texas 75006 (the "Borrower"), hereby promises to pay to the order of SPAR INCENTIVE MARKETING, INC. (or the then current endorsee and holder(s) of this promissory note, as applicable, the "Lender"), at its office at 580 White Plains Road, Tarrytown, New York 10591, or at such other place as may be designated from time to time in writing by the Lender, the principal sum of SEVEN HUNDRED SIXTY FOUR THOUSAND TWO HUNDRED SEVENTY ONE U.S. DOLLARS (U.S.\$764,271.00), or such other amount as may be advanced and outstanding hereunder, together with interest, all as provided in this promissory note (as the same may be supplemented, renewed, extended, modified, amended, restated or replaced from time to time in the manner provided herein, this "Note").

Section 1. Certain Defined Terms. Capitalized terms used and not otherwise defined in this Note shall have the meanings respectively assigned to them in the relevant Loan Instrument (as hereinafter defined). Definitions shall be applicable equally to the singular and plural forms of the terms defined, each use of a neuter, masculine, feminine or plural pronoun shall be deemed to refer to the form of pronoun appropriate to the circumstance, and each other reference to or by gender shall include reference to each other or neuter gender appropriate to the circumstance, in each case as the context may permit or require. The following capitalized terms and non-capitalized words and phrases shall have the meanings respectively assigned to them: "Bankruptcy Proceeding" shall mean the filing or submission of any petition or other document for relief, bankruptcy, insolvency, receivership or other remedy, or the existence of any case, action, suit, or proceeding, whether voluntary or involuntary, under the United States Bankruptcy Code, or any other present or future applicable law respecting bankruptcy, reorganization, insolvency, readjustment of debts, relief of debtors, dissolution or liquidation, any corresponding applicable law of any state, province or foreign jurisdiction, or any succeeding applicable law, and any rules and regulations promulgated thereunder, in each case as the same may have been and hereafter may be adopted, supplemented, modified, amended, restated or replaced from time to time. "Business Day" shall mean any day during which the Lender is open for business in New York, New York, other than any Saturday, Sunday or other applicable legal holiday. "Collateral" shall mean any asset or property of any kind securing all or any part of Obligations or any Surety's Obligations, whether directly or indirectly, whether now existing or hereafter acquired or created, whether granted by the Borrower, any Surety or any other person (individually, jointly, severally or otherwise), and whether or not disclosed to the Borrower or any Surety, if any. "Default" shall mean any event that, with the giving or receipt of notice, the acquisition of knowledge or the passage of time (or any combination thereof), would constitute an Event of Default. "Event of Default" shall have the meaning assigned to it in Section 12 hereof. "Guarantor" and "Guarantors" shall respectively mean any one or more of THOMAS F. HUNTER, an individual currently residing in the State of Texas, and JOHN HARPER HAWKINS III, an individual currently residing in the State of Texas. "Guaranty" shall mean the Guaranty Agreement among the Guarantors and the Lender dated as of August 30, 2004, as the same may be supplemented, renewed, extended, modified, amended, restated or replaced from time to time in the manner provided therein. "Loan" and "Loans" shall respectively mean any or more of the principal amounts outstanding from time to time (including future advances) respecting any and all of the loans and other advances made and amounts paid by the Lender from time to time to or on behalf of or for the benefit of the Borrower, or otherwise owed from time to time to the Lender by the Borrower, under or pursuant to this Note or any other Loan Instrument, in each case (i) including, without limitation, those so made, paid or outstanding during the pendency of any Bankruptcy Proceeding, and (ii) whether requested, received, used or repayable by the Borrower individually, jointly, severally or otherwise. "Loan Instrument" and "Loan Instruments" shall respectively mean any one or more of this Note, any letter of credit application, guaranty, security agreement, hypothecation, assignment, mortgage or other instrument, agreement or document with or issued or given by the Borrower or any Surety creating, evidencing, governing, supporting, securing, perfecting, recognizing, subordinating or respecting (in whole or in part) any of the Obligations or Surety's Obligations, and all waivers, consents, agreements, reports, statements, certificates, schedules and other documents executed by the requisite person(s) pursuant to or in connection with any of the foregoing and accepted or delivered by the Lender, in each case as each may have

been and hereafter may be executed, supplemented, renewed, extended, modified, amended, restated or replaced from time to time in the manner provided therein, whether before, as of or after the date hereof. "Material Adverse Effect" shall mean any material and adverse effect, whether individually or in the aggregate, upon (a) the assets, business, cash flow, expenses, liabilities, operations, properties, prospects, reputation, taxation or condition (financial or otherwise) of the Borrower, (b) the ability of the Borrower to pay or otherwise satisfy (as and when due) any of the Obligations, or (c) any part of the Collateral or its value or the validity, enforceability, perfection or priority of any security interest of the Lender in any Collateral.

"Obligations" shall mean any and all (i) Loans (including future advances), and (ii) other amounts to be paid and all other obligations to be performed or otherwise satisfied by the Borrower under this Note or any other Loan Instrument (whether individually, jointly, severally or otherwise); in each case including, without limitation, (A) those so made, paid or outstanding, accrued, accruing or otherwise arising or applicable under any Loan Instrument during the pendency of any Bankruptcy Proceeding, irrespective of whether or to what extent such amounts accrue or are allowed or allowable as claims in any such proceeding, (B) whether requested, received, used, owed or repayable by the Borrower individually, jointly, severally or otherwise, and (C) all accrued and unpaid interest thereon (including, without limitation, any and all interest and other amounts accrued, accruing or otherwise arising or applicable under any Loan Instrument during the pendency of any Bankruptcy Proceeding, irrespective of whether or to what extent such interest, fees and other amounts accrue or are allowed or allowable as claims in any such proceeding). "Surety" and "Sureties" shall respectively mean any one or more of: the Guarantors; and any other co-obligor, indemnitor, guarantor, pledgor or surety of, or any other person providing any Credit Support for, any of the Obligations or any Surety's Obligations; in each case whether or not disclosed to the Borrower or any other Surety. "Surety's Adverse Effect" shall mean any material and adverse effect, whether individually or in the aggregate, upon (a) the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation or condition, financial or otherwise, of any Surety, (b) the ability of any Surety to pay or otherwise satisfy (as and when due) any of its obligations under any of the Loan Instruments, or (c) any collateral provided by any Surety or its value or the validity, enforceability, perfection or priority of any security interest of the Lender therein. "Surety's Obligations" shall mean any and all of: the "Guarantors' Obligations" under (and as defined in) the Guaranty; and the other Credit Support from, and any and all other obligations of, any Surety under any Loan Instrument; in each case whether or not disclosed to the Borrower or any other Surety.

Section 2. Loans and Obligations. (a) The Borrower represents, warrants and acknowledges to and covenants and agrees with the Lender that: (i) pursuant to its Revolving Credit, Guaranty and Security Agreement with the Lender dated as of June 30, 2002, and the Revolving Promissory Note issued pursuant thereto (as the same may have been and hereafter may be supplemented, modified, amended, restated or replaced from time to time in the manner provided therein, the "Revolving Documents"), the Lender has made loans on a revolving basis to the Borrowers that were outstanding as of the date hereof in the aggregate principal amount of \$694,271.00 (the "Existing Revolving Loans"), and the Lender has caused to be issued a Letter of Credit in the face amount of \$70,000.00 for the benefit of the Borrower (the "Existing Letter of Credit"); (ii) the Revolving Documents and the Existing Revolving Loans, as well as the Borrower's obligation to immediately and fully reimburse the Lender for any drawing under the Existing Letter of Credit (the "Existing Reimbursement Obligations"), were not subject as of the date of this Note to any defense, counterclaim, setoff, right of recoupment, abatement, reduction or other claim or determination of the Borrower; (iii) the Borrower has issued this Note in order to fully pay and satisfy the Existing Revolving Loans and to amend, restate and replace the Existing Reimbursement Obligations as provided in subsection (b) of this Section; (iv) the Lender shall be deemed to have advanced to itself (at the request and for the benefit of the Borrower) on the date hereof the full amount of the Existing Revolving Loans in order to fully pay and satisfy the outstanding principal balance thereof; (v) as a result, the principal balance of the Loans and the Letter of Credit outstanding on the date hereof under and evidenced by this Note is and shall be equal to \$764,271.00 (and is subject to increase as provided in subsection (b), below); (v) the Loans and other Obligations of the Borrower are not subject as of the date of this Note to any defense, counterclaim, setoff, right of recoupment, abatement, reduction or other claim or determination, (vi) the Note and Guaranty shall continue in full

force and effect after the date hereof; (vii) all remaining availability under the Revolving Documents has been terminated; and (viii) except for the deemed advance described above and in subsection (b), below, no Loan advances are available to the Borrower under this Note.

(b) The Borrower shall reimburse the Lender on demand for any and all advances made by the issuer thereof under the Existing Letter of Credit, each such advance shall be deemed to be an advance of Loan principal hereunder and part of the "Loans" and "Obligations" evidenced hereby. Such reimbursement obligations shall be deemed to have continued, amended, restated and completely replaced the Existing Reimbursement Obligations, but shall not be deemed to have been a payment or satisfaction thereof.

(c) This Note evidences any and all amounts outstanding from time to time (including future advances) in respect of any and all loans and other advances made and amounts paid by the Lender in its discretion from time to time to or on behalf or for the benefit of the Borrower, or otherwise now or from time to time hereafter owed to the Lender by the Borrower, under or pursuant to this Note (each of which is a Loan hereunder), in each case (i) including, without limitation, those so made, paid or outstanding during the pendency of any Bankruptcy Proceeding, (ii) whether requested, received, used or repayable by the Borrower individually, jointly, severally or otherwise, and (iii) together with all accrued and unpaid interest thereon (including, without limitation, any and all interest and other amounts accrued, accruing or otherwise arising or applicable under any Loan Instrument during the pendency of any Bankruptcy Proceeding, irrespective of

whether or to what extent such interest, fees and other amounts accrue or are allowed or allowable as claims in any such proceeding).

Section 3. Voluntary and Mandatory Payments. (a) The Borrower shall repay the entire principal balance then outstanding under the Loans and all of the other monetary Obligations then outstanding in full on the first to occur (the "Maturity Date") of: (a) twenty Business Days from the date of this Note; or (b) the acceleration of the Obligations as contemplated by this Note, any other Loan Instrument or applicable law. The Borrower may voluntarily elect to prepay the Loans in full at any time, or in part from time to time, in each case without any premium or penalty. Nothing contained in this Note or any other Loan Instrument shall be construed as a waiver or modification of any term or provision of this Note or any other Loan Instrument respecting the payment of any expense, indemnity or reimbursement on demand.

(b) Notwithstanding anything in this Note to the contrary, the parties agree: (i) \$70,000 of the amount of this Note represents the \$70,000 letter of credit (the "LOC") issued by Webster Bank to Airline Reporting Corporation (ARC), (ii) unless it has been drawn upon, this amount is not due and payable prior to or on the Maturity Date of this Note, (iii) the LOC will be returned (undrawn upon) to the Lender and Webster Bank for cancellation by no later than nineteen business days from the date of this Note (the "LOC Surrender Date"), (iv) if the LOC is so returned by the LOC Surrender Date, this \$70,000 amount will be considered paid in full, (v) no interest or fee will accrue and be payable for this LOC at any time prior to the first to occur of any drawing on the LOC and the LOC Surrender Date, (vi) if any drawing shall be made on the LOC, the amount of such drawing shall be deemed a funded Loan under this Note and shall be due and payable on the Maturity Date, (vii) if the LOC has not been returned to the Lender and Webster Bank by the LOC Surrender Date, the full undrawn LOC amount shall be deemed a funded Loan under this Note and shall be due and payable on the Maturity Date, and (viii) any such funded Loan shall bear interest as provided herein from and after the date deemed funded.

Section 4. Interest; Default Interest. (a) Except as otherwise provided in this Section, the Loans shall bear interest on the unpaid principal balance of those Loans outstanding from time to time, from and including the date hereof through and including the date such principal balance of such Loans is repaid in full (including, without limitation, any and all interest, fees and other amounts accrued, accruing or otherwise arising or applicable during the pendency of any Bankruptcy Proceeding, irrespective of whether such interest, fees and other amounts are allowed or allowable as claims in any such proceeding), at the rate of 8.935% per annum. Interest on the Loans shall be computed on the basis of the actual number of days elapsed and a year of 360 days and shall be payable by the Borrower in arrears: (i) in full on the Maturity Date; and (ii) on demand

after the Maturity Date.

(b) Any payment of principal, interest or other amount that is not paid when due under this Note or any other Loan Instrument, and all of the Loans after notice from the Lender during the continuance of any Default or Event of Default under this Note or any other Loan Instrument, shall, to the extent permitted by applicable law, bear interest (computed on the basis of the actual number of days elapsed and a year of 360 days) until repaid in full at an annual rate equal to 18% per annum, which interest rate shall be payable by the Borrower with respect to such amount(s) instead of the rate (if any) established by this Section with respect thereto, and which interest amount(s) shall be payable upon demand; in each case (1) subject, however, to the maximum rate permitted by Applicable Law as provided in Section 6 hereof, and (2) including, without limitation, any and all interest, fees and other amounts accrued, accruing or otherwise arising or applicable during the pendency of any Bankruptcy Proceeding, irrespective of whether such interest, fees and other amounts are allowed or allowable as claims in any such proceeding.

Section 5. Maximum Interest Rate. It is the intention of the Borrower and the Lender that the interest (as defined under applicable law) that may be charged to, collected from or received from the Borrower under this Note shall not exceed the maximum rate permissible under applicable law. Accordingly, anything in this Note to the contrary notwithstanding, in the event any interest (as so defined) is charged to, collected from or received from the Borrower under this Note in excess of such maximum lawful rate, then the excess of such payment over that maximum rate shall be applied to the reduction of the outstanding principal balance of the Loans under this Note and the other outstanding Obligations (without any prepayment premium or penalty), and any portion of such excess payment remaining after payment and satisfaction of the Obligations in full shall be returned by the Lender to the Borrower.

Section 6. Waiver of Presentment, Etc. Presentment for payment, notice of dishonor, protest and notice of protest are hereby each absolutely, unconditionally, irrevocably and expressly waived forever by the Borrower.

Section 7. Payments and Applications. All payments of principal, interest, fees and other amounts due the Lender pursuant to this Note or any other Loan Instrument shall be made in U.S. Dollars in immediately available funds by 2:00 P.M. (New York City time) on the date payment is due to the Lender at its offices at SPAR Incentive Marketing, Inc., 580 White Plains Road, Tarrytown, New York 10591, or as otherwise instructed by the Lender. Should any payment become due and payable on other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day, and, in the case of any payment of principal, interest shall be payable thereon at the rate per annum specified in this Note during such extension. The Borrower hereby authorizes the Lender at any time and from time to time (in the discretion of the Lender) to deduct from any account of the Borrower with the Lender, or to direct any affiliate, custodian or designee of the Lender holding any account of the Borrower at the direction or for the benefit of the Lender to deduct from such account, all or any part of any amount (whether principal, interest or otherwise) that has become due and payable under this Note or any other Loan Instrument, all without any notice to or further consent from the Borrower. In debiting any such account, the Obligations shall be deemed to have been paid or repaid only to the extent of the funds actually available in and debited from such account notwithstanding any internal procedure of the debiting person to the contrary. Except as otherwise provided in this Note or any other Loan Instrument, any funds received by the Lender from or on behalf of the Borrower (including the net proceeds from any collateral) may be applied by the Lender to the following items in such order and manner as may be determined by the Lender in its sole and absolute discretion to the extent permitted by applicable law: (i) the payment of accrued and unpaid interest on the Loans and any breakage or other amounts (if any) required by this Note; (ii) the payment of due and unpaid principal on the Loans; (iii) the payment to or reimbursement of the Lender for any fees and expenses for which it is entitled to be paid or reimbursed pursuant to any of the provisions of this Note or any other Loan Instrument; (iv) the establishment or maintenance of any cash collateral required or permitted under this Note or any other Loan Instrument; and (v) the payment in full of all other Obligations.

Section 8. Certain Representations Respecting the Borrower. The Borrower represents and warrants to the Lender as follows in each subsection of this Section, as of the date hereof and as of the date of each Loan or other

advance or any readvance, renewal or extension thereof: (a) the full, complete and correct legal name of the Borrower is set forth in the first paragraph of this Note and on the signature page hereto, and except as otherwise disclosed to the Lender in writing, has never been changed and is and has been the only name ever used by the Borrower; (b) the Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, maintains its chief executive office at the address set forth for it on the signature page, below, is duly qualified and in good standing to do business in each such location, and except as otherwise disclosed to the Lender in writing has not had its organizational state or chief executive office location anywhere else within the past six years; (c) the Organizational Documents of the Borrower have all been duly adopted, executed and filed to the extent required by applicable law, and the Borrower has the legal capacity, power, authority and unrestricted right to execute and deliver this Note and each of the other Loan Instruments to which the Borrower is or will be a party and to perform all of the Borrower's obligations hereunder and thereunder; (d) the execution and delivery by the Borrower of this Note and each of the other Loan Instruments to which the Borrower is or will be a party and the performance by the Borrower of all of the obligations of the Borrower hereunder and thereunder (i) have been duly authorized by all requisite action on the part of the Borrower and all requisite action on the part of each direct or indirect general partner, manager, trustee or similar principal of such Borrower that is not a natural person, as applicable, (ii) will not violate or be in conflict with any term or provision of (A) any applicable law (including, without limitation, any applicable usury or similar law), (B) any judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to the Borrower or any material part of the Borrower's assets and properties, or (C) any Organizational Document of the Borrower or of any direct or indirect general partner, manager, trustee or similar principal of such Borrower that is not a natural person, as applicable, (iii) will not violate, be in conflict with or constitute a default (with or without the giving or receipt of notice, the acquisition of knowledge or the passage of time or any combination thereof) under any term or provision of any of the Material Documents, and (iv) except as specifically contemplated by any Loan Instrument, will not result in the creation or imposition of any security interest, lien, encumbrance or other adverse claim of any nature upon any of its assets and properties; (e) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person (whether under any Material Document or otherwise) is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and performance by the Borrower of this Note or any other Loan Instrument to which the Borrower is or will be a party or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Note and the other Loan Instruments; (f) the Borrower is not regulated by or otherwise subject to any applicable law that directly or indirectly limits or otherwise restricts or governs its ability to incur, continue or repay indebtedness or provide any Credit Support or to encumber any of its assets and properties as security for the indebtedness of itself or any other person; (g) this Note is, and each of the other Loan Instruments to which the Borrower is or will be a party when executed and delivered will be, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with their respective terms and provisions; (h) there is no action, suit, investigation or proceeding (whether or not purportedly on behalf of the Borrower, any Surety, any of their respective

principals, executives or affiliates or any issuer or holder of any Collateral) pending or (to the best knowledge of the Borrower) threatened or contemplated at law, in equity, in arbitration or by or before any other governmental authority involving or affecting (A) the Borrower or, to the best knowledge of the Borrower, any Surety, any of their respective principals, executives or affiliates or any issuer or holder of any Collateral that, if adversely determined, would be reasonably likely to have a Material Adverse Effect or Surety's Adverse Effect, individually or in the aggregate with other events, (B) any alleged criminal act or activity (other than a traffic misdemeanor or lesser traffic violation) on the part of the Borrower or, to the best knowledge of the Borrower, any Surety or any of their respective principals, executives or affiliates, (C) any part of the Obligations, (D) any Collateral granted by the Borrower or (to the knowledge of the Borrower) any Surety, or (E) any of the transactions contemplated in this Note or any other Loan Instrument; (i) the financial statements and reports and any related notes and schedules respecting the Borrower delivered to the Lender prior to the date hereof, as well as those delivered after the date hereof (whenever delivered), if any, (i) were prepared

in accordance with generally accepted accounting principles consistently applied throughout the period covered thereby, and (ii) are complete, accurate and a fair presentation of the Borrower's financial condition as of the date thereof and the Borrower's results from operations and income for the period covered thereby (subject in the case of interim statements to normal year-end audit adjustments), and since date of the latest financials preceding the date hereof, no event or events have occurred that individually or in the aggregate has had, will have or could have a Material Adverse Effect or Surety's Adverse Effect; (j) after giving effect to the Loans and the other direct and indirect liabilities of the Borrower arising under this Note and the other Loan Instruments, whether absolute or contingent (treating all Credit Support and all unused availability under lines of credit, commitments and other indebtedness as fully funded indebtedness in the maximum amount thereof), the Borrower (A) is solvent (i.e., the aggregate fair value of its assets exceeds the sum of its liabilities), (B) has adequate working capital, and (C) is able to pay its debts as they mature; (k) the Borrower has never been the subject of any Bankruptcy Proceeding, and the Borrower is not currently taking or considering or planning to take, and the Borrower has never taken or considered or planned to take, any action to initiate or participate in any Bankruptcy Proceeding or any of the other actions specified in subsection (e) or (f) of the "Events of Default" Section of any non-demand Note, and to the knowledge of the Borrower no other person is currently considering or planning, or has ever considered or planned, to take any of those actions; (l) the Loans have been requested and will be or have been used by the Borrower or any Surety for business purposes and not for consumer purposes, and no part of the proceeds of the Loans or other credit from the Lender has been or will be used at any time in any way or for any purpose that violates or is inconsistent with any applicable Margin Stock Regulations; (m) the Borrower and the Sureties (i) are engaged as an integrated group in the business of incentive promotions and travel services, selling or leasing goods and providing services in connection therewith, and providing to each other the required services and facilities for those integrated operations, (ii) are seeking the Loans and other credit for the purpose of funding those integrated operations and certain other approved working capital requirements of the Borrower and the Sureties, and (iii) each expect to derive financial and other benefit, directly or indirectly, in return for undertaking their respective obligations under this Note and the other Loan Instruments, both individually and as a member of the integrated group; and (n) no representation or warranty of the Borrower made or contained in this Note or any other Loan Instrument (whether with respect to the Borrower, any Surety or otherwise) and no report, statement, certificate, schedule or other document or information furnished or to be furnished by or on behalf of the Borrower or any Surety in connection with the transactions contemplated by this Note and the other Loan Instruments (whether with respect to the Borrower, any Surety or otherwise) contains or will contain a misstatement of a material fact or omits or will omit to state a material fact required to be stated therein in order to make it, in the light of the circumstances under which made, not misleading.

Section 9. Certain Covenants of the Borrower. The Borrower covenants and agrees with the Lender that it will comply in all respects on a timely basis (except as otherwise expressly provided) and at its own expense with each, and will not cause, suffer or permit any violation of any, of the terms and provisions of this Section, from the date hereof and until the Obligations have been fully paid and satisfied and this Note shall have no further force or effect, unless the Lender (in its sole and absolute discretion) shall consent otherwise in writing:

(a) The Borrower shall give, or cause to be given, immediate written notice to the Lender of: (i) any change in the name (whether change in legal name, use of other name or otherwise), name(s) of controlling equity owner(s), the state or other jurisdiction of incorporation or other organization or the location of the chief executive office, of the Borrower, as applicable, or, to the best knowledge of the Borrower, the name (whether change in legal name, use of other name or otherwise) name(s) of controlling equity owner(s), the state or other jurisdiction of incorporation or other organization or the location of the chief executive office of any Surety or any issuer or holder of any Collateral; (ii) the institution or threat of, or any adverse determination or change in, any action, suit, investigation or proceeding (whether or not purportedly on behalf of the Borrower, any Surety, any of their respective principals, executives or

affiliates or any issuer or holder of any Collateral) at law, in equity, in arbitration or by or before any other governmental authority involving or

affecting (A) the Borrower or, to the best knowledge of the Borrower, any Surety, any of their respective principals, executives or affiliates or any issuer or holder of any Collateral that, if adversely determined, would be reasonably likely to have a Material Adverse Effect or Surety's Adverse Effect, individually or in the aggregate with other events, (B) any alleged criminal act or activity (other than a traffic misdemeanor or lesser traffic violation) on the part of the Borrower or, to the best knowledge of the Borrower, any Surety or any of their respective principals, executives or affiliates, (C) any part of the Obligations, (D) any Collateral granted by the Borrower or (to the knowledge of the Borrower) any Surety, or (E) any of the transactions contemplated in this Note or any other Loan Instrument; (iii) any change in location or any loss of or other material and adverse change in any Collateral (to the knowledge of the Borrower) granted by any Surety; (iv) any act or event known to the Borrower that in any material respect violates, is in conflict with, results in a breach of or constitutes a default (with or without the giving or receipt of notice, the acquisition of knowledge or the passage of time or any combination thereof) under any term or provision of any of the Organizational Documents or other Material Documents; (v) any nonpayment or other Default or Event of Default under this Note or any other Loan Instrument, or any other nonpayment, misrepresentation, nonperformance or other breach or default in or with respect to any of the Borrower's Obligations; or (vi) any other event if such event, individually or in the aggregate with other events, has had, will have or could have any Material Adverse Effect or Surety's Adverse Effect.

(b) The Borrower shall provide to the Lender such financial statements, accounts, reports, certificates, tax returns, statements, documents and other information as the Lender from time to time may request, each in such form and substance as may be acceptable to the Lender. From time to time upon the request of the Lender, the Borrower (upon receipt) will furnish copies to the Lender, and will direct such other persons (including the issuers and preparers) as the Lender may request to furnish copies directly to the Lender, of any and all financial statements, account statements, notices and other reports and information pertaining to the Collateral as the Lender may request. At all reasonable times and as often as the Lender reasonably may request, the Borrower shall permit representatives designated by the Lender to (A) have complete and unrestricted access to the premises of the Borrower and the books and records of the Borrower, and make copies of, or excerpts from, those books and records, and (B) discuss the accounts, assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation or condition, financial or otherwise, of the Borrower or any Collateral with the Borrower's accountants and other representatives.

(c) The Borrower at all times shall do, or cause to be done, all things, or proceed with due diligence with any actions or courses of action, that may be necessary: (i) to maintain its due organization, valid existence and good standing under the laws of its state of organization; and (ii) to preserve and keep in full force and effect all foreign and other qualifications, licenses and registrations in those jurisdictions in which the failure to do so would be reasonably likely to have a Material Adverse Effect. The Borrower: (A) shall at all times maintain its full and unrestricted right, power and authority, and shall not, and shall not cause, suffer or permit anyone else to, take or fail to take any action (with respect to itself or otherwise), or offer, commit or enter into to any agreement or arrangement, that would, or could, in any way restrict, limit, make subject to third-party approval or otherwise impair its right, power or authority, (x) to carry on its business as now conducted, (y) to execute, deliver or be a party under this Note or any other Loan Instrument to which it is or becomes a party or any supplement, modification or amendment thereto or restatement or replacement thereof from time to time in the manner provided therein, or (z) to perform any of its obligations under this Note or any other Loan Instrument; and (B) shall not, and shall not cause, suffer or permit, any supplement, modification or amendment to any of Organizational Documents of the Borrower, or of any direct or indirect general partner, manager, trustee or similar principal of the Borrower that is a corporation, limited liability company or similar entity, as applicable, that would further limit, restrict, impair or make subject to approval any such power or authority or would otherwise be adverse to any such execution, delivery, participation or performance. The Borrower shall at all times: (1) do business exclusively under its own name(s) and employer and taxpayer identification numbers, hold itself out to the public as a legal entity separate and distinct from any other person (and not as a department or division of someone else), and correct any misunderstandings known to it regarding the separate identity of the Borrower; (2) use its own separate stationery, invoices and checks; (3) use its own logos and trademarks and not share any common logo or trademark with any other person; (4) observe all corporate or equivalent formalities for maintaining its status as a valid separate entity; and (5) maintain its records, books of account, bank

accounts and other assets and properties separate and apart from those of any other person and not commingle any of them with those of any other person.

Section 10. Events of Default. Each of the following events shall constitute a default under this Note (each an "Event of Default"): (a) any representation or warranty made in, or any report, statement, certificate, schedule or other document or information furnished in connection with, this Note or any of the other Loan Instruments shall prove to have been false or misleading in any material respect when made or furnished or deemed made or furnished (whether prior to, on or after the date hereof); (b) any default (whether in whole or in part) shall occur and be continuing in the payment of any principal, interest or other amount (i) under this Note or any other Loan Instrument, or (ii) under any other indebtedness, obligation or liability of the Borrower, any Surety or any of their respective principals or other affiliates owed to the Lender or any of its affiliates; (c) any

other default in the due observance or performance of any term or provision of this Note and the other Loan Instruments shall occur (whether in whole or in part), which default is not described in any other subsection of this Section; (d) any default (whether in whole or in part) shall occur and be continuing (i) in the payment of any principal, interest or other amount owed under any other indebtedness, obligation or liability (other than the Obligations) now or hereafter owed (whether individually, jointly, severally or otherwise, and whether on or after the date hereof) by the Borrower, any Surety or any of their respective principals or other affiliates, or (ii) in the due observance or performance of any term or provision of any instrument, agreement or document (other than a Loan Instrument) evidencing or respecting any such other indebtedness, liability or obligation, including (without limitation) any and all any indebtedness or other obligation (other than the Obligations) for any (A) money borrowed, debt issue, deferred purchase price, letter of credit, acceptance, or commitment or line of credit, (B) cap, swap, exchange, forward contract or other option or hedge, whether interest, currency, equity or otherwise, (C) capital lease, (D) affiliate advance, (E) preferred stock with mandatory payments or redemptions, (F) unfunded pension obligations, or (G) other credit, or under any Credit Support from the referenced person respecting any such indebtedness or any other obligation of any other person, in each case however evidenced and whether owed to the Lender, any of its affiliates or any other person, and in each case which default is not described in any other subsection of this Section, and such default shall continue beyond any applicable grace and cure periods thereunder; (e) the Borrower, any Surety or any of their respective principals or other affiliates shall (i) fails to, be unable to or otherwise does not generally pay its debts as they become due, (ii) conceal, remove or transfer any of its assets and properties in violation or evasion of any bankruptcy, fraudulent conveyance or similar applicable law, (iii) make an assignment for the benefit of its creditors, (iv) petition or apply for or consent to the appointment of a receiver, trustee, assignee, custodian, sequestrator, liquidator or similar official for itself or any of its assets and properties, (v) commence a voluntary case for relief as a debtor under the United States Bankruptcy Code, (vi) file with or otherwise submit to any governmental authority any petition, answer or other document seeking (A) reorganization, (B) an arrangement with creditors or (C) to take advantage of any other present or future applicable law respecting bankruptcy, reorganization, insolvency, readjustment of debts, relief of debtors, dissolution or liquidation, (vii) file or otherwise submit any answer or other document admitting or failing to contest the material allegations of a petition or other document filed or otherwise submitted against it in any proceeding under any such applicable law, (viii) be adjudicated a bankrupt or insolvent, or (ix) take any action for the purpose of effectuating, approving or consenting to any of the other actions or events described in this subsection; (f) any case, proceeding or other action shall be commenced against the Borrower, any Surety or any of their respective principals or other affiliates for the purpose of effecting, or an order, judgment or decree shall be entered by any court of competent jurisdiction approving (whether in whole or in part), anything specified in subsection (e) of this Section, or any receiver, trustee, assignee, custodian, sequestrator, liquidator or other official shall be appointed with respect to the Borrower, any Surety or any of their respective principals or other affiliates or all or a substantial part of the assets and properties of the Borrower, any Surety or any of their respective principals or other affiliates; (g) one or more final judgments for the payment of money shall be rendered against the Borrower, any Surety or any of their respective principals or other affiliates and the same shall remain undischarged for a period of 30 days during which levy and execution shall not be effectively stayed or

contested in good faith; (h) any seizure, levy, attachment, distraint, loss, destruction, termination, foreclosure or other material impairment, deterioration or diminution (whether in whole or in part) shall occur with respect to all or any part of any Collateral or other material assets and properties of the Borrower, any Surety or any of their respective principals or other affiliates (other than fully insured casualty losses); (i) any Loan Instrument or any security interest granted thereunder (or the intended perfection or priority thereof) for any reason shall (in whole or in part) cease to be in full force or effect or shall be contested, challenged or repudiated by or on behalf of the Borrower or any Surety; (j) the Borrower, any Surety or any of their respective principals or other affiliates shall be or become the subject of or a party to any criminal indictment or conviction (other than a misdemeanor); (k) the failure in business or termination of current employment of the Borrower, any Surety or any of their respective principals or other affiliates, any merger, consolidation, reorganization, liquidation, sale of substantially all of its assets, or change in ownership or control of the Borrower or any Surety, or the death or permanent disability of the Borrower or any Surety or any of their respective principals; or (l) any event or events shall occur that (individually or in the aggregate with any other event(s)) have had or could have a Material Adverse Effect or Surety's Adverse Effect, as determined by the Lender in the exercise of its reasonable judgment, and the Lender shall have given the Borrower notice of such determination.

Section 11. Enforcement. During the continuance of any Default or Event of Default under this Note or any other Loan Instrument, the Lender shall be entitled in its sole and absolute discretion at any time: (i) to declare this Note, and any and all principal, interest and other amounts due under this Note and/or any other Loan Instrument, to be immediately due and payable upon written notice to the Borrower, all without presentment, protest, demand or notice of any kind, all of which are hereby absolutely, unconditionally, irrevocably and expressly waived forever by the Borrower; and (ii) to exercise or otherwise enforce (from time to time) any one or more of the rights, powers, privileges, remedies and interests of the Lender under this Note, any other Loan Instrument or applicable law; provided, however, that in the event of the occurrence of any of the

events respecting the Borrower set forth in subsection (e) or (f) of the definition of Event of Default, the Loans and all of the other monetary Obligations shall be accelerated and immediately due and payable as stated above. The Lender may (without limitation), at any time and from time (in the Lender's sole and absolute discretion), exercise or otherwise enforce any right, power, privilege, remedy or interest of the Lender under this Note, any other Loan Instrument or applicable law: (a) at law, in equity, in rem or in any other forum available under applicable law; (b) without notice except as otherwise expressly provided in this Note; (c) without any demand for payment except as otherwise expressly provided in this Note; (d) without pursuing, exhausting or otherwise exercising or enforcing any other right, power, privilege, remedy or interest that the Lender may have against or in respect of the Borrower, any Surety or any other person or thing; and (e) without regard to any act or omission of the Lender or any other person. The Lender may institute one or more proceedings (which may be separate proceedings) with respect to this Note and each of the other Loan Instruments in such order and at such times as the Lender may elect in its sole and absolute discretion. This Note or any other Loan Instrument may be enforced without the presence or participation of any co-obligor (joint or several) or Surety, whether through lack of jurisdiction, venue or service or otherwise; and the Borrower shall not raise, and the Borrower hereby absolutely, unconditionally, irrevocably and expressly waives forever, any objection or defense respecting the need for any such presence or participation.

Section 12. Reinstatement. In the event any payment of or any application of any amount, asset or property to any of the Obligations, or any part thereof, at any time is rescinded or must otherwise be restored or returned by the Lender upon the insolvency, bankruptcy or reorganization of the Borrower, any Surety or any other person, whether by order of any court, by any settlement approved by any court, or otherwise, then the terms and provisions of this Note shall continue to apply, or shall be reinstated if not then in effect, as the case may be, with respect to the Obligations so rescinded, restored or returned, all as though such payment or application had never been made.

Section 13. Waivers of Notice, Etc. The Borrower hereby absolutely, unconditionally, irrevocably and expressly waives forever each and all of the

following: (a) acceptance and notice of any acceptance of this Note or any other Loan Instrument; (b) notice of any action taken or omitted in reliance hereon; (c) presentment and notice of any presentment; (d) demand for payment and notice of any such demand; (e) dishonor and notice of any dishonor; (f) protest and notice of any protest; (g) notice of any nonpayment or other event that constitutes, or with the giving of notice or the passage of time (or both) would constitute, any nonpayment, nonperformance, misrepresentation or other breach or default under this Note or any other Loan Instrument; (h) notice of any material and adverse effect, whether individually or in the aggregate, upon (i) the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation or condition (financial or otherwise) of the Borrower, any Surety or any other person, (ii) the ability of any of them to pay or otherwise satisfy (as and when due) any of their respective obligations under any of the Loan Instruments, or (iii) any collateral securing the obligations of any of them under the Loan Instruments or its value or the validity, enforceability, perfection or priority of any security interest of the Lender therein; and (i) any other proof, notice or demand of any kind whatsoever with respect to any or all of the Obligations or Surety's Obligations or promptness in making any claim or demand under this Note or any other Loan Instrument. No act or omission of any kind in connection with any of the foregoing shall in any way impair or otherwise affect the legality, validity, binding effect or enforceability of any term or provision of this Note or any other Loan Instrument or any of the Obligations or Surety's Obligations.

Section 14. Consent to Jurisdiction, Etc. The Borrower hereby consents and agrees that the Supreme Court of the State of New York for the County of New York and the United States District Court for the Southern District of New York each shall have personal jurisdiction and proper venue with respect to any dispute between the Lender and the Borrower under or related to this Note or any other Loan Instrument; provided that the foregoing consent shall not deprive the Lender of the right in its sole and absolute discretion to voluntarily commence or participate in any action, suit or proceeding in any other court having jurisdiction and venue over the Borrower. The preceding consents to jurisdiction and venue have been made by the Borrower and accepted by the Lender in reliance (at least in part) on Section 5-1402 of the General Obligations Law of the State of New York, as amended (as and to the extent applicable), and other applicable law. The Borrower will not raise, and hereby absolutely, unconditionally, irrevocably and expressly waives forever, any objection or defense in any such dispute to any such jurisdiction as an inconvenient forum. The Borrower hereby absolutely, unconditionally, irrevocably and expressly waives forever personal service of any summons, complaint or other notice or process in any such dispute, which each may be sent by mail, courier or any of the other means permitted for notices under this Note or any other Loan Instrument to the Borrower at the address specified herein. The Borrower acknowledges and agrees that a final judgment in any such action, suit or proceeding shall be conclusive and binding upon the Borrower and may be enforced against the Borrower or any of its assets or properties in any other appropriate jurisdiction selected by the Lender (in its sole and absolute discretion) by an action, suit or proceeding in such other jurisdiction. To the extent that the Borrower may be entitled to immunity (whether by reason of sovereignty or otherwise) from suit in any jurisdiction, from the jurisdiction of any court or

from any other legal process, the Borrower hereby absolutely, unconditionally, irrevocably and expressly waives forever such immunity.

Section 15. Waiver of Set Off, Etc. The Borrower hereby absolutely, unconditionally, irrevocably and expressly waives forever, and agrees that the Borrower will not exercise or otherwise enforce, any and all rights of extension, stay, moratorium, setoff, counterclaim, recoupment, abatement or reduction or other claim or determination respecting any payment due under this Note or any other Loan Instrument that may now or hereafter be accorded to the Borrower under applicable law or otherwise. To the extent not required as a compulsory counterclaim, the Borrower (a) shall pursue separate exercise and enforcement of any right, power, privilege, remedy or interest retained (and not waived) by the Borrower under this Note, the other Loan Instruments or applicable law, and (b) shall not seek to exercise or otherwise enforce any such right, power, privilege, remedy or interest in any proceeding instituted by the Lender under or in respect of this Note or any other Loan Instrument, whether through joinder, consolidation, setoff, recoupment, abatement, reduction, counterclaim, defense or otherwise. In any dispute with the Lender, the Borrower covenants and agrees that the Borrower will not seek, recover or retain any, and the Borrower hereby absolutely, unconditionally, irrevocably and expressly

waives forever any and all, special, exemplary, punitive and/or consequential damages (whether through action, suit, counterclaim or otherwise) to the extent waiver is not limited under applicable law.

Section 16. Relationship of the Borrower and the Lender, Etc. The Borrower represents, warrants and acknowledges to and covenants and agrees with the Lender that: (a) the Lender is acting solely in the capacity of lender respecting this Note, the other Loan Instruments and the Collateral; (b) the sole relationship of the Borrower with the Lender is that of debtor and creditor, respectively, and no term or provision of this Note or any other Loan Instrument is intended to create, nor shall any such term or provision be deemed or construed to have created, any joint venture, partnership, trust, agency or other fiduciary or advisory relationship with the Borrower, any Surety or any of their respective affiliates; (c) the Borrower has received and independently and fully reviewed and evaluated the Note and the other Loan Instruments, the obligations and transactions contemplated hereunder and thereunder and the potential effects of such obligations and transactions on the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation, taxation and condition (financial or otherwise) of each of the Borrower, the Sureties and their respective affiliates, if any (each a "Business Attribute"), which review and evaluation was made (i) together with legal counsel and (to the extent deemed prudent by the Borrower) financial and other advisors to the Borrower, (d) the Borrower has not received, the Borrower is not relying upon, and none of the Sureties has received or is relying upon, any oral or written advice, analysis, representation or warranty, counsel, promise or assurance of any kind whatsoever from the Lender, any of its affiliates or any of their respective officers, attorneys or other representatives (whether with respect to any Business Attribute or otherwise), including (without limitation), any tax, accounting or legal advice or counsel; (e) the Borrower is not relying upon, and none of the Sureties is relying upon, any expertise, business acumen, industry knowledge or other guidance of any kind whatsoever of the Lender, any of its affiliates or any of their respective officers, attorneys or other representatives (whether with respect to any Business Attribute or otherwise), including (without limitation) any aspect of the ownership, operation, development, financing or taxation of any thereof; (f) no counsel to the Lender has in any way provided any tax or other legal counsel, analysis, advice or assurance to, or has in any way otherwise represented, the Borrower, any Surety or any of their respective affiliates or other representatives, whether in connection with any Loan Instrument or otherwise (and each such counsel may rely on this clause (f) as if directly addressed to them and is an intended third party beneficiary hereof); (g) the Lender, its affiliates and its other representatives may be providing debt financing, equity capital or other services (including financial advisory services) to other companies or persons in respect of which the Borrower, any Surety or any of their respective affiliates may have conflicting interests regarding the transactions described herein and otherwise, and that neither the Lender nor any of its affiliates or representatives has any obligation to use in connection with the transactions contemplated by any Loan Instrument, or to advise the Borrower, any Surety or any of their respective affiliates of, or furnish to any of them, any confidential or other information obtained by the Lender or any of their affiliates or representatives from or with respect to other transactions, companies or persons; and (h) by accepting or approving any certificate, statement, report or other document or information required to be given to the Lender (whether as a required notice or report, for approval or otherwise), or any alleged performance of anything required to be observed, performed or fulfilled by the Borrower, or any Surety, pursuant to this Note or any other Loan Instrument, neither the Lender nor any of its representatives shall have, or shall be deemed or construed to have, made any representation or warranty to or agreement with the Borrower, or any Surety with respect thereto or affirmed the sufficiency, the legality, enforceability, effectiveness or financial impact or other effect thereof.

Section 17. Reliance on Representations, Etc. The Lender shall be entitled to rely, and in entering into this Note and the other Loan Instruments and making any Advances or other Loans in fact has relied, upon the representations, warranties and other information respecting the Borrower, each Surety and each other persons contained in this Note and the other Loan Instruments notwithstanding (A) any credit information that at any time may have been or from time to time hereafter may be sought, obtained or reviewed by the Lender

or (B) any other investigation, analysis or evaluation that at any time may have

been made or from time to time hereafter may be made by the Lender or its designees of all or any part of the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation or condition (financial or otherwise) of the Borrower, any Surety, any of their respective principals or other affiliates (if any), or any other person.

Section 18. Lender's Right of Setoff, Etc. The Lender in its sole and absolute discretion is hereby authorized at any time and from time to time during the continuance of any nonpayment or other Default or Event of Default under this Note or any other Loan Instrument, or any other nonpayment, misrepresentation, nonperformance or other breach or default in or with respect to any of the Obligations, in each case without notice to the Borrower (any such notice being hereby absolutely, unconditionally, irrevocably and expressly waived forever by the Borrower), to set off (directly or through any of the affiliates, custodians, participants and designees of the Lender) and apply to or against any and all of the Obligations (whether now or hereafter created, acquired or existing) any and all (a) deposits (whether general or special, time or demand, provisional or final, or individual or joint) and other assets and properties at any time held in the possession, custody or control of the Lender and any of its affiliates, custodians, participants and designees (including, without limitation, any items held in any investment management or custody account), and (b) indebtedness or other amount or obligation at any time owing by the Lender or any of its affiliates or participants, to or for the credit, account or benefit of the Borrower, in each case whether or not the Lender shall have made any demand for the payment and/or performance of any such obligations (in whole or in part) from the Borrower, any Surety or any other person, declared any default under this Note or any other Loan Instrument, accelerated any of the Obligations or other non-demand obligations under any Loan Instrument, or made any other demand or taken any other action, whether under this Note, any other Loan Instrument or otherwise, and although any such obligations may be contingent or unmatured (in whole or in part). Without limiting the foregoing, the Borrower hereby grants to the Lender a continuing security interest in and to all such possessory deposits, assets and properties of and all such indebtedness and other obligations owed to the Borrower; and the Borrower hereby authorizes each such holder to so set off and apply such amounts at such times and in such manner as the Lender may direct pursuant to this Section, in each case to the fullest extent possible as if the person making the setoff were a direct creditor of the Borrower in the full amount of the Obligations. The Lender shall endeavor to notify the Borrower after any such setoff and application; provided, however, that the failure to give such notice shall not affect the validity of such setoff and application. In debiting any such account, the Obligations shall be deemed to have been paid or repaid only to the extent of the funds actually available in that account notwithstanding any internal procedure of the Lender or any of its affiliates, custodians, participants and designees to the contrary. The rights of the Lender under this Section are in addition to and without limitation of any other rights, powers, privileges, remedies and other interests (including, without limitation, other rights of set off and security interests) that the Lender may have under this Note, any other Loan Instrument, any other document or transaction with the Borrower, or applicable law.

Section 19. Exculpation and Indemnification. The Lender and its participants, affiliates, custodians and designees, and their respective shareholders, partners, members, directors, officers, managers, employees, attorneys and agents (together with the Lender, each an "Indemnatee"), shall not incur any liability for any acts or omissions (and the Borrower hereby absolutely, unconditionally, irrevocably and expressly waives and releases forever any and all related claims and actions against each Indemnatee), and each Indemnatee shall be indemnified, reimbursed and held harmless by the Borrower on demand by the Lender), and (at the request of the Lender) defended at the expense of the Borrower with counsel selected by the Lender, from and against any and all claims, liabilities, losses and expenses (including, without limitation, the disbursements, expenses and fees of their respective attorneys) that may be imposed upon, incurred by, or asserted against any Indemnatee, in each case arising out of or related directly or indirectly to this Note, any other Loan Instrument, any of the Collateral, any of the Loans or the application of any proceeds thereof, or any environmental claim, except to the extent occasioned by the Indemnatee's own acts or omissions breaching a duty owed to the Borrower and amounting to gross negligence or willful misconduct as finally determined pursuant to applicable law by a governmental authority having jurisdiction. The preceding exception for gross negligence or willful misconduct is not intended (and shall not be deemed or construed) to in any way qualify, condition, diminish, restrict, limit or otherwise affect any other exculpation, indemnification, release, waiver, consent, acknowledgment, authorization or other term or provision of this Note or any other Loan Instrument.

Section 20. Notices. Except as otherwise expressly provided, any notice, request, demand or other communication permitted or required to be given under this Note or any other Loan Instrument shall be in writing, shall be sent by one of the following means to the addressee at the address set forth above or below (or at such other address as shall be designated hereunder by notice to the other parties and persons receiving copies, effective upon actual receipt) and shall be deemed conclusively to have been given: (a) on the first Business Day following the day timely deposited with Federal Express (or other equivalent national or international overnight courier) or United States Express Mail, with the cost of delivery prepaid or for the account of the sender; (b) on the fifth Business Day following the day duly sent by certified or registered United States mail, postage prepaid

and return receipt requested; or (c) when otherwise actually received by the addressee on a Business Day (or on the next Business Day if received after the close of normal business hours or on any non-Business Day), including (without limitation) any telecopy. Refusal to accept delivery of any item shall be deemed to be receipt of such item by the refusing party. Notices also may be given by telephone to the extent and for the purposes provided in this Note or any other Loan Instrument. The Borrower acknowledges and agrees that the Lender may record any and all telephone calls with the Borrower and its representatives without any further or specific notice of any such recording.

Section 21. Expenses, Etc. The Borrower shall pay or reimburse on demand any and all costs and expenses incurred by the Lender, whether directly or indirectly, in connection with (a) the preparation, execution and delivery of the Lender's term sheet or commitment letter, (b) any syndication of this facility, (c) the preparation, execution and closing of this Note and the other Loan Instruments, and all waivers, releases, discharges, satisfactions, modifications and amendments thereof and approvals and consents with respect thereto, (d) all payments made and actions taken thereunder in the name or on behalf of the Borrower under this Note or any other Loan Instrument, (e) all periodic audits and other evaluations and the ongoing monitoring of the Collateral (including, without limitation, the per diem fees and expenses of the Lender and its designees in performing such audits and other evaluations), (f) all searches (whether respecting financing statements, unpaid taxes and other security interests, liens and encumbrances or otherwise) and credit verifications, (g) all surveys and appraisals, title examinations and insurance, and surety bond premiums, (h) all mortgage recording, documentary, transfer, intangible, note or other similar taxes and revenue stamps, and all filings and recordings, and (i) the administration, maintenance, enforcement and adjudication of this Note, any other Loan Instrument and the rights, powers, privileges, remedies and other interests of the Lender thereunder and under applicable law, in each case including (without limitation) the disbursements, expenses and fees of counsel to the Lender (including, without limitation, the allocated costs of in-house counsel), currently Jenkens & Gilchrist Parker Chapin LLP, and the disbursements, expenses and fees of any local or special counsel retained by the Lender or its counsel.

Section 22. Agreement Absolute, Survival of Representations, Etc. Each of the payment obligations, representations and warranties (as of the date(s) made or deemed made), covenants, waivers and other agreements and obligations of the Borrower contained in this Note and the other Loan Instruments: (a) are and shall be absolute, irrevocable and unconditional, irrespective of (among other things) the validity, legality, binding effect or enforceability of any of the other terms and provisions of this Note or any other Loan Instrument or any other act, circumstance or other event described in this Section; (b) shall survive and remain and continue in full force and effect in accordance with their respective terms and provisions following and without regard to (i) the execution and delivery of this Note or any other Loan Instrument and the performance or non-performance of any Obligations or Surety's Obligations under any Loan Instrument, (ii) any advance, accrual, payment, repayment or readvance of any amount under any Loan Instrument, or the inception, creation, acquisition, increase, decrease, satisfaction or existence from time to time of any Obligations or Surety's Obligations under any Loan Instrument, in each case irrespective of the fact that from time to time the outstanding balance of the Loans and other monetary Obligations may be zero, (iii) any waiver, modification, extension, renewal, consolidation, spreading, amendment or restatement of or other change in any term or provision of (A) this Note or any other Loan Instrument or (B) any one or more of the Loans or other Obligations or any Surety's Obligations, including (without limitation) any extension or

other change in the time, manner, place or other term of payment or performance of any of the foregoing, in each case except as and to the extent expressly modified by the terms and provisions of any such extension, change, waiver, modification, renewal, consolidation, spreading, amendment or restatement, (iv) any full, partial or non-exercise of any of the rights, powers, privileges, remedies and interests of the Lender under any Loan Instrument or applicable law, against the Borrower, any Surety or any other person or with respect to any of the Obligations, any Surety's Obligations, any other obligations or any collateral or security interest therein, which exercise or enforcement may be delayed, discontinued or otherwise not pursued or exhausted for any or no reason whatsoever, or which may be waived, omitted or otherwise not exercised or enforced (whether intentionally or otherwise), (v) any surrender, repossession, sequestration, foreclosure, conveyance or assignment (by deed in lieu or otherwise), sale, lease or other realization, dealing, liquidation or disposition respecting any collateral or setoff respecting any account or other asset in accordance with any Loan Instrument or applicable law (except as and to the extent the Obligations have been permanently reduced by the application of the net proceeds thereof), (vi) the perfected or non-perfected status or priority of any mortgage or other security interest in any such collateral, which may be held without recordation, filing or other perfection (whether intentionally or otherwise), (vii) any release, settlement, adjustment, subordination or impairment of all or any part of the Obligations, any Surety's Obligations, any other obligations or any collateral or any security interest therein under or with respect to any Loan Instrument or applicable law, whether intentionally or otherwise (except as and to the extent expressly modified by the terms and provisions of any such release, settlement or adjustment), (viii) any extension, stay, moratorium or statute of limitations or similar time constraint under any applicable law, (ix) any investigation, analysis or evaluation by the Lender or its designees of the assets, business, cash flow, expenses, income, liabilities, operations, properties,

prospects, reputation or condition (financial or otherwise) of the Borrower, any Surety, or any other person, (x) any application to any obligations of the Borrower or any Surety other than any Obligations or Surety's Obligations of (A) any payments from such person not specifically designated for application to the Obligations or Surety's Obligations or (B) any proceeds of collateral from such person other than from the Collateral, (xi) any sale, conveyance, assignment, participation or other transfer by the Lender (in whole or in part) to any other person of any one or more of this Note or any of the Loan Instruments or any one or more of the rights, powers, privileges, remedies or interests of the Lender herein or therein, or (xii) any act or omission on the part of the Lender or any other person or any other act, event or circumstance that otherwise might constitute a legal or equitable defense, counterclaim or discharge of a borrower, co-obligor, indemnitor, guarantor, pledgor or surety; in each case in such manner and order, upon such terms and provisions and subject to such conditions as the Lender may deem necessary or desirable in its sole and absolute discretion, without notice to or further assent from the Borrower, any Surety, or any other person (except for such notices as may be expressly required to be given to such party under the applicable Loan Instrument), and without affecting any of the rights, powers, privileges, remedies and other interests of the Lender under this Note, the other Loan Instruments and applicable law; (c) shall not be subject to any defense, counterclaim, setoff, right of recoupment, abatement, reduction or other claim or determination that the Borrower, any Surety, or any other person may have against the Lender, any Surety or any other person; (d) shall not be diminished or qualified by the death, disability, dissolution, reorganization, insolvency, bankruptcy, custodianship or receivership of the Borrower, any Surety, or any other person, or the inability of any of them to pay their respective debts or perform or otherwise satisfy their respective obligations as they become due for any reason whatsoever; and (e) shall remain and continue in full force and effect without regard to any of the foregoing acts, events or circumstances (i) until all of the Obligations have been fully paid and satisfied and (ii) thereafter with respect to any and all acts, events or circumstances occurring prior to such payment and satisfaction and any and all resulting claims, liabilities, losses and expenses (including, without limitation, the attorneys' disbursements, expenses and fees), whenever incurred or asserted.

Section 23. Severability. In the event that any term or provision of this Note or any other Loan Instrument shall be finally determined to be superseded, invalid, illegal or otherwise unenforceable pursuant to applicable law by a governmental authority having jurisdiction and venue, that determination shall not impair or otherwise affect the validity, legality or

enforceability (a) by or before that governmental authority of the remaining terms and provisions of this Note or any other Loan Instrument, which shall be enforced as if the unenforceable term or provision were deleted, or (b) by or before any other governmental authority of any of the terms and provisions of this Note or any other Loan Instrument.

Section 24. No Waiver by Action, Cumulative Rights, Etc. Any waiver or consent respecting this Note or any other Loan Instrument shall be effective only if in writing and signed by the Lender and then only in the specific instance and for the specific purpose for which given. No waiver or consent shall be deemed (regardless of frequency given) to be a further or continuing waiver or consent. The failure or delay (in whole or in part) of the Lender to require performance of, or to exercise or otherwise enforce any of the rights or remedies of the Lender with respect to, any term or provision of this Note or any other Loan Instrument shall in no way affect the right of the Lender at a later time to exercise or otherwise enforce any such term or provision. No notice to or demand on the Borrower or any Surety in any case shall entitle such party to any other or further notice or demand. No acceptance by the Lender of (A) any partial or late payment shall constitute (or be deemed or construed to be) a satisfaction or waiver of the full amount then due or the resulting Default or Event of Default, or (B) any payment during the continuance of any Default or Event of Default shall constitute (or be deemed or construed to be) a waiver or cure thereof; and in each case the Lender may accept or reject any such payment without affecting any Obligations or any Surety's Obligations or any of the rights, powers, privileges, remedies and other interests of the Lender under this Note, the other Loan Instruments and applicable law. All representations, warranties, covenants, agreements and obligations of the Borrower in this Note and all rights, powers, privileges, remedies and other interests of the Lender under this Note, the other Loan Instruments or applicable law are cumulative and not alternatives.

Section 25. Successors and Assigns, Assignment and Intended Beneficiaries. Whenever in this Note or any other Loan Instrument reference is made to any party, such reference shall be deemed to include the successors, assigns, heirs and legal representatives of such party, and, without limiting the generality of the foregoing, all representations, warranties, covenants and other agreements made by or on behalf of the Borrower in this Note or any other Loan Instrument shall inure to the benefit of the participants and other successors and assigns of the Lender; provided, however, that nothing herein shall be deemed to authorize or permit the Borrower to assign any of the Borrower's rights or obligations under this Note or any other Loan Instrument to any other person (whether or not an affiliate of the Borrower), and the Borrower covenants and agrees that the Borrower shall not make any such assignment. The Lender from time to time may assign to one or more financial institutions, institutional investors or other persons all or any portion(s) of the rights and interests and/or obligations of the Lender under this Note or any other Loan Instrument, including (without limitation) the

assignment to any Federal Reserve Lender (as collateral or otherwise) of all or any portion(s) of the rights of the Lender to payments of principal and/or interest under this Note or any other Loan Instrument, and may take any and all reasonable actions necessary or appropriate in connection with any such assignment, all without notice to or consent of the Borrower or any other person. The Lender from time to time also may sell to one or more financial institutions, institutional investors or other persons a participation interest in all or any undivided portion of the rights, powers, privileges, remedies and interests of the Lender under this Note or any other Loan Instrument. The Lender from time to time may furnish and disclose financial statements, documents and other information pertaining to the Borrower to any potential assignee or participant. The representations, warranties and other terms and provisions of this Note and the other Loan Instruments are for the exclusive benefit of the parties hereto, and, except as otherwise expressly provided herein, no other person, including creditors of any party hereto, shall have any right or claim against any party by reason of any of those terms and provisions or be entitled to enforce any of those terms and provisions against any party.

Section 26. Governing Law, Amendments, Etc. This Note has been made (or shall be deemed to have been made) and has been delivered and accepted by the Lender in the City, County and State of New York. This Note and the other Loan Instruments shall be governed by and construed in accordance with the applicable laws pertaining in the State of New York (other than those conflict of law rules that would defer to the substantive laws of another jurisdiction). This

governing law election has been made by the Borrower and accepted by the Lender in reliance (at least in part) on Section 5-1401 of the General Obligations Law of the State of New York, as amended (as and to the extent applicable), and other applicable law. This Note or any other Loan Instrument may have been executed in two or more counterpart copies of the entire document or of signature pages to the document, each of which may have been executed by one or more of the parties thereto, but all of which, when taken together, shall constitute a single agreement binding upon all of the parties hereto or thereto, as the case may be. The section and other headings contained in this Note and the other Loan Instruments are for reference purposes only and shall not affect the meaning or interpretation of this Note or any other Loan Instrument. The Borrower hereby authorizes the Lender to fill in any and all blanks and to correct any and all typographical or clerical errors in this Note or any other Loan Instrument at any time as determined by the Lender, all without any notice to or any further consent from the Borrower. Except as otherwise provided in the preceding sentence, except as otherwise expressly provided in this Note with respect hereto or any other Loan Instrument with respect thereto and except as otherwise provided or permitted under applicable law with respect to any Uniform Commercial Code financing statement, modification, continuation or the like, each and every modification and amendment of this Note or any other Loan Instrument shall be in writing and signed by all of the parties hereto or thereto, as applicable, and each and every waiver of, or consent to any departure from, any representation, warranty, covenant or other term or provision of this Note or any other Loan Instrument shall be in writing and signed by each affected party hereto or thereto, as applicable.

Section 27. Waiver of Jury Trial; All Waivers Intentional, Etc.. In any action, suit or proceeding in any jurisdiction brought by the Lender against the Borrower, or vice versa, the Borrower and the Lender each hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury. This waiver of jury trial by the Borrower, and each other waiver, release, relinquishment or similar surrender of rights (however expressed) made by the Borrower in this Agreement or any other Loan Instrument to which the Borrower is a party, has been absolutely, unconditionally, irrevocably, knowingly and intentionally made by the Borrower.

Section 28. Entire Agreement. The Lender has not (directly or indirectly) offered, made, accepted or acknowledged any representation, warranty, promise, assurance or other agreement or understanding (whether written, oral, express, implied or otherwise) to, with or for the benefit of the Borrower, any Surety or any of their respective affiliate or representatives respecting any of the matters contained in this Note and the other Loan Instruments except for those expressly set forth in this Note and the other Loan Instruments. This Note and the other Loan Instruments contain the entire agreement and understanding of the parties and supersede and completely replace all prior and other representations, warranties, promises, assurances and other agreements and understandings (whether written, oral, express, implied or otherwise) among the parties with respect to the matters contained in this Note and the other Loan Instruments.

IN WITNESS WHEREOF, the Borrower has executed and delivered this Note as of the date first written above.

STIMULYS, INC.
(f/k/a SPAR Performance Group, Inc.)

By: /s/ Thomas F. Hunter

Thomas F. Hunter , President
The Borrower's Address For Notice And Service:
2245 Keller Way, Carrollton, Texas 75006

: SS.:

COUNTY OF

On this _____ day of September, 2004, before me personally came THOMAS HUNTER, to me known, who, being by me duly sworn, did depose and say: that he resides at 2601 Wake Forest Drive, Plano, TX 75093; that he is the PRESIDENT of STIMULYS, INC., the corporation described in and which executed the above instrument; and that he (or she) signed his (or her) name thereto by order of the board of directors of said corporation.

/s/ Thomas F. Hunter

(Signature and office of
individual taking acknowledgment.)

SPAR INCENTIVE MARKETING, INC.

STIMULYS, Inc.
Performance Holdings, Inc.
2245 Keller Way
Carrollton, Texas 75006

September 10, 2004

Attention: Mr. Thomas Hunter, President

RE: PAYOFF AND RELEASE UNDER REVOLVING LOAN, GUARANTY AND SECURITY AGREEMENT

Gentlemen:

You, STIMULYS, INC., a Delaware corporation formerly known as SPAR Performance Group, Inc. ("SI"), and PERFORMANCE HOLDINGS, INC., a Delaware corporation ("Holdings", and together with SI, each a "you" or "Loan Party" and collectively "you" or the "Loan Parties"), and we, SPAR INCENTIVE MARKETING, INC. ("we" or the "Lender"), are parties to a Revolving Credit, Guaranty and Security Agreement dated as of June 30, 2002 (as the same may have been supplemented, modified, amended, restated or replaced from time to time in the manner provided therein, the "Revolving Loan Agreement"), under which SI is the "Borrower" and Holdings is the "Guarantor", and pursuant to which SI issued its \$2,000,000.00 Revolving Promissory Note (as the same may have been supplemented, modified, amended, restated or replaced from time to time in the manner provided therein, the "Revolving Note"). Capitalized terms and non-capitalized words and phrases used and not otherwise defined herein shall have the meanings respectively assigned to them in the Revolving Loan Agreement.

The Loan Parties and the Lender have agreed to terminate their relationship under the Revolving Loan Agreement, all upon the terms and provisions and subject to the conditions hereinafter set forth.

1. Payoff and Payoff Date. The Loan Parties have proposed to repay the Loans outstanding and restate the letter of credit reimbursement obligations under the Revolving Loan Agreement on September 10, 2004 (the "Proposed Payoff Date"), by the issuance of the Lender's Promissory Note in the principal amount of U.S..\$764,271.00 (the "New Note"), supported by the Guaranty (as defined therein) (the "New Guaranty").

2. Termination of Credit Availability and Release of Liens: Upon our receipt of your fully executed original copies of the New Note, the New Guaranty and this letter agreement: (a) your credit availability shall be deemed to have been forever extinguished under the Revolving Loan Agreement and you have no remaining rights under the Revolving Loan Agreement or any other Loan Instrument; (b) except as otherwise provided in sections 3(b), 3(c), 4 and 8, below, the Revolving Loan Agreement and Revolving Note are hereby deemed fully paid and satisfied (or restated and continued in the case of the letter of credit reimbursement obligations), extinguished and of no further force or effect; and (c) subject to section 4, below, any and all security interests and liens that you have heretofore granted to us under the Revolving Loan Agreement ("Collateral") are hereby released and terminated. If and to the extent requested by you, we will execute and deliver to you a termination statement under the Uniform Commercial Code for filing in each office in which any financing statement respecting the Collateral has been filed, each in such form and substance as may be acceptable to us. Any and all such actions shall be without any recourse to or representation or warranty by us whatsoever and shall be at your sole cost and expense.

3. Release and Discharge. You acknowledge and agree that (a) you have no claim, counterclaim, injury or other cause of action or determination arising out of, or directly or indirectly related to, the Revolving Loan Agreement, any other Loan Instrument, the Collateral, the Purchase Agreement, any Purchase Document, or the maintenance, administration, enforcement or adjudication thereof, against us, any of our affiliates, successors, assigns, participants or designees, or any of our or their respective directors, officers, employees, attorneys, agents or other representatives, (b) your exculpation, indemnification and similar agreements under the Revolving Loan Agreement, together with the applicable provisions of Articles VIII and IX of the Revolving Loan Agreement, shall continue in full force and effect after the Repayment Date as and to the extent contemplated herein, and (c) this acknowledgment and release is not intended (and shall not be deemed or construed) to in any way

qualify, condition, diminish, restrict, limit or otherwise affect any (and is in addition to each) other release, waiver, consent, acknowledgment, exculpation,

indemnification or other similar term or provision of the Revolving Loan Agreement or any other Loan Instrument.

4. Release of Claims Against Lender. Each Loan Party hereby intentionally, knowingly, expressly, unconditionally and irrevocably forever releases, discharges and acquits the Lender, each of the Lender's affiliates, successors, assigns, participants or designees, and each of their respective directors, officers, employees, attorneys, agents or other representatives, from and respecting each and every Claim or Loss (as such terms are hereinafter defined) respecting, arising under or out of, or directly or indirectly related to, any event or circumstance occurring or otherwise existing prior to the date hereof, including (without limitation) any such event or circumstance pertaining to, arising under or out of, or directly or indirectly related to, the Revolving Loan Agreement, any other Loan Instrument, the Collateral, the Stock Purchase Agreement or any other Stock Purchase Document, or the creation, maintenance, administration, enforcement or adjudication thereof. "Claim" shall mean any claim, counterclaim, right of recoupment or abatement, injury, harm, exposure, action, suit, investigation, proceeding, demand or other cause of action or determination, in each case whether known or unknown and whether now or hereafter existing, arising or determined. "Loss" shall mean any loss, damage, injury, harm, detriment, decline in value, lost opportunity, liability, Claim, settlement, judgment, award, fine, penalty, Tax (as hereinafter defined), fee, charge, cost or expense (including any disbursement, expense or reasonable fee or other reasonable amount paid to any attorney or other professional advisor and any costs of investigation), in each case whether known or unknown and whether now or hereafter existing. "Tax" shall mean (i) any tax or other governmental assessment, levy or imposition of any kind or nature, including (without limitation) (A) any income tax, franchise tax, capital gains tax, gross receipts tax, capital tax, goods and services tax, value added tax, surtax, excise tax, ad valorem tax, land or other transfer tax, stamp tax, sales tax, use or consumption tax, property tax, inventory tax, occupancy tax, employment tax, labor tax, Social Security, Medicare, Medicaid, withholding tax, payroll tax, gift tax, estate tax, inheritance tax, health or drug tax or premium, or poll tax, or (B) any Social Security, Medicare, Medicaid, insurance or other retirement, health or drug tax, assessment, levy, imposition, premium or other payment mandated by Applicable Law, or (ii) any interest, fine, penalty, fee or expense on or related to any of the foregoing; in each case whether domestic to the United States of America or foreign, whether federal, provincial, state, county or local, whenever arising or asserted, and whether or not accrued, acknowledged or contested. Each Loan Party hereby acknowledges, certifies, represents and warrants to and covenants and agrees with the Lender that: (a) as of the date hereof, none of the Loan Parties nor any of their respective directors, officers, employees, attorneys, agents or other representatives knows or has reason to know of any such Claim or Loss or any such underlying event or circumstance; (b) this release, discharge and acquittal has been given by the Loan Parties to induce the Lender to enter into this letter agreement and accept the New Note and New Guaranty and is not intended by the parties (and shall not be deemed or construed) to be any admission or evidence of any Claim against the Lender or liability on the part of the Lender or any of its representatives for any Claim or Loss; and (c) this release, discharge and acquittal is not intended (and shall not be deemed or construed) to in any way qualify, condition, diminish, restrict, limit or otherwise affect any (and is in addition to each) other release, waiver, consent, acknowledgment, exculpation, indemnification or other similar term or provision of the New Note and New Guaranty and of those continuing under the Revolving Loan Agreement as provided in sections 3(b) and 3(c), above.

5. Reinstatement. In the event any payment of the Loans or other Obligations, or any part thereof, at any time is rescinded or must otherwise be restored or returned by us upon the insolvency, bankruptcy or reorganization of you or any co-obligor, guarantor, surety or pledgor under the Loan Instruments (whether by order of any court or other governmental authority, by any settlement or otherwise), then the terms and provisions of the Revolving Loan Agreement and other Loan Instruments to which you are a party shall be reinstated to the extent of the payment(s) so rescinded, restored or returned, all as though such payment had never been made.

6. Relationship of the Loan Parties and the Lender, Etc. Each Loan Party

acknowledges, certifies, represents and warrants to and covenants and agrees with the Lender that: (a) the Lender is acting solely in the capacity of lender respecting this letter; (b) the sole relationship of the Loan Parties with the Lender is that of debtor and creditor, respectively, and no term or provision of this letter agreement or any other transaction document is intended to create, nor shall any such term or provision be deemed or construed to have created, any joint venture, partnership, trust, agency or other fiduciary or advisory relationship with any Loan Party, any Surety or any of their respective affiliates or representatives; (c) each Loan Party is experienced in the ownership, operation and financing of its current and contemplated business, assets and properties; (d) each Loan Party has received and independently and fully reviewed and evaluated this letter agreement and the other transaction documents, the obligations and transactions contemplated hereunder and thereunder and the potential effects of such obligations and transactions on the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation,

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taxation and condition (financial or otherwise) of each of the Loan Parties, the Sureties and their respective affiliates, if any (each a "Business Attribute"), which review and evaluation was made together with legal counsel and (to the extent deemed prudent by such Loan Party) financial and other advisors to such Loan Party, (e) no Loan Party or Surety has received or is relying upon any oral or written advice, analysis, representation or warranty, counsel, promise or assurance of any kind whatsoever from the Lender, any of its affiliates or any of their respective officers, attorneys or other representatives (whether with respect to any Business Attribute or otherwise), including (without limitation), any tax, accounting or legal advice or counsel; (f) no Loan Party or Surety is relying upon any expertise, business acumen, industry knowledge or other guidance of any kind whatsoever of or from the Lender, any of its affiliates or any of their respective officers, attorneys or other representatives (whether with respect to any Business Attribute or otherwise), including (without limitation) any aspect of the ownership, operation, development, financing or taxation of any thereof; and (g) no counsel to the Lender has in any way provided any tax or other legal counsel, analysis, advice or assurance to, or has in any way otherwise represented, any Loan Party, any Surety or any of their respective affiliates or other representatives, whether in connection with any transaction document or otherwise, and each such counsel may rely on this clause (g) as if directly addressed to such counsel and is an intended third party beneficiary hereof.

7. Pay-Off Letter Terminates. If we have not received your fully executed original copies of the New Note, the New Guaranty and this letter agreement by September 13, 2004, this pay-off letter agreement shall be null and void and of no further force or effect.

8. Miscellaneous. This letter agreement (a) may be executed in two or more counterpart copies of the entire document or of signature pages to the document, (b) shall take effect upon execution by you and us, which execution copies may be delivered by telecopy or other electronic transmission (with hard copies to follow), (c) is a "Loan Instrument" under (and as defined in) the Revolving Loan Agreement, and (d) shall be governed by and construed in accordance with the applicable terms and provisions of the Revolving Loan Agreement as if this letter agreement were the "Agreement" referred to therein, which terms and provisions are incorporated herein by reference as if fully set forth herein (and which shall not be affected by the termination of the Revolving Loan Agreement provided above).

If the foregoing correctly sets forth our agreement with you, please sign and return the enclosed copy of this letter to acknowledge your agreement.

Very truly yours,

SPAR INCENTIVE MARKETING, INC.

By: /s/ James R. Segreto

James R. Segreto, Vice President, Controller

STIMULYS, INC.

(f/k/a known as SPAR Performance Group, Inc.)

By: /s/ Thomas Hunter

Thomas Hunter, President

PERFORMANCE HOLDINGS, INC.

By: /s/ Thomas Hunter

Thomas Hunter, President

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STATE OF TEXAS)
 : SS.:
COUNTY OF DALLAS)

On this 13th day of September, 2004, before me personally came THOMAS HUNTER, to me known, who, being by me duly sworn, did depose and say: that he resides at 2601 Wake Forest Drive, Plano, TX 75093; that he is the PRESIDENT of STIMULYS, INC., the corporation described in and which executed the above instrument; and that he (or she) signed his (or her) name thereto by order of the board of directors of said corporation.

/s/ Staci B. Harper

(Signature and office of individual
taking acknowledgment.)

STATE OF TEXAS)
 : SS.:
COUNTY OF DALLAS)

On this 13th day of September, 2004, before me personally came THOMAS HUNTER, to me known, who, being by me duly sworn, did depose and say: that he resides at 2601 Wake Forest Drive, Plano, TX 75093; that he is the PRESIDENT of PERFORMANCE HOLDINGS, INC., the corporation described in and which executed the above instrument; and that he signed his name thereto by order of the board of directors of said corporation.

/s/ Staci B. Harper

(Signature and office of individual
taking acknowledgment.)

STATE OF NEW YORK)
 : SS.:
COUNTY OF WESTCHESTER)

On this 13th day of September, 2004, before me personally came JAMES R. SEGRETO, to me known, who, being by me duly sworn, did depose and say: that he resides at 126 Middleton Place, Bronxville, New York 10708; that he is the VICE PRESIDENT, CONTROLLER of SPAR INCENTIVE MARKETING, INC., the corporation described in and which executed the above instrument; and that he signed his name thereto by order of the board of directors of said corporation.

/s/ Mindy Asiedu

(Signature and office of individual

taking acknowledgment.)

ATTACHMENT A

PAYOFF AND RELEASE UNDER REVOLVING LOAN, GUARANTY AND SECURITY AGREEMENT
AND
PROMISSORY NOTE

Notwithstanding anything to the contrary in this Promissory Note or Payoff and Release Under Revolving Loan, Guaranty and Security Agreement, the parties agree that the amount of the Promissory Note will be reduced by mutual agreement of the parties after examination of certain amounts.

The Promissory Note will be reduced by:

- A. Any amount by which the General Ledger of SPAR is less than \$1,301,332 on June 30, 2002 or less than \$791,303 on July 31, 2004. STIMULYS will be allowed to send in auditors to verify this number and all expenses will be borne by STIMULYS. The maximum reduction for A will be \$90,000.
- B. Any charges for any unused line fees and Letter of Credit fees included in the Promissory Note that are not valid under the Revolving Credit, Guaranty and Security Agreement among SPAR Performance Group, Inc., Performance Holdings, Inc. and SPAR Incentive Marketing, Inc. dated as of June 30, 2002 ("the Revolving Credit Agreement"). Notwithstanding the Revolving Credit Agreement, if SPAR did not incur unused line fees and/or Letter of Credit fees with Webster bank during the same time period the Promissory Note will be reduced by any amount included for unused line fees and Letter of Credit fees. The maximum adjustment for B will be \$60,000.
- C. Any amount included in the Promissory Note for medical expenses paid by SPAR after July 31, 2002 for medical claims submitted prior to July 31, 2002 or for medical claims submitted by persons who elected COBRA prior to July 31, 2002 and paid monthly COBRA insurance to SPAR to the extent such amounts were included in the promissory note and to the extent that payments on behalf of people on COBRA exceeded the amounts paid to SPAR for the COBRA. The maximum adjustment for C will be \$63,000.

The parties further agree that the amount to be paid in twenty days following the execution of the promissory note is \$422,000. Any remaining balance in excess of (i) amount in the Promissory Note for J&G legal bills for the Texas litigation (approximately \$31,000) and (ii) for the ARC Letter of Credit (\$70,000) (both (i) and (ii) will be paid within 90 days of this signing of the promissory note) will be paid on the following timetable with interest at 6% per annum with interest not paid on (i) and (ii):

- a. Any amount up to \$50,000 will be paid six calendar months after signing the Promissory Note;
- b. Any amount greater than \$50,000 but less than \$100,000 will be paid twelve months after signing the Promissory Note;
- c. Any amount over \$100,000 will be paid twenty-four months after signing the Promissory Note;
- d. Any outstanding balance may be pre-paid without penalty.

Any amounts not paid as scheduled will be charged an interest of 18% per year.

SALE PROCEEDS AGREEMENT

This Sale proceeds Agreement (the "Agreement") is entered into this 10th day of September 2004 (the "Effective Date"), among Stimulys, Inc., a Delaware corporation and any successors (collectively "Stimulys"), whose address is 2245 Keller Way, Carrollton, Texas 75006, and Spar Incentive Marketing, Inc., a Delaware corporation ("Spar"), whose address is 580 White Plains Road, 6th Floor, Tarrytown, New York 10591.

RECITALS

A. Stimulys is a wholly-owned subsidiary of Performance Holdings, Inc., a Delaware corporation ("PHI"). PHI is indebted to Spar in the amount of approximately \$7,664,019 as of the Effective Date, pursuant to (i) two Term Promissory Notes dated as of June 30, 2002 (the "Term Notes") in the original principal amounts of \$2,500,000 and \$3,500,000, respectively, issued by PHI, as borrower, to Spar, as lender, and (ii) that certain Term Loan, Guaranty and Security Agreement dated as of June 30, 2002 (the "Term Loan Agreement") among PHI, as borrower, Stimulys, as guarantor, and Spar, as lender. The loan made pursuant to the Term Notes and the Term Loan Agreement is referred to as the "Term Loan."

B. All assets of PHI and Stimulys are pledged as collateral to secure repayment of the Term Loan.

C. The parties wish to restructure the obligations of Stimulys and PHI to Spar pursuant to the Term Loan. The parties wish to enter into this Agreement to memorialize the terms of such restructuring.

TERMS AND PROVISIONS

In consideration of the mutual promises made in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the meanings indicated:

- "Change of Control" means either (i) a sale, transfer or other disposition of over 50% of the assets of Stimulys outside the ordinary course of Stimulys' business, to a Non-Affiliate that is not related to any of the stockholders in the broadcast definition, (ii) a merger, consolidation or similar transaction the result of which is that the owner of over 50% of Stimulys' assets is a Non-Affiliate, or (iii) a sale of over 50% of the common stock or other voting securities of Stimulys, the result of which is that more than 50% of Stimulys' voting securities are Controlled by one or more Non-Affiliates. Any transaction in which an Initial Owner and/or its affiliate increases its ownership percentage in Stimulys to over 50% shall also be considered a change in control. The change in control covers either a single transfer or a change in control by a series of transfers or sale that cumulatively exceeds 50%.
- "Control" "Controlled by" and "Controlling" means, with respect to the voting securities of a given entity, the right to direct the voting or disposition of such voting securities, where due to ownership of the voting securities, contractual right, or otherwise.
- "Hunter Securities" means all equity or other type of securities in Stimulys or any related companies or affiliates fully or partly owned or Controlled directly or indirectly in whole or in part by Thomas Hunter or by any member of his immediate family.
- "Initial Owner" or "Initial Owners" means shareholders included on Exhibit ___ in their respective percentages and their wholly owned subsidiaries.
- "Net Proceeds" means (i) in the case of an asset sale that constitutes a Change of Control transaction, the aggregate cash or other consideration received by Stimulys in respect of such transaction, or (ii) in the case of a Change of Control transaction other than a sale of assets, the aggregate cash or other consideration received by the

selling parties in respect of such transaction (provided that if the transaction involved less than 100% ownership of Stimulys, such cash proceeds shall be deemed increased for purposes of this definition to the amount that would have been received if the transaction involved 100% ownership of Stimulys); in each case net of direct costs relating to such transaction (including without limitation, legal, accounting and investment banking fees, and sales commissions) and net of the amount of Stimulys' outstanding indebtedness (provided that such indebtedness shall be excluded only if and to the extent such indebtedness did not reduce the appraised value of Stimulys by the amount of such indebtedness, and is assumed directly or indirectly by the purchaser).

- "Non-Affiliate" means (i) one or more persons, entity or entities that are not Initial Owners.
- Non-Tax Distribution" means any dividend or other distribution to Stimulys' equity owners in excess of the amount necessary to satisfy the obligations of such equity owners to pay all local, state and federal income taxes due or to become due before or during the year in which the distribution is made as a result of their ownership interest in Stimulys (assuming a tax rate applicable to such distributions equal to the sum of the highest incremental local, state and federal income tax rates applicable at the time to individuals) if and only if Stimulys is a non-taxable entity.

2. Commitment Regarding Sale Proceeds.

A. Base Commitment. Upon the occurrence of a Change of Control transaction, Stimulys or the selling parties, as the case may be, shall distribute or cause to be distributed to Spar a portion of the Net Proceeds from such Change of Control transaction, within 30 days of receipt of the Net Proceeds, equal to the sum of:

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(i) Twenty-Three and One-Half percent (23 1/2%) of the first \$10,000,000 of Net Proceeds; and

(ii) Fifteen percent (15%) of any Net Proceeds in excess of \$10,000,000.

The proceeds to which Spar is entitled pursuant to this Section 2.A shall be in the same form (i.e., cash, securities, other consideration, or any combination of the foregoing) and proportions as the consideration received by the seller(s) in the applicable Change of Control transaction, unless the parties affected thereby otherwise agree.

B. Right of First Refusal to Spar. As a condition to the entry by Stimulys into a Change of Control transaction, Stimulys shall first be required to: (i) secure an appraisal of Stimulys by a nationally recognized business appraisal company with expertise in valuing companies such as Stimulys, (ii) provide Spar a copy of the appraisal report, together with a written offer, which shall remain in effect for a period of thirty days and shall be legally binding on Stimulys, to sell all of Stimulys' assets (unless the parties shall agree to a stock sale or another form of sale transaction) to Spar for cash equal to 90% of the sum of (x) the appraisal value of Stimulys shown in the appraisal report plus (y) the amount of Stimulys' outstanding indebtedness (provided that such indebtedness shall be added to the appraised value only if and to the extent such indebtedness did not reduce the appraised value of Stimulys, and is not assumed directly or indirectly by SPAR).

If Spar elects to exercise such right to purchase Stimulys' assets for 90% of the appraised value of Stimulys plus the amount of Stimulys' indebtedness (if applicable), the parties shall proceed forthwith to preparation of asset purchase and sale documents in form customary and reasonable for a transaction of that type and size, and shall close such purchase and sale as soon as is reasonably practicable.

Because the sale to Spar in that instance shall constitute a Change of Control transaction, Spar shall be entitled to receive a portion of the Net Proceeds from the transaction, which may be deducted from the sale price if

requested by Spar.

If Spar does not elect to exercise its right to purchase Stimulys' assets, Stimulys and its owners shall be free to pursue a sale transaction within six months thereafter for a price no less than 90% of the appraised value shown in the appraisal and under the same terms and conditions offered to SPAR.

C. Distributions Prior to Change of Control. If approved by Stimulys' Board of Directors and subject to the availability of distributable funds thereof, Stimulys may make distributions to its equity owners from time to time. To the extent any such distribution constitutes a Non-Tax Distribution, Spar shall be entitled to a payment equal to 30.72% of such Non-Tax Distribution until total distributions to Spar pursuant to this Section 2.C equal \$2,350,000, after which Spar shall be entitled to further distributions equal to 17.65% of any subsequent Non-Tax Distributions. Notwithstanding the preceding, there will be no Non-Tax Distributions made unless (A) Stimulys' cumulative

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net income after taxes from the effective date of this agreement to the date of the Non-Tax Distribution exceeds two million dollars (\$2,000,000.00) and Stimulys' Tangible Net deficit (negative tangible net worth) is no less than minus four million seven hundred thousand dollars (\$4,700,000.00) after any non-tax distribution). For purposes of clarification, if the Tangible Net Deficit is \$(4,700,001.00), a Non-Tax Distribution cannot be made, if the Tangible Net Deficit is \$(4,699,999.00), a Non-Tax Distribution can be made. In any given year, total Non-Tax Distributions will be limited to 30% of the prior years net income after taxes as reported in Stimulys' year and audited financial statements. Prior to issuance, any Non-Tax Distribution must be approved by the Stimulys Lender/Lenders in effect at that time. Spar's approval will not be required. No distributions will be made in the two years prior to a sale.

D. Escrow of Shares. In order to ensure that Spar received the portion of the proceeds of a Change of Control transaction as set out in Section 2.A above, as a condition to the effectiveness of this Agreement Thomas Hunter shall tender the certificate(s) evidencing the Hunter Securities to a mutually acceptable neutral party serving as Escrow Agent under an Escrow Agreement to be executed contemporaneously herewith, which shall be in the form attached hereto as Exhibit A (the "Escrow Agreement"). The escrow arrangement shall not affect Mr. Hunter's ability to vote the Hunter Securities or to receive distributions in respect of such securities.

E. Restriction on Non-Change of Control Transactions. Neither Stimulys nor its owners shall be entitled to conduct any sale of Stimulys' assets or stock to a third party entity that does not result in a Change of Control, unless (i) the acquirer shall have assumed in writing all of the obligations of Stimulys under this Agreement, (ii) the Escrow Agreement shall have been modified to apply to the acquirer entity in lieu of Stimulys, and (iii) Thomas Hunter shall have tendered all equity securities he Controls or will Control in the acquiring entity to the Escrow Agent as contemplated in Section 2.D above.

3. Release of Term Loan. Spar acknowledges that the commitments of Stimulys made in Section 2 above fully and finally satisfy all indebtedness of any part in respect of the Term Loan. Accordingly, Spar hereby releases PHI and Stimulys from any and all claims, demands, liability or causes of action in respect of the Term Loan, including without limitation all obligations of PHI and Stimulys under the Term Notes, the Term Loan Agreement, and all other documents, instruments, agreements and other writing entered into by PHI, Stimulys or Spar in order to give effect to the Term Loan.

4. Release of Collateral. Without limiting the generality of Section 3 above, Spar acknowledges that any security interest it has in any collateral pledged pursuant to the Term Loan Agreement is hereby forever released. Spar agrees to assist Stimulys with and to cooperate (including without limitation execution and filing (at Stimulys' expense) of UCC-3 Partial Termination Statements) in the termination of Spar's security interest in collateral of either Stimulys or PHI, other than Spar's security interest in the accounts receivable of Stimulys, all as reasonably requested by Stimulys or PHI from time to time.

5. Mutual Release.

A. Release by Spar. Spar, on behalf of itself and its affiliates, successors, assigns, divisions, parents, subsidiaries, employees, agents, directors, officers, shareholders, attorneys, successors and assigns (collectively referred to as the "Spar Parties"), hereby releases, acquits and forever discharges Stimulys, its affiliates (including without limitation PHI), successors, assigns, divisions, parents, subsidiaries, employees, agents, directors, officers, shareholders, attorneys, successors and assigns (collectively referred to as the "Stimulys Parties") of and from any and all liabilities, claims, remedies, demands, suits or causes of action of whatsoever kind or character, in whole or in part whether choate or inchoate, which the Spar Parties now have or ever have had against the Stimulys Parties arising from any occurrence or transaction between the Spar Parties and the Stimulys Parties from the beginning of time to the date hereof; provided, ----- however, that notwithstanding the foregoing, nothing in this Section 5.A shall be construed as or shall have the effect of ----- releasing any obligation of any of the Stimulys Parties under this Agreement or any other document or agreement entered into simultaneously herewith.

B. Release by Stimulys. Stimulys, on behalf of itself and the other Stimulys Parties, hereby releases, acquits and forever discharges the Spar Parties and from any and all liabilities, claims, remedies, demands, suits or causes of action of whatsoever kind or character, in whole or in part, whether choate or inchoate, which the Stimulys Parties now have or ever have had against the Spar Parties arising from any occurrence or transaction between the Spar Parties and the Stimulys Parties from the beginning of time to the date hereof; provided, however, that notwithstanding the foregoing, nothing in this Section 6.A shall be construed as or shall have the effect of releasing any obligation of any of the Spar Parties under this Agreement or any other document or agreement entered into simultaneously herewith.

6. Management of Company. At all times while this Agreement is in effect, Stimulys shall be managed in a normal and customary manner, consistent with past practices.

7. Provision of Financial Information. No later than 120th day after the end of each fiscal year of Stimulys, Stimulys shall provide Spar its financial statements for the prior fiscal year, prepared in accordance with Generally Accepted Accounting Principles consistently applied, including all accompanying footnotes audited by a non-related accounting firm acceptable and approved by the Stimulys Lender/Lenders in effect at that time. Stimulys shall also provide quarterly unaudited statements or such other statements as would be normally maintained and usual.

8. Expenses. The parties agree each will be responsible for and bear all of its own costs and expenses in connection with the transactions contemplated by this Agreement, including, but not limited to, all attorneys, accountants, investment advisors or other professional fees incurred by the parties. The parties agree that no broker or finder is or will be due any fee or other compensation in connection with the transactions contemplated by this Agreement. No expenses incurred by any party shall be assumed to be paid by any other party without the written permission of the responsible party.

9. Disclosure. Except as and to the extent required by law, without the prior written consent of the other party neither Stimulys nor Spar will make, and each will direct its representatives not to make, directly or indirectly, any public comment, statement or communication with respect to, or otherwise to disclose or to permit the disclosure of the existence of discussions regarding this transaction or any of the terms, conditions, or other aspects of the transaction described in this Agreement, except to their banks, auditors and legal or financial advisors. If a Party is required by law to make any such disclosure, such Party shall first notify the other party of the content of the proposed disclosure, the reasons such disclosure is required by law, and the time and place that the disclosure will be made. SPAR will be allowed to provide that information which in its sole judgment is required to be filed as part of any official documents filed with the SEC or other governmental or regulatory agencies. Such information shall include any required press release.

10. Entire Agreement; Amendments. The provisions of this Agreement constitute the entire and only agreement between the parties with respect to the subject matter hereof and supersede all prior agreements, commitments, representations, understandings, or negotiations, oral or written, and all other communications relating to the subject matter hereof. No amendment or modification of any of the provisions of this Agreement will be effective unless set forth in a document that purports to amend this Agreement and is executed by all parties hereto.

11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which counterparts collectively shall constitute one instrument representing the agreement between the parties hereto. It shall not be necessary that any one counterpart be signed by all of the parties hereto as long as each of the parties has signed at least one counterpart.

12. Governing Law and Venue. The validity, construction, and performance of this Agreement shall be governed by and in accordance with the laws of the State of New York (other than those choice of law rules that would defer to the substantive laws of another jurisdiction). This governing law election has been made by the parties in reliance (at least in part) on Section 5-1401 of the General Obligations Law of the State of New York, as amended (as and to the extent applicable), and other applicable law. Each party hereby consents and agrees that the Supreme Court of the State of New York for the County of Westchester and the United States District Court for the Southern District of New York, County of Westchester, each shall have personal jurisdiction and proper venue with respect to any dispute between the parties under or related to this Agreement; provided that the foregoing consent shall not deprive either party of the right in its sole and absolute discretion to voluntarily commence or participate in any action, suit or proceeding in any other court having jurisdiction and venue over the other party. The preceding consents to jurisdiction and venue have been made by the parties in reliance (at least in part) on Section 5-1402 of the General Obligations Law of the State of New York, as amended (as and to the extent applicable), and other applicable law. Each party will not raise, and hereby absolutely, unconditionally, irrevocably and expressly waives forever, any objection or defense in any such dispute to any such New York jurisdiction as an inconvenient forum.

13. Interpretation. The parties acknowledge that each party and its counsel have reviewed and negotiated the terms and provisions of this Agreement and have contributed to its

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revision. Accordingly, the normal rule of construction, to the effect that ambiguities are resolved against the drafting party, shall not be employed in the interpretation of this Agreement; and its terms and provisions shall be construed fairly as to all parties hereto and not in favor of or against any party, regardless of which party is generally responsible for the preparation of this Agreement.

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Exhibit A
To
Sale Proceeds Agreement

Escrow Agreement
[See attachment]

EXECUTION

The parties have executed this Sale Proceeds Agreement as of the Effective Date.

STIMULYS:

By: /s/ Thomas Hunter

Thomas Hunter, President

SPAR:

SPAR INCENTIVE MARKETING, INC.

By: /s/ Robert Brown

Robert Brown, Chairman & CEO

Performance Holdings and other current stockholders need to sign as a party and be bound by the change in control and payment provisions in case they sell the stock of Stimulus. This is contemplated as a business matter by Section 2A but is not enforceable against PHI and the other stockholders without its participation in the agreement.

WAIVER TO THIRD AMENDED AND RESTATED
REVOLVING CREDIT AND SECURITY AGREEMENT

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

BACKGROUND

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

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

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

1. Definitions. All capitalized terms not otherwise defined or amended herein shall have the meanings given to them in the Loan Agreement.
2. Waiver. Subject to the satisfaction of Section 3 below, Lender hereby waives the Event of Default which has occurred as a result Borrowers' non-compliance with Section 12(r) due to Borrowers' failure to achieve EBITDA for October, 2004 and December, 2004 at the requisite level for each such month. Notwithstanding the foregoing, the waiver of the Events of Default set forth above does not establish a course of conduct between Borrowers and Lender and Borrowers hereby agree that Lender is not obligated to waive any future Events of Default under the Loan Agreement.
3. Conditions of Effectiveness. This Waiver shall become effective as of the date hereof, provided that Lender shall have received four (4) copies of this Waiver executed by the Borrowers and the limited guarantors (each a "Limited Guarantor") and the guarantor ("Guarantor") listed on the signature page hereto.
4. Representations, Warranties and Covenants. Each of the Borrowers hereby represents, warrants and covenants as follows:
 - (a) This Waiver and the Loan Agreement constitute legal, valid and binding obligations of each of the Borrowers and are enforceable against each of the Borrowers in accordance with their respective terms.
 - (b) Upon the effectiveness of this Waiver, each of the Borrowers hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Waiver.
 - (c) No Borrower has any defense, counterclaim or offset with respect to the Loan Agreement or the Obligations.
5. Effect on the Loan Agreement.
 - (a) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in

connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

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

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

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

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

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

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

[Remainder of page intentionally left blank]

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

WEBSTER BUSINESS CREDIT CORPORATION

By: /s/ Joseph Zautra

Name: Joseph Zautra

Its: Vice President

AGREED TO:

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

SPAR INCENTIVE MARKETING, INC.
SPAR TRADEMARKS, INC.
SPAR MARKETING, INC. (DE)
SPAR MARKETING, INC. (NV)
SPAR ACQUISITION, INC.
SPAR TECHNOLOGY GROUP, INC.
SPAR/PIA RETAIL SERVICES, INC.
RETAIL RESOURCES, INC.
PIVOTAL FIELD SERVICES, INC.
PIA MERCHANDISING CO., INC.
PACIFIC INDOOR DISPLAY CO.
PIVOTAL SALES COMPANY
SPAR GROUP, INC.
SPAR ALL STORE MARKETING SERVICES, INC.
SPAR BERT FIFE, INC.

By: /s/ Charles Cimitile

Name: Charles Cimitile
Title: Chief Financial Officer of each of
the foregoing entities

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

CONSENTED AND AGREED TO BY:

/s/ William H. Bartels

WILLIAM H. BARTELS, Limited Guarantor

/s/ Robert G. Brown

ROBERT G. BROWN, Limited Guarantor

PIA MERCHANDISING LIMITED, Guarantor

By: /s/ Charles Cimitile

Name: Charles Cimitile
Its: Chief Financial Officer

Master Lease Agreement

Lessor: SPAR Marketing Services, Inc. Lessee: SPAR Marketing Force, Inc.

Address: 580 White Plains Road
Tarrytown, NY 10591

Address: 1791 Harmon Road
Auburn Hills, MI 48326

TERMS AND CONDITIONS OF LEASE

The undersigned Lessee hereby requests Lessor to purchase the personal property described in any Equipment Schedule hereunder (herein called "Equipment") from the supplier(s) listed in any Equipment Schedule hereunder (herein called "Vendor" and/or "Manufacturer", as applicable) and to lease the Equipment to Lessee on the terms and conditions of the lease set forth below.

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Equipment, all upon the terms and provisions and subject to the conditions set forth in this Master Lease Agreement (as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided herein, this "Lease").

In consideration of the foregoing, the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration (the receipt and adequacy of which is hereby acknowledged by the parties), the parties hereto hereby agree as follows:

1. NO WARRANTIES BY LESSOR. Lessee has selected the Equipment and may have entered into certain purchase, licensing, or maintenance agreements with the Vendor and/or Manufacturer (herein referred to as an "Acquisition Agreement") covering the Equipment as further described in Paragraph 25 hereof. If Lessee has entered into any Acquisition Agreement, each agreement shall provide for certain rights and obligations of the party thereto with respect to the Equipment, and Lessee shall perform all of the obligations set forth in each Acquisition Agreement as if this Lease did not exist. LESSOR MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING THE CONDITION OF THE EQUIPMENT, ITS MERCHANTABILITY OR ITS FITNESSES FOR ANY PARTICULAR PURPOSE, AND, AS TO LESSOR, LESSEE LEASES THE EQUIPMENT "AS IS" AND "WHERE IS". LESSOR SHALL HAVE NO LIABILITY FOR ANY LOSS, DAMAGE OR EXPENSE OF ANY KIND WHATSOEVER RELATING THERETO, INCLUDING (WITHOUT LIMITATION) ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY CHARACTER.
2. CLAIMS AGAINST VENDOR AND/OR MANUFACTURER. If the Equipment is not properly installed, does not operate as represented or warranted by Vendor and/or Manufacturer, or is unsatisfactory for any reason, Lessee shall make any claim on account thereof solely against Vendor and/or Manufacturer pursuant to the Acquisition Agreement, if any, and shall, nevertheless, pay Lessor all rent payable under this Lease. All warranties from Vendor and/or Manufacturer are, to the extent they are assignable, hereby assigned to Lessee for the term of this Lease or until an Event of Default occurs hereunder, for Lessee's exercise at Lessee's expense. Lessee may directly inquire with Vendor and/or Manufacturer to receive an accurate and complete statement of such warranties, including any disclaimers or limitations of such warranties or of any remedies with respect thereto.
3. VENDOR NOT AN AGENT. Lessee understands and agrees that neither Vendor, nor any sales representative or other agent of Vendor, is an agent of Lessor. Sales representatives or agents of Vendor, and persons that are not employed by Lessor (including brokers and agents) are not authorized to waive or alter any term or condition of this Lease, and no representation as to the Equipment or any other matter by Vendor or any other person that is not employed by Lessor (including brokers or agents) shall in any way affect Lessee's duty to pay the rent and perform its other obligations as set forth in this Lease.
4. NON-CANCELLABLE LEASE. This Lease and any Equipment Schedule hereto cannot be cancelled or terminated except as expressly provided herein. Lessee agrees that its obligation to pay all rent and other sums payable hereunder and the rights of Lessor in and to such rent are absolute and unconditional and are not subject to any abatement, reduction, setoff, defense, counterclaim or recoupment due or alleged

to be due to, or by reason of, any past, present or future claims which Lessee may have against Lessor, any assignee, any Manufacturer or Vendor, or against any person for any reason whatsoever.

5. ORDERING EQUIPMENT. Lessee shall arrange for delivery of the Equipment so that it can be accepted in accordance with Paragraph 6 hereof within 90 days after the date on which Lessor accepts Lessee's offer to enter into this Lease with respect to any Equipment Schedule or by such other date as may be set forth in

an Equipment Schedule or Approval Letter issued by Lessor as the Approval Expiration Date. Unless otherwise specified on the Equipment Schedule, Lessee shall be responsible for all transportation, packing, installation, testing and other charges in connection with the delivery, installation and use of the Equipment. Lessee hereby authorizes Lessor to insert in any Equipment Schedule hereunder the serial numbers and other identification data of Equipment when determined by Lessor.

6. ACCEPTANCE. Lessee acknowledges that for purposes of receiving or accepting the Equipment from Vendor, Lessee is acting on Lessor's behalf. Upon delivery of the Equipment to Lessee and Lessee's inspection thereof, Lessee shall furnish Lessor a written statement (a) acknowledging receipt of the Equipment in good condition and repair and (b) accepting it as satisfactory in all respects for the purposes of this Lease (the "Certificate of Acceptance"). Unless otherwise set forth in the applicable Equipment Schedule, the first day of the month following receipt and acceptance of the Equipment covered by an Equipment Schedule shall be the Rent Commencement Date therefor. However, should Lessee have a previous lease with Lessor which is active at the time of acceptance of the Equipment under the Equipment Schedule and said lease and the current Equipment Schedule hereunder shall have the same invoice address then the Rent Commencement Date shall occur in the month immediately following acceptance of the Equipment on the rent payment due date established with Lessee for said previous active lease. Lessor is authorized to fill in on any Equipment Schedule hereunder the Rent Commencement Date in accordance with the foregoing.

7. TERMINATION BY LESSOR. If, by the Approval Expiration Date, the Equipment described in any Equipment Schedule has not been delivered to Lessee and accepted by Lessee as provided in Paragraph 6 hereof, or if other conditions of Lessor's Approval Letter, if any, have not been met, then Lessor may, at its option, terminate this Lease and its obligations hereunder with respect to such Equipment Schedule at any time after the expiration of such 90 days or any date after the Approval Expiration Date, as applicable. Lessor shall give Lessee written notice whether or not it elects to exercise such option within 10 days after Lessor's receipt of Lessee's written request for such notice.

8. TERM. The term of this Lease shall be comprised of an Interim Term and an Initial Term. The Interim Term shall commence on the date the Certificate of Acceptance is executed by Lessee (the "Acceptance Date") and terminate on the Rent Commencement Date. The Initial Term of this Lease shall begin on the Rent Commencement Date, and shall terminate on the later of (i) the last day of the last month of the Initial Term (as that Term is set forth in the applicable Equipment Schedule hereto) or (ii) the date Lessee fulfills all Lessee's obligations hereunder.

9. RENTAL. The rental amount payable to Lessor by Lessee for the Equipment will be set forth in the Equipment Schedule(s) ("Rental Amount"). As the first rent payment for the Equipment, Lessee shall pay Lessor in immediately available funds on the Rent Commencement Date the sum of, (i) the Rental Amount, and (ii) Interim Rent in an amount equal to 1/30th of the Rental Amount times the number of days from and including the Acceptance Date through but excluding the Rent Commencement Date, and subsequent rent payments shall be due on the same day of each calendar period as indicated on the Equipment Schedule for the balance of the Initial Term. Rent payments shall be due whether or not Lessee has received any notice that such payments are due. All rent payments shall be paid to Lessor at its address set forth above or as otherwise

directed by Lessor in writing.

10. RENEWAL If no default shall have occurred and be continuing, Lessee shall be entitled to renew this Lease with respect to all, but not less than all, of the Equipment covered by an Equipment Schedule for a minimum 12 month period at an amount equal to the fair market rental value thereof, in use and operational, in the condition required by this Lease, payable on a periodic basis, as mutually agreed by Lessor and Lessee ("Renewal Rent). Lessee must give Lessor written notice of its intention to exercise said option, which notice must be received by Lessor at least 90 days before expiration of the Initial Term. The first installment of the Renewal Rent shall be due at expiration of the Initial Term of this Lease. Should Lessee fail to comply with the provisions described above covering renewal, upon expiration of the Initial Term, the term of this Lease shall be automatically extended for a term of 3 months. Thereafter, the term of this Lease will be extended for subsequent full month periods, on a month to month basis, until Lessee has given at least 90 days written notice terminating this Lease. Such termination will take effect upon completion of all Lessee's obligations under this Lease (including payment of all periodic rental payments due during such 90 day period, as provided in Paragraph 9 of this Lease). At any time after the expiration of the Initial Term, if this Lease has been automatically extended as set forth herein, Lessor reserves the right to terminate this Lease by 30 days written notice to Lessee.
11. LOCATION; INSPECTION; LABELS. The Equipment shall be delivered to and shall not be removed without Lessor's prior written consent from the "Equipment Location" shown on the related Equipment Schedule, or if none is specified, Lessee's billing address shown above. Lessor shall have the right to inspect the Equipment at any reasonable time. If Lessor supplies Lessee with labels stating that the Equipment is owned by Lessor, Lessee shall affix such labels to and keep them in a prominent place on the Equipment.
12. REPAIRS; USE; ALTERATIONS. Lessee, at its own cost and expense, shall keep the Equipment in good repair and working order, in the same condition as when delivered to Lessee, reasonable wear and tear excepted, and in accordance with the manufacturer's recommended specifications; shall use the Equipment lawfully; shall not alter the Equipment without Lessor's prior written consent, shall use the Equipment in compliance with any existing Manufacturer's service and warranty requirements and any insurance policies applicable to the Equipment and shall furnish all parts and servicing required therefor. All parts, repairs, additions, alterations and attachments placed on or incorporated into the Equipment which cannot be removed without damage to the Equipment shall immediately become part of the Equipment and shall be the property of the Lessor. Lessee will obtain and maintain all permits, licenses and registrations necessary to lawfully operate the facility where the Equipment is located. Lessee shall comply with all applicable environmental and industrial hygiene laws, rules and regulations (including but not limited to federal, state, and local environmental protection, occupational, health and safety or similar laws, ordinances and restrictions). Lessee shall, not later than 5 days after the occurrence, provide Lessor with copies of any report required to be filed with governmental agencies regulating environmental claims. Lessee shall immediately notify Lessor in writing of any existing, pending or threatened investigation, inquiry, claim or action by any governmental authority in connection with any law, rule or regulation relating to industrial hygiene or environmental conditions that could affect the Equipment.
13. MAINTENANCE. If the Equipment is such that Lessee is not normally capable of maintaining it, Lessee, at its expense, shall enter into and maintain in full force and effect throughout the Initial Term and any renewal term, Vendor and/or Manufacturer's standard maintenance contract, and shall comply with all its obligations thereunder. An alternate source of maintenance may be used with Lessor's prior written consent. Such consent shall be granted if, in Lessor's reasonable opinion, the Equipment will be maintained in an equivalent state of good repair, condition and working order.

14. SURRENDER. Provided that Lessee does not exercise the purchase option as set forth in Paragraph 27 hereof, upon the expiration of the Initial Term, or any renewal term, or upon demand by Lessor made pursuant to Paragraph 21 of this Lease, Lessee, at its expense, shall return all, but not less than all, of the Equipment by delivering it to such place or on board such carrier, packed for shipping, as Lessor may specify. Lessee agrees that the Equipment, when returned, shall be in the same condition as when delivered to Lessee, reasonable wear and tear excepted, and in a condition which will permit Lessor to be eligible for Manufacturer's standard maintenance contract without incurring any expense to repair or rehabilitate such Equipment. Lessee shall be liable for reasonable and necessary expenses to place the Equipment in such condition. Lessee shall remain liable for the condition of the Equipment until it is received and accepted at the destination designated by Lessor as set forth above. If any items of Equipment are missing or damaged when returned, such occurrence shall be treated as an event of Loss or Damage with respect to such missing or damaged items and shall be subject to the terms specified in Paragraph 15 below. Lessee shall provide Lessor with a Letter of Maintainability from the Manufacturer of the Equipment, which letter shall state that the Equipment will be eligible for the Manufacturer's standard maintenance contract when sold or leased to a third party. Lessee shall give Lessor prior written notice that it is returning the Equipment as provided above, and such notice must be received by Lessor at least 90 days prior to such return. Should Lessee fail to comply with the provisions described above covering surrender, upon expiration of the Initial Term, the term of this Lease shall be automatically extended for a term of 3 months. Thereafter, the term of this Lease will be extended for subsequent full month periods, on a month to month basis, until Lessee has given at least 90 days written notice terminating this Lease. Such termination will take effect upon completion of all Lessee's obligations under this Lease (including payment of all periodic rental payments due during such 90 day period, as provided in Paragraph 9 of this Lease). At any time after the expiration of the Initial Term, if this Lease has been automatically extended as set forth herein, Lessor reserves the right to terminate this Lease by 30 days written notice to Lessee.
15. LOSS OR DAMAGE. Lessee shall bear the entire risk of loss, theft, destruction of or damage to the Equipment or any item thereof (herein "Loss or Damage") from any cause whatsoever. No Loss or Damage shall relieve Lessee of the obligation to pay rent or of any other obligation under this Lease. In the event of Loss or Damage, Lessee, at the option of Lessor; shall: (a) place the same in good condition and repair; (b) replace the same with like equipment acceptable to Lessor in good condition and repair with clear title thereto in Lessor; or (c) pay to Lessor the total of the following amounts: (i) the total rent and other amounts due and owing at the time of such payment, plus (ii) an amount calculated by Lessor which is the present value at 5% per annum simple interest discount of all rent and other amounts payable by Lessee with respect to said item from date of such payment to date of expiration of its Initial Term, plus (iii) the "reversionary value" of the Equipment, which shall be determined by Lessor as the total cost of the Equipment less 60% of the total rent (net of sales/use taxes, if any) required to be paid pursuant to Paragraph 9. Upon Lessor's receipt of such payment, Lessee and/or Lessee's insurer shall be entitled to Lessor's interest in said item, for salvage purposes, in its then condition and location, "as-is ", without any warranty, express or implied.
16. INSURANCE. Lessee shall provide, maintain and pay for (a) all risk property insurance against the loss or theft of or damage to the Equipment, for the full replacement value thereof, naming Lessor as a loss payee, and (b) commercial liability insurance (and if Lessee is a doctor; hospital or other health care provider, medical malpractice insurance). All such policies shall name Lessor as an additional insured and shall have combined single limits in amounts acceptable to Lessor. All such insurance policies shall be endorsed to be primary and non-contributory to any policies maintained by Lessor. In addition Lessee shall cause Lessor to be named as an additional insured on any excess or umbrella policies purchased by Lessee. A copy of each paid-up policy evidencing such insurance (appropriately authenticated by the insurer) or a certificate of the insurer providing

such coverage proving that such policies have been issued, providing the coverage required hereunder shall be delivered to Lessor prior to the Rent Commencement Date. All insurance shall be placed with companies satisfactory to Lessor and shall contain the insurer's agreement to give 30 days written notice to Lessor before cancellation or any material change of any policy of insurance.

17. TAXES. Lessee shall reimburse to Lessor (or pay directly if, but only if, instructed by Lessor) all charges and taxes (local, State and federal) which may now or hereafter be imposed or levied upon the sale, purchase, ownership, leasing, possession or use of the Equipment; excluding, however; all income taxes levied on (a) any rental payments made to Lessor hereunder; (b) any payment made to Lessor in connection with Loss or Damage to the Equipment under Paragraph 15 hereof, or (c) any payment made to Lessor in connection with Lessee's exercise of its purchase option under Paragraph 27 hereof.

18. LESSOR'S PAYMENT. If Lessee fails to provide or maintain said insurance, to pay said taxes, charges and fees, or to discharge any levies, liens and encumbrances created by Lessee, Lessor shall have the right, but shall not be obligated, to obtain such insurance, pay such taxes, charges and fees, or effect such discharge. In that event, Lessee shall remit to Lessor the cost thereof with the next rent payment.

19. INDEMNITY. (a) General Indemnity. Lessee shall indemnify Lessor against and hold Lessor harmless from any and all claims, actions, damages, costs, expenses including reasonable attorneys' fees, obligations, liabilities and liens (including any of the foregoing arising or imposed under the doctrines of "strict liability" or "product liability" and including without limitation the cost of any fines, remedial action, damage to the environment and cleanup and the fees and costs of consultants and experts), arising out of the manufacture, purchase, lease, ownership, possession, operation, condition, return or use of the Equipment, or by operation of law, excluding however, any of the foregoing resulting from the gross negligence or willful misconduct of Lessor. Lessee agrees that upon written notice by Lessor of the assertion of such a claim, action, damage, obligation, liability or lien, Lessee shall assume full responsibility for the defense thereof. Lessee's choice of counsel shall be mutually acceptable to both Lessee and Lessor. This indemnity also extends to any environmental claims arising out of or relating to prior acts or omissions of any party whatsoever. The provisions of this paragraph shall survive termination of this Lease with respect to events occurring prior to such termination.

(b) Tax Indemnity. Lessee acknowledges that Lessor shall be entitled to all tax benefits of ownership with respect to the Equipment (the "Tax Benefits"), including but not limited to, (i) the accelerated cost recovery deductions determined in accordance with Section 168(b)(1) of the Internal Revenue Code of 1986 for the Equipment based on the original cost of the Equipment to Lessor (ii) deductions for interest on any indebtedness incurred by Lessor to finance the Equipment and (iii) sourcing of income and losses attributable to this Lease, to the United States. Lessee represents that the Equipment shall be depreciable for Federal tax purposes utilizing the MACRS Recovery Period as set forth in the Equipment Schedule, with such depreciation commencing as of the date of Equipment acceptance by Lessee as set forth on the Certificate of Acceptance. Lessee agrees to take no action inconsistent with the foregoing or any action which would result in the loss, disallowance or unavailability to Lessor of all or any part of the Tax Benefits. Lessee hereby indemnifies and holds harmless Lessor and its assigns from and against (i) the loss, disallowance, unavailability or recapture of all or any part of the Tax Benefits resulting from any action, statement, misrepresentation or breach of warranty or covenant by Lessee of any nature whatsoever including but not limited to the breach of any representations, warranties or covenants contained in this paragraph, plus (ii) all interest, penalties, fines or additions to tax resulting from such loss, disallowance, unavailability or recapture, plus (iii) all taxes required to be paid by Lessor upon receipt of the indemnity set forth in

this paragraph. Any payments made by Lessee to reimburse Lessor for lost Tax Benefits shall be calculated (i) on the assumption that Lessor is subject to the maximum Federal Corporate Income Tax with respect to each year and that all Tax Benefits are currently utilized, and (ii) without regard to whether Lessor or any members of a consolidated group of which Lessor is also a member is then subject to any increase in tax as a result of the loss of Tax Benefits. For the purposes of this paragraph, "Lessor" includes for all tax purposes the consolidated taxpayer group of which Lessor is a part.

(c) Payment. The amounts payable pursuant to this Paragraph 19 shall be payable upon demand of Lessor, accompanied by a statement describing in reasonable detail such claim, action, damage, cost, expense, fee, obligation, liability, lien or tax and setting forth the computation of the amount so payable, which computation shall be binding and conclusive upon Lessee, absent manifest error. The indemnities and assumptions of liabilities and obligations contained in this Paragraph 19 shall continue in full force and effect notwithstanding the expiration or other termination of this Lease.

20. DELINQUENT PAYMENTS. (a) Service Charge. Since it would be impractical or extremely difficult to fix Lessor's actual damages for collecting and accounting for a late payment, if any payment to Lessor required herein (including, but not limited to, rental, renewal, tax, purchase and other amounts) is not paid on or before its due date, Lessee shall pay to Lessor an amount equal to 5% of any such late payment. (b) Interest. Lessee shall also pay interest on any such late payment from the due date thereof until the date paid at the littlest of 18% per annum or the maximum rate allowed by law.

21. DEFAULT; REMEDIES. Any of the following shall constitute an "Event of Default" under this Lease: If (a) Lessee fails to pay when due any rent or other amount required herein to be paid by Lessee and such non-payment continues for more than seven days after notice thereof from Lessor, or (b) Lessee makes an assignment for the benefit of creditors, whether voluntary or involuntary, or (c) a petition is filed by or against Lessee under any bankruptcy, insolvency or similar legislation, or (d) Lessee violates or fails to perform any provision of either this Lease or any Acquisition Agreement, or violates or fails to perform any covenant or representation made by Lessee herein, and fails to correct the same within seven days after notice thereof from Lessor, or (e) Lessee makes a bulk transfer of furniture, furnishings, fixtures or other equipment or inventory, or (f) Lessee ceases doing business as a going concern or terminates its existence, or (g) Lessee consolidates with, merges with or into, or conveys or leases all or substantially all of its assets as an entirety to any person or engages in any other form of reorganization, or there is a change in the legal structure of Lessee, in each case it results, in the opinion of the Lessor, in a material adverse change in Lessee's ability to perform its obligations under this Lease, or (h) any representation or warranty made by Lessee in this Lease or in any other document or agreement furnished by Lessee to Lessor shall prove to have been false or misleading in any material respect when made or when deemed to have been made, or (i) Lessee shall be in default under any material obligation for the payment of borrowed money or the deferred purchase price of, or for the payment of any rent due with respect to, any real or personal property and such default continues for more than seven days after notice thereof from Lessor, or (j) Lessee shall be in default under any other agreement now existing or hereafter made with Lessor or any of Lessor's affiliates and such default continues for more than seven days after notice thereof from Lessor, or (k) any event or condition described in the foregoing clauses (b), (c), (e), (f), (g), (h) (in clauses (g) and (h) substituting the phrase "guaranty or other credit support document" for the word "Lease"), (i) or (j) shall have occurred with respect to any guarantor of, or other party liable in whole or in part for, Lessee's obligations hereunder, or such guarantor or other party shall have defaulted in the observance or performance of any covenant, condition or agreement to be observed or performed by it under the guaranty or other credit support document

pursuant to which it is liable for Lessee's obligations hereunder, or such guaranty or other credit support document shall have been revoked or terminated or shall have otherwise ceased, for any reason, to be in full force and effect. An Event of Default with respect to any Equipment Schedule shall constitute an Event of Default for all Equipment Schedules. Lessee shall promptly notify Lessor of the occurrence of any Event of Default upon Lessee's receipt of notice or knowledge thereof (other than pursuant to Lessor's notice).

If an Event of Default occurs, Lessor shall have the right to exercise any one or more of the following remedies in order to protect the interests and reasonably expected profits and bargains of Lessor: (a) Lessor may terminate this Lease with respect to all or any part of the Equipment, (b) Lessor may recover from Lessee all rent and other amounts then due and as they shall thereafter become due hereunder, (c) Lessor may take possession of any or all items of Equipment, wherever the same may be located, without demand or notice, without any court order or other process of law and without liability to Lessee for any damages occasioned by such taking of possession, and any such taking of possession shall not constitute a termination of this Lease, (d) Lessor may recover from Lessee, with respect to any and all items of Equipment, and with or without repossessing the Equipment the sum of (1) the total amount due and owing to Lessor at the item of such default, plus (2) an amount calculated by Lessor which is the present value at 5% per annum simple interest discount of all rent and other amounts payable by Lessee with respect to said item(s) from date of such payment to date of expiration of its Initial Term, plus (3) the "reversionary value" of the Equipment, which shall be determined by Lessor as the total cost of the Equipment less 60% of the total rent (net of sales/use taxes, if any) required to be paid pursuant to Paragraph 9, and which the parties agree is a reasonable estimate of such value; and upon the payment of all amounts described in clauses (1), (2) and (3) above, Lessee will become entitled to the Equipment AS IS, WHERE IS, without warranty whatsoever; provided, however, that if the Lessor shall sell, lease or otherwise dispose of the Equipment in a commercially reasonable manner, with or without notice and on public or private bid, and apply the net proceeds thereof (after deducting all expenses, including attorneys' fees incurred in connection therewith), to the sum of (1), (2) and (3) above, and e) Lessor may pursue any other remedy available at law or in equity, including but not limited to seeking damages or specific performance and/or obtaining an injunction.

No right or remedy herein conferred upon or reserved to Lessor is exclusive of any right or remedy herein or by law or equity provided or permitted; but each shall be cumulative of every other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise, and may be enforced concurrently therewith or from time to time, but Lessor shall not be entitled to recover a greater amount in damages than Lessor could have gained by receipt of the of Lessee's full, timely and complete performance of its obligations pursuant to the terms of this Lease plus accrued delinquent payments under Paragraph 21.

22. LESSOR'S EXPENSE. Lessee shall pay Lessor all costs and expenses, including attorney's fees and the fees of collection agencies, incurred by Lessor in enforcing any of the terms, conditions, or provisions hereof or in protecting Lessor's rights herein. Lessee's obligation hereunder includes all such costs and expenses experienced by Lessor (a) prior to filing of an action, (b) in connection with an action which is dismissed, and (c) in the enforcement of any judgment. Lessee's obligation to pay Lessor's attorney's fees incurred in enforcing any judgment is a separate obligation of Lessee, severable from Lessee's other obligations hereunder, which obligation will survive such judgment and will not be deemed to have been merged into such judgment.

23. OWNERSHIP; PERSONAL PROPERTY. The Equipment shall at all times remain the property of Lessor and Lessee shall have no right, title or interest therein or thereto except as expressly set forth in this Lease and the Equipment shall at all times be and remain personal property notwithstanding that the Equipment or any part thereof may now be, or

hereafter become, in any manner, affixed or attached to real property or any improvements thereon.

24. NOTICES. Any notice, request, demand or other communication permitted or required to be given to a party under this Lease shall be in writing and shall be sent to the addressee at the address set forth above or on the Equipment Schedule (or at such other address as shall be designated by notice to the other party and persons receiving copies), effective upon actual receipt (or refusal to accept delivery) by the addressee on any business day or the first business day following receipt after the close of normal business hours or on any non-business day, by (a) FedEx (or other equivalent national or international overnight courier) or United States Express Mail, (b) certified, registered, priority or express United States mail, return receipt requested, (c) telecopy or (d) messenger, by hand or any other means of actual delivery
25. ACQUISITION AGREEMENTS. If the Equipment is subject to any Acquisition Agreement, Lessee as part of this Lease, transfers and assigns to Lessor all of its rights, but none of its obligations (except for Lessee's obligation to pay for the Equipment conditioned upon Lessee's acceptance in accordance with Paragraph 6), in and to the Acquisition Agreement, including but not limited to the right to take title to the Equipment. Lessee shall indemnify and hold Lessor harmless in accordance with Paragraph 19 from any liability resulting from any Acquisition Agreement as well as liabilities resulting from any Acquisition Agreement Lessor is required to enter into on behalf of Lessee or with Lessee for purposes of this Lease.
26. UPGRADES. Any existing lease between Lessor and Lessee subject to an "upgrade" program shall continue in full force and effect and shall be kept free of default by Lessee (even if the Equipment covered by the existing lease is sold, traded-in, etc.) until any such existing lease is cancelled by Lessor when, if applicable, the new Equipment is accepted by Lessee for all purposes of this Lease.
27. PURCHASE OPTION. If no default shall have occurred and be continuing, Lessee shall be entitled, at its option upon written notice to Lessor, which notice must be received by Lessor at least 90 days prior to the end of either the Initial Term or any renewal term of any Equipment Schedule, to purchase all, but not less than all, of the Equipment covered by such Equipment Schedule from Lessor at the end of the Initial Term or any renewal term for such Equipment Schedule at a purchase price equal to the then fair market value of the Equipment in use and operational, in the condition required by this Lease, as mutually agreed by Lessor and Lessee. On a date which is no later than the expiration date of the Initial Term or any renewal term, as applicable, Lessee shall pay to Lessor the purchase price for the Equipment covered by such Equipment Schedule (plus any taxes levied thereon) and Lessor shall sell the Equipment "as-is where-is" without any warranties express or implied.
28. RELATED EQUIPMENT SCHEDULES. In the event that any Equipment Schedule hereunder shall include Equipment that may become attached to, affixed to, or used in connection with Equipment covered under another Equipment Schedule hereunder ("Related Equipment Schedule"), Lessee acknowledges the following: (a) if Lessee elects to exercise a purchase option or renewal option under any Equipment Schedule, if provided; or (b) if Lessee elects to return the Equipment under any Equipment Schedule as described in Paragraph 14, then Lessor, at its discretion, may require the similar disposition of all Related Equipment Schedules as provided for by this Lease.
29. EQUIPMENT SCHEDULES. An executed Equipment Schedule that incorporates by reference the terms of this Master Lease Agreement, marked "Original," shall be the original of this Lease for the Equipment described therein for all purposes. All other executed counterparts of this Lease shall be marked "Duplicate." Unless specified otherwise therein, in the event any written rider or other agreement is attached to and made a part of an Equipment Schedule, the terms and conditions of said written agreement shall apply only to said Equipment Schedule and shall not apply to any other Equipment Schedule made a part of this Lease. In the event Lessee issues a purchase order to Lessor covering

Equipment to be leased hereunder, it is agreed that such purchase order is issued for purposes of authorization and Lessee's internal use only, and, none of its terms and conditions shall modify the terms and conditions of this Lease and/or related documentation, or affect Lessor's responsibility to Lessee as defined in this Lease. To the extent this Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code of the applicable jurisdiction, no security interest in this Lease may be created through the transfer of possession of any counterpart other than the Original of this Lease.

30. GENERAL REPRESENTATIONS OF THE PARTIES. Each party represents and warrants to the other party that, as of the date hereof, as of the date of the execution of each Equipment Schedule and as of the date of each extension, modification or amendment of this Lease and each Equipment Schedule, and covenants and agrees with the other party that for so long as any Equipment is leased pursuant hereto: (a) such party is and will continue to be a corporation or other entity duly organized, validly existing and in good standing under the laws of its state of organization and maintains its chief executive office at the address(es) set forth for it either on the signature page to this Lease (and any Equipment Schedule entered into pursuant hereto) or in the introduction thereto, or as otherwise set forth in a written notice to the other party; (b) such party has and will maintain the legal capacity, power, authority and unrestricted right to execute and deliver this Lease (and any Equipment Schedule entered into pursuant hereto) and to perform all of its obligations hereunder; (c) the execution and delivery by such party of this Lease (and any Equipment Schedule entered into pursuant hereto) and the performance by such party of all of its obligations hereunder will not violate or be in conflict with any term or provision of (i) any applicable law, (ii) any judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to such party or any material part of such party's assets and properties, (iii) any of the organizational or governing documents of such party, or (iv) any material agreement, document or obligation to which it is a party, and such party will not adopt any such conflicting organizational or governing document or enter into any such conflicting agreement, document or obligation; (d) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person (including any equity holder of any party) is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and performance by such party of this Lease (and any Equipment Schedule entered into pursuant hereto) or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Lease (and any Equipment Schedule entered into pursuant hereto); (d) this Lease (and any Equipment Schedule entered into pursuant hereto) is a legal, valid and binding obligation of such party, enforceable against such party in accordance with their respective terms and provisions; and (e) each party has independently and fully reviewed and evaluated this Lease (and any Equipment Schedule entered into pursuant hereto) and all related documents, the contemplated obligations and transactions and the potential effects of such obligations and transactions on the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation, taxation or condition (financial or otherwise) of such party and its affiliates, which review and evaluation was made together with the officers, directors and other representatives of such party, its legal counsel and (to the extent deemed prudent by such party) other legal counsel and financial and other advisors to such party, and such party hereby absolutely, unconditionally, irrevocably, expressly and forever assumes any and all attendant risks and waives any and all rights, claims, defenses or objections with respect thereto

31. LESSEE'S REPRESENTATIONS. Lessee represents and warrants to Lessor that, as of the date hereof, as of the date of the execution of each Equipment Schedule and as of the date of each extension, modification or amendment of this Lease and each Equipment Schedule, and covenants and agrees with the Lessor that for so long as any Equipment is leased pursuant hereto: (a) the Equipment is being leased hereunder for business purposes and is not being and will not be used for any illicit or illegal business or scheme; (b) the financial information (if any) respecting Lessee furnished to Lessor is complete, accurate and fairly presents the financial condition of the Customer; (d) the credit, financial and other information furnished or to be furnished by or on behalf of Lessee to Lessor is true and correct and does not and will

not contain a misstatement of a material fact or omit to state a material fact required to be stated therein in order to make it, in the light of the circumstances under which made, not misleading; and (f) there does not exist any pending or threatened action or proceeding before any court or administrative agency which might materially adversely affect Lessee's financial condition or operations

32. FINANCIAL STATEMENTS. Lessee agrees to furnish to Lessor (i) as soon as available, and in any event within 120 days after the last day of each fiscal year of Lessee, a copy of the financial statements of Lessee as of the end of such fiscal year, certified by an independent certified public accounting firm: (ii) as soon as available, and in any event within 60 days after the last day of each quarter of Lessee's fiscal year, a copy of quarterly financial statements certified by the principal financial officer of Lessee; and (iii) such additional information concerning Lessee as Lessor may reasonably request.

33. GOOD FAITH DEPOSIT REQUIREMENT. Lessee agrees, with respect to each transaction, to pay the Good Faith Deposit specified in Lessor's proposal for such transaction or in the Equipment Schedule related thereto. This Good Faith Deposit is given in consideration for Lessor's costs and expenses in investigating and appraising and/or establishing credit for Lessee. This Good Faith Deposit shall not be refunded unless Lessor declines to accept Lessee's offer to enter into this Lease. Upon Lessor's acceptance of Lessee's offer to enter into this Lease, unless otherwise specified in the proposal or Equipment Schedule, the amount shall be applied to the first period's rent payment. Lessee acknowledges that Lessor's act of depositing any Good Faith Deposit into Lessor's bank account shall not in itself constitute Lessor's acceptance of Lessee's offer to enter into this Lease.

34. INTERPRETATION, SEVERABILITY, ETC. The parties acknowledge and agree that the terms and provisions of this Lease and the Equipment Schedules have been negotiated, shall be construed fairly as to all parties hereto, and shall not be construed in favor of or against any party. The term "including" shall mean "including (without limitation)", whether or not so stated. The terms "including", "including, but not limited to", "including (without limitation)" and similar phrases (i) mean that the items specifically listed after such term are examples of the provision preceding such term and are not intended to be all inclusive, (ii) shall not in any way limit (or be deemed or construed to limit) the generality of the provision preceding such term, and (iii) shall not in any way preclude (or be deemed or construed to preclude) any other applicable item encompassed by the general provision preceding such term. In the event that any term or provision of this Lease or any Equipment Schedule shall be finally determined to be superseded, invalid, illegal or otherwise unenforceable pursuant to applicable law by an authority having jurisdiction and venue, that determination shall not impair or otherwise affect the validity, legality or enforceability (a) by or before that authority of the remaining terms and provisions of this Lease and the Equipment Schedules, which shall be enforced as if the unenforceable term or provision were deleted or reduced pursuant to the next sentence, as applicable, or (b) by or before any other authority of any of the terms and provisions of this Lease and the Equipment Schedules. If any term or provision of this Lease or any Equipment Schedule is held to be unenforceable because of the scope or duration of any such provision, the parties agree that any court making such determination shall have the power, and is hereby requested, to reduce the scope or duration of such term or provision to the maximum permissible under applicable law so that said term or provision shall be enforceable in such reduced form.

35. MISCELLANEOUS. Lessor reserves the right to charge Lessee fees for its provision of additional administrative services related to this Lease requested by Lessee. Lessee shall provide Lessor with such corporate resolutions, opinions of counsel, financial statements, and other documents (including documents for filing or recording) as Lessor may request from time to time. LESSEE HEREBY APPOINTS LESSOR OR ITS ASSIGNEE ITS TRUE AND LAWFUL ATTORNEY IN FACT TO EXECUTE ON BEHALF OF LESSEE ALL UNIFORM COMMERCIAL CODE FINANCING STATEMENTS OR OTHER DOCUMENTS WHICH, IN LESSOR'S DETERMINATION, ARE NECESSARY TO SECURE

LESSOR'S INTEREST IN SAID EQUIPMENT. The filing of UCC Financing Statements is precautionary and shall not be evidence that this Lease is intended as security. If for any reason this agreement is determined not to be a lease, Lessee hereby grants Lessor a security interest in this Lease, the Equipment or collateral pertaining thereto and the proceeds thereof, including release, sale or disposition of the Equipment or other collateral. If more than one Lessee is named in this Lease, the liability of each shall be joint and several. Time is of the essence with respect to this Lease.

36. FORCE MAJEURE. Notwithstanding any other term or provision of this Lease (and any Equipment Schedule entered into pursuant hereto), no party shall be responsible for or be in breach of or default under this Lease (and any Equipment Schedule entered into pursuant hereto) for any performance delay or failure that is the result of any and all acts of God and other acts, events, circumstances, impediments or occurrences beyond the control of the delayed person (each a "Force Majeure"), including (without limitation) any (i) accident or mishap not caused by the delayed person, (ii) assault, attack, battle, blockade, bombing, embargo, police action, siege or other act of defense, offense, terrorism or war (whether or not declared), in each case whether civilian, militia, military or otherwise and whether domestic or foreign, (iii) governmental regulation or decree or other act or failure to act of any governmental authority or other regulatory body, in each case whether civil, military or otherwise and whether domestic or foreign, (iv) earthquake, explosion, fire, flood, hurricane or other natural or man-made calamity or disaster, (v) epidemic, environmental contamination or other natural or man-made pestilence or toxic exposure (whether biological, chemical, radiological or otherwise), or any quarantine or other restriction arising therefrom, (vi) failure of, interruption in or impairment of any delivery, internet, mail, monetary, power,

telecommunication, transmission, transportation or utility system or any other service, product or equipment provided or maintained by a third party, (vii) lockout, strike or similar labor interruptions, (viii) insurrection, riot or other civil disturbance, (ix) hacking or other unauthorized access, spamming, virus, trojan or other unauthorized program, or other computer or technological tampering or attack, or (x) sabotage or other criminal or intentionally disruptive third party act, in each case together with any and all consequential disruptions, delays, effects or other acts, events, circumstances, impediments or occurrences and irrespective of how localized or widespread. Upon prompt notice to the other party, the party affected by any Force Majeure shall be excused from performance hereunder to the extent and for so long as its performance hereunder is prevented or restricted by a Force Majeure (and the other party shall likewise be excused from performance of its obligations hereunder relating to such delayed or failed performance to the same extent and for the same duration); provided that the party so affected shall use reasonable efforts (without increased cost) to avoid, mitigate or remove such Force Majeure and to minimize the consequences thereof, and both parties shall resume performance hereunder with the utmost dispatch whenever such non-performance causes are removed.

37. NO WAIVER BY ACTION, ETC. Any failure of the Lessor to require strict performance by the Lessee or any waiver by Lessor of any provision herein shall not be construed as a consent or waiver of any other breach of the same or of any other provision. Any waiver or consent from either party respecting any provision of this Lease or any related document shall be effective only in the specific instance for which given and shall not be deemed, regardless of frequency given, to be a further or continuing waiver or consent. The failure or delay of any party at any time to require performance of, or to exercise or enforce its rights or remedies with respect to, any provision of this Lease shall not affect such party's right at a later time to exercise or enforce any such provision. No notice to or demand on any party shall entitle such party to any other notice or demand in similar or other circumstances. Any acceptance by or on behalf of a party of (A) any partial or late payment, reimbursement or performance shall not constitute a satisfaction or waiver of the obligation then due or the resulting default, or (B) any payment, reimbursement or performance of

any obligation during the continuance of any default shall not constitute a waiver or cure thereof, and the party or its designee may accept or reject any such payment, reimbursement or performance without affecting any obligation or any of the party's rights, powers, privileges, remedies and other interests under this Lease, any related document or applicable law. All rights, powers, privileges, remedies and other interests of each party hereunder are cumulative and not alternatives, and they are in addition to (and shall not limit) any other right, power, privilege, remedy or other interest of such party under this Lease, any related document or applicable law.

38. SUCCESSORS AND ASSIGNS; ASSIGNMENT; INTENDED BENEFICIARIES. This Lease and each related document shall be binding upon and inure to the benefit of the successors, permitted assigns and legal representatives of each party (including, without limitation, any assignee of substantially all of the business or assets of any party or any successor by merger). Neither party may assign any of its rights or obligations under this Lease or any related document to any other person without the consent of the other party; provided, however, that either party may assign its rights and obligations hereunder in whole or in part to any of its affiliates (without, however, relieving the assignor of any of its obligations hereunder) by giving the other party a copy of such assignment. Without limiting the generality of the foregoing, Lessee acknowledges and agrees that Lessor may pledge this Lease and all accounts, payment intangibles, general intangibles and other rights and interest arising hereunder to one or more lender(s), such lender(s) shall be entitled upon default to enforce any and all of the rights, powers, privileges, remedies and interests of Lessor as so assigned in accordance with this Lease, the applicable loan documents and applicable law, and such lender(s) shall not be responsible or liable for any of the acts, omissions, duties, liabilities or obligations of Lessor or any of its affiliates under this Lease or otherwise. Except as otherwise provided in this Lease, the representations, agreements and other provisions of this Lease are for the exclusive benefit of the parties hereto, and no other person (including, without limitation, any creditor of a party) shall have any right or claim against any party by reason of any of those provisions or be entitled to enforce any of those provisions against any party.

39. COUNTERPARTS, GOVERNING LAW, AMENDMENTS, ETC. This Lease shall be effective on the date as of which this Lease shall be executed and delivered by the parties hereto. This Lease or any related document may be executed in two or more counterpart copies of the entire document or of signature pages to the document, each of which may be executed by one or more of the parties hereto and may be sent by fax or other electronic means,, but all of which, when taken together, shall constitute a single agreement binding upon all of the parties hereto. This Lease and all related documents shall be governed by and construed in accordance with the applicable laws pertaining, in the State of New York (other than those conflict of law rules that would defer to the substantive laws of another jurisdiction). The headings contained in this Lease or any related document are for reference purposes only and shall not affect the meaning or interpretation of this Lease or any related document. Each and every supplement or modification to or amendment or restatement of this Lease or any related document shall be in writing and signed by all of the parties hereto, and each and every waiver of, or consent to any departure from, any term or provision of this Lease or any related document shall be in writing and signed by each affected party hereto.

40. WAIVER OF JURY TRIAL; ALL WAIVERS INTENTIONAL, ETC. In any action, suit or proceeding in any jurisdiction brought against Lessor by Lessee, or vice versa, each party hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury. This waiver of jury trial by each party, and each other waiver, release, relinquishment or similar surrender of rights (however expressed) made by a party in this Lease, has been absolutely, unconditionally, irrevocably, knowingly and intentionally made by such party.

41. ENTIRE AGREEMENT. No party or any of its representatives has made, accepted or acknowledged any representation, warranty, promise, assurance, agreement, obligation or understanding (oral or otherwise)

to, with or for the benefit of the other party or any of its representatives other than as expressly set forth in this Lease. This Lease and any Approval Letter issued by Lessor and any Equipment Schedule hereunder contains the entire agreement of the parties, and supersedes and completely replaces all prior and other communications, discussions and other representations, warranties, promises, assurances, agreements and understandings (oral, implied or otherwise) between the parties, with respect to the matters contained in this Lease.

IN WITNESS WHEREOF, the parties have executed this Master Lease Agreement effective as of the first date it is executed by Lessee below.

SPAR Marketing Services, Inc. (Lessor)	SPAR Marketing Force, Inc. (Lessee)	Date
		As of
		11/1/04
/s/ Robert G. Brown	/s/ Charles Cimitile	
-----	-----	
Name: Robert G. Brown	Name: Charles Cimitile	
Title: Chairman & Chief Executive Officer	Title: Chief Financial Officer	

Home Office: 580 White Plains Road
Tarrytown, NY 10591

[Letterhead of SPAR MARKETING SERVICES, INC.]

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

SERVICES DEFINED BY THE RETURN THEY GENERATE

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

EQUIPMENT LEASING SCHEDULE NO. 001

Dated: as of November 1, 2004

(this "Schedule")

Incorporating by Reference

Master Lease Agreement dated as of November 1, 2004

between

SPAR Marketing Services, Inc., as "Lessor",

and

SPAR Marketing Force, Inc., as "Lessee"

(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

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

Rental Commencement Date: 11/1/04

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

Term: 36 Months
Lease Rate Factor: 3.168%
Monthly Rental Payment: \$12,672.00
Good Faith Deposit Amount:

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

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

[Letterhead of SPAR MARKETING SERVICES, INC.]

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

SERVICES DEFINED BY THE RETURN THEY GENERATE

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

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

LESSOR

LESSEE

/s/ Robert G. Brown

/s/ Charles Cimitile

Robert G. Brown
Chairman and Chief Executive Officer
SPAR Marketing Services, Inc.

Charles Cimitile
Chief Financial Officer
SPAR Marketing Force, Inc.

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EQUIPMENT LEASING SCHEDULE NO. 002

Dated: as of January 4, 2005

(this "Schedule")

Incorporating by Reference

Master Lease Agreement dated as of November 1, 2004

between

SPAR Marketing Services, Inc., as "Lessor",

and

SPAR Marketing Force, Inc., as "Lessee"

(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

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

Rental Commencement Date: 1/4/05

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

Term: 36 Months
Lease Rate Factor: 3.168%
Monthly Rental Payment: \$4,293.00

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

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

[Letterhead of SPAR MARKETING SERVICES, INC.]

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

SERVICES DEFINED BY THE RETURN THEY GENERATE

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

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

LESSOR

LESSEE

/s/ Robert G. Brown

/s/ Charles Cimitile

Robert G. Brown
Chairman and Chief Executive Officer
SPAR Marketing Services, Inc.

Charles Cimitile
Chief Financial Officer
SPAR Marketing Force, Inc.

[Letterhead of SPAR MARKETING SERVICES, INC.]

MERCHANDISING * MARKETING INTELLIGENCE * DATABASE MARKETING * TELESERVICES *
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EQUIPMENT LEASING SCHEDULE NO. 003

Dated: as of January 31, 2005

(this "Schedule")

Incorporating by Reference

Master Lease Agreement dated as of November 1, 2004
between

SPAR Marketing Services, Inc., as "Lessor",
and

SPAR Marketing Force, Inc., as "Lessee"

(as the same may be supplemented or amended from time to time
in the manner provided therein the "Master Agreement")

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

Rental Commencement Date: 1/31/05

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

	\$96,689.90

Term: 36 Months
Lease Rate Factor: 3.168%
Monthly Rental Payment: \$3,353.00
Good Faith Deposit Amount:

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

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

LESSOR

LESSEE

/s/ Robert G. Brown

/s/ Charles Cimitile

Robert G. Brown
Chairman and Chief Executive Officer
SPAR Marketing Services, Inc.

Charles Cimitile
Chief Financial Officer
SPAR Marketing Force, Inc.

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

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

Master Lease Agreement

Lessor: SPAR Marketing Services, Inc. Lessee: SPAR Canada Company
Address: 580 White Plains Road Address: 1100 Shephard Avenue West,
Tarrytown, NY 10591 Suite 360
Toronto, ON M3K2B3

TERMS AND CONDITIONS OF LEASE

The undersigned Lessee hereby requests Lessor to purchase the personal property described in any Equipment Schedule hereunder (herein called "Equipment") from the supplier(s) listed in any Equipment Schedule hereunder (herein called "Vendor" and/or "Manufacturer", as applicable) and to lease the Equipment to Lessee on the terms and conditions of the lease set forth below.

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Equipment, all upon the terms and provisions and subject to the conditions set forth in this Master Lease Agreement (as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided herein, this "Lease").

In consideration of the foregoing, the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration (the receipt and adequacy of which is hereby acknowledged by the parties), the parties hereto hereby agree as follows:

1. NO WARRANTIES BY LESSOR. Lessee has selected the Equipment and may have entered into certain purchase, licensing, or maintenance agreements with the Vendor and/or Manufacturer (herein referred to as an "Acquisition Agreement") covering the Equipment as further described in Paragraph 25 hereof. If Lessee has entered into any Acquisition Agreement, each agreement shall provide for certain rights and obligations of the party thereto with respect to the Equipment, and Lessee shall perform all of the obligations set forth in each Acquisition Agreement as if this Lease did not exist. LESSOR MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING THE CONDITION OF THE EQUIPMENT, ITS MERCHANTABILITY OR ITS FITNESSES FOR ANY PARTICULAR PURPOSE, AND, AS TO LESSOR, LESSEE LEASES THE EQUIPMENT "AS IS" AND "WHERE IS". LESSOR SHALL HAVE NO LIABILITY FOR ANY LOSS, DAMAGE OR EXPENSE OF ANY KIND WHATSOEVER RELATING THERETO, INCLUDING (WITHOUT LIMITATION) ANY SPECIAL, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY CHARACTER.
2. CLAIMS AGAINST VENDOR AND/OR MANUFACTURER. If the Equipment is not properly installed, does not operate as represented or warranted by Vendor and/or Manufacturer, or is unsatisfactory for any reason, Lessee shall make any claim on account thereof solely against Vendor and/or Manufacturer pursuant to the Acquisition Agreement, if any, and shall, nevertheless, pay Lessor all rent payable under this Lease. All warranties from Vendor and/or Manufacturer are, to the extent they are assignable, hereby assigned to Lessee for the term of this Lease or until an Event of Default occurs hereunder, for Lessee's exercise at Lessee's expense. Lessee may directly inquire with Vendor and/or Manufacturer to receive an accurate and complete statement of such warranties, including any disclaimers or limitations of such warranties or of any remedies with respect thereto.
3. VENDOR NOT AN AGENT. Lessee understands and agrees that neither Vendor, nor any sales representative or other agent of Vendor, is an agent of Lessor. Sales representatives or agents of Vendor, and persons that are not employed by Lessor (including brokers and agents) are not authorized to waive or alter any term or condition of this Lease, and no representation as to the Equipment or any other matter by Vendor or any other person that is not employed by Lessor (including brokers or agents) shall in any way affect Lessee's duty to pay the rent and perform its other obligations as set forth in this Lease.
4. NON-CANCELLABLE LEASE. This Lease and any Equipment Schedule hereto cannot be cancelled or terminated except as expressly provided herein. Lessee agrees that its obligation to pay all rent and other sums payable hereunder and the rights of Lessor in and to such rent are absolute and unconditional and are not subject to any abatement,

reduction, setoff, defense, counterclaim or recoupment due or alleged to be due to, or by reason of, any past, present or future claims which Lessee may have against Lessor, any assignee, any Manufacturer or Vendor, or against any person for any reason whatsoever.

5. ORDERING EQUIPMENT. Lessee shall arrange for delivery of the Equipment so that it can be accepted in accordance with Paragraph 6 hereof within 90 days after the date on which Lessor accepts Lessee's offer to enter into this Lease with respect to any Equipment Schedule or by such other date as may be set forth in

an Equipment Schedule or Approval Letter issued by Lessor as the Approval Expiration Date. Unless otherwise specified on the Equipment Schedule, Lessee shall be responsible for all transportation, packing, installation, testing and other charges in connection with the delivery, installation and use of the Equipment. Lessee hereby authorizes Lessor to insert in any Equipment Schedule hereunder the serial numbers and other identification data of Equipment when determined by Lessor.

6. ACCEPTANCE. Lessee acknowledges that for purposes of receiving or accepting the Equipment from Vendor, Lessee is acting on Lessor's behalf. Upon delivery of the Equipment to Lessee and Lessee's inspection thereof, Lessee shall furnish Lessor a written statement (a) acknowledging receipt of the Equipment in good condition and repair and (b) accepting it as satisfactory in all respects for the purposes of this Lease (the "Certificate of Acceptance"). Unless otherwise set forth in the applicable Equipment Schedule, the first day of the month following receipt and acceptance of the Equipment covered by an Equipment Schedule shall be the Rent Commencement Date therefor. However, should Lessee have a previous lease with Lessor which is active at the time of acceptance of the Equipment under the Equipment Schedule and said lease and the current Equipment Schedule hereunder shall have the same invoice address then the Rent Commencement Date shall occur in the month immediately following acceptance of the Equipment on the rent payment due date established with Lessee for said previous active lease. Lessor is authorized to fill in on any Equipment Schedule hereunder the Rent Commencement Date in accordance with the foregoing.
7. TERMINATION BY LESSOR. If, by the Approval Expiration Date, the Equipment described in any Equipment Schedule has not been delivered to Lessee and accepted by Lessee as provided in Paragraph 6 hereof, or if other conditions of Lessor's Approval Letter, if any, have not been met, then Lessor may, at its option, terminate this Lease and its obligations hereunder with respect to such Equipment Schedule at any time after the expiration of such 90 days or any date after the Approval Expiration Date, as applicable. Lessor shall give Lessee written notice whether or not it elects to exercise such option within 10 days after Lessor's receipt of Lessee's written request for such notice.
8. TERM. The term of this Lease shall be comprised of an Interim Term and an Initial Term. The Interim Term shall commence on the date the Certificate of Acceptance is executed by Lessee (the "Acceptance Date") and terminate on the Rent Commencement Date. The Initial Term of this Lease shall begin on the Rent Commencement Date, and shall terminate on the later of (i) the last day of the last month of the Initial Term (as that Term is set forth in the applicable Equipment Schedule hereto) or (ii) the date Lessee fulfills all Lessee's obligations hereunder.
9. RENTAL. The rental amount payable to Lessor by Lessee for the Equipment will be set forth in the Equipment Schedule(s) ("Rental Amount"). As the first rent payment for the Equipment, Lessee shall pay Lessor in immediately available funds on the Rent Commencement Date the sum of, (i) the Rental Amount, and (ii) Interim Rent in an amount equal to 1/30th of the Rental Amount times the number of days from and including the Acceptance Date through but excluding the Rent Commencement Date, and subsequent rent payments shall be due on the same day of each calendar period as indicated on the Equipment Schedule for the balance of the Initial Term. Rent payments shall be due whether or not Lessee has received any notice that such payments are due. All rent payments

shall be paid to Lessor at its address set forth above or as otherwise directed by Lessor in writing.

10. RENEWAL If no default shall have occurred and be continuing, Lessee shall be entitled to renew this Lease with respect to all, but not less than all, of the Equipment covered by an Equipment Schedule for a minimum 12 month period at an amount equal to the fair market rental value thereof, in use and operational, in the condition required by this Lease, payable on a periodic basis, as mutually agreed by Lessor and Lessee ("Renewal Rent). Lessee must give Lessor written notice of its intention to exercise said option, which notice must be received by Lessor at least 90 days before expiration of the Initial Term. The first installment of the Renewal Rent shall be due at expiration of the Initial Term of this Lease. Should Lessee fail to comply with the provisions described above covering renewal, upon expiration of the Initial Term, the term of this Lease shall be automatically extended for a term of 3 months. Thereafter, the term of this Lease will be extended for subsequent full month periods, on a month to month basis, until Lessee has given at least 90 days written notice terminating this Lease. Such termination will take effect upon completion of all Lessee's obligations under this Lease (including payment of all periodic rental payments due during such 90 day period, as provided in Paragraph 9 of this Lease). At any time after the expiration of the Initial Term, if this Lease has been automatically extended as set forth herein, Lessor reserves the right to terminate this Lease by 30 days written notice to Lessee.
11. LOCATION; INSPECTION; LABELS. The Equipment shall be delivered to and shall not be removed without Lessor's prior written consent from the "Equipment Location" shown on the related Equipment Schedule, or if none is specified, Lessee's billing address shown above. Lessor shall have the right to inspect the Equipment at any reasonable time. If Lessor supplies Lessee with labels stating that the Equipment is owned by Lessor, Lessee shall affix such labels to and keep them in a prominent place on the Equipment.
12. REPAIRS; USE; ALTERATIONS. Lessee, at its own cost and expense, shall keep the Equipment in good repair and working order, in the same condition as when delivered to Lessee, reasonable wear and tear excepted, and in accordance with the manufacturer's recommended specifications; shall use the Equipment lawfully; shall not alter the Equipment without Lessor's prior written consent, shall use the Equipment in compliance with any existing Manufacturer's service and warranty requirements and any insurance policies applicable to the Equipment and shall furnish all parts and servicing required therefor. All parts, repairs, additions, alterations and attachments placed on or incorporated into the Equipment which cannot be removed without damage to the Equipment shall immediately become part of the Equipment and shall be the property of the Lessor. Lessee will obtain and maintain all permits, licenses and registrations necessary to lawfully operate the facility where the Equipment is located. Lessee shall comply with all applicable environmental and industrial hygiene laws, rules and regulations (including but not limited to federal, state, and local environmental protection, occupational, health and safety or similar laws, ordinances and restrictions). Lessee shall, not later than 5 days after the occurrence, provide Lessor with copies of any report required to be filed with governmental agencies regulating environmental claims. Lessee shall immediately notify Lessor in writing of any existing, pending or threatened investigation, inquiry, claim or action by any governmental authority in connection with any law, rule or regulation relating to industrial hygiene or environmental conditions that could affect the Equipment.
13. MAINTENANCE. If the Equipment is such that Lessee is not normally capable of maintaining it, Lessee, at its expense, shall enter into and maintain in full force and effect throughout the Initial Term and any renewal term, Vendor and/or Manufacturer's standard maintenance contract, and shall comply with all its obligations thereunder. An alternate source of maintenance may be used with Lessor's prior written consent. Such consent shall be granted if, in Lessor's reasonable opinion, the Equipment will be maintained in an equivalent state of good repair, condition and working order.

14. SURRENDER. Provided that Lessee does not exercise the purchase option as set forth in Paragraph 27 hereof, upon the expiration of the Initial Term, or any renewal term, or upon demand by Lessor made pursuant to Paragraph 21 of this Lease, Lessee, at its expense, shall return all, but not less than all, of the Equipment by delivering it to such place or on board such carrier, packed for shipping, as Lessor may specify. Lessee agrees that the Equipment, when returned, shall be in the same condition as when delivered to Lessee, reasonable wear and tear excepted, and in a condition which will permit Lessor to be eligible for Manufacturer's standard maintenance contract without incurring any expense to repair or rehabilitate such Equipment. Lessee shall be liable for reasonable and necessary expenses to place the Equipment in such condition. Lessee shall remain liable for the condition of the Equipment until it is received and accepted at the destination designated by Lessor as set forth above. If any items of Equipment are missing or damaged when returned, such occurrence shall be treated as an event of Loss or Damage with respect to such missing or damaged items and shall be subject to the terms specified in Paragraph 15 below. Lessee shall provide Lessor with a Letter of Maintainability from the Manufacturer of the Equipment, which letter shall state that the Equipment will be eligible for the Manufacturer's standard maintenance contract when sold or leased to a third party. Lessee shall give Lessor prior written notice that it is returning the Equipment as provided above, and such notice must be received by Lessor at least 90 days prior to such return. Should Lessee fail to comply with the provisions described above covering surrender, upon expiration of the Initial Term, the term of this Lease shall be automatically extended for a term of 3 months. Thereafter, the term of this Lease will be extended for subsequent full month periods, on a month to month basis, until Lessee has given at least 90 days written notice terminating this Lease. Such termination will take effect upon completion of all Lessee's obligations under this Lease (including payment of all periodic rental payments due during such 90 day period, as provided in Paragraph 9 of this Lease). At any time after the expiration of the Initial Term, if this Lease has been automatically extended as set forth herein. Lessor reserves the right to terminate this Lease by 30 days written notice to Lessee.
15. LOSS OR DAMAGE. Lessee shall bear the entire risk of loss, theft, destruction of or damage to the Equipment or any item thereof (herein "Loss or Damage") from any cause whatsoever. No Loss or Damage shall relieve Lessee of the obligation to pay rent or of any other obligation under this Lease. In the event of Loss or Damage, Lessee, at the option of Lessor; shall: (a) place the same in good condition and repair; (b) replace the same with like equipment acceptable to Lessor in good condition and repair with clear title thereto in Lessor; or (c) pay to Lessor the total of the following amounts: (i) the total rent and other amounts due and owing at the time of such payment, plus (ii) an amount calculated by Lessor which is the present value at 5% per annum simple interest discount of all rent and other amounts payable by Lessee with respect to said item from date of such payment to date of expiration of its Initial Term, plus (iii) the "reversionary value" of the Equipment, which shall be determined by Lessor as the total cost of the Equipment less 60% of the total rent (net of sales/use taxes, if any) required to be paid pursuant to Paragraph 9. Upon Lessor's receipt of such payment, Lessee and/or Lessee's insurer shall be entitled to Lessor's interest in said item, for salvage purposes, in its then condition and location, "as-is ", without any warranty, express or implied.
16. INSURANCE. Lessee shall provide, maintain and pay for (a) all risk property insurance against the loss or theft of or damage to the Equipment, for the full replacement value thereof, naming Lessor as a loss payee, and (b) commercial general liability insurance (and if Lessee is a doctor; hospital or other health care provider, medical malpractice insurance). All such policies shall name Lessor as an additional insured and shall have combined single limits in amounts acceptable to Lessor. All such insurance policies shall be endorsed to be primary and non-contributory to any policies maintained by Lessor. In addition Lessee shall cause Lessor to be named as an additional insured on any excess or umbrella policies purchased by Lessee. A copy of each paid-up policy evidencing such insurance (appropriately

authenticated by the insurer) or a certificate of the insurer providing such coverage proving that such policies have been issued, providing the coverage required hereunder shall be delivered to Lessor prior to the Rent Commencement Date. All insurance shall be placed with companies satisfactory to Lessor and shall contain the insurer's agreement to give 30 days written notice to Lessor before cancellation or any material change of any policy of insurance.

17. TAXES. Lessee shall reimburse to Lessor (or pay directly if, but only if, instructed by Lessor) all charges and taxes (local, State and federal) which may now or hereafter be imposed or levied upon the sale, purchase, ownership, leasing, possession or use of the Equipment; excluding, however; all income taxes levied on (a) any rental payments made to Lessor hereunder; (b) any payment made to Lessor in connection with Loss or Damage to the Equipment under Paragraph 15 hereof, or (c) any payment made to Lessor in connection with Lessee's exercise of its purchase option under Paragraph 27 hereof.

18. LESSOR'S PAYMENT. If Lessee fails to provide or maintain said insurance, to pay said taxes, charges and fees, or to discharge any levies, liens and encumbrances created by Lessee, Lessor shall have the right, but shall not be obligated, to obtain such insurance, pay such taxes, charges and fees, or effect such discharge. In that event, Lessee shall remit to Lessor the cost thereof with the next rent payment.

19. INDEMNITY. (a) General Indemnity. Lessee shall indemnify Lessor against and hold Lessor harmless from any and all claims, actions, damages, costs, expenses including reasonable attorneys' fees, obligations, liabilities and liens (including any of the foregoing arising or imposed under the doctrines of "strict liability" or "product liability" and including without limitation the cost of any fines, remedial action, damage to the environment and cleanup and the fees and costs of consultants and experts), arising out of the manufacture, purchase, lease, ownership, possession, operation, condition, return or use of the Equipment, or by operation of law, excluding however, any of the foregoing resulting from the gross negligence or willful misconduct of Lessor. Lessee agrees that upon written notice by Lessor of the assertion of such a claim, action, damage, obligation, liability or lien, Lessee shall assume full responsibility for the defense thereof. Lessee's choice of counsel shall be mutually acceptable to both Lessee and Lessor. This indemnity also extends to any environmental claims arising out of or relating to prior acts or omissions of any party whatsoever. The provisions of this paragraph shall survive termination of this Lease with respect to events occurring prior to such termination.

(b) Tax Indemnity. Lessee acknowledges that Lessor shall be entitled to all tax benefits of ownership with respect to the Equipment (the "Tax Benefits"), including but not limited to, (i) the accelerated cost recovery deductions determined in accordance with Section 168(b)(1) of the Internal Revenue Code of 1986 for the Equipment based on the original cost of the Equipment to Lessor (ii) deductions for interest on any indebtedness incurred by Lessor to finance the Equipment and (iii) sourcing of income and losses attributable to this Lease, to the United States. Lessee represents that the Equipment shall be depreciable for Federal tax purposes utilizing the MACRS Recovery Period as set forth in the Equipment Schedule, with such depreciation commencing as of the date of Equipment acceptance by Lessee as set forth on the Certificate of Acceptance. Lessee agrees to take no action inconsistent with the foregoing or any action which would result in the loss, disallowance or unavailability to Lessor of all or any part of the Tax Benefits. Lessee hereby indemnifies and holds harmless Lessor and its assigns from and against (i) the loss, disallowance, unavailability or recapture of all or any part of the Tax Benefits resulting from any action, statement, misrepresentation or breach of warranty or covenant by Lessee of any nature whatsoever including but not limited to the breach of any representations, warranties or covenants contained in this paragraph, plus (ii) all interest, penalties, fines or additions to tax resulting from such loss, disallowance, unavailability or recapture, plus (iii) all taxes required to

be paid by Lessor upon receipt of the indemnity set forth in this paragraph. Any payments made by Lessee to reimburse Lessor for lost Tax Benefits shall be calculated (i) on the assumption that Lessor is subject to the maximum Federal Corporate Income Tax with respect to each year and that all Tax Benefits are currently utilized, and (ii) without regard to whether Lessor or any members of a consolidated group of which Lessor is also a member is then subject to any increase in tax as a result of the loss of Tax Benefits. For the purposes of this paragraph, "Lessor" includes for all tax purposes the consolidated taxpayer group of which Lessor is a part.

(c) Payment. The amounts payable pursuant to this Paragraph 19 shall be payable upon demand of Lessor, accompanied by a statement describing in reasonable detail such claim, action, damage, cost, expense, fee, obligation, liability, lien or tax and setting forth the computation of the amount so payable, which computation shall be binding and conclusive upon Lessee, absent manifest error. The indemnities and assumptions of liabilities and obligations contained in this Paragraph 19 shall continue in full force and effect notwithstanding the expiration or other termination of this Lease.

20. DELINQUENT PAYMENTS. (a) Service Charge. Since it would be impractical or extremely difficult to fix Lessor's actual damages for collecting and accounting for a late payment, if any payment to Lessor required herein (including, but not limited to, rental, renewal, tax, purchase and other amounts) is not paid on or before its due date, Lessee shall pay to Lessor an amount equal to 5% of any such late payment. (b) Interest. Lessee shall also pay interest on any such late payment from the due date thereof until the date paid at the littlest of 18% per annum or the maximum rate allowed by law.

21. DEFAULT; REMEDIES. Any of the following shall constitute an "Event of Default" under this Lease: If (a) Lessee fails to pay when due any rent or other amount required herein to be paid by Lessee and such non-payment continues for more than seven days after notice thereof from Lessor, or (b) Lessee makes an assignment for the benefit of creditors, whether voluntary or involuntary, or (c) a petition is filed by or against Lessee under any bankruptcy, insolvency or similar legislation, or (d) Lessee violates or fails to perform any provision of either this Lease or any Acquisition Agreement, or violates or fails to perform any covenant or representation made by Lessee herein, and fails to correct the same within seven days after notice thereof from Lessor, or (e) Lessee makes a bulk transfer of furniture, furnishings, fixtures or other equipment or inventory, or (f) Lessee ceases doing business as a going concern or terminates its existence, or (g) Lessee consolidates with, merges with or into, or conveys or leases all or substantially all of its assets as an entirety to any person or engages in any other form of reorganization, or there is a change in the legal structure of Lessee, in each case it results, in the opinion of the Lessor, in a material adverse change in Lessee's ability to perform its obligations under this Lease, or (h) any representation or warranty made by Lessee in this Lease or in any other document or agreement furnished by Lessee to Lessor shall prove to have been false or misleading in any material respect when made or when deemed to have been made, or (i) Lessee shall be in default under any material obligation for the payment of borrowed money or the deferred purchase price of, or for the payment of any rent due with respect to, any real or personal property and such default continues for more than seven days after notice thereof from Lessor, or (j) Lessee shall be in default under any other agreement now existing or hereafter made with Lessor or any of Lessor's affiliates and such default continues for more than seven days after notice thereof from Lessor, or (k) any event or condition described in the foregoing clauses (b), (c), (e), (f), (g), (h) (in clauses (g) and (h) substituting the phrase "guaranty or other credit support document" for the word "Lease"), (i) or (j) shall have occurred with respect to any guarantor of, or other party liable in whole or in part for, Lessee's obligations hereunder, or such guarantor or other party shall have defaulted in the observance or performance of any covenant, condition or agreement to be observed or

performed by it under the guaranty or other credit support document pursuant to which it is liable for Lessee's obligations hereunder, or such guaranty or other credit support document shall have been revoked or terminated or shall have otherwise ceased, for any reason, to be in full force and effect. An Event of Default with respect to any Equipment Schedule shall constitute an Event of Default for all Equipment Schedules. Lessee shall promptly notify Lessor of the occurrence of any Event of Default upon Lessee's receipt of notice or knowledge thereof (other than pursuant to Lessor's notice).

If an Event of Default occurs, Lessor shall have the right to exercise any one or more of the following remedies in order to protect the interests and reasonably expected profits and bargains of Lessor: (a) Lessor may terminate this Lease with respect to all or any part of the Equipment, (b) Lessor may recover from Lessee all rent and other amounts then due and as they shall thereafter become due hereunder, (c) Lessor may take possession of any or all items of Equipment, wherever the same may be located, without demand or notice, without any court order or other process of law and without liability to Lessee for any damages occasioned by such taking of possession, and any such taking of possession shall not constitute a termination of this Lease, (d) Lessor may recover from Lessee, with respect to any and all items of Equipment, and with or without repossessing the Equipment the sum of (1) the total amount due and owing to Lessor at the item of such default, plus (2) an amount calculated by Lessor which is the present value at 5% per annum simple interest discount of all rent and other amounts payable by Lessee with respect to said item(s) from date of such payment to date of expiration of its Initial Term, plus (3) the "reversionary value" of the Equipment, which shall be determined by Lessor as the total cost of the Equipment less 60% of the total rent (net of sales/use taxes, if any) required to be paid pursuant to Paragraph 9, and which the parties agree is a reasonable estimate of such value; and upon the payment of all amounts described in clauses (1), (2) and (3) above, Lessee will become entitled to the Equipment AS IS, WHERE IS, without warranty whatsoever; provided, however, that if the Lessor shall sell, lease or otherwise dispose of the Equipment in a commercially reasonable manner, with or without notice and on public or private bid, and apply the net proceeds thereof (after deducting all expenses, including attorneys' fees incurred in connection therewith), to the sum of (1), (2) and (3) above, and e) Lessor may pursue any other remedy available at law or in equity, including but not limited to seeking damages or specific performance and/or obtaining an injunction.

No right or remedy herein conferred upon or reserved to Lessor is exclusive of any right or remedy herein or by law or equity provided or permitted; but each shall be cumulative of every other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise, and may be enforced concurrently therewith or from time to time, but Lessor shall not be entitled to recover a greater amount in damages than Lessor could have gained by receipt of the of Lessee's full, timely and complete performance of its obligations pursuant to the terms of this Lease plus accrued delinquent payments under Paragraph 21.

22. LESSOR'S EXPENSE. Lessee shall pay Lessor all costs and expenses, including attorney's fees and the fees of collection agencies, incurred by Lessor in enforcing any of the terms, conditions, or provisions hereof or in protecting Lessor's rights herein. Lessee's obligation hereunder includes all such costs and expenses experienced by Lessor (a) prior to filing of an action, (b) in connection with an action which is dismissed, and (c) in the enforcement of any judgment. Lessee's obligation to pay Lessor's attorney's fees incurred in enforcing any judgment is a separate obligation of Lessee, severable from Lessee's other obligations hereunder, which obligation will survive such judgment and will not be deemed to have been merged into such judgment.

23. OWNERSHIP; PERSONAL PROPERTY. The Equipment shall at all times remain the property of Lessor and Lessee shall have no right, title or interest therein or thereto except as expressly set forth in this Lease and the Equipment shall at all times be and remain personal property

notwithstanding that the Equipment or any part thereof may now be, or hereafter become, in any manner, affixed or attached to real property or any improvements thereon.

24. NOTICES. Any notice, request, demand or other communication permitted or required to be given to a party under this Lease shall be in writing and shall be sent to the addressee at the address set forth above or on the Equipment Schedule (or at such other address as shall be designated by notice to the other party and persons receiving copies), effective upon actual receipt (or refusal to accept delivery) by the addressee on any business day or the first business day following receipt after the close of normal business hours or on any non-business day, by (a) FedEx (or other equivalent national or international overnight courier) or United States Express Mail, (b) certified, registered, priority or express United States mail, return receipt requested, (c) telecopy or (d) messenger, by hand or any other means of actual delivery
25. ACQUISITION AGREEMENTS. If the Equipment is subject to any Acquisition Agreement, Lessee as part of this Lease, transfers and assigns to Lessor all of its rights, but none of its obligations (except for Lessee's obligation to pay for the Equipment conditioned upon Lessee's acceptance in accordance with Paragraph 6), in and to the Acquisition Agreement, including but not limited to the right to take title to the Equipment. Lessee shall indemnify and hold Lessor harmless in accordance with Paragraph 19 from any liability resulting from any Acquisition Agreement as well as liabilities resulting from any Acquisition Agreement Lessor is required to enter into on behalf of Lessee or with Lessee for purposes of this Lease.
26. UPGRADES. Any existing lease between Lessor and Lessee subject to an "upgrade" program shall continue in full force and effect and shall be kept free of default by Lessee (even if the Equipment covered by the existing lease is sold, traded-in, etc.) until any such existing lease is cancelled by Lessor when, if applicable, the new Equipment is accepted by Lessee for all purposes of this Lease.
27. PURCHASE OPTION. If no default shall have occurred and be continuing, Lessee shall be entitled, at its option upon written notice to Lessor, which notice must be received by Lessor at least 90 days prior to the end of either the Initial Term or any renewal term of any Equipment Schedule, to purchase all, but not less than all, of the Equipment covered by such Equipment Schedule from Lessor at the end of the Initial Term or any renewal term for such Equipment Schedule at a purchase price equal to the then fair market value of the Equipment in use and operational, in the condition required by this Lease, as mutually agreed by Lessor and Lessee. On a date which is no later than the expiration date of the Initial Term or any renewal term, as applicable, Lessee shall pay to Lessor the purchase price for the Equipment covered by such Equipment Schedule (plus any taxes levied thereon) and Lessor shall sell the Equipment "as-is where-is" without any warranties express or implied.
28. RELATED EQUIPMENT SCHEDULES. In the event that any Equipment Schedule hereunder shall include Equipment that may become attached to, affixed to, or used in connection with Equipment covered under another Equipment Schedule hereunder ("Related Equipment Schedule"), Lessee acknowledges the following: (a) if Lessee elects to exercise a purchase option or renewal option under any Equipment Schedule, if provided; or (b) if Lessee elects to return the Equipment under any Equipment Schedule as described in Paragraph 14, then Lessor, at its discretion, may require the similar disposition of all Related Equipment Schedules as provided for by this Lease.
29. EQUIPMENT SCHEDULES. An executed Equipment Schedule that incorporates by reference the terms of this Master Lease Agreement, marked "Original," shall be the original of this Lease for the Equipment described therein for all purposes. All other executed counterparts of this Lease shall be marked "Duplicate." Unless specified otherwise therein, in the event any written rider or other agreement is attached to and made a part of an Equipment Schedule, the terms and conditions of said written agreement shall apply only to said Equipment Schedule and shall not apply to any other Equipment Schedule made a part of this

Lease. In the event Lessee issues a purchase order to Lessor covering Equipment to be leased hereunder, it is agreed that such purchase order is issued for purposes of authorization and Lessee's internal use only, and, none of its terms and conditions shall modify the terms and conditions of this Lease and/or related documentation, or affect Lessor's responsibility to Lessee as defined in this Lease. To the extent this Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code of the applicable jurisdiction, no security interest in this Lease may be created through the transfer of possession of any counterpart other than the Original of this Lease.

30. GENERAL REPRESENTATIONS OF THE PARTIES. Each party represents and warrants to the other party that, as of the date hereof, as of the date of the execution of each Equipment Schedule and as of the date of each extension, modification or amendment of this Lease and each Equipment Schedule, and covenants and agrees with the other party that for so long as any Equipment is leased pursuant hereto: (a) such party is and will continue to be a corporation or other entity duly organized, validly existing and in good standing under the laws of its state of organization and maintains its chief executive office at the address(es) set forth for it either on the signature page to this Lease (and any Equipment Schedule entered into pursuant hereto) or in the introduction thereto, or as otherwise set forth in a written notice to the other party; (b) such party has and will maintain the legal capacity, power, authority and unrestricted right to execute and deliver this Lease (and any Equipment Schedule entered into pursuant hereto) and to perform all of its obligations hereunder; (c) the execution and delivery by such party of this Lease (and any Equipment Schedule entered into pursuant hereto) and the performance by such party of all of its obligations hereunder will not violate or be in conflict with any term or provision of (i) any applicable law, (ii) any judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to such party or any material part of such party's assets and properties, (iii) any of the organizational or governing documents of such party, or (iv) any material agreement, document or obligation to which it is a party, and such party will not adopt any such conflicting organizational or governing document or enter into any such conflicting agreement, document or obligation; (d) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person (including any equity holder of any party) is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and performance by such party of this Lease (and any Equipment Schedule entered into pursuant hereto) or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Lease (and any Equipment Schedule entered into pursuant hereto); (d) this Lease (and any Equipment Schedule entered into pursuant hereto) is a legal, valid and binding obligation of such party, enforceable against such party in accordance with their respective terms and provisions; and (e) each party has independently and fully reviewed and evaluated this Lease (and any Equipment Schedule entered into pursuant hereto) and all related documents, the contemplated obligations and transactions and the potential effects of such obligations and transactions on the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation, taxation or condition (financial or otherwise) of such party and its affiliates, which review and evaluation was made together with the officers, directors and other representatives of such party, its legal counsel and (to the extent deemed prudent by such party) other legal counsel and financial and other advisors to such party, and such party hereby absolutely, unconditionally, irrevocably, expressly and forever assumes any and all attendant risks and waives any and all rights, claims, defenses or objections with respect thereto

31. LESSEE'S REPRESENTATIONS. Lessee represents and warrants to Lessor that, as of the date hereof, as of the date of the execution of each Equipment Schedule and as of the date of each extension, modification or amendment of this Lease and each Equipment Schedule, and covenants and agrees with the Lessor that for so long as any Equipment is leased pursuant hereto: (a) the Equipment is being leased hereunder for business purposes and is not being and will not be used for any illicit or illegal business or scheme; (b) the financial information (if any) respecting Lessee furnished to Lessor is complete, accurate and fairly presents the financial condition of the Customer; (d) the credit, financial and other information furnished or to be furnished by or on

behalf of Lessee to Lessor is true and correct and does not and will not contain a misstatement of a material fact or omit to state a material fact required to be stated therein in order to make it, in the light of the circumstances under which made, not misleading; and (f) there does not exist any pending or threatened action or proceeding before any court or administrative agency which might materially adversely affect Lessee's financial condition or operations

32. FINANCIAL STATEMENTS. Lessee agrees to furnish to Lessor (i) as soon as available, and in any event within 120 days after the last day of each fiscal year of Lessee, a copy of the financial statements of Lessee as of the end of such fiscal year, certified by an independent certified public accounting firm: (ii) as soon as available, and in any event within 60 days after the last day of each quarter of Lessee's fiscal year, a copy of quarterly financial statements certified by the principal financial officer of Lessee; and (iii) such additional information concerning Lessee as Lessor may reasonably request.
33. GOOD FAITH DEPOSIT REQUIREMENT. Lessee agrees, with respect to each transaction, to pay the Good Faith Deposit specified in Lessor's proposal for such transaction or in the Equipment Schedule related thereto. This Good Faith Deposit is given in consideration for Lessor's costs and expenses in investigating and appraising and/or establishing credit for Lessee. This Good Faith Deposit shall not be refunded unless Lessor declines to accept Lessee's offer to enter into this Lease. Upon Lessor's acceptance of Lessee's offer to enter into this Lease, unless otherwise specified in the proposal or Equipment Schedule, the amount shall be applied to the first period's rent payment. Lessee acknowledges that Lessor's act of depositing any Good Faith Deposit into Lessor's bank account shall not in itself constitute Lessor's acceptance of Lessee's offer to enter into this Lease.
34. INTERPRETATION, SEVERABILITY, ETC. The parties acknowledge and agree that the terms and provisions of this Lease and the Equipment Schedules have been negotiated, shall be construed fairly as to all parties hereto, and shall not be construed in favor of or against any party. The term "including" shall mean "including (without limitation)", whether or not so stated. The terms "including", "including, but not limited to", "including (without limitation)" and similar phrases (i) mean that the items specifically listed after such term are examples of the provision preceding such term and are not intended to be all inclusive, (ii) shall not in any way limit (or be deemed or construed to limit) the generality of the provision preceding such term, and (iii) shall not in any way preclude (or be deemed or construed to preclude) any other applicable item encompassed by the general provision preceding such term. In the event that any term or provision of this Lease or any Equipment Schedule shall be finally determined to be superseded, invalid, illegal or otherwise unenforceable pursuant to applicable law by an authority having jurisdiction and venue, that determination shall not impair or otherwise affect the validity, legality or enforceability (a) by or before that authority of the remaining terms and provisions of this Lease and the Equipment Schedules, which shall be enforced as if the unenforceable term or provision were deleted or reduced pursuant to the next sentence, as applicable, or (b) by or before any other authority of any of the terms and provisions of this Lease and the Equipment Schedules. If any term or provision of this Lease or any Equipment Schedule is held to be unenforceable because of the scope or duration of any such provision, the parties agree that any court making such determination shall have the power, and is hereby requested, to reduce the scope or duration of such term or provision to the maximum permissible under applicable law so that said term or provision shall be enforceable in such reduced form.
35. MISCELLANEOUS. Lessor reserves the right to charge Lessee fees for its provision of additional administrative services related to this Lease requested by Lessee. Lessee shall provide Lessor with such corporate resolutions, opinions of counsel, financial statements, and other documents (including documents for filing or recording) as Lessor may request from time to time. LESSEE HEREBY APPOINTS LESSOR OR ITS ASSIGNEE ITS TRUE AND LAWFUL ATTORNEY IN FACT TO EXECUTE ON BEHALF OF LESSEE ALL UNIFORM COMMERCIAL CODE FINANCING STATEMENTS OR OTHER

DOCUMENTS WHICH, IN LESSOR'S DETERMINATION, ARE NECESSARY TO SECURE LESSOR'S INTEREST IN SAID EQUIPMENT. The filing of UCC Financing Statements is precautionary and shall not be evidence that this Lease is intended as security. If for any reason this agreement is determined not to be a lease, Lessee hereby grants Lessor a security interest in this Lease, the Equipment or collateral pertaining thereto and the proceeds thereof, including release, sale or disposition of the Equipment or other collateral. If more than one Lessee is named in this Lease, the liability of each shall be joint and several. Time is of the essence with respect to this Lease.

36. FORCE MAJEURE. Notwithstanding any other term or provision of this Lease (and any Equipment Schedule entered into pursuant hereto), no party shall be responsible for or be in breach of or default under this Lease (and any Equipment Schedule entered into pursuant hereto) for any performance delay or failure that is the result of any and all acts of God and other acts, events, circumstances, impediments or occurrences beyond the control of the delayed person (each a "Force Majeure"), including (without limitation) any (i) accident or mishap not caused by the delayed person, (ii) assault, attack, battle, blockade, bombing, embargo, police action, siege or other act of defense, offense, terrorism or war (whether or not declared), in each case whether civilian, militia, military or otherwise and whether domestic or foreign, (iii) governmental regulation or decree or other act or failure to act of any governmental authority or other regulatory body, in each case whether civil, military or otherwise and whether domestic or foreign, (iv) earthquake, explosion, fire, flood, hurricane or other natural or man-made calamity or disaster, (v) epidemic, environmental contamination or other natural or man-made pestilence or toxic exposure (whether biological, chemical, radiological or otherwise), or any quarantine or other restriction arising therefrom, (vi) failure of, interruption in or impairment of any delivery, internet, mail, monetary, power,

telecommunication, transmission, transportation or utility system or any other service, product or equipment provided or maintained by a third party, (vii) lockout, strike or similar labor interruptions, (viii) insurrection, riot or other civil disturbance, (ix) hacking or other unauthorized access, spamming, virus, trojan or other unauthorized program, or other computer or technological tampering or attack, or (x) sabotage or other criminal or intentionally disruptive third party act, in each case together with any and all consequential disruptions, delays, effects or other acts, events, circumstances, impediments or occurrences and irrespective of how localized or widespread. Upon prompt notice to the other party, the party affected by any Force Majeure shall be excused from performance hereunder to the extent and for so long as its performance hereunder is prevented or restricted by a Force Majeure (and the other party shall likewise be excused from performance of its obligations hereunder relating to such delayed or failed performance to the same extent and for the same duration); provided that the party so affected shall use reasonable efforts (without increased cost) to avoid, mitigate or remove such Force Majeure and to minimize the consequences thereof, and both parties shall resume performance hereunder with the utmost dispatch whenever such non-performance causes are removed.

37. NO WAIVER BY ACTION, ETC. Any failure of the Lessor to require strict performance by the Lessee or any waiver by Lessor of any provision herein shall not be construed as a consent or waiver of any other breach of the same or of any other provision. Any waiver or consent from either party respecting any provision of this Lease or any related document shall be effective only in the specific instance for which given and shall not be deemed, regardless of frequency given, to be a further or continuing waiver or consent. The failure or delay of any party at any time to require performance of, or to exercise or enforce its rights or remedies with respect to, any provision of this Lease shall not affect such party's right at a later time to exercise or enforce any such provision. No notice to or demand on any party shall entitle such party to any other notice or demand in similar or other circumstances. Any acceptance by or on behalf of a party of (A) any partial or late payment, reimbursement or performance shall not constitute a satisfaction or waiver of the obligation then due or the

resulting default, or (B) any payment, reimbursement or performance of any obligation during the continuance of any default shall not constitute a waiver or cure thereof, and the party or its designee may accept or reject any such payment, reimbursement or performance without affecting any obligation or any of the party's rights, powers, privileges, remedies and other interests under this Lease, any related document or applicable law. All rights, powers, privileges, remedies and other interests of each party hereunder are cumulative and not alternatives, and they are in addition to (and shall not limit) any other right, power, privilege, remedy or other interest of such party under this Lease, any related document or applicable law.

38. SUCCESSORS AND ASSIGNS; ASSIGNMENT; INTENDED BENEFICIARIES. This Lease and each related document shall be binding upon and inure to the benefit of the successors, permitted assigns and legal representatives of each party (including, without limitation, any assignee of substantially all of the business or assets of any party or any successor by merger). Neither party may assign any of its rights or obligations under this Lease or any related document to any other person without the consent of the other party; provided, however, that either party may assign its rights and obligations hereunder in whole or in part to any of its affiliates (without, however, relieving the assignor of any of its obligations hereunder) by giving the other party a copy of such assignment. Without limiting the generality of the foregoing, Lessee acknowledges and agrees that Lessor may pledge this Lease and all accounts, payment intangibles, general intangibles and other rights and interest arising hereunder to one or more lender(s), such lender(s) shall be entitled upon default to enforce any and all of the rights, powers, privileges, remedies and interests of Lessor as so assigned in accordance with this Lease, the applicable loan documents and applicable law, and such lender(s) shall not be responsible or liable for any of the acts, omissions, duties, liabilities or obligations of Lessor or any of its affiliates under this Lease or otherwise. Except as otherwise provided in this Lease, the representations, agreements and other provisions of this Lease are for the exclusive benefit of the parties hereto, and no other person (including, without limitation, any creditor of a party) shall have any right or claim against any party by reason of any of those provisions or be entitled to enforce any of those provisions against any party.

39. COUNTERPARTS, GOVERNING LAW, AMENDMENTS, ETC. This Lease shall be effective on the date as of which this Lease shall be executed and delivered by the parties hereto. This Lease or any related document may be executed in two or more counterpart copies of the entire document or of signature pages to the document, each of which may be executed by one or more of the parties hereto and may be sent by fax or other electronic means, but all of which, when taken together, shall constitute a single agreement binding upon all of the parties hereto. This Lease and all related documents shall be governed by and construed in accordance with the applicable laws pertaining, in the State of New York (other than those conflict of law rules that would defer to the substantive laws of another jurisdiction). The headings contained in this Lease or any related document are for reference purposes only and shall not affect the meaning or interpretation of this Lease or any related document. Each and every supplement or modification to or amendment or restatement of this Lease or any related document shall be in writing and signed by all of the parties hereto, and each and every waiver of, or consent to any departure from, any term or provision of this Lease or any related document shall be in writing and signed by each affected party hereto.

40. WAIVER OF JURY TRIAL; ALL WAIVERS INTENTIONAL, ETC. In any action, suit or proceeding in any jurisdiction brought against Lessor by Lessee, or vice versa, each party hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury. This waiver of jury trial by each party, and each other waiver, release, relinquishment or similar surrender of rights (however expressed) made by a party in this Lease, has been absolutely, unconditionally, irrevocably, knowingly and intentionally made by such party.

41. ENTIRE AGREEMENT. No party or any of its representatives has made, accepted or acknowledged any representation, warranty, promise,

assurance, agreement, obligation or understanding (oral or otherwise) to, with or for the benefit of the other party or any of its representatives other than as expressly set forth in this Lease. This Lease and any Approval Letter issued by Lessor and any Equipment Schedule hereunder contains the entire agreement of the parties, and supersedes and completely replaces all prior and other communications, discussions and other representations, warranties, promises, assurances, agreements and understandings (oral, implied or otherwise) between the parties, with respect to the matters contained in this Lease.

IN WITNESS WHEREOF, the parties have executed this Master Lease Agreement effective as of the first date it is executed by Lessee below.

SPAR Marketing Services, Inc. (Lessor)	SPAR Canada Company (Lessee)	Date
		As of
		1/4/05
/s/ Robert G. Brown	/s/ Charles Cimitile	
-----	-----	
Name: Robert G. Brown	Name: Charles Cimitile	
Title: Chairman & Chief Executive Officer	Title: Chief Financial Officer	

Home Office: 580 White Plains Road
Tarrytown, NY 10591

[Letterhead of SPAR MARKETING SERVICES, INC.]

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

SERVICES DEFINED BY THE RETURN THEY GENERATE

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

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

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

Rental Commencement Date: 1/4/05

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

Term:	36 Months
Lease Rate Factor:	3.168%
Monthly Rental Payment:	\$3,326.00

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

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

[Letterhead of SPAR MARKETING SERVICES, INC.]

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

SERVICES DEFINED BY THE RETURN THEY GENERATE

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

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

LESSOR

LESSEE

/s/ Robert G. Brown

/s/ Charles Cimitile

Robert G. Brown
Chairman and Chief Executive Officer
SPAR Marketing Services, Inc.

Charles Cimitile
Chief Financial Officer
SPAR Marketing Force, Inc.

USING TOMORROW'S TOOLS TO SOLVE TODAY'S CHALLENGES

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

JOINT VENTURE AGREEMENT

This Joint Venture Agreement is made as of this 26th day of March 2004

By and Between

Solutions Integrated Marketing Services Ltd, a company incorporated and existing under the [Indian] Companies Act, 1956, and having its registered office at 3rd Floor, Chandra Bhawan 67-68, Nehru Place, New Delhi, India, 110019 (hereinafter called "SOLUTIONS"),

And

SPAR Group International, Inc. a company organized and existing under the laws of the State of Nevada, having its principal place of business at 580 White Plains Road, Tarrytown, NY, USA (hereinafter called "SPAR"),

WITNESSETH THAT:

WHEREAS:

1. SOLUTIONS is an integrated marketing-services company offering a broad range of marketing. & sales support services to a large number of clients, in India, South Asia, ASEAN & other markets. Retail solutions & merchandising services are part of this broad portfolio of services, and SOLUTIONS knowledge as well as human resources with respect to the retailing businesses in India;
2. SPAR is engaged in the retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software;
3. In pursuance of the Statement of Understanding recorded on December 22, 2003, the Parties now intend to establish and develop a joint venture company in India to undertake the business of conducting retail solutions businesses in the Territory (hereinafter defined); and
4. The Parties are desirous of recording inter alia their intention and agreement as regards the establishment of the proposed joint venture company under the name and style "SPAR Solutions India Private Limited" ("Company"), its management and capital structure, and the responsibilities to be undertaken by each party in connection with the formation and operation of the said Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:

- I. In this Agreement each of the following expressions, unless repugnant to the context, shall have the meaning hereinbelow assigned:

"Act" shall mean the [Indian] Companies Act, 1956 and the rules and regulations made thereunder and shall include any re-enactment's thereof, amendments and or modifications thereto for the time being in force.

"Affiliate" means, with respect to either Party or any third Person, any other Person which, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Party. The term "control" means the power to vote ten percent (10%) or more of the securities or other equity interests of a Person having ordinary voting power, or the possession, directly or indirectly, of any other power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Agreed Form" shall mean in the context of any document a version of such document as mutually agreed to and initialed by both Parties.

"Agreement" or "this Agreement" shall mean this Joint Venture Agreement as amended, modified or supplemented by the Parties hereto in writing from time to time.

"Approval(s)" shall mean all authorisations, approvals, clearances, permissions, consents, validations, confirmations, licenses, and exemptions of, registrations and filings with and reports to any central, state, municipal or local authority, or political subdivision thereof, and any government or any person exercising executive, legislative, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing, required to be obtained in order to implement the provisions of this Agreement.

"Board" or "Board of Directors" shall mean the board of directors of the Company, as reconstituted from time to time.

"Business" shall have the meaning assigned to it in Article 2 below.

"Company" means an Indian company to be incorporated by the Parties, for the purpose of implementation of the joint venture project of SPAR and ,SOLUTIONS, under the name and style "SPAR Solutions India Private Limited" or such other name as may be approved by the Registrar of Companies, Delhi & Haryana.

"Closing Date" shall have the meaning set forth in Article 5.3 below.

"Deed of Adherence" means the deed or instrument to be entered into between a transferor Shareholder and a transferee of Shares whereby the transferee agrees to adhere to and be bound by the terms of this Agreement.

"Effective Date" shall have the meaning assigned to it in Article 31 of this Agreement.

"Governmental Body" shall mean any court or tribunal in any jurisdiction or any public, governmental, legislative or regulatory body, agency, department, commission, board, bureau or other authority or instrumentality.

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"Party" and "Parties" shall mean SOLUTIONS and SPAR, individually and collectively as the context may require.

"Person" means an individual, corporation, limited liability company, partnership, association, trust, business trust, joint venture, joint stock company, pool, syndicate, sole proprietorship, unincorporated organization, Governmental Body or other form of entity or group thereof.

"Security Interests" means and includes any interest or equity of any person, authority or body (including, without prejudice to the generality of the foregoing, any right to acquire, option or right of pre-emption, or requirement for consent) or any mortgage, charge, pledge, lien, or assignment or any other encumbrance, priority or security interest over or in the relevant property or arrangement of whatsoever nature which restrict or affect negatively the value, or impedes or restricts the right to enjoy such property.

"Share" means an equity share of the Company of face value of Rupees 10/- each issued by the Company from time to time.

"Shareholder" means a holder of Shares of the Company and registered in the Register of Members of the Company.

"Territory" shall mean the geographical territory and extent of the Republic of India.

"Transfer" means the disposal of any interest in the Shares including by way of sale or assignment or the grant or the creation of any Security Interest over, including any option or right of pre-emption over the Shares or the mortgage of, creation of charge over or the subjecting of the Shares to an encumbrance.

II. Unless otherwise stated or unless the context otherwise requires, in

this Agreement:

- (a) Headings are for convenience only and shall not affect its interpretation.
- (b) References to the Agreement shall mean and include an appropriate reference to the schedules, exhibits and annexes hereto.
- (c) References to statutes shall be a reference to the statutory enactment's, rules and regulations (as modified, amended or re-enacted as of the appropriate date) in force.

CHAPTER 1: FORMATION OF THE COMPANY

Article 1. Establishment of the Company

- (a) Promptly after the Effective Date of this Agreement, SOLUTIONS shall be responsible for incorporation of the Company as a private limited company in the State of Delhi under the provisions of the Act.

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- (i) For the purposes of incorporation of the said Company, SOLUTIONS shall nominate two resident Indians as the subscribers to the Memorandum and Articles of Association of the Company and shall subscribe to a minimum of 10,000 equity Shares in order to comply with the minimum paid up capital of Rs. 1,00,000/(Rupees One Lakh Only) prescribed under the Act.
 - (ii) The nominees of SOLUTIONS shall be the first Directors of the Company.
 - (iii) The Company will be incorporated with an authorised share capital of Rs. 50,00,000/- (Rupees Fifty Lakhs Only) divided into 5,00,000 Shares (Five Lakhs Only) of par value of Rs. 10/- (Rupees Ten Only) each. Upon incorporation of the Company, the Parties shall cause the Company to enter into a deed or instrument in the nature of a deed of adherence to be executed by the Company in Agreed Form (attached hereto as Exhibit A) to evidence its agreement to adhere to and be bound by the terms hereof. It is agreed that the process of incorporation of the Company shall be initiated no later than 15 days from the Effective Date and SOLUTIONS shall use reasonable endeavours to complete the incorporation process within 60 days of the Effective Date. It is agreed that SPAR will provide and render all assistance as may be required by SOLUTIONS for the purposes of incorporation of the said Company.
- (b) The Company shall be incorporated under the name and style "SPAR Solutions India Private Limited" (or such other name as may be approved by the Registrar of Companies, Delhi & Haryana) and shall conduct its Business operations under such name. However, it is clarified that such name is suggestive and that in the event, for any reason the Company cannot be incorporated with such a name, this shall not entitle any Party hereto to resile from its obligations under this Agreement and in such an event the Parties shall endeavour to agree upon another name for the Company.
 - (c) The main objects included in the Memorandum of Association of the Company will be such that the Company shall be entitled to carry on the Business. The Parties shall at all times mutually agree upon any modifications or amendments to the Memorandum of Association and/or the Articles of Association of the Company which are contrary to or a change in the terms of this Agreement. In case of any conflict between this Agreement and the Memorandum of Association and Articles of Association of the Company, the provisions of this Agreement shall prevail as between SOLUTIONS and SPAR.

Upon incorporation of the Company, and upon fulfillment of the terms of Article 5.2 hereof, a Board Meeting of the Company shall be held whereat in particular the Board of Directors shall:

- (i) approve the allotment of Shares to SPAR such that SPAR holds 51% of the entire Share capital of the Company;
- (ii) approve the transfer of Shares held by the subscribers to SOLUTIONS and also approve the allotment of such number of Shares as would be necessary to ensure that SOLUTIONS holds 49% of the entire Share capital of the Company;

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- (iii) appoint the nominees of SPAR on the Board of Directors of the Company;
- (iv) take on record the terms of this Agreement and the deed of adherence to be executed by the Company in the Agreed Form attached to this Agreement to evidence the Company's agreement to adhere to and be bound by the terms of this Agreement and authorise a representative of the Company to execute the said deed of adherence; and
- (v) shall take necessary steps to call for an extraordinary general meeting of the Shareholders to adopt the memorandum of association and articles of association of the Company amended to reflect the provisions of this Agreement (being substantially in the form attached hereto as Exhibit A).

All expenses for the setting up and incorporation of the Company will be paid by the Company. Upon incorporation the said Company shall reimburse all incorporation expenses to SOLUTIONS. If this Agreement is not consummated each Party shall pay its own costs.

Article 2. Business Purpose

The Business of the Company shall consist of the following:

- 1. Provide retail i.e. instore merchandising services in relation to setting up and merchandising of retail stores;
- 2. Agency, assistance, instruction and report of instore or retail merchandising activities;
- 3. Implementation of market research and analysis (of results thereof) pertaining to retail merchandising;
- 4. Assembly of setups used for retail merchandising;
- 5. Consulting regarding store management;
- 6. Development and sale of management system regarding retail merchandising;
- 7. Designing and sale of database pertaining to retail merchandising; and

Article 3. Memorandum of Association and Articles of Association

Upon incorporation of the Company and upon fulfillment of the terms of Article 5.2 hereof, the Parties hereby undertake to take all necessary actions to give effect to the Agreed Form of the Memorandum of Association and the Articles of Association of the Company amended to reflect the provisions of this Agreement (attached hereto as Exhibit B).

Article 4. Conditions to Subscription.

- 4.1. Conditions Precedent: Each of the following is a condition precedent to the obligation of each of SPAR and SOLUTIONS to subscribe for the Shares of the Company as described in Article 5.1

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- (a) the execution of a License Agreement between SPAR and the Company in the Agreed Form attached hereto as Exhibit C in terms whereof SPAR shall be obliged to localize and set up

software provided by SPAR to work in India, consult on the organisation of merchandising services, train the Company's personnel in how to operate the merchandising software and give advice on budgeting and development of each business plan (the "License Agreement");

- (b) the execution of a User Agreement between SOLUTIONS and the Company in the Agreed Form attached hereto as Exhibit D for the provision of office space, facilities and services to the Company ("User Agreement");
- (c) to the extent required, receipt of all regulatory Approvals whether from the Government of India through the Foreign Investment Promotion Board/ Secretariat for Industrial Assistance or the Reserve Bank of India or any other Governmental Body, as may be required for the consummation of the transactions contemplated hereunder;
- (d) Passing of a resolution by the Board of Directors of the Company for issue of the Shares in the manner as detailed in Article 5 hereunder.

Each Party agrees to notify the other Party that the conditions precedent set forth in this aforesaid Article have been satisfied or waived in accordance with the provisions of this Agreement.

4.2. Failure to Satisfy Conditions. In the event that all of the conditions precedent set forth in Article 4.1 are not satisfied or waived (to the extent waivable) to the mutual satisfaction of SOLUTIONS and SPAR on or before May 30, 2004, either Party shall have the right to terminate this Agreement by giving written notice to the other Party. Upon any such termination, this Agreement shall be of no further force or effect, and neither Party shall have any further obligations hereunder, except that Article 30 and 36 and the Parties' respective obligations thereunder, shall survive any such termination.

Article 5. Subscription and Issuance

5.1. The initial issued, subscribed and paid up equity Share capital of the Company shall be Indian Rupees Rs 36,76,000, which shall be subscribed to and held as follows:

Party	Percentage Ownership	Number of Shares	Equity capital (in Rupees)
SPAR	51%	187476	Rs 18,74,760
SOLUTIONS	49%	180124	Rs 18,01,240
TOTAL	100%	367600	3676000

5.2. For the purposes. of this Agreement and in order to enable the issuance of the number of fully paid Shares referred to in Article 5.1 by the Company to SPAR and SOLUTIONS, promptly after all of the conditions precedent set forth in Article 4.1 are satisfied or waived (to the extent waivable) to the mutual satisfaction of SOLUTIONS and SPAR, and not more than thirty (30) days thereafter:

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- (a) SPAR shall be obliged to pay into the account of the Company, as payment towards Share subscription a sum of Rs 18,74,760 (Indian Rupees Eighteen Lakhs Seventy Four Thousand Seven Hundred and Sixty Only) ("SPAR Subscription Amount"); and
- (b) SOLUTIONS shall be obliged to pay into the account of the Company as payment towards Share subscription a sum of Rs 18,01,240 (Indian Rupees Eighteen Lakhs One Thousand Two Hundred and Forty Only) ("Solutions Subscription Amount").

In the event one of the Parties does not pay their respective subscription amount, within twenty four hours of the expiry of the aforesaid thirty (30) days and the other Party has paid its respective

subscription amount, the Company shall within a reasonable period of time and subject to receipt of requisite Approvals if any, return the respective subscription amount received from such Party who has made the payment and this Agreement shall stand terminated. In the event of such termination of this Agreement, SOLUTIONS and/or SPAR shall take all such steps as may be necessary to wind up the Company in accordance with the provisions of the Act or alternately take all such steps as may be necessary to change the name of the Company in accordance with the Act, such that the name of the Company does not include reference to SPAR or SOLUTIONS as the case may be.

- 5.3. The Parties agree that within twenty four hours of receipt by the Company of both the SPAR Subscription Amount and the Solutions Subscription Amount, the Company shall simultaneously issue and allot to SPAR and SOLUTIONS the number of Shares referred to in Article 5.1. The date on which such allotment occurs shall be the "Closing Date". Upon such issue and allotment of the Shares of the Company, SPAR shall hold Shares representing 51% of the paid up equity Share capital of the Company and SOLUTIONS shall hold 49% of the paid up equity Share capital of the Company. In addition, the Parties shall ensure that the Company makes all such filings and satisfies all such reporting requirements as may be necessary in terms of the Foreign Exchange Management Act, 1999 and the Regulations issued thereunder, and the Act, in a timely manner;

On the Closing Date, the issued and paid-up Share capital of the Company shall be Rs 36,76,000/- (Indian Rupee equivalent of USD 75,000)/- divided into 367600 Shares of face value of Rupees 10 each.

Article 6A Representations and Warranties and Indemnification

1. Representations and Warranties of SPAR: SPAR hereby represents and warrants that:

- (a) SPAR is a company duly incorporated and validly existing in good standing under laws of Nevada and it has the corporate power to own its property and to carry on its business as now being conducted.
- (b) SPAR has full power and authority to enter into this Agreement, to subscribe to, purchase and own the Shares so as to have a 51% percentage ownership of the

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outstanding equity Shares of the Company and to perform its other obligations under this Agreement, all of which have been duly authorized by all proper and necessary corporate action by SPAR. No consent or approval of stockholders or consent or approval of, notice to or filing with any governmental authority is required as a condition to the validity or enforceability of this Agreement as to SPAR.

- (c) This Agreement constitutes the valid and legally binding agreement of SPAR enforceable in accordance with its terms.
- (d) There are no provisions of its memorandum of association, articles of association or other organizational documents, and no proceedings pending or threatened before any court or governmental or administrative agency, that would reasonably be expected to affect the validity or enforceability of this Agreement as to SPAR or that would reasonably be expected to materially adversely affect the financial condition or operations of SPAR.
- (e) SPAR is not a party to or otherwise bound by any contract or agreement which in any manner would prohibit SPAR from subscribing to or owning its 51% percentage ownership in the Company or performing any of its other obligations under this Agreement.

2. Representations and Warranties of SOLUTIONS: SOLUTIONS hereby represents and warrants that:

- (a) SOLUTIONS is a corporation duly organized and validly existing in good standing under the laws of India and it has the corporate power to own its property and to carry on its business as now being conducted.
- (b) SOLUTIONS has full power and authority to enter into this Agreement, to subscribe to, purchase and own Shares so as to have a 49% percentage ownership of the outstanding Shares of the Company and to perform its other obligations under this Agreement, all of which have been duly authorized by all proper and necessary corporate action by SOLUTIONS. No consent or approval of stockholders or consent or approval of, notice to or filing with any governmental authority is required as a condition to the validity or enforceability of this Agreement as to SOLUTIONS.
- (c) This Agreement constitutes the valid and legally binding agreement of SOLUTIONS enforceable in accordance with its terms.
- (d) There are no provisions of its organizational documents, and no proceedings pending or threatened before any court or governmental or administrative agency, that would reasonably be expected to affect the validity or enforceability of this Agreement as to SOLUTIONS or that would reasonably be expected to materially adversely affect the financial condition or operations of SOLUTIONS.

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- (e) SOLUTIONS is not a party to or otherwise bound by any contract or agreement which in any manner would prohibit SOLUTIONS from subscribing to or owning its 49% percentage ownership in the Company or performing any of its other obligations under this Agreement.

3. Indemnification

- (a) A Shareholder ("Indemnifying Shareholder") shall indemnify and hold harmless the other Shareholder (the "Indemnified Shareholder"), their nominee Directors on the Board of Directors of the Company from and against any and all costs, losses, claims, damages and liabilities, including reasonable attorneys' fees, incurred by the Indemnified Shareholders or such other Persons, arising out of (i) any representation or warranty of the Indemnifying Shareholder hereunder being untrue or incorrect and/or (ii) the Indemnifying Shareholder's failure to comply with any of its obligations under this Agreement including the other terms, conditions or agreements contained herein.
- (b) The Company, to the extent permitted by applicable law, shall indemnify and hold harmless each relevant Shareholder and their nominee Directors on the Board of Directors of the Company (each an "Indemnified Person") from and against any and all costs, losses, claims, damages and liabilities, including reasonable attorneys' fees, incurred by such Indemnified Person or to which such Indemnified Person may be subject arising out of or in connection with any legal action (and the defense thereof) commenced as a result of, or in connection with or arising out of the Indemnified Person's actions or position with respect to the Company, except to the extent of the fraud, gross negligence or willful misconduct of the Indemnified Person.

If an Indemnified Shareholder makes a claim under this Article 6A (3) for payment or reimbursement of expenses, the same shall be paid or reimbursed promptly upon receipt of appropriate documentation relating thereto and shall be paid in full by the Party to whom the claim is made.

Article 6B Additional Fund Requirements

Additional fund requirements of the Company in excess of the Share capital may be met either through:

- (i) the cash flow from time to time of the Company;
- (ii) the borrowings facilities which the Company has from all sources including from one or more Shareholders or through borrowings from such reputable financial institutions or banks as the Board of Directors may from time to time determine; provided, however, the Company shall not raise funds through a stock market transaction unless SPAR and SOLUTIONS mutually agree to do so.
- (iii) the issue of such additional securities as are permitted under the Act (including additional equity Shares, subject to Article 10.2 hereof).

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Notwithstanding the foregoing the Parties as Shareholders may decide that any monies referred to above may be made available to the Company in such other manner as may be agreed between them.

It is understood that and it is a term of this Agreement that any borrowings by the Company shall always be consistent with sound financial policies.

CHAPTER II: GENERAL MEETING OF SHAREHOLDERS

Article 7. Annual and Extraordinary General Meeting

Annual General Meeting: Subject to the provisions of the Act and the Articles of Association of the Company, the Annual General Meeting of the Shareholders of the Company shall be convened by a resolution of the Board of Directors of the Company and held at the registered office of the Company. The Company shall hold in each year in addition to any other meetings of the Shareholders of the Company, a general meeting as its "Annual General Meeting" and shall specify the meeting as such in the notice calling it. The Parties agree and undertake that they shall exercise their voting rights at meetings of the Shareholders in such a manner so as to ensure that the provisions of this Agreement are upheld.

Extraordinary General Meeting: Subject to the provisions of the Act and the Articles of Association of the Company, an Extraordinary General Meeting of the Company shall be convened by a resolution of the Board of Directors of the Company whenever deemed necessary. Such meetings shall be held upon the issuance of a notice in this behalf, which written notice shall be as per the requirements under the Act and shall be held with at least 21 days notice, provided that shorter notice may be given with the consent of the Shareholders of the Company.

Article 8. Quorum

The quorum for the General Meetings of Shareholders of the Company shall constitute of at least one duly appointed representative each of SPAR and SOLUTIONS. No business shall be transacted at any General Meeting unless the requisite quorum is present.

Article 9. Resolution

Except as expressly otherwise provided in the Act, including any subsequent legislation substituting the same, this Agreement and all resolutions of the General Meeting of Shareholders of the Company shall be adopted by the affirmative vote of the Shareholders holding a majority of the Shares present or represented at meeting for which there is quorum.

Article 10. Important Matters

Any resolution on the following matters by the General Meeting of the Shareholders of the Company shall require the affirmative vote of at least three-fourths of the votes of the Shareholders present:

1. Any amendment or modification of the Memorandum and Articles of Association of the Company;

2. Increase or decrease in the authorized capital or paid-up Share capital of the Company beyond the limit specified in Article 5.1 hereinabove;
3. Issuance of new Shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined on Article 29);
4. Issuance of debentures;
5. Transfer of any part or whole of Business of the Company or any change in the Business of the Company;
6. Any and all matters relating to dividends of the Company;
7. Dissolution, voluntary winding up or amalgamation of the Company;
8. Change in number or length of tenure of Directors on the Board of the Company;
9. Investment in other companies by the Company.

CHAPTER IV: BOARD OF DIRECTORS AND OFFICERS

Article 11. Appointment of Board of Directors of the Company

The Board of Directors of the Company shall consist of four (4) Directors; two (2) of whom shall be nominated by SPAR and two (2) of whom shall be nominated by SOLUTIONS. In case of any increase or decrease in the total number of Directors, the representation stipulated above shall be unchanged and pro-rata at all times. The Directors shall not be entitled to receive any compensation.

The Chairman of the Board of Directors of the Company for the first three years from the Closing Date shall be a nominee of SOLUTIONS. In case of equality of votes, the Chairman shall not have a second/ casting vote.

The management of the Company shall vest with the Board of Directors and all decisions at the Board shall be by way of majority vote. The nominee Directors of either Party shall hold office at the pleasure of their respective nominators and shall be subject to removal by their respective nominating Party. Each Party agrees to vote for appointment or removal of a Director who has been nominated by the other Party, upon request of the other Party.

In the event the Company appoints a Managing Director or a Chief Executive Officer ("CEO") or a Chief Operating Officer ("COO"), such Managing Director or CEO or COO shall be a nominee of SOLUTIONS and shall be subject to the superintendence of the Board and shall have general management and control of the affairs and business (including the Business) of the Company and shall see that all orders and resolutions of the Board are carried into effect. The powers of the Managing Director, CEO and COO shall be as set out in Exhibit E including power to implement or take any actions pursuant to an approved Business plan even where such actions are covered under the affirmative vote matters under Article 16.

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The Board shall appoint an Alternate Director to act for a Director (referred to as the "Original Director") during his absence for a period of not less than 3 (three) months from the state in which the meetings of the Board are ordinarily held. Either Party shall be entitled to nominate an Alternate Director to act for its nominated Original Director. The Parties hereto shall ensure that the Board appoints only such persons to be the Alternate Director, who shall not hold office for a period longer than that permitted to the Original Director.

All nominations, determinations and removals of Directors and/or their alternates shall be by notice in writing signed by the duly authorized officer/representative of the Party nominating, determining or removing such Director and such notice shall be addressed to the Board, and delivered to the Company at its registered office.

Any casual vacancy in the office of a Director who is liable to retire by rotation, or for any other reason, may be filled by the Board provided however, that if a Director whose office shall be so vacated be a nominee of SPAR or SOLUTIONS, the person to be appointed to fill such vacancy shall also be a

person selected by SPAR or SOLUTIONS as the case may be, and such person shall hold office up to the date to which the Director in whose place he is appointed would have held office.

Article 12. Appointment of Officers

Officers of the Company in terms of the provisions of the Act, shall be appointed by the Board of Directors and serve at their pleasure.

Article 13. Office of Director

The term of office of each Director shall expire at the close of the Annual General Meeting.

Article 14. Quorum

Each Director shall have one (1) voting right in the Board of Directors. The quorum for a meeting of the Board shall be two directors or 1/3rd whichever is greater of the Board for the time being and there shall be no such quorum present unless at least one nominee each of SPAR and SOLUTIONS or their Alternate Director(s), if any, are present. Provided that if within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the next week at the same time and place and the Directors present at such meeting shall constitute the quorum. All resolutions shall be adopted by majority of the votes of the Directors present.

Circular resolutions shall be said to be passed only if, of the Directors entitled to vote in respect of the said resolutions, a majority approve the said resolution.

It is clarified that the right to nominate the number of Directors referred to in this Article

- (a) shall vest in SPAR so long as SPAR holds not less than 51% of the then existing equity share capital of the Company; and

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- (b) shall vest in SOLUTIONS so long as SOLUTIONS holds not less than 49% of the then existing equity share capital of the Company.

In the event either of SPAR or SOLUTIONS transfer the Shares registered in their respective names to a third party, in accordance with this Agreement, then in such an event, the transferring Party shall procure that its nominees on the Board of Directors of the Company resign from the Directorship of the Company.

If on account of issue of additional equity Shares as contemplated in Article 6B (iii) and the consequent failure of either Party to subscribe and pay for such additional Shares, the relative shareholding of either Party is reduced then the following shall apply

- (i) Where the shareholding of a Party falls below 26% but is more than 10% of the then existing equity share capital of the Company then such Party shall be entitled to appoint only one (1) Director to the Board and shall cause the other Directors nominated by it to resign.
- (ii) Where the shareholding of either Party falls below 10% such Party shall not have the right to nominate a Director.

Upon such resignation, the vacancy(ies) on the Board shall be filled in with a nominee(s) of the Party whose shareholding has not been diluted.

It is clarified that in case of a Transfer of all its Shares by a Party to a third Person in accordance with the provisions of this Agreement, contemporaneously with such Transfer, the transferor Shareholder shall cause its nominee Directors to resign and upon such Transfer the transferee of the Shares shall be entitled to appoint such number of Directors as the transferor Shareholder was entitled to appoint immediately prior to such Transfer. Thereafter the rights of such transferee shareholder shall be subject to the terms and conditions of this Agreement as applicable to the transferor Shareholder.

Article 15. Meeting of the Board of Directors

The meetings of the Board of Directors shall be held once in each quarter. Additional meetings of the Board shall be held when necessary, both of which shall be convened in accordance with the provisions of the Act. At least seven (7) days notice shall be given to each of the directors (and their respective alternates, if any) in respect of each meeting of the Board of Directors, at the address notified from time to time by each director (and alternate, if applicable) to the Company. Notice may be waived or a meeting may be called by giving notice of less than seven (7) days with the consent of all the directors. To the extent permitted by the Act and the Memorandum and Articles of Association of the Company, the Board may meet through the mode of teleconferences, videoconference, if the need arises provided that no teleconference or videoconference shall be conducted unless written confirmation for participation by the requisite quorum of the Directors as required has been received prior to the meetings by such mode as required and such Directors record their presence on the commencement of such conference and also at the termination of it. The minutes of the meetings of the Board of Directors held through such teleconferences, videoconferences shall be recorded and the decisions taken during any such meeting shall be recorded in writing and confirmed by all the Directors present for the said

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meeting, by circulation within the next three days of such meeting of the Board of Directors and the foregoing shall constitute the Board's decision as if taken by a resolution by circulation.

Article 16. Important Matters

Any resolutions on the following matters by the Board of Directors requires the affirmative vote of one nominee each of SPAR and SOLUTIONS respectively:

1. Any proposal to convene a General Meeting of the Shareholders of the Company or action by the Board of Directors for the matters as provided in Article 10 hereof;
2. Any investment or commitment of the Company in amounts individually in excess of Indian Rupee equivalent of \$100,000 (One hundred thousand dollars) or in the aggregate in excess of \$100,000 (One hundred thousand dollars);
3. Any loan or credit taken by the Company in excess of Indian Rupee equivalent of \$100,000 (One hundred thousand dollars);
4. Execution, amendment or termination of agreements or commitments with SPAR, SOLUTIONS or their subsidiaries or affiliates;
5. Adoption or amendment of the annual budgets and Business plan of the Company;
6. Adoption or any material modification of major regulations or procedures, including any employee rules or handbook of the Company;
7. Change of the statutory auditors of the Company as provided in Article 18(a);
8. Initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed to the Company in excess of Indian Rupee equivalent of one hundred thousand dollars (\$100,000);
9. Approval of annual closing of the books of the Company and the Company's annual financial statements, and changing of accounting policies and practices or the Company's accounting periods;
10. Establishment or amendment to the conditions of employment of officers;
11. No sale or disposition of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions of the Company or with respect to any major strategic asset of the Company that is crucial to its business;
12. Formation of any subsidiary of the Company, entry into (or subsequent

termination of) any joint venture, partnership or similar agreements;

13. Entering into, amending or terminating any contract with/or commitment to any Director or shareholder; and
14. Entering into any agreement or commitment to provide goods or services outside India.

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CHAPTER V: AUDIT

Article 17. Accounting Period

The accounting periods of the Company shall be from 1st day of January and shall end on the 31st day of December of each year.

Article 18. Statutory Auditors

- (a) A Statutory Auditor shall be appointed by the Board of the Company and the Delhi office of the Indian affiliate of Ernst & Young shall be the first Statutory Auditors of the Company ("Auditors");
- (b) The Board of Directors of the Company shall appoint the internal auditors of the Company. Such internal auditor of the Company shall be a firm nominated by SOLUTIONS in consultation with SPAR.

The cost of the statutory audit and the cost of the internal audit and tax audit shall be borne by the Company.

Article 19. Inspection of Accounting Records and Books

The Company shall yearly arrange audit of the accounting records and books and shall submit a report of such audit to each of the parties hereto within thirty (30) days from the completion of the audit.

The Auditors shall audit the accounting records and books of the Company and any other matters relating, directly or indirectly, to the financial condition of the Company. Any fee for the certified public accountant for inspection and audit mentioned above shall be borne by the Company. The Company shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principles consistently applied ("GAAP") in Territory. All accounting records and books shall be kept ready for inspection by the Parties hereto or by their authorized representative. If requested by SPAR, the Company shall cooperate with respect to each financial period to provide such information as required by SPAR to reconcile the Company's financial statements with U.S. GAAP reporting requirements of SPAR. The costs associated with preparation/reconciliation of accounts of the Company as per U.S. GAAP shall be borne by the Company.

In addition, either Party may, at its discretion, and at its individual expense, engage accountants (other than the Auditors referred to above) to conduct an independent audit of the Company's books and records of account and its business and activities. The aforesaid accountants shall have the absolute right on behalf of such Party to examine, inspect, and copy the books and records of account of the Company during its normal business.

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Article 20. Increase of Capital

In case of capital increase of the Company after its incorporation, SOLUTIONS and SPAR shall have the preemptive right to the new Shares to be issued for such capital increase in proportion to their respective shareholdings in the Company.

Article 21. Dividend Payout

The declaration of dividends by the Company in respect of its Shares shall always be consistent with sound financial policy having regard to the financial requirements and cash resources of the Company and in accordance with the provisions of the Act and other applicable statutory provisions. For the first three years from the Closing Date and subject to the approval of the Board.

CHAPTER VI: TRANSFER OF SHARES

Article 22. Restrictions on Transfer of Shares

- (i) Except as provided in Article 23 hereof and subject to the provisions of the Act neither Party hereto shall, without the prior written consent of the other Party, which consent shall not be unreasonably withheld, Transfer all or any part of its shares of the Company to any third Person. In addition, all Transfers shall be made subject to the requirement that the transferee enter into a Deed of Adherence satisfactory to the non-transferring Shareholder(s). Any Transfer made in violation of this Article 22(i) shall be null and void, and the Company shall not register such Transfer.
- (ii) Notwithstanding the restrictions on Transfer contained in Article 22(i), either Party may transfer the Shares to a majority owned and controlled Affiliate but subject to such Approvals as may be required, if any. In any such event, it shall be a condition precedent to the right of the transferring Party to transfer the Shares to its Affiliate that such Affiliate execute a Deed of Adherence which has been approved in writing by each of the nontransferring Shareholders. If any such transferee Affiliate ceases to be an Affiliate of the transferring Party at any time during the term of this Agreement, the applicable Shares shall be transferred back to the transferor Party or one of its Affiliates on the same terms. SOLUTIONS and SPAR agree to comply with all laws, rules and regulations, by-laws and requirements applicable to such Transfer to a Party's Affiliate and to cause their respective representatives on the Board of Directors of the Company to vote in favor of such Transfer.

Article 23. Right of First Refusal and Call Option

1. Right of First Refusal:

- (A) After three (3) years from the Closing Date, if either Party hereto (hereinafter called "Selling Party") wishes to transfer and sell all but not less than all of its Shares ("Offered Shares"), the Selling Party shall furnish to the other Party (hereinafter called "Other Party") a written notice of such proposed transfer and sale which notice will also specify the offered sale price and other major terms and conditions of such proposed sale;

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The Other Party shall have a right to purchase such Offered Shares at the price and on the terms mentioned in the offer notice by giving the Selling Party a written notice of its intention to purchase the Offered Shares which sale and purchase shall be completed within ninety (90) days from the receipt of Selling Party's offer notice.

The Other Party may by notice in writing within the said period of 90 days require the fair value of the Offered Shares to be determined by the internationally recognized Indian firm of chartered accountants and such determination shall be made within 30 days of the said request for fair valuation being made and the Parties agree to co-operate for such determination. Upon determination of the fair value of the Offered Shares, the Other Party shall be entitled to issue an acceptance notice agreeing to purchase the Offered Shares at the fair value so determined within 15 days from the date of such determination. In such an event such sale and purchase shall take place within 60 days from the date of such determination and the Other Party shall pay to the Selling Party the purchase price, and the Selling Party shall deliver to the Other Party, share certificates in original representing all of the Offered Shares, free and clear of any liens and duly executed share transfer forms.

- (B) In case no acceptance notice is received from the Other Party or the sale and purchase of Offered Shares is not completed within 90 days of the receipt of the Seller's offer notice or within 60 days of determination of the fair value, the Selling Party may offer to sell such Offered Shares to a third party upon the terms and conditions not less favourable than those described in its offer notice. Such sale and purchase of the Offered Shares to the third party shall be completed within 60 days after the expiry of the said 90 days or 60 days period

as the case may be and the third party shall pay to the Selling Party the purchase price, and the Selling Party shall deliver to the third party, share certificates in original representing all of the Offered Shares, free and clear of any liens and duly executed share transfer forms.

Unless otherwise agreed by the Other Party in writing, all Transfers to the proposed transferee shall be made subject to the requirement that the proposed transferee enter into a Deed of Adherence with the Selling Party, satisfactory to the Other Party, and the Other Party shall be a confirming party to such Deed of Adherence. Any Transfer made in violation of this Article 23(1) shall be null and void, and the Company shall not register such Transfer. The Parties shall cooperate to effect the closing of such purchase and sale of the Shares of the Company in the manner and within the time periods specified above.

2. Call Option: Within 30 days of the third anniversary of the Closing Date and thereafter within 30 days of every subsequent anniversary of the Closing Date, either Party ("Purchasing Party") may at any time make a written offer to buy all of the other Party's Shares ("Other Party") in the Company. The Purchasing Party shall furnish to the Other Party a written notice of such proposed purchase, the offered purchase price and other major terms and conditions of such proposed purchase. The Other Party shall then, either accept the offer and sell all of its Shares under the terms and conditions offered, or in its sole discretion offer to purchase the Purchasing Party's Shares on same terms and conditions. If the Other Party does not respond to the offer within one hundred and twenty (120) days of receipt of the notice from the Purchasing Party, the Other Party shall

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be deemed to have accepted the offer to sell its Shares to the Purchasing Party. The Parties shall cooperate to effect the closing of such purchase and sale of all of the Shares of the Company held by the Other Party within 120 days of the decision or deemed decision of the Other Party.

In case a notice to purchase the Purchasing Party's Shares is issued by the Other Party, the Parties shall co-operate to effect the closing of such purchase and sale of all of the Shares of the Company held by the Purchasing Party~

At any such closing, the Purchasing Party shall pay to the Other Party the purchase price, and the Purchasing Party shall deliver to the Other Party, the original Share certificates representing all of the Purchasing Party's Shares held in the Company, free and clear of any liens and duly executed Share transfer forms. In case both the Parties give notices, the Party first receiving the notice shall be considered as the Other Party.

3. Change of ownership

Upon a Change of Ownership Event, the Unaffected Party shall have the right, but shall not be obliged, to purchase all the Shares of the Company held by the Affected Party. For this purpose the Parties agree as under:

- (a) within a period of 30 days after the Unaffected Party receives notice of the Change of Ownership Event, the Unaffected Party shall be entitled to serve notice upon the Affected Party conveying its intention to purchase the Shares then owned by the Affected Party;
- (b) the transfer of the Shares then owned by the Affected Party to the Unaffected Party shall take place at a fair value to be determined by an internationally recognised Indian firm of chartered accountants which shall be identified by the Unaffected Party;
- (c) within 15 days from the date of determination of the fair value, the Unaffected Party shall be entitled to serve notice upon the Affected Party requiring the Affected Party to sell to the Unaffected Party all the Shares then held by the Affected Party at the fair value so determined, it is understood that upon receipt of such a notice the Affected Party shall be required to and shall sell all the Shares then held by it to the Unaffected Party at the fair value so determined; and

- (d) such sale and purchase shall be completed, subject to receipt of the necessary Approvals, within a period of 60 days from the date of determination of the fair value of the shares. At such closing (when such sale and purchase is to be completed) the Unaffected Party shall pay to the Affected Party the purchase price, and the Affected Party shall deliver to the Unaffected Party, share certificates in original representing all of the Shares then held by the Affected Party, free and clear of any liens and duly executed share transfer forms.

For the purposes of this Article 23(3):

"Affected Party" means a Shareholder, in connection with whom a Change of Ownership Event takes place;

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"Change of Ownership Event" means, with respect to a Shareholder, the first to occur of any of the following events during the term of this Agreement:

- (a) any Person or group of Persons acting in concert, directly or indirectly, (i) acquires or obtains the right through the exercise of any warrant, option, or any other right held by such Person or group of Persons to acquire, more than 50% of the issued and paid up shares of a Shareholder, and/or (ii) acquires the right, whether through an agreement or otherwise, to direct or cause the direction of, or control, the management of a Shareholder; or
- (b) any business combination, merger, amalgamation or consolidation by a Shareholder with any Person or group of Persons whereby such Persons possesses, directly or indirectly, the power to direct or cause the direction of, or control, the management of such Shareholder.

"Unaffected Party" means a Shareholder other than the Affected Party.

Article 24. Cooperation in Financing

1. During the first twelve (12) months from the Effective Date, the Company is expected to require a total working capital up to Rs. 29,70,000/- (amount being equivalent to Indian Rupee equivalent of \$66,000). The Parties agree to arrange for the same in the following manner: SPAR will provide up to Rs. 15,14,700/- (being an amount equivalent to \$33,660) as loan to the Company, while SOLUTIONS will arrange for up to Rs. 14,55,300/- (being an amount equal to \$32,340) through a local bank.
2. The Company may borrow an additional amount when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 16 herein.
3. If SOLUTIONS pays any creditors of the Company due to a guarantee made by SOLUTIONS to such creditors in favor of the Company, SPAR shall reimburse SOLUTIONS for half of the amount paid by SOLUTIONS, but only if the Company's borrowing of such funds and SOLUTIONS guaranty of the Company's obligations have been expressly agreed to in advance by SPAR in writing or in a Board resolution, for which both SPAR-nominated directors have voted affirmatively.

CHAPTER VII: ROLE OF CONTRACTING PARTIES

Article 25. Provision of Office Space and Facility

1. SOLUTIONS shall in terms of the User Agreement provide office space and facilities, staff service for general affairs and finance, and intra-company network services, which are determined, at SOLUTION's sole discretion, necessary for the operation of Company after the consultation between the both Parties, to the Company at no charge for a period of three (3) years from the Closing Date. In the event that SOLUTIONS cannot provide and apportion such office space, facilities and services within its existing facilities then SOLUTIONS will reimburse to the Company the actual cost apportioned for such office

space, facilities and services procured by the Company such that the Company does not incur any cost for the office space, facilities and services for three (3) years from the date of the Company obtaining such described space and services. In years two (2) and three (3), the Company will pay for staff exceeding eight people if the Company is profitable in the immediately preceding year.

2. SPAR for first three (3) years from the Closing Date will provide up to four thousand five hundred (4,500) hours of business support annually. This support may be in the form of general business, consultation or programming support to modify or enhance the merchandising software. SPAR will maintain ownership of all software. If support provided by SPAR exceeds four thousand five hundred (4,500) hours the additional hours will be billed by SPAR to the Company at Indian Rupee equivalent of Fifty-five dollars (\$55.00) per hour on the date of such payment. However a lower price will be charged for programming costs if a less expensive way to hire IT staff is found mutually acceptable to the Parties hereto. The Company will be able to hire its own IT staff as appropriate.
3. If SPAR wishes to sell all its Shares in terms of Article 23 to a third party then in that case notwithstanding such sale SPAR shall be committed to lend its name to the Company for an additional year at no extra cost and provide software to the Company under the License Agreement for an additional year subject to obtaining of necessary Approvals if any, at the following cost:

First 6 months:	out of pocket expenses,
Next 6 months:	Indian Rupee equivalent of \$ 3000/month + out of pocket expenses

4. SOLUTIONS agrees that its operating expenses may not be allocated to the Company.

Article 26. Personnel

SOLUTIONS and SPAR shall, at their own judgment, second to the Company their respective personnel who are appropriate for the start-up of business of the Company for a period of one (1) year from the Effective Date without any consideration. In principle, the Parties seconding such personnel shall be responsible for the payment of salaries and benefits and all other matters concerning the employment of the personnel so seconded by the Parties to the Company.

SOLUTIONS and SPAR will each set up project teams and all salaries for current employees of either SOLUTIONS or SPAR shall be borne by the company now paying them.

Article 27. Training

Each Party hereto shall provide appropriate training for mutually accepted periods of time to the employees of the Company for the Company's operation at its own site or any other location. The said training shall be made upon the Company's request and any necessary expenses including travel for the training shall be borne by the Company, except as otherwise provided in License Agreement or the User Agreement.

Article 28. Non-Competition

For three (3) years from the Closing Date of this Agreement, neither SPAR nor SOLUTIONS shall without the prior consent of the other, engage in, whether directly or indirectly, in the provision of services being similar to the Business as described in Article 2 in this Agreement in the Territory. However, in the event that SPAR enters into a contract with a customer that covers more than one country and the scope of such agreement includes services in Territory, such services being similar to the Business as defined in this Agreement, SPAR shall not be prohibited from entering into or performing such agreement,

provided that SPAR shall make commercially reasonable efforts to enable the Company to participate in and be fairly compensated for providing services to any such customer. Similarly, in the event that SOLUTIONS enters into a contract with a customer for providing integrated marketing services in India or outside, such services being similar to the Business as defined in this Agreement, and the scope of such agreement includes some retail merchandising, SOLUTIONS shall not be prohibited from entering into or performing such agreement, provided that SOLUTIONS shall make commercially reasonable efforts to enable the Company or SPAR (in territories outside India) to participate in and be fairly compensated for providing services to any such customer. Provided further that delay or failure to make commercially reasonable efforts as stated above shall not restrict SOLUTIONS or SPAR to undertake activities or implement such agreement as aforesaid. It is clarified that this Article shall also cease to apply upon termination of this Agreement.

CHAPTER VIII: AMENDMENT FOR PUBLIC OFFERING

Article 29. Public Offering

Both Parties acknowledge that the Company may attempt to become a listed company or over-the-counter company on the Territory Stock Exchange or any other stock exchange or public market in Territory (Public Offering). Both Parties acknowledge that the number of issued Shares, the number of Shareholders, the paid-up capital and profit transaction with each Party, the seconded employees of the Company will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities in accordance with those bodies' rules or guidelines for Public Offering. If both Parties agree to undertake a Public Offering subject to Article 10 above, both Parties shall discuss and reasonably cooperate with each other to amend the Articles of Association of the Company and/or the License Agreement in order to complete the Public Offering of the Company. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before), and subject to the approval of the Boards of Directors of the Company, SOLUTIONS and SPAR. The public offering of Shares to the public by the Company shall be completed in accordance with the applicable provisions of the Act and the rules and regulations with respect thereto issued by the Securities Exchange Board of India from time to time, and such other applicable provisions of Indian law.

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CHAPTER IX: CONFIDENTIALITY

Article 30. Confidential Information

SOLUTIONS and SPAR shall keep secret and retain in strict confidence any and all confidential information that may be disclosed by one Party to the other or to the Company or such confidential information that may be disclosed by the Company to either Party and use it only for the purpose of giving effect to the provisions of this Agreement and shall not disclose it to a third party without the prior written consent of the other Party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party. The Parties agree that (i) the use of any such confidential information by the other Party for any purpose other than managing their respective investment in the Company, or (ii) the disclosure or divulgence of any such confidential information to third persons would result in damages to and otherwise adversely affect the business and affairs of the Company. The Parties agree that the said confidential information will be disclosed to the personnel of either Parties and/or the Company on a need to know basis.

CHAPTER X: GENERAL PROVISIONS

Article 31. Effective Date

This Agreement shall become effective on the date the Agreement is executed by the Parties hereto ("Effective Date").

Article 32. Termination

1. If either Party Transfers all its Shares in the Company to the other Party hereto in accordance with Article 23 hereof, this Agreement shall terminate. If either Party Transfers its Shares in the Company to a

third party, unless expressly agreed by the non-transferring Party in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or the Company that occurred before the Effective Date of such assignment.

2. (a) Either Party not in breach of this Agreement, save and except an event of breach by either Party of their respective obligations under Article 24 of this Agreement, may terminate this Agreement by written notice to the other Party if any breach shall not have been corrected by the other Party in breach within ninety (90) days after written notice is given by such Party not in breach complaining of such breach.
- (b) In the event of breach by either Party of their respective obligations under Article 24 of this Agreement, the Party not in breach shall have a right to terminate this Agreement, by written notice to the other Party, in the event such breach is not corrected by the Party in breach within ten (10) days after the written notice is given by such Party not in breach complaining of such breach.

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3. Either Party may terminate this Agreement by giving notice in the event of one or more of the following:
 - (a) Appointment of a trustee or receiver for all or any part of the assets of the other Party;
 - (b) Insolvency or bankruptcy of the other Party;
 - (c) Assignment of the other Party for the benefit of creditor;
 - (d) Attachment of the assets of the other Party;
 - (e) Expropriation of the business or assets of the other Party;
and
 - (f) Dissolution, liquidation or winding up of the other Party.

If either Party is involved in any of the events enumerated in (a) through (f) above, it shall immediately notify the other Party of the occurrence of such event.

4. In case of the termination of this Agreement pursuant to Article 32.2 or Article 32.3, the Party terminating in accordance with this Agreement shall have an option to purchase the Shares of the other Party at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either Party, if either Party so requests, or to have the Company dissolved. Provided that any such purchase of the nature aforesaid will be subject to receipt of all regulatory Approvals, as may be applicable. In case the Party terminating this Agreement does not offer to purchase the Shares of the other Party and/or any such purchase is not completed within 120 days of such termination inclusive of the time required to obtain regulatory approvals, the other Party shall have the right to sell the Shares to any other third party or shall have the right to require dissolution of the Company. Provided that, the right to dissolution shall be exercisable within 30 days after the expiry of the said 120 days period.
5. Upon termination of this Agreement or SPAR's ceasing to hold at least 51% of the Shares in the Company, the License Agreement. and the User Agreement shall terminate immediately if still in effect, unless otherwise agreed to by the Parties hereto.

Article 33. Force Majeure

Neither Party shall be liable to the other Party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, acts of terrorism or other

similar contingencies beyond the reasonable control of the respective Parties.

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Article 34. Notices

All notices, reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given either by (i) personal delivery, email or facsimile (ii) overnight delivery or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective Parties at the address set forth below or to such changed address as may be given by either Party to the other by such written notice. Any notice, etc by personal delivery or overnight delivery or facsimile transmission shall be deemed to have been given (7) days after the dispatch. In any event, if any notice, etc. is received other than the regular business hours of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

To: SOLUTIONS Solutions Integrated Marketing Services Ltd.
ATT: Srikant Sastri, Managing Director
3rd Floor, Chandra Bhaan 67-68, Nehru Place,
New Delhi, India, 11 00 19
E-mail id: srikant@.solutions-intg.com
Facsimile Number: 91-11-26226592

SPAR SPAR Group, Inc.
ATT: Robert G. Brown, Chairman and CEO
580 White Plains Road, Tarrytown, NY, USA, 10591

E-mail id:rbrown@sparinc.com
Facsimile Number: +19143320741

Article 35. Assignment

This Agreement and the rights and obligations hereunder are personal to the Parties hereto, and shall not be assigned by either of the Parties to any third party without the prior written consent of the other Party.

Article 36. Dispute Resolution/Arbitration

36.1. General. SPAR and SOLUTIONS agree to use their commercially reasonable efforts to resolve any dispute, deadlock, conflict, disagreement, controversy or claim between the Parties arising out of or relating to this Agreement including any deadlock in respect of any matter at the Board of Director level of the Company (a "Dispute") in a timely and diligent manner in accordance with this Article 36. SPAR and SOLUTIONS intend that the arbitration procedures outlined in Article 36.3 is to be used only if the efforts by the Parties to resolve a Dispute, which efforts shall be made in good faith, under Article 36.2 are unsuccessful.

36.2. Senior Management. Any Dispute shall be, within 30 days of the same arising, referred to by either Party to the Senior Management of SOLUTIONS and SPAR. Such notice of reference shall include a statement of the referring Party's position. Within ten (10) days of receipt of such notice of reference of a Dispute, the Senior Management of both Parties shall meet at a mutually acceptable time and place, and thereafter, as often as they reasonably deem necessary, to attempt to resolve the Dispute. All reasonable requests for

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information made by one Party to the other Party shall be honored. Senior Management shall take such steps as are mutually agreeable to attempt to resolve such Dispute. If the Dispute is not resolved to the mutual satisfaction of the Parties despite the good faith efforts of Senior Management within thirty (30) days after it has been referred to Senior Management, either Party may require that the Dispute be resolved by binding arbitration as provided in Article 36.3.

"Senior Management" for the purposes hereof means, in case of SPAR, the representatives of SPAR on the Board of the Company and in case of SOLUTIONS means the representatives of SOLUTIONS on the Board of the

Company.

36.3. Any Dispute which is not resolved under the procedures established in Article 36.2 shall be resolved by binding arbitration in New Delhi pursuant to Arbitration and Conciliation Act, 1996 of India if initiated by SOLUTIONS, or in New York City in accordance with the International Arbitration Rules of the American Arbitration Association if the arbitration is invoked by SPAR. It is clarified that if one Party initiates the arbitration proceedings then the other Party shall raise all counterclaims in that arbitration proceedings only. The arbitration shall be conducted by three (3) arbitrators and the proceedings shall be in English.

Article 37. Implementation

The Parties hereby agree, for themselves, their successors, heirs and legal representatives, to vote at Shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Articles of Association of the Company, Company work rules and other rules and Commercial registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

Article 38. Governing Law

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of India.

Article 39. Waiver

Any failure of either Party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such Party thereafter to enforce each and every such provision.

Article 40. Entire Agreement

This Agreement constitutes the entire and only agreement between the Parties hereto with respect to the subject matter of this Agreement and supersedes any other prior commitments, agreements or understandings, written or verbal, that the Parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the Parties hereto

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except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the Parties hereto.

Article 41. Headings

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this Agreement.

Article 42. Language

This Agreement has been executed in the English.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in two (2) copies by their respective duly authorized officer or representative as of the day first above written.

Solutions Integrated Marketing Services Ltd.

Signature: /s/ Srikant Sastri

Name: Srikant Sastri
Title: Managing Director

SPAR Group International, Inc.

Signature: /s/ Robert G Brown

Name: Robert G Brown
Title: Chairman and CEO

JOINT VENTURE SHAREHOLDERS AGREEMENT

between

FRIEDSHELF 401 (PROPRIETARY) LIMITED

and

SPAR GROUP INTERNATIONAL, INC.

and

DEREK O'BRIEN

and

BRIAN MASON

and

SMD MERIDIAN CC

and

MERIDIAN SALES & MERCHANDISING (WESTERN CAPE) CC

and

RETAIL CONSUMER MARKETING CC

and

MERHOLD HOLDING TRUST

in respect of

SGRP MERIDIAN (PROPRIETARY) LIMITED ("THE COMPANY")

Mallinicks Attorneys

Telephone +27 21 410 2200
Fax +27 21 410 9000

3rd Floor Granger Bay Court
Beach Road, V&A Waterfront
Cape Town 8001
PO Box 3667 Cape Town 8000

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This agreement is made as on this day of 2004 by and between Friedshelf 401 (Pty) Ltd (registration number 2004/000538/07), a company organised and existing under the laws of the Republic of South Africa (hereinafter called "Friedshelf"), SPAR Group International Inc. a company organized and existing under the laws of the State of Nevada, USA, having its principal place of business at 580 White Plains Road, Tarrytown, NY, USA, 10591 (hereinafter called "SPAR"), SMD Meridian CC (CK No. 2001/062950/23), Meridian Sales & Merchandising (Western Cape) CC (CK No. 1998/55070/23), Retail Consumer Marketing CC (CK No. 1996/00917/23) and Friedshelf Holding Trust (registration no. IT 151/99) Derek Michael O'Brien (identity number 451011 5047 18 9 ("O'Brien") and Brian Peter Mason, identity number 551201 5030 08 2 ("Mason").

RECORDAL

WHEREAS, SMD Meridian CC, Meridian Sales & Merchandising (Western Cape) CC, Retail Consumer Marketing CC and Merhold Holding Trust (together referred to as the "Meridian Entities") are engaged in the business of retail solution and merchandising services in South Africa, having a wide range of clients and also having knowledge and human resources with respect to retailing businesses in South Africa;

WHEREAS, SPAR is engaged in retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software;

WHEREAS, Friedshelf and SPAR have incorporated a company, SGRP Meridian (Pty) Ltd (the "Company") (registration number 2003/012518/07), the equity whereof will be held as to 49% (forty nine percent) by Friedshelf and as to 51% (fifty one percent) by SPAR to jointly conduct a retail solution business in South Africa (hereinafter called "territory"); and

WHEREAS, SPAR proposes to contribute a software licence agreement, annexed hereto as annexure "A", software set-up, software training, computer hardware and business support to the Company;

WHEREAS, the Meridian Entities and Friedshelf will procure that they contribute the existing client base and certain office equipment and office supplies of the Meridian Entities to the Company and WHEREAS such client base will require the

proper rendering of services to ensure its optimal use, the Company undertakes to appoint Friedshelf or such other company as agreed between SPAR, Mason and O'Brien as a consultant to the Company to oversee and

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manage the day-to-day operations and management of the business in accordance with the terms of the consultancy agreement annexed hereto as annexure "B".

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:

1. CONDITIONS PRECEDENT

1.1 This agreement is conditional on the satisfaction of the following conditions precedent:

1.1.1 that the net turnover of the Meridian Entities for the financial year ending 30 September 2003, will not be less than R38 000 000,00 (thirty eight million Rand), calculated on the same basis and using the same accounting policies and principles as used in the 30 September 2003 year-end accounts previously disclosed to SPAR which are attached hereto as annexure "C" (the "Accounts");

1.1.2 that the net turnover of the Meridian Entities for the 6 (six) months ending 31 March 2004, will not be less than R15 000 000,00 (fifteen million Rand), calculated on the same basis and using the same accounting policies and principles as used in the Accounts;

1.1.3 that the Meridian Entities will not have an accumulated loss in excess of R1 100 000,00 (one million one hundred thousand Rand) for the financial year ending 30 September 2003, calculated on the same basis and using the same accounting policies as used in the Accounts;

1.1.4 that the Meridian Entities will not have an accumulated loss in excess of R1 350 000,00 (one million three hundred and fifty thousand Rand) for the 6 (six) months ending 31 March 2004, calculated on the same basis and using the same accounting policies as used in the Accounts;

1.1.5 that the Meridian Entities and Friedshelf will transfer to the Company the legal and beneficial ownership of the Meridian client

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base and such office equipment and office supplies utilised by the Meridian Entities necessary to properly conduct of their business;

1.1.6 the completion, to the satisfaction of SPAR, of a financial and legal due diligence on the Meridian Entities and Friedshelf; and

1.1.7 that Friedshelf, or such other company as agreed between SPAR, Mason and O'Brien, will enter into a consultancy agreement with the Company in the form annexed hereto as annexure "B";

1.2 The conditions precedent are stipulated for the benefit of SPAR who shall be entitled, in its sole discretion, to waive

them, either in whole or in part.

- 1.3 Unless the conditions precedent are fulfilled or waived (as the case may be), by 1 May 2004 (or such later date as may be mutually agreed between the parties) this agreement shall be of no force or effect.
- 1.4 The parties shall use all reasonable endeavours to procure the fulfillment of the conditions precedent.
- 1.5 Should this agreement become of no force or effect by reason of the provisions of clause 1.3, then the parties shall be restored, as near as may be possible, to the position in which they would have been had this agreement not been entered into and no shareholder shall have any claims against the other as a result of the failure of the conditions precedent, except for such damages (if any) as may result from a breach the provisions of clause 1.4.

2. EFFECTIVE DATE

This agreement shall become effective on 1 April 2004, regardless of the date of execution hereof.

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ORGANIZATION OF THE COMPANY

3. ESTABLISHMENT

It is recorded that the parties have caused the "Company" to be incorporated under the laws of the Republic of South Africa.

4. BUSINESS PURPOSES

The business purposes of the Company shall include but not be limited to the following:

- 4.1 providing retail merchandising and product demonstration services
- 4.2 agency, assistance, instruction and report of storefront sales activities;
- 4.3 implementation of market research and analysis of results thereof;
- 4.4 assembly of setups used for sales promotion;
- 4.5 consulting regarding store management;
- 4.6 development and sale of management system regarding retailing;
- 4.7 designing and sale of database; and
- 4.8 any and all businesses incidental or relating to any of the foregoing.

5. LOCATION

The Company shall have its main office at such address as shall be mutually agreed between the shareholders.

6. MEMORANDUM AND ARTICLES OF ASSOCIATION

The memorandum and articles of association of the Company shall be in the form attached hereto as annexure "D".

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7. CAPITAL

7.1 The Company is a private company duly incorporated in accordance with the company laws of the Republic of South Africa and shall, at the effective date, have an authorised share capital of R1 000.00 (one thousand Rand) divided into 1 000 (one thousand) shares with a par value of R1.00 (one Rand) each, ranking pari passu in all respects.

7.2 On the effective date or so soon thereafter as reasonably possible:

7.2.1 SPAR shall subscribe in cash for 510 (five hundred and ten) shares in the Company at their par value; and

7.2.2 Friedshelf shall subscribe in cash for 490 (four hundred and ninety) shares in the Company at their par value.

7.3 The issued share capital of the Company will accordingly be held as follows:

7.3.1 Friedshelf: 490 (four hundred and ninety) shares representing 49% (forty nine percent) of the Company's total issued share capital; and

7.3.2 SPAR: 510 (five hundred and ten) shares representing 51% (fifty one percent) of the Company's total issued share capital.

PREPARATION OF ESTABLISHMENT OF THE NEW COMPANY

8. PREPARATION OF ESTABLISHMENT OF THE COMPANY

8.1 Each party shall take its role as described below for the preparation of the commencement of the Company's business.

8.2 SPAR shall, for no consideration:

8.2.1 make certain proprietary software available to the Company pursuant to a licence agreement to the value of US\$540 000 (five hundred and forty thousand US dollars), such licence agreement to be in the form attached hereto as annexure "C" (the "license agreement"). For reference, the license agreement includes the obligations of SPAR to:

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8.2.1.1 localize and set up software provided by SPAR to work in South Africa;

8.2.1.2 consult on the organization of merchandising services: and;

8.2.1.3 give advice on budgeting and development of each business plan.

- 8.2.2 provide software set up to the Company to the value of US\$40 000.00;
 - 8.2.3 provide software training to the Company to the value of US\$25 000.00;
 - 8.2.4 provide computer hardware set up to the Company to the value of US\$20 000.00; and
 - 8.2.5 provide 3 (three) years' business support to the Company to the value of US\$165 000.00.
- 8.3 The Meridian Entities, Mason and O'Brien undertake or undertake to procure that Friedshel shall, for no consideration:
- 8.3.1 contribute the existing business of the Meridian Entities to the Company which business shall comprise at least the client base, certain office equipment and office supplies;
 - 8.3.2 arrange meetings with their existing clients to promote the Company's business; and
 - 8.3.3 contribute the employees employed by the Meridian Entities as at 1 April 2004 to the Company.
- 8.4 For the avoidance of doubt, it is recorded that the Company is not:
- 8.4.1 acquiring any of the accounts receivable, accounts payable, fixed assets or stock in trade or inventories of the Meridian Entities; and
 - 8.4.2 acquiring any of the assets of the Meridian Entities, other than the client base, office supplies and office furniture; and

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- 8.4.3 assuming any liabilities of the Meridian Entities.

9. SECTION 197 TRANSFER

- 9.1 As a consequence of the contributions made by the Meridian Entities to the Company in accordance with clause 8.3, part of the business of the Meridian Entities will be transferred to the Company on 1 April 2004 ("date of transfer") and accordingly, the parties agree that Section 197 of the Labour Relations Act, No. 66 of 1995 ("the LRA"), as amended, is applicable to the transfer. Accordingly, the following provisions will apply as between the Company and the employees:
- 9.1.1 the Company is automatically substituted in the place of the Meridian Entities in respect of all contracts of employment of the employees in existence immediately before the date of transfer;
 - 9.1.2 all the rights and obligations between the Meridian Entities and an employee at the time of the transfer continue in force as if they had been rights and obligations between the Company and the employee;
 - 9.1.3 anything done before the transfer by or in relation to the Meridian Entities, including the dismissal of an employee or the commission of an unfair labour practice or act of unfair discrimination, is considered to have been done by or in relation to the Company; and
 - 9.1.4 the transfer does not interrupt an employee's

continuity of employment and an employee's contract of employment continues with the Company as if with the Meridian Entities.

- 9.2 The Company shall be bound by any arbitration award (referred to in 197(5)(b)(1)) and any collective agreements (referred to in 197(5)(b)(ii) and (iii)) which were applicable to the employees prior to the date of transfer.
- 9.3 The parties acknowledge that in terms of Section 197 of the LRA, the parties are required to agree in writing to a valuation (hereinafter referred to as the statutory valuation) in respect of the items listed in Section 197(7)(a)(i)-(iii). The parties have agreed to the statutory valuation which written agreement is annexed hereto as Annexure "E".

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- 9.4 The Meridian Entities, Mason and O'Brien warrant and represent to the Company and to SPAR that there are no claims whether actual or pending, against any of the Meridian Entities in respect of any of the employees to be transferred to the Company pursuant to this clause 9.
- 9.5 The Meridian Entities, Mason and O'Brien undertake to indemnify the Company against any claim of whatsoever nature arising out of a breach of the warranty and representation set out in 9.4 together with all costs associated therewith.

GENERAL MEETING OF SHAREHOLDERS

10. ORDINARY AND EXTRAORDINARY GENERAL MEETINGS

- 10.1 The annual general meeting of shareholders shall be convened by resolution of the board of directors and held in South Africa or any other place within 3 (three) months after the expiration of each financial year end of the Company or at any other time agreed to by the shareholders (subject to compliance with the Companies Act 61 of 1973).
- 10.2 An extraordinary general meeting of the shareholders shall be convened by a resolution of the board of directors whenever deemed necessary.

11. QUORUM AND RESOLUTION

- 11.1 A quorum necessary for a valid meeting of the shareholders shall be at least so many shareholders representing 55% (fifty five percent) of the Company's total issued share capital.
- 11.2 All resolutions of shareholders shall be adopted by the affirmative vote of shareholders holding not less than 55% (fifty five percent) of the Company's total issued share capital save for those resolutions which, in terms of the Companies Act 61 of 1973, require a higher level of acceptance to be effective.

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12. MINORITY PROTECTIONS

Notwithstanding anything to the contrary contained in this agreement or the memorandum and articles of association of the Company, a majority shareholder vote shall consist of at least 55% (fifty five percent) of the Company's total issued share capital to be considered a valid majority. Any shareholder vote consisting of less than 55% (fifty five percent) of the Company's total issued share capital shall be considered a minority.

EARNINGS AND LOSSES

13. EARNINGS AND LOSSES

13.1 SPAR and Friedshelf shall, subject to 13.2 below, share in the net earnings or losses of the Company based upon their respective ownership.

13.2 Notwithstanding 13.1 above, for the first three years of the Company's operation after the effective date (the "Maximum Loss Period"), if in any year during the Maximum Loss Period the net loss of the Company exceeds R2 200 000,00 (two million two hundred thousand Rand) (the "Annual Maximum Loss"), Friedshelf, O'Brien and Mason jointly and severally undertake to make a cash payment to the Company equal to the amount of the Company's net loss in excess of the Annual Maximum Loss (the "Annual Maximum Loss Payment"), provided that, in calculating the Annual Maximum Loss for the first 12 (twelve) month period during the Maximum Loss Period, the parties shall, in calculating whether the Company's loss is in excess of the Annual Maximum Loss, allow up to the amount of R500 000,00 (five hundred thousand Rand) to be excluded from the calculation of any Annual Maximum Loss which the Company may incur, provided that Friedshelf can reasonably demonstrate to SPAR that such amount of up to R500 000,00 (five hundred thousand Rand) represents start-up costs incurred by the Company in establishing and setting up the new joint venture business. For the avoidance of doubt, the allowance of R500 000,00 (five hundred thousand Rand) in respect of the start-up costs of the Company shall only apply in respect of the first 12 (twelve) months following the effective date and not thereafter.

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13.3 Any payment pursuant to clause 13.2 shall increase the shareholders' equity in the Company.

13.4 The Annual Maximum Loss Payment shall be paid by Friedshelf and/or O'Brien and/or Mason to the Company within 45 (forty-five) days after the issue of the annual audit report by the Company's auditors.

13.5 Given that the effective date of this agreement is 1 April 2004, the Annual Maximum Loss Payment calculated for the period ending December 31, 2004 will be calculated on a nine-month period, being the 9 (nine) month period from the effective date to 31 December 2004.

13.6 If any Annual Maximum Loss Payment calculation is for less than a 12 month period, the Annual Maximum Loss shall be reduced by an amount equal to the Annual Maximum Loss multiplied by the product of the remainder of 12 minus the number of months included in the calculation divided by twelve.

13.7 It is the intention of the parties that the Maximum Loss Period shall continue for a period of 36 (thirty six) months commencing on the effective date. Therefore, a short-period Annual Maximum Loss Payment will be calculated for the period of 1 January 2007 through 31 March 2007.

13.8 If the effective date of this agreement is later than 1 April 2004, the period on which the short-period Annual Maximum Loss Payment is calculated shall be adjusted so that the Maximum Loss Period shall equal 36 (thirty six) months.

14. CAPITAL CONTRIBUTIONS

Capital contributions necessary for the working capital of the Company will be made as to 51% (fifty one percent) by SPAR and as to 49% (forty nine percent) by Friedshelf.

BOARD OF DIRECTORS AND OFFICERS

15. DIRECTORS

15.1 The overall supervision, control and management of the affairs of the Company shall be vested in the board who shall be entitled to delegate the

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day-to-day running and management of the business of the Company to officers nominated by the board.

15.2 Friedshelf and SPAR shall each be entitled but shall not be obliged to appoint two directors to the board and to remove any such director or to replace any such director who is so removed or who ceases for any other reason to be a director of the Company.

15.3 Each director shall be appointed for an initial term of one year and shall on the expiry of the initial period be entitled to stand for re-election.

15.4 The shareholders may appoint additional non-executive directors to the board to add value and expertise to the Company at a fee to be agreed between the board and such non-executive directors.

15.5 Each director shall be entitled, in writing, to appoint any other director as his alternate at any meeting of directors and such alternate shall be entitled to exercise the vote of the director whom he represents in accordance with the instructions of such director or in the absence thereof in such manner that the alternate deems fit, in addition to the vote which he may exercise in his capacity as director.

15.6 Any appointment and/or removal and/or replacement in terms of this clause shall be made by written notice to the Company, signed by the shareholder exercising such right and shall be operative as soon as such written notice is received at the registered offices of the Company.

15.7 The quorum necessary for the transacting of business of the board shall be at least 3 (three) directors.

15.8 If a quorum is not present at a directors' meeting, the chairman of the meeting shall postpone such meeting for a period of 7 (seven) days and notice of such postponed meeting including the date, time and place of such postponed meeting shall be sent to the directors in terms of the provisions of this agreement.

15.9 If a quorum is not present at a postponed meeting as referred to in clause 15.8 and after proper notice has been given, any directors' resolution to be taken at such meeting shall:

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15.9.1 fall away and be of no effect; and

15.9.2 be referred to a shareholders' meeting to be convened for that purpose within 14 (fourteen) days of such postponed meeting.

- 15.10 The Company undertakes to procure that:-
- 15.10.1 at least 7 (seven) days' prior written notice shall be given to the directors of any directors' meetings provided that the directors may unanimously agree to reduce this period or waive the requirement for any particular meeting;
 - 15.10.2 at least 7 (seven) days before any directors' meeting, the agenda of the matters to be discussed at such directors' meeting is given to the directors. If the agenda for the meeting is not given timeously to the directors, no meeting shall be held until the agenda is given timeously to the directors, unless the directors unanimously agree otherwise.
- 15.11 The following provisions shall apply to voting by directors:
- 15.11.1 each director shall have 1 (one) vote on all matters submitted to the board;
 - 15.11.2 the affirmative vote of the majority of directors shall be required to approve any proposed resolution which shall include, but not be limited to, resolutions relating to the following matters;;
 - 15.11.2.1 any amendment or modification to the articles of association;
 - 15.11.2.2 any increase or decrease in the authorised share capital or paid-in capital of the company;
 - 15.11.2.3 any issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a public offering as contemplated in clause 26;
 - 15.11.2.4 any issuance of debentures;
 - 15.11.2.5 any change in number or length of tenure of directors;
 - 15.11.2.6 the establishment or the acquisition and purchase of other businesses, either directly or indirectly by means of purchasing shares in or assets of the company to which such business may belong;
 - 15.11.2.7 any change in the main business of the company;
 - 15.11.2.8 any disposal of the business or the assets of the Company (in the case of assets, otherwise than for full value in the normal course of business of the Company);
 - 15.11.2.9 the appointment of or dismissal of senior executives of the Company;
 - 15.11.2.10 any matter relating to the financing or capital of borrowings of the Company which would have the effect of directly or indirectly reducing the proportionate shareholding of any shareholder in the Company;
 - 15.11.2.11 the payment of any dividend by the Company;

- 15.11.2.12 the issue or giving of any guarantees, suretyships, letters of comfort or other similar undertakings of any nature whatsoever;
- 15.11.2.13 the pledging, mortgaging, hypothecating or encumbering of any assets of the company in any manner whatsoever;
- 15.11.2.14 the borrowing of any money or the incurring of any debt otherwise than in accordance with the annual budget;
- 15.11.2.15 any capital expenditure in excess of the annual budget from time to time;

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- 15.11.2.16 any change in the basis of accounting or accounting policies from those used during the immediately preceding financial year otherwise than in accordance with Generally Accepted Accounting Practice;
- 15.11.2.17 the purchase, sale, hiring, letting or sub-letting of any immovable property otherwise than in accordance with the Company's annual budget;
- 15.11.2.18 any agreement between the company and any shareholder or any associated Company of any shareholder;
- 15.11.2.19 the determination of the scope of any director's or group of directors' authority and the delegation of any powers including the power to re-delegate;
- 15.11.2.20 any decision not to insure (or to insure for a lesser amount) against such risks as may be recommended by the Company's insurance brokers;
- 15.11.2.21 any termination of or amendment to the Company's retirement or medical aid funding (if any);
- 15.11.2.22 the delegation of the functions or actions referred to above in this clause 15 to any one director or committee of directors or any other person or persons;
- 15.11.2.23 any proposal to the general meeting of shareholders or action by the board of directors for the matters as provided in clause 15 hereof;
- 15.11.2.24 any investment or commitment of the Company in amounts individually in excess of R150 000.00 (one hundred and fifty thousand Rand) or in the aggregate in excess of R250 000 .00 (two hundred and fifty thousand Rand).

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- 15.11.2.25 any loan or credit taken by the Company otherwise than in the ordinary course of business or in excess of R150 000.00

(one hundred and fifty thousand Rand);

- 15.11.2.26 execution, amendment or termination of agreements or commitments with Friedshelf, SPAR or their subsidiaries or affiliates;
- 15.11.2.27 adoption or amendment of the annual budgets and business plan subject to consequent approval by the shareholder's general meeting;
- 15.11.2.28 adoption or any material modification of major regulations or procedures, including any employee rules or handbook;
- 15.11.2.29 initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed to the Company in excess of R150 000.00 (one hundred and fifty thousand Rand);
- 15.11.2.30 approval of the Company's annual financial statements and changing of the Company's accounting policies and practices;
- 15.11.2.31 establishment or amendment to the conditions of employment of the Company's officers;
- 15.11.2.32 the formation of any subsidiary of the Company, entry into (or subsequent termination of) any joint venture, partnership or similar agreements;
- 15.11.2.33 entering into, amending or terminating any contract with/or commitment to any director or shareholder; and
- 15.11.2.34 entering into any agreement or commitment to provide goods or services outside the territory;

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- 15.11.3 should the board be unable to pass or reach a decision on any resolution then that resolution will be deemed to constitute a deadlock. Such deadlock between the directors will not afford a ground for the winding-up of the Company but will, at the request of any director, then be dealt with in accordance with the provisions of clause 20 (Deadlock);
 - 15.11.4 the directors' remuneration and fees will be determined from time to time by the shareholders and shall constitute market-related packages taking all relevant factors into consideration provided that any director who is employed by the Company shall not be entitled to additional remuneration for holding a board position.
- 15.12 The shareholders may appoint the chairman of the board, who shall have neither a second nor casting vote at any board or shareholders' meeting.
 - 15.13 The board hereby appoints Brian Mason as its managing director to manage the day-to-day business of the Company.
 - 15.14 Meetings of the board will be held at least quarterly provided that any director shall by written notice, accompanied by the

full agenda for the meeting, to the Company (at its registered office) and to all of the directors, have the right, at any time, to convene a meeting of the board.

- 15.15 A resolution of the directors of the Company signed by all the directors of the Company shall be valid and effective as if it had been adopted at a duly convened meeting of directors. Any such resolution may consist of several documents in like form, each signed by one or more of such directors.
- 15.16 Directors of the Company may participate in and act at any board meeting through the use of a conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other. Such participation shall constitute attendance and presence in person at the meetings by the person or persons so participating.
- 15.17 The directors shall be entitled to be reimbursed by the Company in respect of all reasonable costs and expenses properly incurred by them in respect of the exercise and performance of their duties provided that the appropriate

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documentation in substantiation thereof shall be submitted to the Company upon request.

- 15.18 A written record of all meetings of the board of directors and all decisions made by it shall be made as promptly as practicable after each meeting of the board of directors by any director nominated by the board or any other person nominated by the board and such record shall be kept by the company and signed by each of the directors.

16. ACCOUNTING PERIOD

Each accounting period of the Company shall end on the 31st day of December in each year.

17. AUDITORS

- 17.1 Notwithstanding anything to the contrary contained in this agreement or in the Company's articles of association, SPAR shall have the sole and absolute discretion and right to nominate and vary the auditors of the Company. The initial appointee shall be Ernst & Young.
- 17.2 Notwithstanding clause 17.1 above, any shareholder shall have the right, at its own expense, to appoint an independent auditor to conduct a review of the Company's financial position for any purpose contemplated in this agreement or otherwise and the parties shall afford such auditor reasonable access to the Company's accounting books and records.

18. INSPECTION OF ACCOUNTING RECORDS AND BOOKS

- 18.1 The Company shall arrange an annual audit on the accounting records and books and shall submit a report of such audit to each shareholder within thirty (30) days from the completion of the audit.
- 18.2 The auditors of the Company shall be appointed from a list of the top five South African accounting firms. Such accounting firm shall audit the accounting records and books of the Company and any other matters relating, directly or indirectly, to the financial condition of the Company. The auditors'

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fee for the inspection and audit mentioned above shall be borne by the Company.

18.3 The Company shall keep true and accurate accounting records and books with regard to all of its operations in accordance with generally accepted accounting principals consistently applied ("GAAP") in the territory. All accounting records and books shall be kept ready for inspection by the shareholders or by their authorized representative. If requested by SPAR, the Company shall co-operate with respect to each financial period to provide such information as required by SPAR to reconcile the Company's financial statements with U.S. GAAP reporting requirements of SPAR.

19. INCREASE OF CAPITAL

If at any time after its formation, the Company increases its share capital, Friedshelf and SPAR shall have a pre-emptive right to new shares to be issued for such capital increase in proportion to their respective shareholding in the Company.

20. DEADLOCK

20.1 Should:

20.1.1 there be any deadlock at any meeting of directors and/or at any general meeting of the Company; or

20.1.2 a quorum at any meeting of directors and/or at any general meeting of the Company be broken;

then in such event the parties shall attempt to resolve these issues by mediation as soon as possible and failing such resolution within 21 (twenty one) business days after having been referred to mediation, any director or shareholder (as the case may be) shall be entitled by written notice to the Company to claim that all or any of the matters which were under discussion and/or were to be discussed at that meeting, be submitted to and decided by arbitration in terms of clause 32.

20.2 Notwithstanding that a deadlock may have arisen in terms of clause 20.1, such deadlock shall not alone constitute a ground for any shareholder to apply to court for the winding up of the Company.

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TRANSFER OF SHARES

21. RESTRICTIONS ON TRANSFER OF SHARES

Except as provided in clause 22 hereof, no shareholder shall, without the prior written consent of the other shareholder, assign, sell, transfer, pledge, mortgage, or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) in the Company to any third party.

22. PRE-EMPTIVE RIGHT AND OPTION

22.1 After three (3) years from the effective date of this agreement, if either party hereto (hereinafter called "selling party") wishes to transfer and sell all but not part of its shares in the Company, the selling party shall furnish to the other party (hereinafter called "recipient") a written notice of the proposed purchaser, the offer purchase price for the

shares and any other material terms and conditions of the proposed sale.

- 22.2 The recipient shall have the right to purchase such shares by giving the selling party written notice of its intention to purchase the same within ninety (90) days from the date of receipt by the recipient of the selling party's notice, upon the same terms and conditions as described in the selling party's notice.
- 22.3 In the event that the recipient elects to purchase the selling party's shares within the 90 (ninety) day period referred to in clause 22.2, the recipient shall be obliged to complete the sale and purchase of the shares within 14 (fourteen) days (or such further period of time as may be agreed between the selling party and the recipient) of receipt by the selling party of the recipient's notice of its intention to purchase the shares, failing which, the selling party shall be entitled to sell the shares at the same price and on the same terms and conditions as described in the selling party's notice given in terms of clause 22.1.
- 22.4 The selling party may sell such shares at the same price and on the same terms and conditions as described in its notice after ninety (90) days have elapsed after the date of the recipient's receipt of such notice unless the recipient gives a notice to the selling party of its intention to acquire the selling party's shares.

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- 22.5 Any person to whom shares in the Company are transferred pursuant to this clause 22 shall be bound by the terms of this agreement.
- 22.6 Three (3) years after the effective date of this agreement, either party (the "offeror") may at any time make a written offer (which shall specify the price offered per share) to buy all of the other party's (the "recipient") shares in the Company. The recipient shall then, either accept the offer and sell all of its shares under the terms and conditions of the offer, or purchase the offeror's shares at the same price and on the same terms and conditions as stipulated in the written offer.
- 22.7 If the recipient does not respond in writing to the initial offer within 120 (one hundred and twenty) days of receipt of the written offer, the recipient shall be deemed to have accepted the offer to sell its shares to the offeror.
- 22.8 The parties shall co-operate to effect the closing of such purchase and sale of the shares held by the selling party within 14 (fourteen) days of the elapse of the period of 120 (one hundred and twenty) days referred to above (or such further period as may be agreed between the parties).
- 22.9 At such closing, the purchasing party shall pay to the selling party the purchase price in cash, and the selling party shall deliver to the purchasing party share certificates representing all of the selling party's shares held in the Company, free and clear of any liens and encumbrances.
- 22.10 For the avoidance of doubt, neither SPAR nor Friedshelf shall have the right to sell, cede, alienate or in any way transfer any of its shares in the Company for a period of 3 (three) years from the effective date.
- 22.11 For the purposes of this agreement, an offer shall be deemed to be received at the following times:
- 22.11.1 if delivered by hand during the normal business hours of the addressee at the addressee's domicilium for the time being, it shall be presumed, until the contrary is proved, to have been received by the

addressee at the time of delivery; or

- 22.11.2 if given by telex or by facsimile, it shall be deemed (in the absence of proof to the contrary) to have been received within 24 (twenty

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four) hours of transmission where it is transmitted during normal business hours of the receiving instrument and within 48 (forty eight) hours of transmission where it is transmitted outside those business hours.

23. CO-OPERATION IN FINANCING

- 23.1 SPAR and Friedshelf shall agree on an initial amount of working capital for the Company and will provide working capital loans to the Company on the same terms.
- 23.2 SPAR will provide a loan equal to 51% (fifty one percent) of the Company's necessary working capital and Friedshelf will provide a loan equal to 49% (forty nine percent) of the Company's necessary working capital.
- 23.3 The interest rate of the shareholder loans shall equal the "prime rate". For the purposes of clause 23.3, "prime rate" means the rate of interest per annum which is equal to Standard Bank Limited's published minimum lending rate of interest per annum, compounded monthly in arrears, charged by such bank on the unsecured overdrawn current accounts of its most favoured corporate clients in the private sector from time to time. (In the case of a dispute as to the rates so payable, the rate shall be certified by any manager or assistant manager of any branch of the said bank, whose decision shall be final and binding on the parties).
- 23.4 Any future working capital loans will be provided on the same basis.

ROLE OF CONTRACTING PARTIES

24. BUSINESS AND SOFTWARE SUPPORT

- 24.1 SPAR shall for the first three (3) years provide up to 3 000 (three thousand) hours of business support in aggregate. This support may be in the form of general business, consultation or programming support to modify or enhance the merchandising software. SPAR will maintain ownership of all software.
- 24.2 If support provided by SPAR exceeds 3 000 (three thousand) hours the additional hours will be billed by SPAR to the Company at fifty five USD (\$55.00)

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per hour. However a lower price will be charged for programming costs if a less expensive way to hire IT staff is found.

- 24.3 The Company will be able to hire its own IT staff as appropriate.

25. NON-COMPETITION

- 25.1 For the duration of this agreement, SPAR, Friedshelf, the Meridian Entities, Mason and O'Brien and their affiliates undertake to each other that they will not without the prior

consent of the others of them, engage in, whether directly or indirectly, merchandising services (as defined in the license agreement) in Southern Equatorial Africa, including but not limited to Angola, Zambia, Zimbabwe, Malawi, Mozambique, Namibia, Botswana, Lesotho, Swaziland, South Africa, Madagascar, Mauritius and the Seychelles (the "territory" for the purposes of this clause 25) or any other business then competitive with the Company in the territory, provided that if the Company shall during any 12 (twelve) month period commencing 1 December 2005, generate less than US\$50 000,00 (fifty thousand US dollars) in revenue in any financial year in any of the countries comprising the territory, then SPAR shall no longer be bound by the non-compete provisions set out in this clause 25 insofar as such non-compete provisions relate to the country in which revenue has fallen below US\$50 000,00 (fifty thousand US dollars) in any year.

- 25.2 Notwithstanding clause 25.1 above, in the event that SPAR enters into an agreement with a customer that covers more than one country and the scope of such agreement includes services in the territory, SPAR shall not be prohibited from entering into or performing such agreement, provided that SPAR shall be obliged to notify the Company of such agreement(s) (including global agreements) and the SPAR shall use all reasonable endeavours to procure that the Company has a right of first refusal to enter into and perform such agreement(s).
- 25.3 In the event that the Company elects to enter into and perform such agreement(s) it shall, within 3 (three) days of receiving such notification from SPAR, notify SPAR in writing of its intention to enter into and perform such agreement(s) on the terms and conditions offered to SPAR.

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- 25.4 In the event that the Company fails within such 3 (three) day period to notify SPAR of its election or, alternatively, elects not to enter into and perform such agreement(s), the Company shall be deemed to have waived its rights to participate in such agreement(s) and SPAR shall be entitled to enter into and perform such agreement(s) for its own benefit, provided that it shall not be on terms (whether as to price, conditions or any other material factor) which is more advantageous than that offered to the Company.
- 25.5 It is recorded that Mason and O'Brien are members in Prestige Retail Services CC ("PRS"), a close corporation which provides services to Spar Group Limited ("SGL"). It is hereby agreed, subject to 25.7 below, that such interest in PRS will not constitute a breach of the non-competition provisions contained in this clause 25.
- 25.6 Mason, O'Brien, the Meridian Entities and FriedshelF undertake to SPAR and to the Company that they will procure that the client base of PRS will not be extended beyond the single existing client of SGL.
- 25.7 The Meridian Entities, FriedshelF, Mason and O'Brien warrant and represent to the Company and to SPAR that:
- 25.7.1 the only customer or client of PRS is SGL;
- 25.7.2 the annual nett profit of PRS before taxes will not exceed R500 000.00 (five hundred thousand Rand);
- 25.7.3 Mason and O'Brien will not together, in any single week, commit or spend in excess of 5 (five) hours of their combined time during normal working hours in relation to the business of PRS; and
- 25.7.4 the rendering of services by Mason and O'Brien to PRS will not materially adversely interfere or affect

their ability to fully and properly perform their obligations to the Company pursuant to the terms of the consultancy agreement.

- 25.8 In the event that SGL agrees, the Company shall be entitled to acquire the members' interest or business of PRS, for a nominal amount of R100.00 (one hundred Rand).

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AMENDMENT FOR PUBLIC OFFERING

26. PUBLIC OFFERING

The shareholders acknowledge that the Company may attempt to become a listed company or over-the-counter company on the territory Stock Exchange or any other stock exchange or public market in the territory (public offering). The shareholders acknowledge that conversion of the Company type and structure, the number of issued shares, the number of shareholders, the paid-up capital and profit transaction with each shareholder will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities in accordance with those bodies' rules or guidelines for public offering. If the shareholders agree to undertake a public offering, they shall discuss and reasonably co-operate with each other to amend the articles of association and/or the license agreement in order to complete the public offering of the Company. Any changes to the license agreement (annexed hereto as annexure "A") will be effective upon consummation of the public offering (but not before), and subject to the approval of the boards of directors of the Company, Friedshelf and SPAR.

CONFIDENTIALITY

27. CONFIDENTIAL INFORMATION

Friedshelf and SPAR shall for the duration of this agreement, keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this agreement and shall not disclose it to a third party without the prior written consent of the other party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party.

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GENERAL PROVISIONS

28. TERMINATION

- 28.1 If either shareholder transfers its shares in the Company to the other party hereto in accordance with clause 22 hereof, this agreement shall terminate.
- 28.2 If either shareholder transfers its shares in the Company to another party, unless expressly agreed by the non-transferring party in writing, this agreement shall be assigned to and

binding upon such third party, provided that the assigning shareholder shall remain liable for all legal acts with respect to this agreement or the Company which occurred before the effective date of such assignment.

28.3 If any shareholder breaches a material term of this agreement and fails to remedy such breach within ninety (90) days of written notice being given to such shareholder the shareholder not in breach shall be entitled to cancel this agreement without prejudice to any other rights or remedies which such shareholder may have.

28.4 Either shareholder may terminate this agreement by giving notice in the event of one or more of the following:

28.4.1 appointment of a trustee or receiver for all or any part of the assets of the other party;

28.4.2 insolvency or bankruptcy of the other party;

28.4.3 assignment of the other party for the benefit of creditor;

28.4.4 attachment of the assets of the other party;

28.4.5 expropriation of the business or assets of the other party; and

28.4.6 dissolution or liquidation of the other shareholder.

If either shareholder is involved in any of the events enumerated in 28.4.1 through 28.4.6 above, it shall immediately notify the other shareholder of the occurrence of such event.

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28.5 In the event of the termination of this agreement pursuant to clause 28.3 or clause 28.4, the shareholder terminating in accordance with this agreement shall have an option to purchase the shares of the other shareholder at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either shareholder or to have the Company dissolved.

28.6 Upon termination of this agreement or SPAR's ceasing to hold at least 51% (fifty one percent) of the shares in the Company, the license agreement shall terminate immediately if still in effect, unless otherwise agreed by the shareholders.

29. FORCE MAJEURE

Neither shareholder shall be liable to the other shareholder for failure or delay in the performance of any of its obligations under this agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the respective parties.

30. NOTICES

30.1 The parties hereby choose domicilia citandi et executandi for all purposes under this agreement at the following respective addresses:

Meridian: No.16 Ennisdale Drive, Durban North, 4051, Kwa-Zulu Natal, South Africa;

SPAR: SPAR Group, Inc. Attention: Mr. Robert G. Brown,
Chairman 580 White Plains Road, Tarrytown, NY,
USA 10591;

Friedshelf: No.16 Ennisdale Drive, Durban North, 4051, Kwa-
Zulu Natal, South Africa, contact: Brian Mason.

30.2 Each of the parties shall be entitled from time to time, by
written notice to the other to vary its domicilium to any
other address which is not a post office box or post restante.

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30.3 Any notice given and any payment made by a party to any of the
others (the "addressee") which:

30.3.1 is delivered by hand during the normal business hours
of the addressee at the addressee's domicilium for
the time being shall be presumed, unless the contrary
is proved by the addressee, to have been received by
the addressee at the time of delivery;

30.3.2 is posted by prepaid registered post to the addressee
at the addressee's domicilium for the time being
shall be presumed, unless the contrary is proved by
the addressee, to have been received by the addressee
on the seventh day after the date of posting.

30.4 Where, in terms of this agreement any communication is
required to be in writing, the term "writing" shall include
communications by telex and/or facsimile. Communications by
telex and/or facsimile shall, unless the contrary is proved by
the addressee, be deemed to have been received by the
addressee 24 (twenty four) hours after the time of
transmission.

31. ASSIGNMENT

This agreement and the rights and obligations hereunder are personal to
the parties hereto, and shall not be assigned by either of the parties
to any third.

32. ARBITRATION

All disputes, controversies, or differences which may arise between the
parties hereto, out of or in relation to or in connection with this
agreement, or arising out of deadlock referred to in clause 21, shall
be finally settled by arbitration in the territory in accordance with
the rules of the Arbitration Foundation of Southern Africa ("AFSA")
except where provided otherwise in this agreement. Prior to any
dispute, difference or agreement being referred to arbitration the
parties shall seek to resolve the matter as follows:

32.1 The matter shall be referred to the chief executives of each
party for consideration but if they are not able to resolve
the matter within ninety (90) days provisions as to
arbitration shall take effect.

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32.2 The arbitration shall be conducted by three (3) arbitrators in
English in accordance with AFSA and the laws of South Africa
shall be applied to the dispute. In case of a dispute each
party shall appoint one arbitrator. The party having appointed
its arbitrator shall give notice to the other party of such
appointment upon which the other party shall appoint its
arbitrator within 7 days of notice. The third arbitrator shall
be chosen by the two arbitrators appointed by the parties
within 7 days of their appointment. In case the arbitrators
cannot agree on the third arbitrator the third arbitrator
shall be appointed by AFSA. The arbitrators shall conclude the

dispute within 6 months upon their first gathering. Such period can only be extended by mutual written agreement of the parties. The decision of the arbitrators shall be final and legally binding upon both parties

33. IMPLEMENTATION

The shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at shareholders' meetings, and to cause the directors they nominate to vote at board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the articles of association of the Company to be amended or adopted as may be reasonably required to effect the provisions and intent of this agreement and the transactions contemplated hereby.

34. GOVERNING LAW

This agreement shall be governed by and interpreted in accordance with the laws of the Republic of South Africa.

35. WAIVER

Any failure of either party to enforce, at any time or for any period of time, any of the provisions of this agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

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36. JOINT AND SEVERAL

36.1 Friedshelf, Derek O'Brien and Brian Mason shall be jointly and severally liable to SPAR for the due performance of all the obligations of the Meridian Entities and Friedshelf under this agreement.

36.2 The said parties do hereby waive the legal exceptions of excussion, division and cession of action, the full meaning whereof they acknowledge themselves to be fully acquainted.

37. CO-OPERATION AND GOOD FAITH

37.1 The parties agree, during the currency of this agreement, not to enter into an agreement or do anything which may conflict with this agreement or be detrimental to its aims and objectives or which will prejudice the business, development and activities of the parties.

37.2 Each of the parties undertakes to display the highest degree of good faith towards the other parties in all matters relating to this agreement and furthermore undertakes, in favour of all the other parties, to refrain from doing or cause anything to be done, whatsoever which may prejudice or harm (whether actually or potentially) the goodwill, image or business operations and acumen of any of the parties to this agreement. The provisions of this paragraph shall survive the expiry of this agreement, provided however that the provisions thereof shall not at any time preclude any of the parties during the currency of this agreement or thereafter, to take whatever steps a party may deem necessary against a party in breach of the terms and conditions of this agreement so as to protect the interests of the parties not in default.

38. ENTIRE AGREEMENT

This agreement constitutes the entire and only agreement between the parties hereto with respect to the subject matter of this agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto.

39. COSTS

39.1 Subject to 39.2, prior to the effective date, SPAR, Friedshelf and Meridian shall be responsible for and pay their own costs and expenses associated with the establishment of the Company (including all travel costs) and including all costs associated with the negotiation and preparation of the necessary legal documentation.

39.2 Each party shall be responsible for and shall pay all legal, accounting and other costs incurred by it in carrying out its due diligence investigation on any other party to this transaction.

39.3 All legal costs incurred after the effective date shall be paid by the Company.

40. HEADINGS AND INTERPRETATION

40.1 The headings of articles and paragraphs used in this agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this agreement.

40.2 In the event that there is any inconsistency between the terms of this agreement and the Company's articles of association, the terms of this agreement shall prevail.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed in two (2) copies by their respective duly authorized officer or representative as of the day first above written.

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1..... For and on behalf of FRIEDSHELF 401 (PTY) LTD

2..... /s/ Derek O'Brien being duly authorised thereto

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1. For and on behalf of SPAR GROUP INTERNATIONAL INC

2..... /s/ Robert G. Brown

being duly authorised thereto

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1.....

For and on behalf of
SGRP MERIDIAN (PTY) LTD

2.....

/s/ Brian Mason

being duly authorised thereto

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1.....

/s/ Derek O'Brien

DEREK O'BRIEN

2.....

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1.....

/s/ Brian Mason

BRIAN MASON

2.....

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SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1.....

For and on behalf of
SMD MERIDIAN CC

2.....

/s/ Brian Mason

being duly authorised thereto

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1.....

For and on behalf of
MERIDIAN SALES & MERCHANDISING
(WESTERN CAPE) CC

2.....

/s/ Brian Mason

being duly authorised thereto

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1.....

For and on behalf of
RETAIL CONSUMER MARKETING CC

2.....

/s/ Brian Mason

being duly authorised thereto

SIGNED AT ON THE DAY OF 2004.

AS WITNESSES:

1..... For and on behalf of
MERHOLD HOLDING TRUST

2..... /s/ Brian Mason

being duly authorised thereto

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ANNEXURE "A"

AGREED FORM LICENCE AGREEMENT

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ANNEXURE "B"

CONSULTANCY AGREEMENT

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ANNEXURE "C"

30 SEPTEMBER YEAR-END ACCOUNTS FOR THE MERIDIAN ENTITITES

Page 37

ANNEXURE "D"

MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY

Page 38

ANNEXURE "E"

STATUTORY VALUATION IN RELATION TO TRANSFERRING EMPLOYEES

JOINT VENTURE AGREEMENT

This Agreement is made as of this 21st day of July, 2003 by and between CEO Produksigon Tanitim ve Arastirma Hizmetleri Ltd Sti, a company organized and existing under the law of Turkey and having principal place of business at 81/2 Buyukdere Cad Kugu Is Merkezi, Mecidiyekoy, Istanbul, Turkey, 34387 (hereinafter called "CEO"), and SPAR Group International, Inc. a company organized and existing under the laws of the State of Nevada, USA, having its principal place of business at 580 White Plains Road, Tarrytown, NY, USA, 10591 (hereinafter called "SPAR"),

WITNESSETH THAT:

WHEREAS, CEO is engaged in the retail solution businesses in Turkey, having a wide range of clients and also having various knowledge and human resources with respect to the retailing businesses in Turkey;

WHEREAS, SPAR is engaged in the retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software; and

WHEREAS, CEO and SPAR are desirous of organizing a corporation to jointly conduct retail solution businesses in Turkey (hereinafter called "Territory").

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:

CHAPTER I: ORGANIZATION OF THE NEW COMPANY

Article 1. Establishment

Promptly after the effective date of this Agreement, the parties hereto shall cause a new company to be organized under the laws of Territory (hereinafter called "SPAR Turkey Ltd"). Upon formation, New Company shall become a party to this Agreement.

Article 2. Business Purposes

The business purposes of the New Company shall consist of the following:

-1-

1. Provide retail merchandising and product demonstration services
2. Agency, assistance, instruction and report of storefront sales activities;
3. Implementation of market research and analysis of results thereof;
4. Assembly of setups used for sales promotion;
5. Consulting regarding store management;
6. Development and sale of management system regarding retailing;
7. Designing and sale of database; and
8. Any and all businesses incidental or relating to any of the foregoing.

Article 3. Trade Name

The New Company shall be named in Territory as "SPAR Alan Pazarlama Hizmetleri Limited Sirketi" and in English as SPAR Turkey Ltd.

Article 4. Location

The New Company shall have its main office at 81/4 Buyukdere Cad Kugu Is Merkezi, Mecidiyekoy, Istanbul, Turkey, 34387.

Article 5. Articles of Incorporation

The Articles of Incorporation of the New Company shall be in the form attached hereto as Exhibit A.

Article 6. Capital

The total number of shares which New Company shall be authorized to issue shall be 10000 that par value of each share shall be \$10 (ten USD). At the time of establishment of New Company, shares shall be issued and fully subscribed by the parties hereto as follow:

o	CEO:	(49%)	4900 shares
o	SPAR:	(51%)	5100 shares

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All the shares to be issued by New Company shall be nominal and ordinary shares

Article 7. Payment

Each of the parties hereto shall at the same proportions and at the same dates pay in Turkish Liras and in cash the cash the amount equivalent to its subscribed shares at par value upon issuance of the shares of New Company. Number of shares may change according to the value of \$100.000 at the time of incorporation.

CHAPTER II: PREPARATION OF ESTABLISHMENT OF THE NEW COMPANY

Article 8. Preparation of Establishment of the New Company

Each party shall take its role as described below for the preparation of the commencement of New Company's business. Any expenses and costs necessary for such preparation shall be borne by each party. SPAR shall enter into with New Company a license agreement in the form attached hereto as Exhibit B (the "License Agreement"). For reference, the License Agreement includes the obligations of SPAR to:

1. localize and set up software provided by SPAR to work in Turkey;
2. consult on the organization of merchandising services: and;
3. train the New Company's personnel in how to operate the merchandising software;
4. give advice on budgeting and development of each business plan.

SPAR Turkey Ltd shall

1. provide office and facility space to New Company under the terms of a supply agreement described in Article 25 herein
2. arrange meetings with current clients to promote New Company's services

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CHAPTER III: GENERAL MEETING OF SHAREHOLDERS

Article 9. Ordinary and Extraordinary General Meeting

The Ordinary General Meeting of Shareholders shall be convened by resolution of the Board of Directors and held in Turkey or any other vicinal place within 3 months, from the last day of each accounting period of New Company.

An Extraordinary General Meeting shall be convened by a resolution of the Board of Directors whenever deemed necessary.

Article 10. Quorum and Resolution

Except as expressly otherwise provided in the Articles of Incorporation of New Company and the provisions of Turkish Commercial Code, and this Agreement all resolutions of the General Meeting of Shareholders shall be adopted by the presence and affirmative vote of Shareholders holding at least two thirds of the shares..

Article 11. Important Matters

In addition to such matters as required by the Articles of Incorporation of New Company or the Commercial Code, any resolutions of the following matters by the General Meeting of Shareholders require the presence and the affirmative vote of shareholders holding at least 2/3 of the capital.

1. any amendment or modification of the Articles of Incorporation;
2. increase or decrease in the authorized capital or paid-in capital;
3. issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined on Article 29);
4. issuance of debentures;
5. transfer of any part or whole of business;
6. any and all matters relating to dividends of New Company;

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7. dissolution or amalgamation;
8. change in number or length of tenure of Directors;

CHAPTER IV: BOARD OF DIRECTORS AND OFFICERS

Article 12. Election of Directors

The Board of Directors of the New Company shall consist of four (4) Directors; two (2) of whom shall be elected from among those appointed by CEO and 2 whom shall be elected from those appointed by SPAR. The Chairman of the Board of Directors shall be elected from the Directors by the mutual consultation of both parties. In case of any increase or decrease in the number of Directors, the representation stipulated above shall be unchanged and pro-rata at all times.

Article 13. Election of Officers

Officers shall be appointed by the Board of directors and serve at their pleasure.

Article 14. Office of Director

The term of office of each Director shall expire at the close of the Ordinary General Meeting of Shareholders, which relates to the closing of accounts last to occur within three (3) years from his assumption of office.

Article 15. Quorum

Each Director shall have one (1) voting right in the Board of Directors. Except as otherwise required in the Articles of Incorporation of New Company, this Agreement or a majority of the Directors shall constitute a quorum at any meeting of their Board of Directors, and all resolutions shall be adopted by the affirmative vote of more than two-thirds of the votes of the Directors present.

Article 16. Ordinary Meeting of the Board of Directors

The Ordinary Meeting of the Board of Directors shall be held quarterly, and an Extraordinary Meeting of the board of Directors shall be held when necessary, both of which shall be convened in accordance with the provisions of the Articles of Incorporation. To the extent then permitted, any meeting of the Board of Directors may be held by interactive video conference

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or other similar electronic or telephonic means, and any action that may be taken by the Board of Directors at a meeting thereof (whether in person or video conference) may be effected in lieu of such meeting by unanimous written consent resolution executed by each member of the Board of Directors. The parties hereto confirm that the prevailing interpretation in Territory is that meetings of boards of directors may be held by interactive videoconference. For any proposed meeting of the Board of Directors for which SPAR requests, SPAR Turkey Ltd and SPAR shall cooperate to arrange for such meetings to be held by video conference. A written record in Turkish of all meetings of the Board of Directors and all decisions maybe by it together with English translation thereof shall be made as promptly as practicable after each meeting of the Board of Directors by one of the Board selected by the Board of Directors at each meeting, kept in the records of the Company and signed or sealed by each of the Directors.

Article 17. Important Matters

In addition to such matter as required by Articles of Incorporation of New Company, the following matters of the Board of Directors meeting shall require the affirmative vote of more than two-thirds of the votes of the Directors:

1. Any proposal to the General Meeting of Shareholders or action by the Board of Directors for the matters as provided in Article 11 hereof;
2. any investment or commitment of New Company in amounts individually in excess of \$100,000 (one hundred thousand USD or in the aggregate in excess of \$100,000 (one hundred thousand USD);
3. any loan or credit taken by New Company
4. execution, amendment or termination of agreements or commitments with CEO, SPAR or their subsidiaries or affiliates;
5. adoption or amendment of the annual budgets and business plan subject to consequent approval by the Shareholder's General Meeting;
6. adoption or any material modification of major regulations or procedures, including any employee rules or handbook;

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7. change of the auditing firm as provided in Article 20;
8. initiating or settling any litigation, arbitration or other formal

dispute settlement procedures or forgiveness of any obligation owed to the New Company in excess of \$100,000 (one hundred thousand USD);

9. preparation of annual closing of the books of New Company and the New Company's annual financial statements, and changing of accounting policies and practices
10. establishment or amendment to the condition of employment of New Company officers, provided that the affirmatives vote of SPAR-nominated Directors shall not be withheld unreasonably;
11. No sale at disposition of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions of New Company or with respect to any major strategic asset of New Company that crucial to New Company' business;
12. Formation of any subsidiary of New Company, entry into (or subsequent termination of) any joint venture, partnership or similar agreements;
13. entering into, amending or terminating any contract with/or commitment to any Director or shareholder except for cases foreseen in art 539/2 of the TCC regarding appointment and dismissal of Directors; and
14. entering into any agreement or commitment to provide goods or services outside Turkey.

CHAPTER V: AUDIT

Article 18. Accounting Period

The accounting periods of New Company shall end on the 30th day of December of each year.

Article 19. Statutory Auditors (where required)

A Statutory Auditor shall be appointed by (company), county and (proposed person) shall be the initial Statutory Auditor.

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Article 20. Inspection of Accounting Records and Books

The New Company shall yearly arrange audit on the accounting records and books and shall submit a report of such audit to each of the parties hereto within thirty (30) days from the completion of the audit.

Ernst & Young shall be the accounting firm engaged by New Company. Such accounting firm shall audit the accounting records and books of New Company and any other matters relating, directly or indirectly, to the financial condition of New Company. Any fee for the certified public accountant for inspection and audit mentioned above shall be borne by New Company. New Company shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principals consistently applied ("GAAP") in Territory. All accounting records and books shall be kept ready for inspection by the parties hereto or by their authorized representative. If requested by SPAR, New Company shall cooperate with respect to each financial period to provide such information as required by SPAR to reconcile New Company's financial statements with U.S. GAAP reporting requirements of SPAR.

Article 21. Increase of Capital

In case of capital increase of the New Company after its establishment, CEO and SPAR shall have the preemptive right to new shares to be issued for such capital increase in proportion to their respective shareholdings in the New Company.

CHAPTER VI: TRANSFER OF SHARES

Article 22. Restrictions on Transfer of Shares

Except as provided in Article 23 hereof, neither party hereto shall, without the prior written consent of the other party, assign, sell, transfer, pledge, mortgage, or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) of the New Company to any third parties.

Article 23. Preemptive Right and Option

1. After three (3) years from the effective date of this Agreement, if either party hereto (hereinafter called "Selling Party") wishes to transfer and sell all but not less than all of its shares, the Selling Party shall furnish to the other Party (hereinafter called "Other

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Party") a written notice of a proposed purchaser, the offered purchase price and other major terms and conditions of such proposed sale.

The Other Party shall have a right to purchase such shares by giving Selling Party a written notice of its intention to purchase the same within ninety (90) days from the receipt of Selling Party's notice, upon the same terms and conditions as described in the Selling Party's notice. The Selling Party may sell such shares upon the terms and conditions as described in its notice after ninety (90) days from the date of Other Party's receipt of such notice unless Other Party gives a notice for its purchase of the shares to Selling Party. Unless agreed by the Other Party in writing, any transferee party shall be subject to this Agreement.

2. After three (3) years from the effective date of this Agreement, either party may at any time make a written offer to buy all of the other Party's shares in the New Company. The Other Party shall then, either accept the offer and sell all of its shares under the terms and conditions offered, or purchase the offering party's shares at the same terms and conditions. If the party receiving the initial offer does not respond to the initial offer within one hundred and twenty (120) days, the party receiving the offer shall be deemed to have accepted the offer to sell its shares. The parties shall cooperate to effect the closing of such purchase and sale of all of the shares of the New Company held by the Selling Party within 120 days of the decision or deemed decision of the second party. At such closing, the purchasing party shall pay to the Selling Party the purchase price in cash, and the Selling Party shall deliver to the purchasing party share certificates representing all of the Selling Party's shares held in the New Company, free and clear of any liens.

Article 24. Cooperation in Financing

1. The New Company may borrow up to \$50,000 (fifty thousand USD) as its operating funds, which shall be guaranteed by CEO if necessary. CEO shall make its reasonable efforts to enable such borrowing. The terms of the borrowing and any agreement between New Company and CEO with respect to CEO guarantee shall be matters subject to Section 18 hereof.

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2. The New Company may borrow an additional \$50,000 (fifty thousand USD) when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 19 herein.
3. If CEO pays any creditors of the New Company due to a guarantee made by CEO to such creditors in favor of the New Company, SPAR shall reimburse CEO for half of the amount paid by CEO, but only if the New Company's borrowing of such funds and CEO guaranty of the New Company's obligations have been expressly agreed to in advance by SPAR in writing

or in a Board resolution, for which both SPAR nominated directors have voted affirmatively.

CHAPTER VII: ROLE OF CONTRACTING PARTIES

Article 25. Supply of Office and Facility

1. CEO shall supply offices and facilities, staff service for general affairs and finance, and intra company network services, which are determined, at CEO's sole discretion, necessary for the operation of New Company after the consultation between the both parties, to New Company at no charge for a period of three (3) years. In the event that CEO cannot provide such services within its existing facilities then CEO will reimburse to SPAR Turkey Ltd the cost of such described office and facilities so that SPAR Turkey Ltd will incur no cost for the described space and services for three (3) years.
2. SPAR for first three (3) years will provide up to three thousand (3,000) hours of business support annually. This support may be in the form of general business, consultation or programming support to modify or enhance the merchandising software. SPAR will maintain ownership of all software. If support provided by SPAR exceeds three thousand (3,000) hours the additional hours will billed by SPAR to SPAR Turkey Ltd at fifty five USD (\$55.00) per hour. However a lower price will be charged for programming costs if a less expensive way to hire IT staff is found. SPAR Turkey Ltd will be able to hire its own IT staff as appropriate.
3. CEO agrees that its operating expenses may not be allocated to SPAR Turkey Ltd.

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Article 26. Personnel

CEO shall, at its own judgment, second to New Company its personnel who are appropriate for the startup of business of New Company for a period of one year without any consideration. In principal, New Company shall be responsible for the payment of salaries and benefits for such personnel and all other matters concerning their employment; however CEO shall, at its own judgment, pay such salaries, etc.

Article 27. Training

Each party hereto shall provide the appropriate training to the employees for New Company's operation at its own site. The said training shall be made upon New Company's request and any necessary expenses for the training shall be borne by New Company, except as otherwise provided in License Agreement or the Supply Agreement.

Article 28. Non-Competition

For five (5) years from the Execution Date of this Agreement, neither SPAR nor CEO shall without the prior consent of the other, engage in, whether directly or indirectly, Merchandising Services (as defined in the License Agreement) in Territory or any other business then competitive with New company in Territory. However, in the event that SPAR enters into a contract with a customer that covers more than one country and the scope of such agreement includes services in Territory, SPAR shall not be prohibited from entering into or performing such agreement, provided that SPAR shall make commercially reasonable efforts to enable New Company to participate in and be fairly compensated for providing services to any such customer.

CHAPTER VIII: AMENDMENT FOR PUBLIC OFFERING

Article 29. Public Offering

Both parties acknowledge that the New Company may attempt to become a listed company or over-the counter company on the Territory Stock Exchange or any other stock exchange or public market in Territory (public Offering). Both parties acknowledge that conversion of the company type and structure, the number of issued shares, the number of shareholders, the paid-up capital and profit transaction with each party, the seconded employees of New Company will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities

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in accordance with those bodies' rules or guidelines for Public Offering. If both parties agree to undertake a Public Offering pursuant to Article 11 above, both parties shall discuss and reasonably cooperate with each other to amend the Articles of Agreement and/or the License Agreement in order to complete the Public Offering of New Company. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before), and subject to the approval of the Boards of Directors of the New Company, CEO and SPAR.

CHAPTER IX: CONFIDENTIALITY

Article 30. Confidential Information

CEO and SPAR shall keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this Agreement and shall not disclose it to a third party without the prior written consent of the other party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party.

CHAPTER X: GENERAL PROVISIONS

Article 31. Effective Date

This Agreement shall become effective at the time of execution hereof.

Article 32. Termination

1. If either party transfers its shares in the New Company to the other party hereto in accordance with Article 24 hereof, this Agreement shall terminate. If either party transfers its shares in the New Company to another party, unless expressly agreed by the non-transferring party in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or the New Company occurred before the Effective Date of such assignment.
2. Either party not in breach of this Agreement may terminate this Agreement by written notice to the other party if any breach shall not have been corrected by the other party

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in breach within ninety (90) days after written notice is given by such party not in breach complaining of such breach.

3. Either party may terminate this Agreement by giving notice in the event of one or more of the following:
 - (a) Appointment of a trustee or receiver for all or any part of

- the assets of the other party;
- (b) Insolvency or bankruptcy of the other party;
- (c) Assignment of the other party for the benefit of creditor;
- (d) Attachment of the assets of the other party;
- (e) Expropriation of the business or assets of the other party;
and
- (f) Dissolution or liquidation of the other party.

If either party is involved in any of the events enumerated in (a) through (f) above, it shall immediately notify the other party of the occurrence of such event.

- 4. In case of the termination of this Agreement pursuant to Article 32.2 or Article 32.3, the party terminating in accordance with this Agreement shall have an option to purchase the shares of the other party at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either party, if either party so requests, or to have the New Company dissolved.
- 5. Upon termination of this Agreement or SPAR's ceasing to hold at least 51% of the shares in New Company, the License Agreement shall terminate immediately if still in effect, unless otherwise agreed by the parties.

Article 33. Force Majeure

Neither party shall be liable to the other party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or

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regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the respective parties.

Article 34. Notices

All notices, reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given either by (i) personal delivery, (ii) overnight delivery or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective parties at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any notice, etc by personal delivery or overnight delivery or facsimile transmission shall be deemed to have been given (7) days after the dispatch.

In any event, if any notice, etc. is received other than the regular business hours of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

To:	CEO	81/2 Buyukdere Cad Kugu Is Merkezi, Mecidiyekoy, Istanbul, Turkey;
	SPAR	SPAR Group, Inc. ATT Robert G. Brown, Chairman 580 White Plains Road, Tarrytown, NY, USA

Article 35. Assignment

This Agreement and the rights and obligations hereunder are personal to the parties hereto, and shall not be assigned by either of the parties to any third.

Article 36. Arbitration

All dispute, controversies, or differences which may arise between the parties hereto, out of or in relation to or in connections with this Agreement, shall be finally settled by arbitration in Territory in accordance with the relevant arbitration provisions of the Turkish Civil Procedure Act except where provided otherwise in this Agreement. Prior to any dispute, difference or agreement being referred to arbitration the parties shall seek to resolve the matter as follows;

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The matter shall be referred to the chief executives of each party for consideration but if they are not able to resolve the matter within ninety (90) days provisions as to arbitration shall take effect.

The arbitration shall be conducted by three (3) arbitrators in English and in Turkish in accordance with the Turkish Civil Procedure Act and the provisions of this agreement and Turkish Laws shall be applied to the dispute. In case of a dispute each party shall appoint one arbitrator. The party having appointed its arbitrator shall give notice to the other party of such appointment upon which the other party shall appoint its arbitrator within 7 days of notice.

The third arbitrator shall be chosen by the two arbitrators appointed by the parties within 7 days of their appointment. In case the arbitrators cannot agree on the third arbitrator the third Arbitrator shall be appointed by the Court. The arbitrators shall conclude the dispute within 6 months upon their first gathering. Such period can only be extended by mutual written agreement of the Parties. The decision of the arbitrators shall be final and legally binding upon both parties

Article 37. Implementation

The Shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at Shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Articles of Incorporation of New Company, New Company work rules and other rules and Commercial registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

Article 38. Governing Law

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of Territory.

Article 39. Waiver

1. Any failure of either party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

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Article 40. Entire Agreement

This Agreement constitutes the entire and only agreement between the parties hereto with respect to the subject matter of this Agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto.

Article 41. Headings

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this Agreement.

Article 42. Language

This Agreement has been executed in the English and Turkish. If there is any discrepancy or inconsistency between the English and the Turkish versions, the English version shall prevail.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in two (2) copies by their respective duly authorized officer or representative as of the day first above written.

CEO

Signature: /s/ Atilla Akalin

Name: Atilla Akalin

Title: Managing Director

Spar Group International, Inc.

Signature: /s/ Robert G. Brown

Name: Robert G. Brown

Title: Chairman and CEO

JOINT VENTURE AGREEMENT

This Agreement made as of this 1 day of May, 2001 by and between Paltac Corporation, a company organized and existing under the law of Japan and having its principal place of business at 1-5-9, Minamikyuhoji-machi, Chuo-ku, Osaka, Japan (hereinafter called "PALTAC") and Spar Group, Inc., a company organized and existing under the law of State of Delaware, having its principal place of business at 580 White Plains Road, Tarrytown, NY, USA (hereinafter called "SPAR"),

WITNESSETH THAT:

WHEREAS, PALTAC is engaged in the retail solution businesses in Japan, having a wide range of clients and also having various knowledge and human resources with respect to the retailing businesses in Japan;

WHEREAS, SPAR is engaged in the retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software; and

WHEREAS, PALTAC and SPAR are desirous of organizing a corporation to jointly conduct retail solution businesses in Japan (hereinafter called "Territory").

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties agree as follows:

CHAPTER I
ORGANIZATION OF THE NEW COMPANY

Article 1. Establishment

Promptly after the effective date of this Agreement, the parties hereto shall cause a new company to be organized under the laws of Japan as a stock company (hereinafter called "New Company").

Upon formation, New Company shall become a party to this Agreement.

Upon formation, New Company shall become a party to this Agreement.

Article 2. Business Purposes

The business purposes of New Company shall consist of the followings:

- (1) Agency, assistance, instruction and report of storefront sales activities;
- (2) Implementation of market research and analysis of results thereof;
- (3) Manufacturing and sale of setups used for sales promotion;
- (4) Consulting regarding store management;

- (5) Development and sale of management system regarding retailing;
- (6) Designing and sale of database; and
- (7) Any and all businesses incidental or relating to any of the foregoing.

Article 3. Trade Name

New Company shall be named in Japanese as Kabushiki Kaisha SPAR FM JAPAN and in English as SPAR FM JAPAN, INC.

Article 4. Location

New Company shall have its main office at 1-5-9, Minamikyuhoji-machi, Chuo-ku, Osaka, Japan.

Article 5. Articles of Incorporation

The Articles of Incorporation of New Company shall be in the form attached

hereto as Exhibit A.

Article 6. Capital

The total number of shares which New Company shall be authorized to issue shall be 1600 and the par value of each share shall be (Y)50,000. At the time of establishment of New Company, 400 shares shall be issued and fully subscribed by the parties hereto as follows:

PALTAC:	200 shares, (Y)10,000,000
SPAR:	200 shares, (Y)10,000,000

All the shares to be issued by New Company shall be nominal and ordinary shares.

Article 7. Payment

Each of the parties hereto shall pay in Japanese Yen and in cash the amount equivalent to its subscribed shares at par value upon issuance of the shares of New Company.

CHAPTER II
PREPARATION OF ESTABLISHMENT OF NEW COMPANY

Article 8. Preparation of Establishment of New Company

Each party shall take its role as described below for the preparation of the commencement of New Company's businesses. Any expenses and costs necessary for such preparation shall be borne by each party.

A. SPAR shall enter into with New Company a license agreement in the form attached hereto as Exhibit B (the "License Agreement"). For reference, the License Agreement includes the obligations of SPAR to:

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- (1) localize and set up software provided by SPAR to work in Japan;
- (2) consult on the organization of merchandising services; and
- (3) train the New Company's personnel in how to operate the merchandising software.

Also, SPAR shall give advice on budgeting and development of each business plan.

B. PALTAC shall:

- (1) arrange contracts with clients;
- (2) provide office and facility space to New Company under the terms of a supply agreement described in Article 26 herein;
- (3) set up fast Internet connections for accessing reports and systems;
- (4) prepare and send out instructions to merchandisers;
- (5) hire merchandisers under terms agreed upon in advance by SPAR and PALTAC;
- (6) gain retailers' permission to do in-store merchandising; and
- (7) preparation of annual budget and business plan to be submitted to the Board of Directors.

CHAPTER III
GENERAL MEETING OF SHAREHOLDERS

Article 9. Ordinary and Extraordinary General Meeting

The Ordinary General Meeting of Shareholders shall be convened by resolution of the Board of Directors and held in Osaka city, Japan or any other vicinal place within 3 months from the last day of each accounting period of New Company.

An Extraordinary General Meeting shall be convened by resolution of the Board of Directors wherever deemed necessary.

Article 10. Quorum

A quorum of the General Meeting of Shareholders shall be the shareholders present either in person or by proxy representing at least 51 % of all the issued and outstanding shares of New Company.

Article 11. Resolution

Except as expressly otherwise provided in the Articles of Incorporation of New Company, this Agreement or the Commercial Code of Japan (Law No. 48 of March 9, 1899, as amended, the

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"Commercial Code"), all resolutions of the General Meeting of Shareholders shall be adopted by the affirmative vote of shareholders holding at least 51 % of the shares represented at a meeting for which there is a quorum.

Article 12. Important Matters

In addition to such matters as required by the Articles of Incorporation of New Company or the Commercial Code, any resolutions of the following matters by the General Meeting of Shareholders shall require the affirmative vote of at least two-thirds of the votes of the shareholders present:

- (1) any amendment or modification of the Articles of Incorporation;
- (2) increase or decrease in the authorized capital or paid-in capital;
- (3) issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined in Article 30);
- (4) issuance of debentures;
- (5) transfer of any part or whole of business;
- (6) any and all matters relating to dividends of New Company;
- (7) dissolution or amalgamation;
- (8) change in number or length of tenure of Directors;

CHAPTER IV
BOARD OF DIRECTORS AND OFFICERS

Article 13. Election of Directors

The Board of Directors of New Company shall consist of 4 Directors; 2 of whom shall be elected from among those appointed by PALTAC and 2 of whom shall be elected from among those appointed by SPAR. The Chairman of the Board of Directors shall be elected from the Directors by the mutual consultation of both parties and Robert Brown shall be the initial Chairman of the Board of Directors. In case of any increase or decrease in the number of Directors, the representation stipulated above shall be unchanged and pro-rata at all times.

Article 14. Election of Officers

A President & Chief Executive Officer (CEO) and a Vice President & Chief Operating Officer (COO) shall be appointed from among Directors appointed by PALTAC by the consultation with SPAR. The President & CEO shall be the Representative Director. The initial President & CEO shall be Juro Yamagishi and the initial Vice President & COO shall be Shunichiro Tajiri.

Article 15. Office of Director

The term of office of each Director shall expire at the close of the Ordinary General Meeting of Shareholders which relates to the closing of accounts last to occur within 2 years from his assumption of office.

Article 16. Quorum

Each Director shall have 1 voting right in the Board of Directors. Except as expressly otherwise required in the Articles of Incorporation of New Company, this Agreement, or the Commercial Code, a majority of the Directors shall constitute a quorum at any meeting of the Board of Directors, and all resolutions shall be adopted by the affirmative vote of more than two-thirds of the votes of the Directors present.

Article 17. Ordinary Meeting of the Board of Directors

The Ordinary Meeting of the Board of Directors shall be held quarterly, and an Extraordinary Meeting of the Board of Directors shall be held when necessary, both of which shall be convened in accordance with the provisions of the Articles of Incorporation. To the extent then permitted by the Commercial Code or prevailing interpretation thereof, any meeting of the Board of Directors may be held by interactive video conference or other similar electronic or telephonic means, and any action that may be taken by the Board of Directors at a meeting thereof (whether in person or video conference) may be effected in lieu of such meeting by a unanimous written consent resolution executed by each member of the Board of Directors. The parties hereto confirm that the prevailing interpretation in Japan is that meetings of boards of directors may be held by interactive video conference. For any proposed meeting of the Board of Directors for which SPAR requests, PALTAC and SPAR shall cooperate to arrange for such meetings to be held by video conference. A written record in Japanese of all meetings of the Board of Directors and all decisions made by it together with English translation thereof shall be made as promptly as practicable after each meeting of the Board of Directors by one of the Directors selected by the Board of Directors at each meeting, kept in the records of the Company and signed or sealed by each of the Directors.

Article 18. Important Matters

In addition to such matters as required by the Articles of Incorporation of New Company or the Commercial Code, the following matters of the Board of Directors' meeting shall require the affirmative vote of more than two-thirds of the votes of the Directors:

- (1) any proposal to the General Meeting of Shareholders or action by the Board of Directors for the matters as provided in Article 12 hereof;
- (2) any investment or commitment of New Company in amounts individually in excess of (Y)10,000,000 or in the aggregate in excess of (Y)10,000,000;
- (3) any loan or credit taken by New Company in amounts individually in excess of (Y)10,000,000 or in the aggregate in excess of (Y)10,000,000;

- (4) execution, amendment or termination of agreements or commitments with PALTAC, SPAR or their subsidiaries or affiliates;
- (5) adoption or amendment of the annual budgets and business plan;
- (6) adoption or any material modification of major regulations or procedures, including any employee rules or handbook;
- (7) change of the auditing firm as provided in Article 21;
- (8) initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed the New Company in excess of (Y)10,000,000;

- (9) approval of annual closing of the books of the New Company and the New Company's annual financial statements, and changing of accounting policies and practices or the New Company's accounting periods;
- (10) establishment or amendment to the conditions of employment of New Company Officers, provided that the affirmative vote of SPAR-nominated Directors shall not be withheld unreasonably;
- (11) selling, otherwise disposing of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions, 10% or more of the net assets of New Company or with respect to any major strategic asset of New Company that is crucial to New Company's business;
- (12) formation of any subsidiary of New Company, entry into (or subsequent termination of) any joint venture, partnership or similar agreement;
- (13) entering into, amending or terminating any contract with or commitment to any Director or shareholder; and
- (14) entering into any agreement or commitment to provide goods or services outside of Japan.

CHAPTER V
AUDIT

Article 19. Accounting Period

The accounting periods of New Company shall end on the 30th day of September each year.

Article 20. Statutory Auditor

A Statutory Auditor shall be appointed by PALTAC, and Yoshiyuki Hakoda shall be the initial Statutory Auditor.

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Article 21. Inspection of Accounting Records and Books

New Company shall yearly arrange audit on the accounting records and books and shall submit a report of such audit to each of the parties hereto within 30 days from the completion of the audit.

Century Ota Showa & Co. shall be the initial accounting firm engaged by New Company, however, if requested by either P ALTAC or SPAR, New Company shall engage as its accounting firm an internationally recognized accounting firm that is not the principal accounting firm of either of P ALTAC or SPAR. Such accounting firm shall audit the accounting records and books of New Company and any other matters relating, directly or indirectly, to the financial conditions of New Company. Any fee for the certified public accountant for inspection and audit mentioned above shall be borne by New Company. New Company shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principles consistently applied ("GAAP") in Japan. All accounting records and books shall be kept ready for inspection by the parties hereto or by their authorized representative. If requested by SPAR, New Company shall cooperate with respect to each financial period to provide such information as required by SPAR to reconcile New Company's financial statements with U.S. GAAP reporting requirements of SPAR.

Article 22. Increase of Capital

In case of capital increase of New Company after its establishment, PALTAC and SPAR shall have the preemptive right to new shares to be issued for such capital increase in proportion to their respective shareholdings in New Company.

CHAPTER VI
TRANSFER OF SHARES

Article 23. Restrictions on Transfer of Shares

Except as provided in Article 24 hereof, neither party hereto shall, without the

prior written consent of the other party, assign, sell, transfer, pledge, mortgage or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) of New Company to any third parties.

Article 24. Preemptive Right and Option

1. After 3 years from the effective date of this Agreement, if either party hereto (hereinafter called "Selling Party") wishes to transfer and sell all but not less than all of its shares, Selling Party shall furnish to the other party (hereinafter called "Other Party") a written notice of a proposed purchaser, the offered purchase price and other major terms and conditions of such proposed sale.

The Other Party shall have a right to purchase such shares by giving Selling Party a written notice of its intention to purchase the same within 90 days from the receipt of Selling Party's notice, upon the same terms and conditions as described in the Selling Party's notice. The Selling Party may sell such shares upon the terms and conditions as described in its notice after 90 days from the date of Other Party's receipt of such notice unless Other Party gives a notice for its

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purchase of the shares to Selling Party. Unless agreed by the Other Party in writing, any transferee party shall be subject to this Agreement.

2. After 3 years from the effective date of this Agreement, either party may at any time make a written offer to buy all of the other party's shares in the New Company. The other party shall then either accept the offer and sell all of its shares under the terms and conditions offered, or purchase the offering party's shares at the same terms and conditions. If the party receiving the initial offer does not respond to the initial offer within 120 days, the party receiving the offer shall be deemed to have accepted the offer to sell its shares. The parties shall cooperate to effect the closing of such purchase and sale of all of the shares of the New Company held by the selling party within 120 days of the decision or deemed decision of the second party. At such closing, the purchasing party shall pay to the selling party the purchase price in cash, and the selling party shall deliver to the purchasing party share certificates representing all of the selling party's shares held in New Company, free and clear of any liens.

Article 25. Cooperation in Financing

1. New Company may borrow up to (Y)300,000,000 as its operating funds, which shall be guaranteed by PALTAC if necessary. PALTAC shall make its reasonable efforts to enable such borrowing. The terms of the borrowing and any agreement between New Company and PALTAC with respect to PALTAC's guarantee shall be matters subject to Section 18 hereof.

2. New Company may borrow an additional (Y)300,000,000 when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 18 herein.

3. If PALTAC pays any creditors of New Company due to a guaranty made by PALTAC to such creditors in favor of New Company, SPAR shall reimburse PALTAC for half of the amount paid by PALTAC, but only if New Company's borrowing of such funds and PALTAC's guaranty of New Company's obligations have been expressly agreed to in advance by SPAR in writing or in a Board resolution for which both SPAR-nominated directors have voted affirmatively.

CHAPTER VII
ROLE OF CONTRACTING PARTIES

Article 26. Supply of Office and Facility

PALTAC shall supply offices and facilities, staff service for general affairs and finance, and intra company network service, which are determined, at PALTACs sole discretion, necessary for the operation of New Company after the consultation between the both parties, to New Company at no charge.

Article 27. Personnel

PALTAC shall, at its own judgement, second to New Company its personnel who are appropriate for the start-up of businesses of New Company for a period of 1 year without any

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consideration. In principle, New Company shall be responsible for the payment of salaries and benefits for such personnel and all other matters concerning their employment; however, PALTAC shall, at its own judgement, pay such salaries, etc.

Article 28. Training

Each party shall provide the appropriate training to employees of New Company for New Company's operation at its own site. The said training shall be made upon New Company's request and any necessary expenses for the training shall be borne by New Company, except as otherwise provided in the License Agreement or the Supply Agreement.

Article 29. Non-Competition

For 5 years from the Execution Date of this Agreement, neither SPAR nor PALTAC shall, without the prior written consent of the other, engage in, whether directly or indirectly, Merchandising Services (as defined in the License Agreement) in Japan or any other businesses then competitive with New Company in Japan. However, in the event that SPAR enters into a contract with a customer that covers more than one country and the scope of such agreement includes services in Japan, SPAR shall not be prohibited from entering into or performing such agreement, provided that SPAR shall make commercially reasonable efforts to enable New Company to participate in and be fairly compensated for providing services to any such customer.

CHAPTER VIII
AMENDMENT FOR PUBLIC OFFERING

Article 30. Public Offering

Both parties acknowledge that New Company may attempt to become a listed company or over-the-counter company on the Osaka Stock Exchange, Tokyo Stock Exchange or any other stock exchange or public market in Japan (Public Offering). Both parties acknowledge that the number of issued shares, the number of shareholders, the paid-up capital, profit, transaction with each party, the seconded employees of New Company will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities in accordance with those bodies' rules or guidelines for a Public Offering. If both parties agree to undertake a Public Offering pursuant to Article 12 above, both parties shall discuss and reasonably cooperate with each other to amend this Agreement and/or the License Agreement in order to complete the Public Offering of New Company. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before), and subject to the approval of the boards of directors of New Company, PALTAC and SPAR.

CHAPTER IX
CONFIDENTIALITY

Article 31. Confidential Information

PALTAC and SPAR shall keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this Agreement and shall not disclose it to a third

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party without the prior written consent of the disclosing party unless the receiving party can demonstrate that such information (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the

receiving party.

CHAPTER X
GENERAL PROVISIONS

Article 32. Effective Date

This Agreement shall become effective at the time of execution hereof.

Article 33. Termination

1. If either party transfers its shares in New Company to the other party hereto in accordance with Article 24 hereof, this Agreement shall terminate. If either party transfers its shares in New Company to another party, unless expressly agreed by the non-transferring party in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or New Company from before the Effective Date of such assignment.

2. Either party not in breach of this Agreement may terminate this Agreement by written notice to the other party if any breach shall not have been corrected by the other party in breach within 60 days after written notice is given by such party not in breach complaining of such breach.

3. Either Party may terminate this Agreement without giving a notice in the event of one or more of the followings:

(a) Appointment of a trustee or receiver for all or any part of the assets of the other party;

(b) Insolvency or bankruptcy of the other party;

(c) Assignment of the other party for the benefit of creditor;

(d) Attachment of the assets of the other party;

(e) Expropriation of the business or assets of the other party; and

(f) Dissolution or liquidation of the other party.

If either party is involved in any of the events enumerated in (a) through (f) above, it shall immediately notify the other party of the occurrence of such event.

4. In case of the termination of this Agreement pursuant to Article 32.2 or Article 32.3, the party terminating in accordance with this Agreement shall have an option to purchase the shares of the other party at the book value to be decided by an internationally recognized accounting

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firm that is not the principal accounting firm of either party, if either party so requests, or to have New Company dissolved.

5. Upon termination of this Agreement or SPAR's ceasing to hold at least 50% of the shares in New Company, the License Agreement shall terminate immediately if still in effect.

Article 34. Force Majeure

Neither party shall be liable to the other party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the respective parties.

Article 35. Notice

All notices, reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given

either by (i) personal delivery, (ii) telex or facsimile transmission or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective parties at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any such notice, etc. by personal delivery or telex or facsimile transmission shall be deemed to have been given as of the date so delivered or transmitted. Any such notice, etc. by registered air mail shall be deemed to have been given 7 days after the dispatch. In any event, if any notice, etc. is received other than the regular business hours of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

To: PALTAC; 1-5-9, Minamikyuhoji-machi, Chuo-ku, Osaka, Japan
SPAR; 580 White Plains Road, Tarrytown, NY, USA

Article 36. Assignment

This Agreement and the rights and obligations hereunder are personal to the parties hereto, and shall not be assigned by either of the parties to any third party.

Article 37. Arbitration

All dispute, controversies, or differences which may arise between the parties hereto, out of or in relation to or in connection with this Agreement, shall be finally settled by arbitration in Osaka, Japan in accordance with the rules of the Japan Commercial Arbitration Association if initiated by SPAR, or in New York City in accordance with the International Arbitration Rules of the American Arbitration Association if initiated by PALTAC. The arbitration shall be conducted by 3 arbitrators in the English and the Japanese languages. The arbitration award shall be final and legally binding upon both parties.

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Article 38. Implementation

The shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Articles of Incorporation of New Company, New Company work rules and other rules and Commercial Registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

Article 39. Governing Law

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of Japan.

Article 40. Waiver

Any failure of either party to enforce, at any time or for any period of time, any of the provision of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

Article 41. Entire Agreement

This Agreement constitutes the entire and only agreement between the parties hereto with respect to the subject matter of this Agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto.

Article 42. Headings

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the

respective articles and paragraphs of this Agreement.

Article 43. Language

This Agreement has been executed in the English and the Japanese languages. If there is any discrepancy or inconsistency between the English and the Japanese versions, the English version shall prevail.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in 2 copies by their respective duly authorized officer or representative as of the day first above written.

Paltac Corporation
Signature:

/s/ Kunio Mikita

Name: Kunio Mikita
Title: Representative Director & President

Spar Group, Inc.
Signature:

/s/ Robert G. Brown

Name: Robert G. Brown
Title: Chairman & CEO

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August 1, 2004

AGREEMENT ON AMENDMENT

SPAR Group, Inc. (hereinafter referred to as "SPAR") and SPAR FM Japan, Inc. (hereinafter referred to as the "Company") agreed to amend the License Agreement executed as of May 1, 2001 between SPAR and the Company (hereinafter referred to as the "License Agreement") concerning the royalty, pursuant to Article 3 of the Agreement executed as of April 30, 2004 among SPAR, Company and PALTAC Inc. (hereinafter referred to as "PALTAC") (hereinafter referred to as the "Renewed Agreement").

1. SPAR and the Company agree to amend the existing Article 5 of the License Agreement. The existing Article 5 shall become Section 5.2 of the License Agreement and the following provision shall be added as Section 5.1 of the License Agreement.

"5.1 Royalty The Company shall pay to SPAR the amount to be separately agreed upon between the Company and SPAR through mutual consultation as a royalty for the license granted by SPAR under Articles 2 and 3 of this License Agreement (provided that such amount shall be reviewed every two years). The Company shall report to SPAR the amount of sales from January 1 of any year to December 31 of such year by the end of February of the next year, and shall pay an appropriately calculated royalty by bank transfer to the account designated by SPAR by the end of March of such next year (provided that the Company may deduct necessary bank transfer fees from such royalty amount)."
2. The amendment stipulated in this Agreement shall be deemed to have become effective on and from May 1, 2004.

IN WITNESS WHEREOF, the parties executed this Agreement on Amendment as of the date first written above.

MEMORANDUM OF AGREEMENT

August 1, 2004

SPAR Group, Inc. (hereinafter referred to as "SPAR") and SPAR FM Japan, Inc. (hereinafter referred to as the "Company") agreed as follows through mutual consultation concerning the royalty under Section 5.1 of the License Agreement as of May 1, 2001, as modified pursuant to the Agreement on Amendment executed as of August 1, 2004 between the parties (hereinafter referred to as the "License Agreement").

1. The amount payable under Section 5.1 of the License Agreement shall be 0.5% of the sales amount of the Company.
2. The above provision shall be effective from May 1, 2004 through December 31, 2005. The parties shall consult with each other in or after September 2005 to determine the amount to be paid for the subsequent period

IN WITNESS WHEREOF, the parties executed this Memorandum of Agreement as of the date first written above.

SPAR GROUP, INC.
By: Robert G .Brown

/s/ Robert G. Brown

(sign or seal)
Title: Chairman & CEO

PALTAC CORPORATION
By: Kunio Mikita

/s/ Kunio Mikita

(sign or seal)
Title: President & CEO

SPAR FM JAPAN, K.K.
By: Kiyotaka Shimoda

/s/ Kiyotaka Shimoda

(sign or seal)
Title: President & CEO

August 1, 2004

AGREEMENT ON AMENDMENT

SPAR Group, Inc. (hereinafter referred to as "SPAR"), SPAR FM Japan, Inc. (hereinafter referred to as the "Company") and PALTAC Corporation (hereinafter referred to as "PALTAC") agreed to amend the Joint Venture Agreement executed as of May 1, 2001 between SPAR and PALTAC concerning economic conditions involving provision of offices, facilities, personnel and other items, pursuant to Article 3 of the Agreement as of April 30, 2004 (hereinafter referred to as the "Renewed Agreement"). All parties to this Agreement hereby confirm that the following represents the agreement made among such parties.

1. SPAR, PALTAC and the Company agree to delete and replace the existing Article 26 of the Joint Venture Agreement in its entirety with the following provision.

"Article 26 . Other Cooperation

26.1 Other than the warranty stipulated in the preceding Article 25, PALTAC shall provide the New Company, through their mutual consultation, offices, facilities, and general affairs and accounting personnel that PALTAC deems necessary to manage the New Company at its sole discretion, services relating to the non-clerical operations of the New Company provided by PALTAC's employees who are dispatched as directors of the New Company, and internal network service.

26.2 Separately from this provision the New Company and PALTAC shall determine through negotiation the amount of consideration to be paid for the warranty in the preceding Article 25 and the cooperation in the preceding Section 26.1 by the New Company to PALTAC (provided that the New Company and PALTAC may modify the amount of such consideration every two years through negotiation). The Company shall report to PALTAC the amount of sales from January 1 of any year to December 31 of such year by the end of February of the next year, and shall pay an appropriately calculated consideration by bank transfer to the account designated by PALTAC by the end of March of such next year (provided that the New Company may deduct necessary bank transfer fees from such consideration amount).

26.3 The purpose of the payment of the consideration in the preceding Section 26.2 shall not be for distribution of profits, but for compensation for expenses of the New Company paid by PALTAC on behalf of the New Company."

IN WITNESS WHEREOF, the parties execute this Agreement on Amendment as of the date first written above.

SPAR GROUP, INC.
By: Robert G .Brown

/s/ Robert G. Brown

(sign or seal)
Title: Chairman & CEO

PALTAC CORPORATION

By: Kunio Mikita

/s/ Kunio Mikita

(sign or seal)

Title: President & CEO

JOINT VENTURE AGREEMENT

This Agreement is made as of this _____, 2005 by and between:

1. Best Mark Investments Holdings Ltd., a corporation duly organized and existing under the laws of the British Virgin Islands with it's a registered office at Arias, Fabrega & Fabrega Trust Co. BVI Limited, 325 Waterfront Drive, Omar Hodge Building, 2nd Floor, Wickham's Cay, Road Town, Tortola, British Virgin Islands (hereinafter referred to as "SIMS"), which is a wholly owned subsidiary of Sims Trading Company Limited, a company organized and existing under the law of Hong Kong and having its registered office at 10th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong (hereinafter referred to as "Sims Trading"); and
2. SPAR International Ltd., a company organized and existing under the laws of the Cayman Islands, having its a registered office in Georgetown, Grand Cayman with an office 580 White Plains Road, Tarrytown, NY, USA (hereinafter called "SPAR"),

WITNESSETH THAT:

WHEREAS, SIMS is a wholly owned subsidiary of Sims Trading which is engaged in the retail solution businesses in Hong Kong and China, having a wide range of clients and also having various knowledge and human resources with respect to the retailing businesses in Hong Kong and China.

WHEREAS, SPAR is engaged in the retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software; and

WHEREAS, SIMS and SPAR are desirous of organizing a Hong Kong corporation to acquire a company in China to conduct a retail solution businesses in China and will further consider whether to extend the retail solution businesses to Hong Kong (Hong Kong and China are collectively referred to as "Territory").

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:.

CHAPTER I: ORGANIZATION OF THE NEW COMPANY

Article 1. Establishment

Promptly after the effective date of this Agreement, the parties hereto shall cause a new company to be organized under the laws of Hong Kong (hereinafter called "SPAR China"). SPAR China shall then

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form a wholly owned subsidiary in the rest of China and upon formation, The wholly owned subsidiary and SPAR China shall become a party to this Agreement (herein referred to as the "New Companies").

Article 2. Business Purposes

The business purposes of the New Companies shall consist of the following:

1. Provide retail merchandising and product demonstration services;
2. Agency, assistance, instruction and report of storefront sales activities;
3. Implementation of market research and analysis of results thereof;
4. Installation of displays for new product launch, cut-ins and category resets;
5. Re-ordering and replenishment; .

6. Assembly of setups used for sales promotion;
7. POSM management/POP monitoring;
8. Consulting regarding store management;
9. Development and sale of management system regarding retailing;
10. Designing and sale of data; and
11. Any and all businesses incidental or relating to any of the foregoing.

Article 3. Trade Name

The New Companies shall be named in the Territory as SPAR China Ltd. or as mutually agreed between the parties. However at a future date and with written notice the name of the companies may be changed to reflect the equal shared ownership of the New Companies by Sims Trading using the name "Sims" or "DCH" at its discretion.

Article 4. Location

SPAR China shall have its main office in Hong Kong.

Article 5. Articles of Association

The Articles of Association of SPAR China shall be attached as Exhibit A hereto.

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Article 6. Capital

The total number of shares which SPAR China shall be authorized to issue shall be 5,000,000 that par value of each share shall be HK\$1.00. At the time of establishment of SPAR China shares shall be issued and fully subscribed by the parties hereto as follow:

- o SIMS 50% HK\$800,000.00
- o SPAR: 50% HK\$800,000.00

All the shares to be issued by SPAR China shall be ordinary shares

Article 7. Payment

Each of the parties hereto shall pay in Hong Kong dollars and in cash the amount equivalent to its subscribed shares at par value upon issuance of the shares of SPAR China.

CHAPTER II. PREPARATION OF ESTABLISHMENT OF THE NEW COMPANIES

Article 8. Preparation of Establishment of SPAR China

Each party shall take its role as described below for the preparation of the commencement of SPAR China business. Any expenses and costs necessary for such preparation shall be borne by each party.

SPAR shall enter into with SIMS on behalf of SPAR China Ltd. a license agreement in the form attached hereto as Exhibit B (the "License Agreement"). For reference, the License Agreement includes the obligations of SPAR to:

1. localize, set up, maintain and enhance software provided by SPAR to work in China;
2. localize, set up, maintain and enhance software provided by SPAR to work in Hong Kong at the option of the New Companies;

3. consult on the organization of merchandising services;
4. train the New Companies' personnel in how to operate the merchandising software;
5. give advice on budgeting and development of each business plan;
6. provide 24 hours/day/365days/year IT system support and problem solving services to the New Companies with no consideration for time differences;
7. Promote the New Companies' services to SPAR US customers with operations in the Territory.

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Sims Trading shall:

1. provide office space, facility and other back office and support services to the New Companies under the terms described in Article 26 herein;
2. arrange meetings with current clients to promote the New Companies' services;
3. transfer such business as is practical to the New Companies currently performed by Sims Trading on behalf of Sims Trading's principals at charges to be agreed between the parties hereto. [Need to determine pricing.]

CHAPTER III: GENERAL MEETING OF SHAREHOLDERS

Article 9. Annual General Meeting and Extraordinary General Meeting

The Annual General Meeting of Shareholders shall be held in Hong Kong or any other vicinal place within 3 months from the day of each accounting period of SPAR China.

An Extraordinary General Meeting shall be convened whenever deemed necessary by the parties hereto.

Article 10. Quorum

A quorum of the General Meeting of Shareholders shall be the parties hereto present either in person or by proxy.

Article 11. Resolution

Except as expressly otherwise provided in the Articles of Association of SPAR China Ltd. and this Agreement, all resolutions of the General Meeting of shareholders shall be adopted by the affirmative vote of shareholders holding at least 52% of the shares present or represented at meeting for which there is quorum or by written resolutions of all shareholders.

Article 12. Important Matters

In addition to such matters as required by the Articles of Association of SPAR China and the Companies Ordinance (Chapter 32, Laws of Hong Kong), any resolutions of the following matters by the General Meeting of shareholders require the affirmative vote of at least three quarters of the votes of the shareholders present:

1. any amendment or modification of the Articles of Association;

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2. increase or decrease in the authorized capital or paid-up capital;
3. issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined in Article 30);
4. issuance of debentures;
5. transfer of any part or whole of business
6. any and all matters relating to dividends of SPAR China;
7. dissolution or amalgamation;
8. change in number or length of tenure of Directors;

CHAPTER IV: BOARD OF DIRECTORS AND OFFICERS

Article 13. Election of Directors

The Board of Directors of the SPAR China shall consist of four (4) Directors; two (2) of whom shall be elected from among those appointed by SIMS and 2 of whom shall be elected from those appointed by SPAR. The Chairman of the Board of Directors shall be elected from the Directors by the mutual consultation of both parties. In case of any increase or decrease in the number of Directors, the representation stipulated above shall be unchanged and pro-rata at all times.

Article 14. Election of Officers

Officers shall be appointed by the Board of directors and serve at their pleasure.

Article 15. Office of Director

The term of office of each Director shall expire at the close of each Annual General Meeting of Shareholders, which relates to the closing of the annual accounts, but each of the Directors are eligible for re-election.

Article 16. Quorum

Each Director shall have one (1) voting right in the Board of Directors. The quorum at meetings of the Directors shall be two (2) Directors, provided that at least one of the Directors appointed by SPAR

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and at least one of the Directors appointed by SIMS. All resolutions shall be adopted by the affirmative vote of more than two-thirds of the votes of the Directors that are in attendance or by proxy.

Article 17. Meetings of the Board of Directors

The Ordinary Meetings of the Board of Directors shall be held quarterly and an Extraordinary Meeting of the Board of Directors shall be held when necessary, and shall be convened in accordance with the provisions of the Articles of Association and this Agreement To the extent then permitted, any meeting of the Board of Directors may be held by interactive video conference or other similar electronic or telephonic means, and any action that may be taken by the Board of Directors at a meeting thereof (whether in person or video conference) may be effected in lieu of such meeting by unanimous written consent resolution executed by each member of the Board of Directors. The parties hereto confirm that the prevailing interpretation in Territory is that meetings of boards of directors may be held by interactive videoconference. A written record in English of all meetings of the Board of Directors and all Board decisions shall

be made available as promptly as practicable after each meeting of the Board of Directors. At each meeting, one Director shall be selected by the attending Directors to act as the Secretary of the meeting and keep the records of the meeting. The records of the meeting shall be confirmed by the signature of each of the Directors.

Article 18. Important Matters

In addition to such matters as required by the Articles of Association of SPAR China, the following matters of the Board of Directors meeting shall require the unanimous vote of all Directors:

1. Any proposal to the shareholders or action by the Board of Directors for the matters as provided in Article 12 hereof;
2. any investment or commitment of SPAR China in amounts individually in excess of HK \$200,000.00 or in the aggregate in excess of HK\$400,000.00;
3. any loan or credit taken by SPAR China;
4. execution, amendment or termination of agreements or commitments with SIMS, SPAR or their subsidiaries or affiliates;
5. adoption or amendment of the annual budgets and business plan;
6. adoption or any material modification of major regulations or procedures, including any employee rules or handbook;

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7. change of the auditing firm as provided in Article 21;
8. initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed to SPAR China in excess of HK\$200,000.00;
9. approval of annual closing of the books of SPAR China and SPAR China's annual financial statements, and changing of accounting policies and practices or SPAR China's accounting periods;
10. No sale at disposition of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions of SPAR China or with respect to any major strategic asset of SPAR China that is crucial to SPAR China's business;
11. Formation of any subsidiary of SPAR China, entry into (or subsequent termination of) any joint venture, partnership or similar agreements;
12. Entering into amending or terminating agreement or commitment to provide goods or services outside the Territory.
13. Appointment or dismissal of the President or Chief Executive Officer.

CHAPTER V: AUDIT

Article 19. Accounting Period

The accounting periods of SPAR China shall end on the 31st day of December of each year.

Article 20. Statutory Auditors

A Statutory Auditor shall be appointed by SPAR China where required by law.

Article 21. Inspection of Accounting Records and Books

The accounting records and books of SPAR China shall be audited annually. SPAR China shall submit a report of such audit to each of the parties hereto within thirty (30) days from the completion of the audit.

Ernst & Young or KPMG or another mutually accepted international auditing firm shall be the auditing firm engaged by SPAR China. This auditing firm shall audit the accounting records and books of the New Companies and any other matters relating, directly or indirectly, to the financial conditions of New Companies. Any fee for the certified public accountant for inspection and audit mentioned

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above shall be borne by New Companies. SPAR China shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principals consistently applied ("GAAP") in Territory. All accounting records and books shall be kept ready for inspection by the parties hereto or by their authorized representative. If requested by SPAR, SPAR China shall cooperate with respect to each financial period to provide such information as required by SPAR to reconcile SPAR China's financial statements with U.S. GAAP reporting requirements of SPAR.

Article 22. Increase of Capital

In case of capital increase of SPAR China after its establishment, SIMS and SPAR shall have the preemptive right to new shares to be issued for such capital increase in proportion to their respective shareholdings in SPAR China.

CHAPTER VI: TRANSFER OF SHARES

Article 23. Restrictions on Transfer of Shares

Except as provided in Article 24 hereof, neither party hereto shall, without the prior written consent of the other party, assign, sell, transfer, pledge, mortgage, or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) of SPAR China to any third parties.

Article 24. Preemptive Right and Option

1. After five (5) years from the effective date of this Agreement, if either party hereto (hereinafter called "Selling Party") wishes to transfer and sell all but not less than all of its shares, the Selling Party shall furnish to the other shareholder in SPAR China (hereinafter called "Other Party") a written notice ("Sale Notice") of the proposed sale. The Sale Notice should include the offered sale price to be determined in accordance with sub-paragraph (3) hereof and other major terms and conditions of such proposed sale. Except with the consent of the Other Party, a Sale Notice shall be irrevocable.

2. The Other Party shall have a right to purchase such shares by giving Selling Party a written notice of its intention to purchase the same within ninety (90) days ("Acceptance Period") from the receipt of Selling Party's notice, upon the same terms and conditions as described in the Selling Party's notice. The Selling Party may sell such shares upon the terms and conditions as described in its notice after ninety (90) days from the date of Other Party's receipt of such notice. Unless agreed by the Other Party in writing, any transferee party shall be subject to this Agreement.

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3. The sale price for the shares shall be the price as may be determined, at the request of the Other Party and at the cost of SPAR China, by the Auditors of the New Companies (acting as experts and not as arbitrators) on the basis of the net asset value and net profit after tax as shown in the latest audited accounts of the New Companies (whichever is greater), provided that if at the date of the Sale Notice the market value as between a willing seller and a willing buyer acting at arm's length of any of the assets of SPAR China is greater or less by

ten percent (10%) or more than the book value of such assets then the market value of such assets shall be substituted for the book value thereof in computing the fair value of the shares.

4. If the Other Party does not give notice to the Selling Party within the Acceptance Period that the Other Party is willing to proceed with the purchase, the Selling Party shall be at liberty, within a period of sixty (60) days from the expiration of the Acceptance Period, to sell and transfer the shares (subject to sub-paragraph 7 hereof) at any price but not less than the sale price to any other third party(ies) as the Selling Party shall determine, provided that the shareholders of SPAR China in shareholders' meeting shall first be reasonably satisfied as to the financial position and other conditions of such third party(ies) and its or their ability to comply with the obligations of the Selling Party before registering the transfer.

5. Notwithstanding anything to the contrary (expressly or implied) herein contained, upon registration of the Other Party or third party(ies) as the shareholder(s) of all the shares of the Selling Party of and in SPAR China the Selling Party shall cease to be bound by the terms and provisions of this Agreement and its rights under this Agreement shall be extinguished but without prejudice to any rights accrued or accruing by the virtue of any antecedent breach of any term or provision hereof.

6. The remaining shareholders shall procure that SPAR China release forthwith any Director(s) of SPAR China appointed by the Selling Party after the sale or transfer of the shares by the Selling Party from all their offices and employments with SPAR China and the Selling Party shall upon request of the remaining shareholders procure that any such Director(s) resign forthwith all their offices and employments with SPAR China without payment of any compensation by the SPAR China to such Director(s) in respect thereof and shall indemnify SPAR China against any claim by any such Director(s) in connection with such loss of office and employment.

7. Any transfer of shares in SPAR China pursuant to Article 24 shall be conditional upon the transferee entering into an agreement with the existing shareholder(s) whereby the transferee shall agree to be bound by and to observe and perform the terms and conditions of this Agreement.

Article 25. Cooperation in Financing

1. SPAR China may borrow up to HK\$8,000,000 as its operating funds which shall be guaranteed by

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Sims Trading if necessary. As a condition precedent to Sims Trading executing any guarantee or providing any form of security to the Lender as security for the facility, SPAR has to execute a guarantee or provide other forms of security in favour of Sims Trading as security for up to half of Sims Trading's liabilities, costs and expenses (legal or otherwise) under such facility. The terms of the borrowing and any agreement between SPAR China and Sims Trading with respect to Sims Trading guarantee shall be matters subject to Article 18 hereof.

2. SPAR China may borrow an additional HK\$8,000,000 when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 18 herein.

3. If Sims Trading is required to pay any amounts under Article 25(1) and 25(2) due to a guarantee made by Sims Trading for such amounts in favor of SPAR China, SPAR shall forthwith reimburse Sims Trading for half of the amount paid or payable by Sims Trading. SPAR's failure to comply this Article 25(3) will entitle Sims Trading to enforce its rights against SPAR under any of the deeds, guarantee or documents executed by SPAR in favour of Sims Trading pursuant to Article 25(1) hereof.

CHAPTER VII: ROLE OF CONTRACTING PARTIES

Article 26. Supply of Office and Facility

1. Sims Trading shall at Sims Trading's sole discretion supply offices and

facilities, staff service for general affairs and finance, and intra company network services building on the infrastructure of Sims Trading's four regional offices, namely, Guangzhou, Shenzhen, Shanghai and Beijing, which are necessary for the operation of the New Companies after the consultation between both parties, and at no charge to the New Companies for a period of four (4) years. PROVIDED ALWAYS THAT (a) Sims Trading's total incremental cash expenses under this Article 26(1) in the 4-year period shall not in any event exceed HK\$1,750,000; and (b) any such incremental cash expenses exceeding the said limit of HK\$1,750,000 shall be borne by the New Companies absolutely and the New Companies shall settle in favour of Sims Trading in full all the expenses each month without delay; and (c) any office(s) of the New Companies to be set up outside Sims Trading's four regional offices in China shall be at the sole and absolute discretion of Sims Trading and in reaching its decision, Sims Trading shall be entitled to take into accounts matters including without limitation, the profitability of customers' needs and requests for the New Companies' services, feasibility studies and prospect of development and expansion of the business.

2. SPAR for first four (4) years will provide up to a total of four thousand (4,000) hours of business

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support. This support may be in the form of general business, consultation or programming support to modify or enhance the merchandising software. SPAR will maintain ownership of all software. Ownership of any of the information and database of SPAR China clients shall belong to SPAR China absolutely. If support provided exceeds four thousand (4,000) hours the additional hours will be billed by SPAR to SPAR China at US\$55.00 per hour. Coach travel for work performed on behalf of the Joint Venture by SPAR or SIMS or Sims Trading would be paid for by SPAR China.

3. Both Parties agree that their operating expenses, which include the management hours of the Directors and other senior management staff, may not be allocated to SPAR China in the first five (5) years.

Article 27. Personnel

Sims Trading shall, at its own judgment, second to SPAR China its personnel who are appropriate for the start-up of business of the New Companies for a period of one (1) year without any consideration. In principal, SPAR China shall be responsible for the payment of salaries and benefits for full time personnel and all other matters concerning their employment; however Sims Trading shall, at its own judgment, pay such salaries and benefits as necessary to maintain the profitability of SPAR China.

Article 28. Training

Each party hereto shall provide the appropriate training to the employees for the New Companies' operation at its own site. The said training shall be made upon SPAR China's request and any necessary expenses for the training shall be borne by SPAR China, except as otherwise provided in License Agreement as provided by article 26.

Article 29. Non-Competition

For five (5) years from the Execution Date of this Agreement, neither SPAR nor Sims Trading shall without the prior written consent of the other, engage in, whether directly or indirectly, Merchandising Services (as defined in the License Agreement) in Territory or any other business then competitive with SPAR China in Territory save and except that Sims Trading shall be allowed without any restrictions whatsoever to continue to carry on its Merchandising Services under Twin Tiger International Limited in Hong Kong any time whether during the subsistence of this Agreement or after its termination. In the event that SPAR enters into an agreement with a customer that covers more than one country and the scope of such agreement includes service in the Territory, SPAR shall not be prohibited from entering into or performing such agreement, provided that SPAR shall be obliged to notify SPAR

China of such agreement(s) (including global agreements) and SPAR shall use all reasonable efforts to procure that SPAR China has a right of first refusal to enter into and perform such agreements and the terms so offered to SPAR China shall always be no less favourable than the terms so offered to any subsequent parties. Notwithstanding any provisions to the contrary herein, in the event that any Merchandising Services or any other business then competitive with SPAR China in the Territory is carried out by SPAR directly or indirectly and whether alone or jointly with any other third party(ies) whatsoever, SIMS shall be entitled to charge a commission on the gross fees so received by SPAR at rate to be fairly and reasonably determined by both parties and in any event the charges for the merchandising services shall not be lower than the standard rate charged by SPAR China.

For the avoidance of doubt, SPAR China has been granted the non-transferable and exclusive license to use the Licensed Technology (as defined in the License Agreement) in the Territory under the License Agreement. During the subsistence of this Agreement and the License Agreement, SPAR shall not further license the Licensed Technology to any other party(ies) in the Territory whether or not for the purpose of providing such Merchandising Services or any other business then competitive with SPAR China which SPAR China has exercised its first right of refusal to take up.

Sims Trading may also continue to offer services to Sims Trading's clients that exist on the date of execution of contract as long as they are similar to services offered prior to the execution of this contract and Sims Trading has made reasonable effort to transfer such business to the New Companies.

CHAPTER VIII: AMENDMENT FOR PUBLIC OFFERING

Article 30. Public Offering

Both parties acknowledge that SPAR China may attempt to become a listed company or over-the-counter company on the Territory Stock Exchange or any other stock exchange or public market in Territory (the "Public Offering"). Both parties acknowledge that the number of issued shares, the number of shareholders, the paid-up capital and profit transaction with each party, the seconded employees of SPAR China will be reviewed and instructed for amendment by the relevant governmental or regulatory authorities in accordance with those bodies' rules or guidelines for Public Offerings. If both parties agree to undertake a Public Offering pursuant to Article 12 above, both parties shall discuss and reasonably cooperate with each other to amend the Articles of Agreement and/or the License Agreement in order to complete the Public Offering of SPAR China. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before),

and subject to the approval of the Boards of Directors of SPAR China, SIMS and SPAR.

CHAPTER IX: CONFIDENTIALITY

Article 31. Confidential Information

SIMS and SPAR shall keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this Agreement and shall not disclose it to a third party without the prior written consent of the other party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party.

CHAPTER X: GENERAL PROVISIONS

Article 32. Effective Date and Duration

1. This Agreement shall become effective at the time of execution hereof.
2. Subject to the following provisions of Article 33, this Agreement shall take effect from the effective date and shall continue in force for a term of five (5) years. This Agreement shall automatically renew for successive five (5) year periods following the end of each preceding five (5) year period unless one of the parties hereto serves a written notice of termination to the other six (6) months before the end of each period before termination can take effect.

Article 33. Termination

1. If either party transfers its shares in SPAR China to the other party hereto in accordance with Article 24 hereof, this Agreement shall be terminated after completion of the transfer of shares under Article 24. If either party transfers its shares in SPAR China to another party, unless expressly agreed by the non-transferring party in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or the SPAR China occurred before the Effective Date of such assignment.
2. In the event of a breach of this Agreement, the party not in breach of this Agreement, may terminate this Agreement by written notice to the party in breach of this Agreement if such breach shall not have been corrected by the party in breach within ninety (90) days after written notice is given by

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the party not in breach.

3. Either party may terminate this Agreement by giving notice in the event of one or more of the following:
 - (a) Appointment of a trustee or receiver for all or any part of the assets of the other party;
 - (b) Insolvency or bankruptcy of the other party;
 - (c) Assignment of the other party for the benefit of creditor;
 - (d) Attachment of the assets of the other party;
 - (e) Expropriation of the business or assets of the other party; and
 - (f) Dissolution or liquidation of the other party.

If either party is involved in any of the events enumerated in (a) through (f) above, it shall immediately notify the other party of the occurrence of such event.

4. In case of the termination of this Agreement pursuant to Article 33.2 or Article 33.3, the party terminating in accordance with this Agreement shall have an option to purchase the shares of the other party at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either party, if either party so requests, or to have SPAR China dissolved.

5. Upon termination of this Agreement or SPAR's ceasing to hold at least 50% of the shares in SPAR China, the License Agreement shall be terminable within two (2) years thereafter.

6. Upon the termination of this Agreement or if SPAR wishes to sell all or part of its shares in SPAR China to a third party or SIMS or Sims Trading, SPAR is committed to supply:

- (a) its name for two additional years at no cost; and

- (b) its software to SPAR China for additional 2 years at the following cost:
- (i) First 12 months: out of pocket costs
 - (ii) Next 12 months: \$3,000 / month + out of pocket costs
- and
- (c) SIMS or Sims Trading will have an option to license the software for two additional years at a fair market fee to be mutually agreed to and which both parties will arrive at in good faith negotiations.

Article 34. Force Majeure

Neither party shall be liable to the other party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations, embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the

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respective parties.

Article 35. Notices

All notices (including without limitation notices for arbitration), reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given either by (i) personal delivery, (ii) overnight delivery or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective parties at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any notice, etc by personal delivery or overnight delivery or facsimile transmission shall be deemed to have been given (7) days after the dispatch. In any event, if any notice, etc. is received other than the regular business hours of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

For SIMS,

To: Best Mark Investments Holdings Ltd.
c/o Sims Trading Company Ltd.
10/F, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong
Attn: Glenn Smith, CEO

For SPAR,

To: SPAR International Ltd.
580 White Plains Road, Tarrytown, NY, USA
Attn: Robert G Brown, Chairman and CEO

Article 36. Assignment

This Agreement and the rights and obligations hereunder are personal to the parties hereto, and shall not be assigned by either of the parties to any third.

Article 37. Arbitration

All dispute, controversies, or differences which may arise between the parties hereto, out of or in relation to or in connections with this Agreement, shall be finally settled by arbitration in Territory in accordance with the rules of the Territory Commercial Arbitration Association if initiated by SPAR, or in New York City in accordance with the International Arbitration Rules of the American Arbitration Association if initiated by SIMS. The arbitration shall be conducted by a single arbitrator in English.

The arbitration shall be final and legally binding upon both parties.

Article 38. Implementation

The Shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at Shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Articles of Incorporation of SPAR China, SPAR China work rules and other rules and Commercial registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

Article 39. Governing Law

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of The Hong Kong Special Administrative Region.

Article 40. Waiver

Any failure of either party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

Article 41. Entire Agreement

This Agreement constitutes the entire and only agreement between the parties hereto with respect to the subject matter of this Agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto.

Article 42. Headings

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this

Agreement.

Article 43. Language

This Agreement has been executed in the English.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in two (2) copies by their respective duly authorized officer or representative as of the day first above written.

SIGNED BY:

WITNESSED BY:

Best Mark Investments Holdings Ltd.

Signature: /s/ Glen Robert Sturrock Smith

Signature: /s/ Mary Lee

Name: Glen Robert Sturrock Smith
Title: Director

Name: Mary Lee
Company: SIMS Trading
Company Ltd.
Title: Financial Controller

SIGNED BY:
Spar International Ltd.

WITNESSED BY:

Signature: /s/ Robert G Brown

Signature: /s/ Mindy Asiedo

Name: Robert G Brown
Title: Chairman & Chief Executive Officer

Name: Mindy Asiedo
Company: Notary
Title:

JOINT VENTURE AGREEMENT

This Agreement is made as of this 14th day of December, 2004 by and between Field Insights S.R.L, a company organized and existing under the law of Romania and having its headquarters at Aleea Ilioara nr. 1, Bloc PM29, Sc. B, Etaj 4, Ap. 55, Sector 3, Bucharest, Romania (hereinafter called "FI"), Spar Group International Inc., a Nevada corporation, with an office at 580 White Plains Road, Tarrytown New York, USA (hereinafter called "SPAR"), and Adinel Tudor, a Romanian citizen identified with Identity Card series DP no. 104864, Personal Numerical Code 1771115100037, domiciled at Calea Dorobantilor nr. 73, Ap. 3, Sector 1, Bucharest ("Tudor"),

WITNESSETH THAT:

WHEREAS, FI is engaged in the retail solution businesses in Romania, having a wide range of clients and also having various knowledge and human resources with respect to the retailing businesses in Romania;

WHEREAS, SPAR is engaged in the retail solution businesses in the USA, having computer software useful for agency, assistance, instruction and reporting of storefront activities and also having operational know-how with respect to such software; and

WHEREAS, FI and SPAR are desirous of organizing a corporation to jointly conduct retail solution businesses in Romania (hereinafter called "Territory").

NOW, THEREFORE, in consideration of the mutual covenants and agreement herein contained, the parties hereto agree as follows:

CHAPTER I: ORGANIZATION OF THE NEW COMPANY

Article 1. Establishment

Promptly after the effective date of this Agreement, the parties hereto shall cause a new company to be organized under the laws of Territory (hereinafter called "SPAR Romania S.R.L." or "New Company"). Upon formation, New Company shall become a party to this Agreement through approval by the General Meeting of Shareholders of New Company and signature for acknowledgement of all original copies.

Article 2. Business Purposes

The business purposes of the New Company shall consist of the following:

1. Provide retail merchandising and product demonstration services;
2. Agency, assistance, instruction and report of storefront sales activities;
3. Implementation of market research and analysis of results thereof;
4. Assembly of setups used for sales promotion;
5. Consulting regarding store management;
6. Development and sale of management system regarding retailing;
7. Designing and sale of database; and
8. Any and all businesses incidental or relating to any of the foregoing.

Article 3. Trade Name

The New Company shall be named in Territory as S.C. SPAR Romania S.R.L. and in English as SPAR Romania Ltd.

Article 4. Location

The New Company shall have its headquarters at Strada Vasile Iascar nr.

18, ap. 8, etaj 1, Sector 2, 020491
Bucharest, Romania.

Article 5. Constitutive Act

The Constitutive Act of the New Company shall be in the form attached hereto as Exhibit A.

Article 6. Capital

The total number of shares which New Company shall issue at incorporation shall be fifteen thousand shares and the par value of each share shall be 100,000 Romanian lei. At the time of establishment of New Company, shares shall be issued and fully subscribed by the parties hereto as follows:

- o SPAR: 51% 7,650 social parts
- o FI: 42% 6,300 social parts
- o Tudor: 7% 1,050 social parts.

All the shares to be issued by New Company shall be nominal and ordinary shares.

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Article 7. Payment

Each of the parties hereto shall pay in Romanian lei and in cash the amount equivalent to its subscribed shares at par value upon issuance of the shares of New Company.

CHAPTER II: PREPARATION OF ESTABLISHMENT OF THE NEW COMPANY

Article 8. Preparation of Establishment of the New Company

Each party shall take its role as described below for the preparation of the commencement of New Company's business. All expenses in connection with this Agreement, the setting up of the New Company and the preparation of the commencement of New Company's business will be advanced by FI and/or SPAR and reimbursed by the New Company if set up. If the joint venture is not completed, each party will pay their own costs.

SPAR shall enter into New Company with a license agreement in the form attached hereto as Exhibit B (the "License Agreement"). For reference, the License Agreement includes the obligations of SPAR to:

1. localize and set up software provided by SPAR to work in Territory; and
2. consult on the organization of merchandising services; and
3. train the New Company's personnel in how to operate the merchandising software; and
4. give advice on budgeting and development of each business plan and FI shall
 1. provide office and facility space to New Company under the terms of a supply agreement described in Article 26 herein; and
 2. arrange meetings with current clients to promote New Company's services

CHAPTER III: GENERAL MEETING OF SHAREHOLDERS

Article 9. Ordinary and Extraordinary General Meeting

The Ordinary General Meeting of Shareholders shall be convened by resolution of the Board of Directors and held in Territory or any other place that FI and SPAR may agree within 3 months from the last day of each accounting period of New Company.

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An Extraordinary General Meeting shall be convened by a resolution of the Board of Directors whenever deemed necessary.

Article 10. Quorum

A quorum of the General Meeting of Shareholders shall be the shareholders present either in person or by proxy representing at least 51% of all the paid share capital of New Company.

Article 11. Resolution

Except as expressly otherwise provided in the Constitutive Act of New Company or this Agreement, all resolutions of the General Meeting of Shareholders shall be adopted by the affirmative vote of Shareholders holding at least 51% of the shares present or represented at meeting for which there is quorum.

Article 12. Important Matters

In addition to such matters as required by the Constitutive Act of New Company or the applicable laws in Romania, any resolutions of the following matters by the General Meeting of Shareholders require the affirmative vote of shareholders representing at least two-thirds of the paid-in social capital:

1. any amendment or modification of the Constitutive Act;
2. increase, decrease or change of structure in the social capital, but only subject to provisions of Chapter VI;
3. issuance of new shares or any other kind of equity securities or instruments convertible into equity securities or the decision to undertake a Public Offering (as defined on Article 30);
4. issuance of debentures;
5. transfer of any part or whole of business;
6. approval, rejection or change of the balance sheet, profit assignment and dividends of New Company;
7. splitting, dissolution or amalgamation;
8. dismissal, replacement, change of powers, change in number or length of tenure of Directors, subject to the rights of FI and SPAR under Article 13;

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9. any decision given by the applicable laws or by the Constitutive Act to the Directors.

CHAPTER IV: BOARD OF DIRECTORS AND OFFICERS

Article 13. Election of Directors

The Board of Directors of the New Company shall consist of four (4) Directors; two (2) of whom shall be elected from among those appointed by FI and 2 whom shall be elected by those appointed by SPAR. The Chairman of the Board of Directors shall be elected from the Directors by the mutual consultation of both

parties. In case of any increase or decrease in the number of Directors, the representation stipulated above shall be unchanged and pro-rata at all times.

Article 14. Election of Officers

Officers shall be appointed by the Board of directors and serve at the pleasure of the Board of Directors. The Chief Executive Officer of New Company shall in any case be elected from among candidates nominated by FI.

Article 15. Office of Director

The term of office of each Director shall expire at the close of the Ordinary General Meeting of Shareholders, which relates to the closing of accounts last to occur within three (3) years from his assumption of office.

Article 16. Quorum

Each Director shall have one (1) voting right in the Board of Directors. Except as otherwise required in the Constitutive Act of New Company or this Agreement, a majority of the Directors shall constitute a quorum at any meeting of their Board of Directors, and all resolutions shall be adopted by the affirmative vote of more than two-thirds of the votes of the Directors present.

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Article 17. Ordinary Meeting of the Board of Directors

The Ordinary Meeting of the Board of Directors shall be held quarterly, and an Extraordinary Meeting of the board of Directors shall be held when necessary, both of which shall be convened in accordance with the provisions of the Constitutive Act. To the extent then permitted, any meeting of the Board of Directors may be held by interactive video conference or other similar electronic or telephonic means, and any action that may be taken by the Board of Directors at a meeting thereof (whether in person or video conference) may be effected in lieu of such meeting by unanimous written consent resolution executed by each member of the Board of Directors. The parties hereto confirm that the interpretation in Territory is that meetings of boards of directors may be held by interactive videoconference if stipulated expressly in the Constitutive Act of SPAR Romania S.R.L. For any proposed meeting of the Board of Directors for which SPAR requests, SPAR Romania S.R.L. and SPAR shall cooperate to arrange for such meetings to be held by video conference. A written record in Romanian of all meetings of the Board of Directors and all decisions made by it together with English translation thereof shall be made as promptly as practicable after each meeting of the Board of Directors by one of the Board selected by the Board of Directors at each meeting, kept in the records of the Company and signed or sealed by each of the Directors.

Article 18. Important Matters

In addition to such matter as required by Constitutive Act of New Company, the following matters of the Board of Directors meeting shall require the affirmative vote of more than two-thirds of the votes of the Directors:

1. Any proposal to the General Meeting of Shareholders or action by the Board of Directors for the matters as provided in Article 12 hereof;
2. any investment or commitment of New Company in amounts individually in excess of US\$50,000 or in the aggregate in excess of US\$50,000;
3. any loan or credit taken by New Company;
4. execution, amendment or termination of agreements or commitments with FI, SPAR or their subsidiaries or affiliates;
5. adoption or amendment of the annual budgets and business plan;
6. adoption or any material modification of major regulations or procedures, including any employee rules or handbook;

7. change of the auditing firm as provided in Article 21;
8. initiating or settling any litigation, arbitration or other formal dispute settlement procedures or forgiveness of any obligation owed to the New Company in excess of US\$25,000;

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9. approval of annual closing of the books of New Company and the New Company's annual financial statements, and changing of accounting policies and practices or the New Company's accounting periods;
10. establishment or amendment to the condition of employment of New Company officers, provided that the affirmatives vote of SPAR-nominated Directors shall not be withheld unreasonably;
11. sale or disposition of or granting a lien, security interest or similar obligation with respect to, in one or a series of related transactions of New Company or with respect to any major strategic asset of New Company that is crucial to New Company' business;
12. Formation of any subsidiary of New Company, entry into (or subsequent termination of) any joint venture, partnership or similar agreements;
13. entering into, amending or terminating any contract with/or commitment to any Director or shareholder; and
14. entering into any agreement or commitment to provide goods or services outside Territory.

CHAPTER V: AUDIT

Article 19. Accounting Period

The accounting periods of New Company shall end on the 31st day of December of each year or another date if permitted by applicable law.

Article 20. Statutory Auditors (where required)

A Statutory Auditor shall be appointed by New Company if required by applicable law. The parties confirm that presently a Statutory Auditor is not required.

Article 21. Inspection of Accounting Records and Books

The New Company shall yearly arrange audit on the accounting records and books and shall submit a report of such audit to each of the parties hereto within thirty (30) days from the completion of the audit.

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An internationally recognized auditing firm shall be the accounting firm engaged by New Company. Such accounting firm shall audit the accounting records and books of New Company and any other matters relating, directly or indirectly, to the financial condition of New Company. Any fee for the certified public accountant for inspection and audit mentioned above shall be borne by New Company. New Company shall keep true and correct accounting records and books with regard to all of its operations in accordance with generally accepted accounting principals consistently applied ("GAAP") in Territory. All accounting records and books shall be kept ready for inspection by the parties hereto or by their authorized representative. If requested by SPAR, New Company shall cooperate with respect to each financial period to provide such information as required by SPAR to reconcile New Company's financial statements with U.S. GAAP reporting requirements of SPAR. SPAR and FI shall each have the right at any time to have an outside auditor inspect all the books and records of New Company, and New Company shall cooperate fully with any such audit.

Article 22. Increase of Capital

In case of capital increase of the New Company after its establishment, FI, Tudor and SPAR shall have the preemptive right to new shares to be issued for such capital increase in proportion to their respective shareholdings in the New Company.

CHAPTER VI: TRANSFER OF SHARES

Article 23. Restrictions on Transfer of Shares

Except as provided in Article 24 hereof, no party hereto shall, without the prior written consent of each other party, assign, sell, transfer, pledge, mortgage, or otherwise dispose of all or any part of its shares (including its right to subscribe to new shares) of the New Company to any third parties.

Article 24. Preemptive Right and Option

1. At no time may any party transfer less than all of its shares. After three (3) years from the effective date of this Agreement, if any party hereto (hereinafter called "Selling Party") wishes to transfer and sell all but not less than all of its shares, the Selling Party shall furnish to the other parties (hereinafter called "Other Parties") a written notice of a proposed purchaser, the offered purchase price and other major terms and conditions of such proposed sale.

2. If the Selling Party is SPAR, then FI and Tudor shall jointly have a right to purchase such shares by giving Selling Party a written notice of their intention to purchase the same within ninety (90)

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days from the receipt of Selling Party's notice, upon the same terms and conditions as described in the Selling Party's notice. In such case, the Selling Party may sell such shares upon the terms and conditions as described in its notice after ninety (90) days from the date of FI's receipt of such notice unless FI and Tudor give notice for their purchase of the shares to Selling Party. If the Selling Party is not SPAR, then SPAR shall have a right to purchase such shares by giving Selling Party a written notice of its intention to purchase the same within ninety (90) days from the receipt of Selling Party's notice, upon the same terms and conditions as described in the Selling Party's notice. In such case, the Selling Party may sell such shares upon the terms and conditions as described in its notice after ninety (90) days from the date of SPAR's receipt of such notice unless SPAR gives a notice for its purchase of the shares to Selling Party. In either case, unless agreed by the Other Parties in writing, any transferee party shall be subject to this Agreement. Notwithstanding anything to the contrary above, (1) FI may not transfer its shares unless Tudor transfers his shares at the same time, as part of the same transaction and on the same terms; and (2) Tudor may not transfer his shares unless FI transfers its shares at the same time, as part of the same transaction and on the same terms, except for the case where Tudor transfers his shares to FI.

3. After three (3) years from the effective date of this Agreement, SPAR may at any time make a written offer to buy all of the Other Parties' shares in the New Company. Each Other Party shall then either accept the offer and sell all of its shares under the terms and conditions offered, or FI alone or pro rata with Tudor (if Tudor shall so elect) may purchase SPAR's shares at the same terms and conditions. If any party receiving the initial offer does not respond to the initial offer within one hundred and twenty (120) days, such party receiving the offer shall be deemed to have accepted the offer to sell its shares. After three (3) years from the effective date of this Agreement, FI may at any time make a written offer to buy all of the SPAR's shares in the New Company. SPAR shall then either accept the offer and sell all of its shares under the terms and conditions offered, or purchase FI's shares and Tudor's shares at the same terms and conditions. If SPAR does not respond to the initial offer within one hundred and twenty (120) days, SPAR shall be deemed to have accepted the offer to sell its shares. In any case, the parties shall cooperate to effect the closing of such purchase and sale of all of the shares of the New Company held by the Selling Party within 120 days of the decision or deemed decision of the second

party. At such closing, the purchasing party shall pay to the Selling Party the purchase price in cash, and the Selling Party shall deliver to the purchasing party all of the Selling Party's shares held in the New Company, free and clear of any liens.

4. Each party shall vote in favor of any transfer effected pursuant to Article 24(1, 2 and 3) at the shareholders meeting approving such transfer.

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5.1 Notwithstanding the general arbitration provisions in Article 37, should:

5.1.1 there be any deadlock at any meeting of the Board of Directors and/or at any General Meeting of Shareholders of New Company; or

5.1.2 a quorum at any meeting of the Board of Directors and/or at any General Meeting of Shareholders of New Company be broken;

then in such event the parties shall attempt to resolve these issues by mediation as soon as possible and failing such resolution within twenty-one (21) business days after having been referred to mediation, any director or shareholder (as the case may be) shall be entitled by written notice to New Company to claim that all or any of the matters which were under discussion and/or to be discussed at that meeting, be submitted to and decided by arbitration in terms of Article 37.

5.2 Notwithstanding that a deadlock may have arisen in terms of clause 5.1, such deadlock shall not alone constitute a ground for any shareholder to apply to court for the winding up of New Company.

Article 25. Cooperation in Financing

1. The New Company may borrow up to US\$25,000 as its operating funds, which shall be guaranteed by FI in its discretion. FI shall make its reasonable efforts to enable such borrowing. The terms of the borrowing and any agreement between New Company and FI with respect to FI guarantee shall be matters subject to Article 18 hereof.

2. The New Company may borrow an additional US\$50,000 when it needs additional funds, if such borrowing is approved in advance by the Board of Directors as an important matter under Article 18 herein.

3. If FI pays any creditors of the New Company due to a guarantee made by FI to such creditors in favor of the New Company, SPAR and Tudor shall reimburse FI pro rata with their respective share capital percentage in New Company as at the date of reimbursement, but only if the New Company's borrowing of such funds and FI guaranty of the New Company's obligations have been expressly agreed to in advance by SPAR in writing or in a Board resolution, for which all SPAR-nominated directors have voted affirmatively.

4. For the first three years of operations subsequent to the effective date of this Agreement (the "Maximum Loss Period"), if for any year the net loss of the New Company exceeds US\$20,000 (the "Annual Maximum Loss"), FI shall make a cash payment to the New Company equal to the amount of the net loss in excess of the Annual Maximum Loss (the "Annual Maximum Loss Payment"), which payment shall be in the form of a fully subordinated, non-amortizing, interest-free loan with an initial term of the later of one year and the date following the close of any fiscal year where the New Company has profits, which term shall be automatically extended by successive 12-month periods until

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such loan shall have been repaid from a quota not less than one-third of the New Company's profits determined as sum of the accounting profits at the end of the fiscal year and the total amount of the investments made throughout the respective fiscal year, such payment to occur within 45 days after the issuance

of the annual audit report by the outside auditing firm specified in Article 21.

CHAPTER VII: ROLE OF CONTRACTING PARTIES

Article 26. Supply of Office and Facility

1. Based on a supply agreement ("Supply Agreement") to be concluded between SPAR Romania S.R.L. and FI, FI shall supply offices and facilities, staff service for general affairs and finance, and intra company network services, which are determined, at FI's sole discretion, necessary for the operation of New Company after the consultation between FI and SPAR, to New Company at no charge for a period of three (3) years up to a maximum value of US\$ 200,000.

2. SPAR for first three (3) years will provide up to three thousand (3,000) hours of business support annually. This support may be in the form of general business, consultation or programming support to modify or enhance the merchandising software. SPAR will maintain ownership of all software. If support provided by SPAR exceeds three thousand (3,000) hours the additional hours will be billed by SPAR to SPAR Romania Ltd. at fifty five US\$55.00 per hour. However a lower price will be charged for programming costs if a less expensive way to hire IT staff is found. SPAR Romania Ltd. will be able to hire its own IT staff if cost effective for the JV and appropriate.

3. If after three (3) years from the effective date of this Agreement, SPAR sells its interest to a third party or FI or Tudor, SPAR is committed to supply:

3.1 Its name for an additional year at no cost; and

3.2 Its Licensed Technology (as defined in the License Agreement) to the New Company for an additional year at the following cost:

3.2.1 First six (6) months: out of pocket costs; and

3.2.2 Next six (6) months: US\$3,000/month plus out of pocket costs.

At the end of such additional year, in the case of both clauses 3.1 and 3.2, the New Company shall immediately cease using the name "SPAR" and the License Agreement shall be terminated.

4. FI agrees that its operating expenses may not be allocated to SPAR Romania Ltd.

5. SPAR and FI shall set up project teams as they may agree to supervise the operations of the joint venture. All salaries of any such employees shall be borne by the respective parties.

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6. All marketing agents and other employees involved only in supervising marketing agents shall be engaged by and at the cost of New Company.

Article 27. Personnel

FI shall, at its own judgment, second to New Company at least one non-marketing management level employee appropriate for the start-up of business of New Company for a period of one (1) year without any consideration.

Article 28. Training

SPAR and FI shall provide the appropriate training to the employees for New Company's operation at its own site. The said training shall be made upon New Company's request and any necessary expenses for the training shall be borne by New Company, except as otherwise provided in License Agreement or the Supply Agreement.

Article 29. Non-Competition

For five (5) years from the Execution Date of this Agreement, neither SPAR without the consent of FI, nor FI or Tudor without the consent of SPAR, shall engage in, whether directly or indirectly, Merchandising Services (as defined in the License Agreement) in Territory or any other business then competitive with New company in Territory. However, in the event that SPAR enters into a contract with a customer that covers more than one country and the scope of such agreement includes services in Territory, SPAR shall not be prohibited from entering into or performing such agreement, provided that SPAR shall make commercially reasonable efforts to enable New Company to participate in and be fairly compensated for providing services to any such customer.

CHAPTER VIII: AMENDMENT FOR PUBLIC OFFERING

Article 30. Public Offering

The parties acknowledge that the New Company may attempt to become a listed company or over-the-counter company on the Bucharest Stock Exchange or any other stock exchange or public market in Territory (Public Offering). The parties acknowledge that the number of issued shares, the number of shareholders, the paid-up capital and profit transaction with each party, the seconded employees of New Company will be reviewed and instructed for amendment by the relevant governmental or

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regulatory authorities in accordance with those bodies' rules or guidelines for Public Offering. If SPAR and FI agree to undertake a Public Offering pursuant to Article 12 above, all parties shall discuss and reasonably cooperate with each other to amend the Constitutive Act and/or the License Agreement in order to complete the Public Offering of New Company. Any changes to the License Agreement will be effective upon consummation of the Public Offering (but not before), and subject to the approval of the Boards of Directors of the New Company, FI and SPAR.

CHAPTER IX: CONFIDENTIALITY

Article 31. Confidential Information

FI, Tudor and SPAR shall keep secret and retain in strict confidence any and all confidential information and use it only for the purpose of this Agreement and shall not disclose it to a third party without the prior written consent of the other party unless the receiving party can demonstrate that such information: (i) has become public other than as a result of disclosure by the receiving party, (ii) was available to the receiving party prior to the disclosure by the disclosing party with the right to disclose, or (iii) has been independently acquired or developed by the receiving party. These confidentiality provisions shall survive termination of this Agreement.

CHAPTER X: GENERAL PROVISIONS

Article 32. Effective Date

This Agreement shall become effective at the time of execution hereof.

Article 33. Termination

1. If SPAR transfers its shares in the New Company to FI or Tudor, or FI and Tudor transfer their respective social parts in the New Company to SPAR, in accordance with Article 24 hereof, this Agreement shall terminate. If any party transfers its shares in the New Company to another party, unless expressly agreed by the non-transferring parties in writing, this Agreement shall be assigned to and binding upon such third party, provided that the assigning party shall remain liable for all legal acts with respect to this Agreement or the New Company occurred before the effective date of such assignment.

2. If SPAR is not in breach of this Agreement, it may terminate this Agreement by written notice to the other parties if any breach by either other party shall not have been corrected by such other party in breach within ninety (90) days after written notice is given by SPAR. If neither FI nor Tudor is in breach of this Agreement, FI may terminate this Agreement by written notice to the other parties if any breach by SPAR shall not have been corrected by SPAR within ninety (90) days after written notice is given by FI. If FI or SPAR disputes the exercise of any rights under this provision, such disputing party may invoke the arbitration provisions in Article 37.

3. SPAR may terminate this Agreement by giving notice in the event of one or more of the following with respect to FI or Tudor, and FI may terminate this Agreement by giving notice in the event of one or more of the following with respect to SPAR:

- (a) Appointment of a trustee or receiver for all or any part of its assets;
- (b) Insolvency or bankruptcy;
- (c) Assignment for the benefit of any creditor;
- (d) Attachment of assets;
- (e) Expropriation of business or assets; and
- (f) Dissolution or liquidation.

If any party is involved in any of the events enumerated in (a) through (f) above, it shall immediately notify the other parties of the occurrence of such event.

4. In case of the termination of this Agreement pursuant to Article 33.2 or Article 33.3, the party terminating in accordance with this Agreement shall have an option to purchase the shares of the other parties at the book value to be decided by an internationally recognized accounting firm that is not the principal accounting firm of either party, if either party so requests, or to have the New Company dissolved.

5. Upon termination of this Agreement or SPAR's ceasing to hold at least 51% of the shares in New Company, the License Agreement shall terminate immediately if still in effect, unless otherwise agreed by the parties.

Article 34. Force Majeure

No party shall be liable to any other party for failure or delay in the performance of any of its obligations under this Agreement for the time and to the extent such failure or delay is caused by riots, civil commotions, wars, hostilities between nations, governmental laws, orders or regulations,

embargoes, actions by the government or any agency thereof, acts of God, storms, fires, accidents, strikes, sabotages, explosions, or other similar contingencies beyond the reasonable control of the respective parties.

Article 35. Notices

All notices, reports and other communications given or made in accordance with or in connection with this Agreement shall be made in writing and may be given either by (i) personal delivery, (ii) overnight delivery or (iii) registered air mail, if properly posted, with postage fully prepaid, in an envelope properly addressed to the respective parties at the address set forth below or to such changed address as may be given by either party to the other by such written notice. Any notice, etc by personal delivery or overnight delivery or facsimile transmission shall be deemed to have been given (7) days after the dispatch. In any event, if any notice, etc. is received other than the regular business hours

of the recipient, it shall be deemed to have been given as of the following business day of the recipient.

To: FI 18 Vasile Lascares Street, apt. 8, 1st floor, 020491
 Bucharest 2, Romania;

 SPAR Spar Group International Inc.,
 ATT Robert G. Brown, Chairman
 580 White Plains Road, Tarrytown New York, USA

 Tudor Calea Dorobantilor nr. 73, Ap. 3, Sector 1, Bucharest

Article 36. Assignment

This Agreement and the rights and obligations hereunder are personal to the parties hereto, and shall not be assigned by either of the parties to any third.

Article 37. Arbitration

All dispute, controversies, or differences which may arise between SPAR, on the one hand, and FI or Tudor, on the other hand, out of or in relation to or in connections with this Agreement, shall be finally settled by arbitration in Territory in accordance with the rules of the International Arbitration Court of the Bucharest Chamber of Commerce and Industry if initiated by SPAR, or in New York City in accordance with the International Arbitration Rules of the American Arbitration Association if initiated by any other party hereto. The arbitration shall be conducted by three (3) arbitrators in

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English and in Romanian. The arbitration shall be final and legally binding upon both parties.

Article 38. Implementation

The Shareholders hereby agree, for themselves, their successors, heirs and legal representatives, to vote at Shareholders' meetings, and to cause the Directors they nominate to vote at Board meetings and to carry out their duties, to prepare, execute and deliver or cause to be prepared, executed and delivered such further instruments and documents, to take such other actions and to cause the Constitutive Act of New Company, New Company work rules and other rules and Commercial registry and any other document to be amended or adopted as may be reasonably required to effect the provisions and intent of this Agreement and the transactions contemplated hereby.

Article 39. Governing Law

This Agreement and all questions arising out of or under this Agreement shall be governed by and interpreted in accordance with the laws of Territory.

Article 40. Waiver

Any failure of any party to enforce, at any time or for any period of time, any of the provisions of this Agreement shall not be construed as a waiver of such provisions or of the right of such party thereafter to enforce each and every such provision.

Article 41. Entire Agreement

This Agreement constitutes the entire and only agreement among the parties hereto with respect to the subject matter of this Agreement and supersedes any other commitments, agreements or understandings, written or verbal, that the parties hereto may have had. No modification, change and amendment of this Agreement shall be binding upon the parties hereto except by mutual express consent in writing of subsequent date signed by authorized officer or representative of each of the parties hereto or of the party against whom enforcement is sought.

Article 42. Headings

The headings of articles and paragraphs used in this Agreement are inserted for convenience of reference only and shall not affect the interpretation of the respective articles and paragraphs of this Agreement.

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Article 43. Language

This Agreement has been executed in the English and Romanian language. If there is any discrepancy or inconsistency between the English and the Romanian versions, the English version shall prevail.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in four (4) copies by their respective duly authorized officer or representative as of the day first above written.

FIELD INSIGHTS S.R.L.

Signature: /s/ Laurentiu Nicolae Belu

Name: Laurentiu Nicolae Belu

Title: Managing Director

Spar Group International Inc.

Signature: /s/ Robert G Brown

Name: Robert G Brown

Title: Chairman and CEO

Adinel Tudor

Signature: /s/ Adinel Tudor

Name: Adinel Tudor

SPAR Romania S.R.L.

Signature: _____

Name:

Title:

Date:

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SPAR Group, Inc.
List of Subsidiaries

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 No. 333-07377 pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 No. 333-53400 pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 No. 333-73000 pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 No. 333-73002 pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 No. 333-72998 pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. of our report dated February 28, 2005, with respect to the December 31, 2004 consolidated financial statements of SPAR Group, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 2004.

/s/ Rehmann Robson

Troy, Michigan
April 5, 2005

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Form S-8 No. 333-07377 pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 No. 333-53400 pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 No. 333-73000 pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 No. 333-73002 pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 No. 333-72998 pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. of our report dated February 13, 2004, with respect to the December 31, 2003 and 2002 consolidated financial statements and schedule of SPAR Group, Inc. included in the Annual Report (Form 10-K), for the year ended December 31, 2004.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
April 6, 2005

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: April 12, 2005

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and
Chief Executive Officer

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

I, Charles Cimitile, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: April 12, 2005

/s/ Charles Cimitile

Charles Cimitile

Chief Financial Officer, Treasurer and Secretary

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 (the "Report"), by SPAR Group, Inc. (the "Registrant"), the undersigned hereby certifies that, to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and
Chief Executive Officer

April 12, 2005

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

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 (the "Report"), by SPAR Group, Inc. (the "Registrant"), the undersigned hereby certifies that, to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

April 12, 2005

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