

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 for the second quarterly period ended June 30, 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 of Incorporation

33-0684451
IRS Employer Identification No.

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

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

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

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

On June 30, 2004, there were 18,858,972 shares of Common Stock outstanding.

SPAR Group, Inc.

Index

PART I: FINANCIAL INFORMATION

Item 1:	Financial Statements	
	Consolidated Balance Sheets	
	as of June 30, 2004 and December 31, 2003.....	3
	Consolidated Statements of Operations for the three	
	months and six months ended June 30, 2004 and 2003.....	4
	Consolidated Statements of Cash Flows for the	
	six months ended June 30, 2004 and 2003.....	5

	Notes to Consolidated Financial Statements.....	6
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 3:	Quantitative and Qualitative Disclosures About Market Risk.....	28
Item 4:	Controls and Procedures.....	28
PART II:	OTHER INFORMATION	
Item 1:	Legal Proceedings.....	29
Item 2:	Changes in Securities and Use of Proceeds.....	29
Item 3:	Defaults upon Senior Securities.....	29
Item 4:	Submission of Matters to a Vote of Security Holders.....	29
Item 5:	Other Information.....	29
Item 6:	Exhibits and Reports on Form 8-K.....	29
	SIGNATURES.....	31

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements

SPAR Group, Inc.

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

	June 30, 2004 ----- (Unaudited)	December 31, 2003 ----- (Note)
Assets		
Current assets:		
Accounts receivable, net	\$ 7,743	\$ 13,942
Prepaid expenses and other current assets	310	415

Deferred income taxes	-	1,305
	-----	-----
Total current assets	8,053	15,662
Property and equipment, net	1,751	2,099
Goodwill	798	8,749
Deferred income taxes	-	434
Other assets	448	926
	-----	-----
Total assets	\$ 11,050	\$ 27,870
	=====	=====
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,083	\$ 1,445
Accrued expenses and other current liabilities	1,192	4,350
Accrued expenses, due to affiliates	1,296	996
Restructuring charges, current	-	685
Customer deposits	932	17
Line of credit, short-term	1,856	4,084
	-----	-----
Total current liabilities	7,359	11,577
Other long-term liabilities	513	270
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares - 3,000,000		
Issued and outstanding shares - none	-	-
Common stock, \$.01 par value:		
Authorized shares - 47,000,000		
Issued and outstanding shares -		
18,858,972 - June 30, 2004 and		
December 31, 2003	189	189
Treasury stock	(213)	(384)
Accumulated other comprehensive loss	(3)	(7)
Additional paid-in capital	11,197	11,249
Accumulated (deficit) retained earnings	(7,992)	4,976
	-----	-----
Total stockholders' equity	3,178	16,023
	-----	-----
Total liabilities and stockholders' equity	\$ 11,050	\$ 27,870
	=====	=====

Note: The Balance Sheet at December 31, 2003, has been derived from the audited financial statements at that date but does not include any of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.

3

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

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	-----	-----	-----	-----
Net revenues	\$ 11,933	\$ 17,351	\$ 24,736	\$ 36,090
Cost of revenues	8,716	11,146	17,411	22,397
	-----	-----	-----	-----
Gross profit	3,217	6,205	7,325	13,693

Selling, general and administrative expenses	5,577	4,768	10,545	9,711
Impairment charges	8,141	-	8,141	-
Depreciation and amortization	369	399	730	777
	-----	-----	-----	-----
Operating (loss) income	(10,870)	1,038	(12,091)	3,205
Interest expense	64	72	98	140
Other expense (income)	7	(10)	8	28
	-----	-----	-----	-----
(Loss) income before provision for income taxes	(10,941)	976	(12,197)	3,037
Provision for income taxes	1,236	368	771	1,151
	-----	-----	-----	-----
Net (loss) income	\$ (12,177)	\$ 608	\$ (12,968)	\$ 1,886
	=====	=====	=====	=====
Basic/diluted net (loss) income per common share:				
Net (loss) income - basic/diluted	\$ (0.65)	\$ 0.03	\$ (0.69)	\$ 0.10
	=====	=====	=====	=====
Weighted average common shares - basic	18,859	18,858	18,859	18,850
	=====	=====	=====	=====
Weighted average common shares - diluted	18,859	19,538	18,859	19,447
	=====	=====	=====	=====

See accompanying notes.

4

SPAR Group, Inc.

Consolidated Statements of Cash Flows
(unaudited) (In thousands)

	Six Months Ended	
	June 30, 2004	June 30, 2003
	-----	-----
Operating activities		
Net (loss) income	\$ (12,968)	\$ 1,886
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Impairment charges	8,141	-
Deferred tax asset adjustments	729	-
Depreciation	730	777
Changes in operating assets and liabilities:		
Accounts receivable	6,199	(2,089)
Prepaid expenses and other assets	515	(630)
Accounts payable, accrued expenses, other current liabilities and customer deposits	(561)	(332)
Accrued expenses due to affiliates	300	577
Restructuring charges	-	(817)
	-----	-----
Net cash provided by (used in) operating activities	3,085	(628)
Investing activities		
Purchases of property and equipment	(824)	(966)
Acquisition of businesses	(399)	(436)
	-----	-----
Net cash used in investing activities	(1,223)	(1,402)
Financing activities		
Net (payments) borrowings on line of credit	(2,228)	6,500
Other long-term liabilities	243	-
Proceeds from employee stock purchase plan and exercised options	119	32
Payments to certain stockholders	-	(3,951)
Purchase of treasury stock	-	(551)

Translation gain	4	-
	-----	-----
Net cash (used in) provided by financing activities	(1,862)	2,030
Net change in cash	-	-
Cash at beginning of period	-	-
	-----	-----
Cash at end of period	\$ -	\$ -
	=====	=====
Supplemental disclosure of cash flow information		
Interest paid	\$ 103	\$ 111

See accompanying notes.

5

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

1. Basis of Presentation

The accompanying unaudited, consolidated financial statements of SPAR Group, Inc., a Delaware corporation ("SGRP"), and its subsidiaries (together with SGRP, collectively, the "Company" or the "SPAR Group") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in these interim financial statements. However, these interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the Company as contained in the Company's Annual Report for 2003 on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on March 30, 2004 (the "Company's Annual Report for 2003 on Form 10-K"). The Company's results of operations for the interim periods are not necessarily indicative of its operating results for the entire year.

2. Impairment Charges

Goodwill:

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 35.9% and 32.7% of the Company's net revenues for the six months ended June 30, 2004 and 2003, respectively and 29.9% of the Company's revenues for the year ended December 31, 2003. This customer was the last remaining profitable business that resulted from the PIA acquisition on July 9, 1999.

At March 31, 2004, the Company had \$7.6 million of goodwill related to the acquisition of PIA. As a result of the loss of this major client, 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 operations for the three months ending June 30, 2004. Also, in connection with the PIA acquisition, certain deferred tax assets related to PIA net operating loss carry forward benefits were recognized as an adjustment to goodwill. The Company also recorded as an impairment charge, a \$750,000 valuation allowance on these deferred tax assets.

At March 31, 2004, the Company had approximately \$2.1 million accrued for restructure costs and PIA merger 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 the tax effect) reduction in PIA related acquisition liabilities against impairment charges during the quarter ended June 30, 2004.

6

(unaudited) (continued)

In June 2003, the Company acquired its Canadian operations. In connection with the acquisition, the Company recorded goodwill of \$712,000. At the time of acquisition, it was expected that the Canadian subsidiary would be profitable. However, the Canadian subsidiary has operated at a loss since its acquisition. It is also expected that the Canadian subsidiary will incur a loss for the year ending December 31, 2004. As a result of the continued losses and the failure to attract new customers the Company has recorded an impairment of the related goodwill resulting in a non-cash charge of \$712,000 for the three months ending June 30, 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 the three months ended June 30, 2004.

Other Assets:

In addition to the above, the Company has recorded impairment of other assets totaling \$68,000 for the three months ending June 30, 2004.

3. Management's Plans Concerning Cash Flow

Management believes that based upon the Company's cost saving initiatives (outlined in Note 4 Restructuring Charges) and the existing credit facilities, funding will be sufficient to support ongoing operations over the next twelve months. The Company is and has been in violation of certain covenants of its Credit Facility (see Note 6 Line of Credit) and expects to violate such covenants in the future. The Company's bank, Webster Business Credit Corporation, has issued waivers for past covenant violations, however, there can be no assurances that Webster will continue to issue such waivers in the future.

4. Restructuring Charges

In 1999, in connection with the PIA merger, 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. (For the specific definitions of those terms, see Item 1 - Business - GENERAL - Continuing Operations - Merchandising Services Division in the Company's Annual Report for 2003 on Form 10-K.) At March 31, 2004, the Company had previously recorded PIA related restructuring reserves for equipment and office lease settlements totaling \$685,000. At June 30, 2004, the Company evaluated its restructuring reserves and determined that the restructuring reserves were no longer necessary (See Note 2 Impairment Charges).

7

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

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 and related expenses, office closings and restructuring or abandoning of equipment leases. In July 2004, the Company implemented several of the savings initiatives and will continue to implement certain others over the next several months. As a result of the July restructuring, the Company estimates it will incur charges of approximately \$200,000 for severance benefits and approximately \$500,000 for equipment and office leases that the Company will cease using in the quarter ending September 30, 2004 or thereafter. The Company will continue to evaluate cost saving opportunities and expects to incur additional restructuring costs in the future.

5. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Numerator:				
Net (loss) income	\$ (12,177)	\$ 608	\$ (12,968)	\$ 1,886
Denominator:				
Shares used in basic earnings (loss) per share calculation	18,859	18,858	18,859	18,850
Effect of diluted securities:				
Employee stock options	-	680	-	597
Shares used in diluted earnings (loss) per share calculation	18,859	19,538	18,859	19,447
Basic and diluted earnings (loss) per common share:				
Net (loss) income - basic and diluted	\$ (0.65)	\$ 0.03	\$ (0.69)	\$ 0.10

The computation of dilutive loss per share excluded anti-dilutive stock options to purchase 370,000 shares and 795,000 shares for three months and six months ending June 30, 2004, respectively.

8

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

6. Line 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 certain reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, tax, depreciation and amortization. At June 30, 2004, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 5.25% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its subsidiaries. In connection with the May 17, 2004 amendment, Mr. Robert Brown, a Director, the Chairman, President, 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, reduces the revolving credit facility from \$10.0 million to \$7.0 million, changes the covenant compliance testing for certain covenants from quarterly to monthly and reduces certain advance rates. The amendment does not change the future covenant levels. Therefore, the Company expects to be in violation of certain covenants in the future. Webster has issued waivers for past covenant violations, however, there can be no assurances that Webster will issue such waivers in the future.

The Credit Facility contains certain financial covenants that must be met

by the Company on a consolidated basis, among which are a minimum "Net Worth", a minimum "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum EBITDA, as such terms are defined in the Credit Facility. Except for the capital expenditure limitation, the Company was not in compliance with such financial covenants at June 30, 2004. The Company has secured a waiver from Webster for those items of non-compliance (see above).

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at June 30, 2004, and December 31, 2003, in accordance with EITF 95-22.

The revolving loan balances outstanding under the Credit Facility were \$1.9 million and \$4.1 million at June 30, 2004, and December 31, 2003, respectively. There were letters of credit outstanding under the Credit Facility of \$0.7 million at June 30, 2004 and December 31, 2003. As of June 30, 2004, the SPAR Group had unused availability under the Credit Facility of \$2.0 million out of the remaining maximum \$4.2 million unused revolving line of credit (as adjusted by the August 20, 2004 amendment) after reducing the borrowing base by the outstanding loans and letters of credit.

9

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

7. 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 (collectively, the "SMS Principals"), 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 provided approximately 99% of the Company's field representatives in the United States (through its independent contractor field force), and SMSI provided approximately 92% of the Company's field management in the United States at June 30, 2004. Pursuant to the Amended and Restated Field Service Agreement dated as of January 1, 2004 (the "Field Service Agreement"), SMS provides the services of approximately 6,200 field representatives to the Company at its request from time to time, for which the Company has agreed to reimburse SMS for all of its costs of providing those services and to pay SMS a premium equal to 4% of such costs. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004 (the "Field Management Agreement"), SMSI provides approximately 62 full-time national, regional and district managers to the Company at its request, from time to time, for which the Company has agreed to reimburse SMSI for all of its costs of providing those services and to pay SMSI a premium equal to 4% of such costs, except that for 2004 SMSI agreed to concessions that reduced the Company's costs by approximately \$89,000 and \$234,000 for the three and six month periods ended June 30, 2004, respectively. The SMS Principals 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, the SMS Principals benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services to the Company for the three and six month periods ended June 30, 2004. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004 (the "Programming and Support Agreement"), SIT continues to provide programming services to the Company at its request, from time to time, 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. No hourly charges or business expenses for the SMS Principals were charged to the Company for the three and six month periods ended June 30, 2004. However, since SIT is a "Subchapter S" corporation, the SMS Principals benefit from any income of such company allocated to them.

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.

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Services provided by affiliates:				
SMS: Independent contractor field services	\$ 5,397	\$ 7,257	\$11,758	\$14,954
SMSI: Field management services	\$ 1,280	\$ 1,859	\$ 2,634	\$ 3,775
SIT: Internet and computer programming services	\$ 334	\$ 476	\$ 715	\$ 882
Reimbursed costs from affiliates:	\$ 27	\$ 52	\$ 63	\$ 108

Accrued expenses due to affiliates (in thousands):

	June 30,	
	2004	2003
SMS	\$ 1,296	\$1,535

8. Stock Options

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

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

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. For disclosure purposes, the compensation cost for the Company's option grants that were awarded 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 operations would have been reduced to the adjusted amounts indicated below (in thousands, except per share data):

Six Months Ended	
June 30,	June 30,

	2004	2003
	-----	-----
Net (loss) income, as reported	\$(12,968)	\$ 1,886
Stock based employee compensation expense under the fair market value method	\$ 342	\$ 907
Adjusted pro forma net (loss) income	\$(13,310)	\$ 979
Basic and diluted net (loss) income per share, as reported	\$ (0.69)	\$ 0.10
Basic and diluted adjusted pro forma net (loss) income per share, after adjustment for stock based employee compensation expense under the fair market value method	\$ (0.71)	\$ 0.05

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.

For the six months ended June 30, 2004, there was a recovery of amounts previously expensed of approximately \$60,000 under the provision of SFAS No. 123 dealing with stock options to non-employees for stock option grants that were awarded to the employees of the Company's affiliates resulting from the decrease in the market price of the stock from December 31, 2003 to June 30, 2004. The Company determines the fair value of the options granted to non-employees using the Black-Scholes valuation model and recovers amounts previously expensed or expenses that value over the service period. Until an option is vested, the fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

12

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

9. Treasury Stock

The Company utilized 33,148 of repurchased shares to issue stock for the exercise of stock options during the six months ended June 30, 2004. As of June 30, 2004, the Company has 42,908 shares of treasury stock, which it acquired at a cost of approximately \$213,000. Currently, the Company has no stock repurchase program in place.

10. Line of Credit and Advances due from SPAR Performance Group, Inc. (now called STIMULYS, Inc.); Inability to Consolidate under FIN 46

In connection with the sale of SPAR Performance Group, Inc. ("SPGI"), on June 30, 2002, the Company sold all of the stock of its subsidiary, SPGI. In connection with the sale, SPGI entered into a term loan agreement with the Company under which SPGI borrowed \$6.0 million in term loans, which due to their speculative nature have been 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 is secured by a pledge of all the assets of SPGI and is 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 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. 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 is required to deposit all of its cash receipts to the Company's lock box.

At June 30, 2004, there was approximately \$0.9 million advanced under the SPGI Revolver and \$70,000 in outstanding letters of credit, while the borrowing base was approximately \$0.9 million. Due to the speculative nature of the SPGI Revolver, the Company has a reserve of approximately \$750,000 against the SPGI Revolver at June 30, 2004.

In accordance with FASB Interpretation No. 46 - Consolidation of Variable Interest Entities (FIN 46), as a result of the term loans and revolving advances, the Company has concluded that it is the primary beneficiary of STIMULYS and is, therefore, required to consolidate STIMULYS in its financial statements. However, the Company has been unable to perform accounting procedures necessary to include STIMULYS in the consolidated financial statements, as required by FIN 46, and has been unable to obtain the necessary permission from STIMULYS to include that organization in the Company's consolidated financial statements. At June 30, 2004, the Company's maximum loss exposure is \$220,000, which represents the amounts outstanding under the revolving line of credit and the letter of credit in excess of the \$750,000 reserve. The Company's maximum potential loss exposure resulting

13

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

from the revolving line of credit agreement with STIMULYS is limited to \$250,000, which is the \$1.0 million revolving line of credit less the \$750,000 reserve.

11. Income Taxes

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 reversed the \$465,000 tax benefit recorded in the quarter ended March 31, 2004. In addition, the Company has recorded a full valuation allowance against its net deferred tax assets resulting in a charge totaling approximately \$729,000 for the three months ending June 30, 2004.

12. Customer Deposits

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

13. Contingencies/Joint Venture Guarantee

In May 2001, the Company and Paltac, Inc. ("Paltac"), a large Japanese distributor, entered into a joint venture to create a Japanese company, SPAR FM. SPAR FM entered into a 300 million Yen Revolving Credit Agreement with a Japanese bank. The bank required Paltac guarantee the outstanding balance on the revolving credit facility. As part of the joint venture agreement, should Paltac be required to make a payment on its guarantee to the bank, then the Company has agreed to remit to Paltac 50% of any such payment up to a maximum of 150 million Yen or approximately \$1.4 million. As of June 30, 2004, SPAR FM has borrowed 100 million Yen under its Revolving Credit Agreement. Therefore, the Company's current exposure to Paltac respecting outstanding loans to SPAR FM at June 30, 2004 would be 50 million Yen or approximately \$0.5 million. The Company has recorded approximately \$0.3 million in long-term liabilities for its share of the cumulative losses associated with this joint venture.

Legal Matters

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

Company.

14

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

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

14. Geographic Data

A summary of the Company's net revenue, operating income and long lived assets by geographic area for the three and six month periods ending June 30, 2004 is as follows (in thousands):

	Three Months Ending	Six Months Ending
	-----	-----
	June 30,	June 30,
	2004	2004
	-----	-----
Net revenue:		
United States	\$ 10,568	\$ 23,231
International	\$ 1,365	\$ 1,505
Operating income:		
United States	\$ (10,395)	\$ (11,258)
International	\$ (475)	\$ (833)
Long lived assets as of June 30, 2004:		
United States	\$ 1,555	
International	\$ 196	

No one international geographic market is greater than 10% of consolidated net revenue.

15

SPAR Group, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q for the six months ended June 30, 2004 (this "Quarterly Report"), of SPAR Group, Inc. ("SGRP", and together with its subsidiaries, the "SPAR Group" or the "Company"), include "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including, in particular and without limitation, the statements contained in the discussions under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the Company's actual results, performance and achievements, whether expressed or implied by such forward-looking statements, to not occur or be realized or to be less than expected. Such forward-looking statements generally are based upon the Company's best estimates of future results, performance or achievement, current conditions and the most recent results of operations. Forward-looking statements may be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "believe", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms. You should carefully consider such risks, uncertainties and other information, disclosures and discussions which contain cautionary statements identifying important factors that could cause actual results to differ materially from those provided in the forward-looking statements.

Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are

reasonable, it cannot assure that such plans, intentions or expectations will be achieved in whole or in part. You should carefully review the risk factors described and any other cautionary statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed with the Securities and Exchange Commission on March 30, 2004 (the "Company's Annual Report for 2003 on Form 10-K"), and the cautionary statements contained in this Quarterly Report. All forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the risk factors (see Item 1 - Certain Risk Factors) and other cautionary statements in the Company's Annual Report for 2003 on Form 10-K and in this Quarterly Report. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

The Company's operations are divided into two divisions: the Merchandising Services Division and the International Division. The Merchandising Services Division provides merchandising services, product demonstrations, product sampling, database marketing, teleservices and marketing research to manufacturers and retailers with product distribution primarily in mass merchandisers, drug chains, convenience stores and grocery stores in the United States. The International Division, established in July 2000, currently provides merchandising services in Japan, Canada, Turkey and South Africa.

16

SPAR Group, Inc.

Merchandising Services Division

The Company provides nationwide merchandising and other marketing services to general merchandise, health and beauty care, consumer goods, home entertainment, PC software and food products companies in drug chains, mass merchandisers, convenience stores and retail grocery stores in the United States. Merchandising services primarily consist of regularly scheduled dedicated routed services and special projects provided at the store level for a specific retailer or multiple manufacturers primarily under single or multi-year contracts or agreements. Services also include stand-alone, large-scale implementations such as new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. These services may include sales enhancing activities such as ensuring that client products authorized for distribution are in stock and on the shelf, adding new products that are approved for distribution but not presently on the shelf, setting category shelves in accordance with approved store schematics, ensuring that shelf tags are in place, checking for the overall salability of client products, setting new and promotional items, and placing and/or removing point of purchase and other related media advertising. Specific in-store services can be initiated by retailers or manufacturers, and include new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. In 2003, the Company added in-store product demonstration and in-store product sampling services to its merchandising service offerings. Marketing services consist of database marketing, teleservices and marketing research.

International Division

In July 2000, the Company established its International Division, through a wholly owned subsidiary, SPAR Group International, Inc. ("SGI"), to focus on expanding its merchandising services business worldwide. In May 2001, the Company entered into a 50% owned joint venture with a large Japanese distributor to provide merchandising services in Japan. In June 2003, the Company expanded its merchandising services into Canada through a wholly owned subsidiary. In July 2003, the Company established a 51% owned joint venture based in Istanbul to provide merchandising services throughout Turkey. In April 2004, the Company established a joint venture in South Africa. The joint venture is headquartered in Durban and is owned 51% by the Company. In April 2004, the Company announced the establishment of a joint venture in India with plans to start operations during the third quarter. The joint venture is headquartered in New Delhi and is owned 51% by the Company.

Critical Accounting Policies

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

17

SPAR Group, Inc.

Revenue Recognition

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

Allowance for Doubtful Accounts and Sales Allowance

The Company continually monitors the collectability of its accounts receivable based upon current customer credit information and other information available. Utilizing this information, the Company has established an allowance for doubtful accounts of \$589,000 and \$515,000 at June 30, 2004 and December 31, 2003, respectively. The Company also recorded a sales allowance of \$37,000 and \$448,000 at June 30, 2004 and December 31, 2003, respectively, to reflect potential customer credits.

Internal Use Software Development Costs

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

The Company capitalized \$362,808 and \$541,042 of costs related to software developed for internal use in the six months ended June 30, 2004 and 2003, respectively.

The Company also recorded a net impairment charge of capitalized software related to lost clients totaling approximately \$442,000 in the three-month period ending June 30, 2004.

18

SPAR Group, Inc.

Results of Operations

Three months ended June 30, 2004, compared to three months ended June 30, 2003

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

Three Months Ended				
June 30, 2004		June 30, 2003		
Amount	%	Amount	%	(Decrease) Increase %
-----	-----	-----	-----	-----

Net revenues	\$ 11,933	100.0%	\$ 17,351	100.0%	(31.2)%
Cost of revenues	8,716	73.0	11,146	64.2	(21.8)
Selling, general and administrative expense	5,577	46.7	4,768	27.4	17.0
Impairment charges	8,141	68.2	-	-	-
Depreciation and amortization	369	3.1	399	2.3	(7.5)
Interest expense	64	0.6	72	0.4	(11.1)
Other expense (income)	7	0.1	(10)	(0.1)	(170.0)
	-----	-----	-----	-----	
(Loss) income before provision for income taxes	(10,941)	(91.7)	976	5.6	(1,221.0)
Provision for income tax	1,236	10.4	368	2.1	235.9
	-----	-----	-----	-----	
Net (loss) income	<u>\$ (12,177)</u>	<u>(102.0)%</u>	<u>\$ 608</u>	<u>3.5%</u>	<u>(2,102.8)%</u>

Net revenues for the three months ended June 30, 2004, were \$11.9 million, compared to \$17.4 million for the three months ended June 30, 2003, a decrease of 31.2%. The decrease in net revenues resulted primarily from reduced business from the Company's largest customer, which was in the process of being sold during the quarter, as well as the loss of two other large clients.

One customer, a division of a major retailer, accounted for 27.5% and 36.9% of the Company's net revenues for the three months ended June 30, 2004 and 2003, respectively. This customer also accounted for approximately 18.0% and 41.2% of accounts receivable at June 30, 2004 and 2003, respectively. In April 2004, the customer's parent company announced that they signed definitive agreements for the sale

19

SPAR Group, Inc.

of this business to two purchasers. The sale was completed on August 2, 2004. The loss of this business will have a material adverse effect on the Company's business, results of operations and financial condition.

For the three months ended June 30, 2004, a second customer accounted for 10.3% of net revenue. This customer also accounted for approximately 18.9% of accounts receivable at June 30, 2004.

For the three months ended June 30, 2003, a third and fourth customer accounted for 8.0% and 4.8% respectively of net revenue. The Company no longer provides services to these customers.

In addition, approximately 15% of the Company's net revenues for the three months ended June 30, 2004 and 2003 resulted from merchandising services performed for manufacturers and others at Kmart. Kmart filed for protection under the U.S. Bankruptcy Code in January 2002 and emerged from bankruptcy in May 2003. During its time in bankruptcy, Kmart closed a number of stores in the United States. While the Company's customers and the resultant contractual relationships or agreements 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.

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

Cost of revenues from operations consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues as a percentage of net revenues was 73.0% for the three months ended June 30, 2004, compared to 64.2% for the three months ended June 30, 2003. The increase is primarily a result of additional costs associated with its per unit fee revenue programs and reduced pricing to a large customer. The Company is currently in the process of reducing its field structure to reflect its reduction of business.

Approximately 76.3% and 81.8% of the Company's cost of revenue in the three months ended June 30, 2004 and 2003, respectively, resulted from in-store independent contractor and field management services purchased from the

Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (see Note 7 to the Financial Statements in this Quarterly Report).

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

20

	Three Months Ended				
	June 30, 2004		June 30, 2003		Increase (Decrease)
	Amount	%	Amount	%	%
Selling, general and administrative	\$ 5.6	46.7%	\$ 4.8	27.4%	17.0%
Impairment charges	8.1	68.2%	-	-	-
Depreciation and amortization	0.4	3.1%	0.4	2.3%	(7.5)%

Selling, general and administrative expenses were \$5.6 million for the three months ended June 30, 2004, compared to \$4.8 million for the three months ended June 30, 2003, an increase of \$0.8 million or 17.0%. The increase of \$0.8 million consists of a one-time charge of \$0.5 million resulting from the settlement of a client claim and approximately \$0.6 million of international selling, general and administrative costs acquired in 2004, offset by domestic reductions of \$0.3 million. The Company is currently in the process of reducing its selling, general and administrative cost structure to reflect its reduction of business.

Impairment charges were \$8.1 million for the three months ended June 30, 2004. Impairment charges consisted of \$9.0 million of goodwill impairment, offset by adjustments to other liabilities of \$1.0 million and restructuring charges of \$0.7 million, net of a \$0.3 million tax effect, \$0.4 million of net impairment of software development costs previously capitalized and \$0.1 million for impairment of other assets.

Depreciation and amortization costs of \$0.4 million for the three months ended June 30, 2004, were consistent with the prior year.

Other Expense (Income)

Other expense represents the Company's share in the Japanese joint venture loss totaling approximately \$7,000 for the three months ended June 30, 2004.

Income Taxes

The Company recorded an income tax provision of \$1.2 million for the three months ended June 30, 2004. The provision was primarily a result of the establishment of a valuation reserve for the deferred tax assets previously recorded by the Company totaling \$0.7 million, a reversal of the \$0.5 million tax benefit previously recorded in the quarter ending March 31, 2004 and estimated minimum taxes due. For the three months ended June 30, 2003, the income tax provision represents a combined federal and state income tax rate of 38%.

Net Income

The Company had a net loss of \$12.2 million for the three months ended June 30, 2004, or \$(0.65) per diluted share, compared to net income of \$0.6 million, or \$0.03 per diluted share, for the corresponding period last year.

21

Results of Operations

Six months ended June 30, 2004, compared to six months ended June 30, 2003

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

	Six Months Ended					
	June 30, 2004		June 30, 2003		% Incr. (Decr.)	
	Amount	%	Amount	%		
Net revenues	\$ 24,736	100.0%	\$ 36,090	100.0%	(31.5)%	
Cost of revenues	17,411	70.4	22,397	62.1	(22.3)	
Selling, general, and administrative expense	10,545	42.6	9,711	26.9	8.6	
Impairment charges	8,141	32.9	-	-	-	
Depreciation and amortization	730	3.0	777	2.1	(6.1)	
Interest expense	98	0.4	140	0.4	(30.0)	
Other expense (income)	8	0.0	28	0.1	(71.4)	
(Loss) income before provision for income taxes	(12,197)	(49.3)	3,037	8.4	(501.6)	
Provision for income taxes	771	3.1	1,151	3.2	33.0	
Net (loss) income	\$ (12,968)	(52.4)%	\$ 1,886	5.2%	(787.6)%	

Net revenues from operations for the six months ended June 30, 2004, were \$24.7 million, compared to \$36.1 million for the six months ended June 30, 2003, a decrease of 31.5%. The decrease in net revenues resulted primarily from reduced business from the Company's largest customer, which was in the process of being sold, decreased project revenue from another client and the loss of two other large clients.

One customer accounted for 35.9% and 32.7% of the Company's net revenues for the six months ended June 30, 2004 and 2003, respectively. This customer also accounted for approximately 18.0% and 41.2% of accounts receivable at June 30, 2004, and 2003, respectively. In April 2004, the customer's parent company announced that they signed definitive agreements for the sale of this business to two

purchasers. The sale was completed on August 2, 2004. The loss of this business will have a material adverse effect on the Company's business, results of operations and financial condition.

For the six months ended June 30, 2004, a second customer accounted for 8.4% of net revenue. This customer also accounted for approximately 18.9% of accounts receivable at June 30, 2004. For the six months ended June 30, 2003, a third and fourth customer accounted for 9.8% and 5.0% respectively of net revenue. The Company no longer provides services to these customers.

Approximately 15% and 16% of the Company's net revenues for the six months ended June 30, 2004, and 2003, respectively, resulted from merchandising services performed at Kmart for various customers. Kmart filed for protection under the U.S. Bankruptcy Code in January 2002 and emerged from bankruptcy in May 2003. During its time in bankruptcy, Kmart closed a number of stores in the United States. While the Company's customers and the resultant contractual relationships or agreements are with various manufacturers and not this retailer, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company.

Cost of revenues consists of field in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of

revenues as a percentage of net revenues was 70.4% for the six months ended June 30, 2004, compared to 62.1% for the six months ended June 30, 2003. The increase is primarily a result of additional costs associated with its per unit fee revenue programs and reduced pricing to a large customer. The Company is currently in the process of reducing its field structure to reflect its reduction in business.

Approximately 82.7% and 83.6% of the Company's costs of revenue in the six months ended June 30, 2004, and 2003, respectively, resulted from field in-store independent contractor and field management services purchased from the Company's affiliates, SMS, and SMSI, respectively (see Note 7 to the Financial Statements in this Quarterly Report).

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

	Six Months Ended				
	June 30, 2004		June 30, 2003		Incr. (Decr.)
	Amount	%	Amount	%	%
Selling, general and administrative	\$ 10.5	42.6%	\$ 9.7	26.9%	8.6%
Impairment charge	8.1	32.9%	-	-	-
Depreciation and amortization	0.7	3.0%	0.8	2.1%	(6.1)%

Selling, general and administrative expenses were \$10.5 million for the six months ended June 30, 2004, compared to \$9.7 million for the six months ended June 30, 2003, an increase of \$0.8 million or 8.6%. The increase consists of a one time charge of \$0.5 million resulting from the settlement of a

SPAR Group, Inc.

client claim and approximately \$0.7 million of international and \$0.2 million of in-store demonstration selling, general and administrative costs acquired in 2004, offset by domestic reductions of approximately \$0.6 million. The Company is currently in the process of reducing its selling, general and administrative cost structure to reflect its reduction of business.

Impairment charges were \$8.1 million for the six months ended June 30, 2004. Impairment charges consisted of \$9.0 million of goodwill impairment, offset by reductions to the other liabilities for PIA merger related costs of \$1.0 million and PIA restructuring charges of \$0.7 million, net of a \$0.3 million tax effect, \$0.4 million of net impairment of software development costs previously capitalized and \$0.1 million for impairment of other assets.

Depreciation and amortization costs of \$0.7 million for the first six months ended June 30, 2004, were comparable to depreciation and amortization costs of \$0.8 million for the six months ended June 30, 2003.

Other Expense (Income)

Other expense represents the Company's share in the Japanese joint venture loss totaling approximately \$8,000 for the six months ended June 30, 2004.

Income Taxes

The Company recorded an income tax provision of \$0.8 million for the six months ended June 30, 2004. The provision was primarily a result of the establishment of a valuation reserve for net deferred tax assets previously recorded by the Company and estimated minimum taxes due. For the six months ended June 30, 2003 the income tax provision represents a combined federal and state income tax rate of 38%.

Net Income

The Company had a net loss of \$13.0 million for the six months ended June 30, 2004, or \$(0.69) per diluted share compared to net income of \$1.9 million or \$0.10 per diluted share for the corresponding period last year.

Liquidity and Capital Resources

In the six months ended June 30, 2004, the Company had a net loss of \$13.0 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 and \$0.7 million for depreciation and amortization.

Net cash provided by operating activities for the six months ended June 30, 2004, was \$3.1 million, compared with net cash used in operations of \$0.6 million for the six months ended June 30, 2003. The increase in cash provided by operating activities was primarily a result of decreases in accounts receivable, prepaid expenses and other assets and increases in customer deposits and accrued expenses due to affiliates

SPAR Group, Inc.

significantly offset, by net operating losses, decreases in accounts payable, accrued expenses and other current liabilities.

Net cash used in investing activities of \$1.2 million for the six months ended June 30, 2004, was comparable to net cash used in investing activities of \$1.4 million for the six months ended June 30, 2003.

Net cash used in financing activities for the six months ended June 30, 2004, was \$1.9 million, compared with net cash provided by financing activities of \$2.0 million for the six months ended June 30, 2003. The increase of net cash used in financing activities was primarily a result of net payments on the line of credit.

The above activity resulted in no change in cash and cash equivalents for the six months ended June 30, 2004, as the Company utilizes excess cash to pay down its line of credit.

At June 30, 2004, the Company had positive working capital of \$0.7 million, as compared to a positive working capital of \$4.1 million at December 31, 2003. The decrease in working capital is due primarily to operating losses, decreases in accounts receivable, accounts payable and accrued expenses. The Company's current ratio was 1.09 at June 30, 2004, and 1.35 at December 31, 2003.

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 the reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, tax, depreciation and amortization. At June 30, 2004, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 5.25% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its 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, reduces the revolving credit facility from \$10.0 million to \$7.0 million, changes the covenant compliance testing for certain covenants from quarterly to monthly and reduces certain advance rates. The amendment does not change the future covenant levels. Therefore, the Company expects to be in violation of certain covenants in the

future. Webster has issued waivers for past covenant violations, however, there can be no assurances that Webster will issue such waivers in the future.

The Credit Facility contains certain financial covenants that must be met by the Company on a consolidated basis, among which are a minimum "Net Worth", a minimum "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum EBITDA, as such terms are defined in the Credit

25

SPAR Group, Inc.

Facility. Except for the capital expenditure limitation, the Company was not in compliance with such financial covenants at June 30, 2004. The Company has secured a waiver from Webster for those items of non-compliance (see above).

Because of the requirement to maintain a lock box arrangement with Webster and Webster's ability to invoke a subjective acceleration clause at its discretion, borrowings under the Credit Facility are classified as current at June 30, 2004, and December 31, 2003, in accordance with EITF 95-22.

The revolving loan balances outstanding under the Credit Facility were \$1.9 million and \$4.1 million at June 30, 2004 and December 31, 2003, respectively. There were letters of credit outstanding under the Credit Facility of \$0.7 million at June 30, 2004, and December 31, 2003. As of June 30, 2004, the SPAR Group had unused availability under the Credit Facility of \$2.0 million out of the remaining maximum \$4.2 million unused revolving line of credit (as adjusted by the August 20, 2004 amendment) after reducing the borrowing base by outstanding loans and letters of credit.

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

In connection with the sale of SPGI on June 30, 2002, the Company agreed to provide a discretionary revolving line of credit to SPGI not to exceed \$2.0 million (the "SPGI Revolver") through September 30, 2005. The SPGI Revolver is secured by a pledge of all the assets of SPGI and is 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 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 2003, SPGI changed its name to STIMULYS, Inc. 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. At June 30, 2004, there was approximately \$0.9 million borrowed under the SPGI Revolver and \$70,000 in outstanding letters of credit. Under the SPGI Revolver terms, STIMULYS is required to deposit all of its cash receipts to the Company's lock box.

26

SPAR Group, Inc.

Certain Contractual Obligations

The following table contains a summary of certain of the Company's contractual obligations by category as of June 30, 2004 (in thousands).

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$1,856	\$1,856	\$ -	\$ -	\$ -
Operating Lease Obligations	1,751	828	884	39	-
Total	\$3,607	\$2,684	\$884	\$ 39	\$ -

In addition to the above table, the Company had agreed to provide a discretionary line of credit to STIMULYS not to exceed the greater of \$1.0 million or the borrowing base through September 30, 2005. Outstanding loans to SPGI under the discretionary line of credit totaled approximately \$0.9 million at June 30, 2004.

The Company also had \$0.7 in outstanding Letters of Credit at June 30, 2004.

In May 2001, the Company and Paltac, Inc. ("Paltac"), a large Japanese distributor, entered into a joint venture to create a Japanese company, SPAR FM. SPAR FM entered into a 300 million Yen Revolving Credit Agreement with a Japanese bank. The bank required Paltac guarantee the outstanding balance on the revolving credit facility. As part of the joint venture agreement, should Paltac be required to make a payment on its guarantee to the bank, the Company has agreed to remit to Paltac 50% of any such payment up to a maximum of 150 million Yen or approximately \$1.4 million. As of June 30, 2004, SPAR FM has borrowed 100 million Yen under its Revolving Credit Agreement. Therefore, the Company's current exposure to Paltac respecting outstanding loans to SPAR FM at June 30, 2004, would be 50 million Yen or approximately \$0.5 million.

SPAR Group, Inc.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Currently, the Company does not believe the risk related to foreign currency exchange rates is material.

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

Item 4. Controls and Procedures

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

forms. There were no material changes in the Company's internal control over financial reporting during the second quarter of 2004.

28

SPAR Group, Inc.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

No change.

Item 2: Changes in Securities and Use of Proceeds

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

Item 2(d): Not applicable

Item 3: Defaults upon Senior Securities

Item 3(a): Defaults under Indebtedness: None.

Item 3(b): Defaults under Preferred Stock: Not applicable.

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

Not applicable.

Item 5: Other Information

Not applicable.

Item 6: Exhibits And Reports On Form 8-K

Exhibits.

- 10.1 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, as filed herewith.
- 10.2 Change in Control Severance Agreement between Kori Belzer and SPAR Group, Inc., dated as of August 12, 2004, as filed herewith.
- 10.3 Change in Control Severance Agreement between Patricia Franco and SPAR Group, Inc., dated as of August 12, 2004, as filed herewith.
- 31.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.

29

SPAR Group, Inc.

- 31.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.1 Certification of the CEO pursuant to 18 U.S.C. Section 1350 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.
- 32.2 Certification of the CFO pursuant to 18 U.S.C. Section 1350

adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as filed herewith.

Reports On Form 8-K

1. Periodic Report on Form 8-K, dated March 26, 2004, filed with the U.S. Securities and Exchange Commission on May 26, 2004, respecting the Waiver And Amendment No. 3 To Third Amended And Restated Revolving Credit And Security Agreement entered into as of March 26, 2004, and the Joinder, Waiver And Amendment No. 4 to Third Amended and Restated Revolving Credit And Security Agreement entered into as of May 17, 2004.
2. Periodic Report on Form 8-K, dated May 18, 2004, filed with the U.S. Securities and Exchange Commission on May 27, 2004, respecting the adoption of each of (i) the Amended and Restated By-Laws of the Company; (ii) the Amended and Restated Charter of the Audit Committee of the Board of Directors of the Company; (iii) the Charter of the Compensation Committee of the Board of Directors of the Company; (iv) the Charter of the Governance Committee of the Board of Directors of the Company; (v) the SPAR Group, Inc. Statement of Policy Respecting Stockholder Communications with Directors; and (vi) the SPAR Group, Inc. Statement of Policy Regarding Director Qualifications and Nominations.
3. Periodic Report on Form 8-K, dated August 23, 2004, filed with the U.S. Securities and Exchange Commission on August 23, 2004, respecting the earnings press release for the second quarter ended June 30, 2004.

30

SPAR Group, Inc.

SIGNATURES

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

Date: August 23, 2004 SPAR Group, Inc., Registrant

By: /s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer and duly
authorized signatory

31

WAIVER AND AMENDMENT NO. 5
TO THIRD AMENDED AND RESTATED
REVOLVING CREDIT AND SECURITY AGREEMENT

THIS WAIVER AND AMENDMENT NO. 5 (this "Agreement") is entered into as of August 20, 2004, by and among SPAR MARKETING FORCE, INC. ("SMF"), SPAR, INC. ("SPAR"), SPAR/BURGOYNE RETAIL SERVICES, INC ("SBRIS"), 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 in connection with making certain amendments to the Loan Agreement.

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. Waivers. Subject to the satisfaction of Section 4 below, Lender hereby waives the Event of Default which has occurred as a result Borrowers' non-compliance with (i) Section 12(o) with respect to the fiscal quarter ended June 30, 2004 due to Borrowers' failure to maintain its required Net Worth at the end of such fiscal quarter, (ii) Section 12(p) and Section 12(r) with respect to the fiscal quarter ending June 30, 2004 due to Borrowers' failure to maintain the requisite Fixed Charge Coverage Ratio and EBITDA

level for the four fiscal quarters then ended and (iii) Section 12(x) due to Borrowers' failure to retain a consultant by June 15, 2004 and Borrowers' failure to deliver a copy of a consultant's report to Lender by June 30, 2004. Notwithstanding the foregoing, the waivers of the Events of Default set forth above do 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. Amendment. Subject to the satisfaction of Section 5 below, the Loan Agreement is hereby amended as follows:

(a) Section 1(A) is hereby amended as follows:

- (i) The definition of "Maximum Revolving Amount" is hereby amended by deleting "\$10,000,000" and inserting "\$7,000,000" in its place and stead.
- (ii) The definition of "Unbilled Receivables Availability" is hereby amended by deleting "70%" and inserting "60%" in its place and stead.
- (iii) The following new definitions are hereby added in the

appropriate alphabetical order.

"Amendment No. 5" means Waiver and Amendment No. 5 dated as of August 20, 2004 by and among Borrowers and Lender.

"Amendment No. 5 Effective Date" shall mean the date on which all of the conditions precedent set forth in Section 4 of Amendment No. 5 have been satisfied.

(b) Section 12(n)(v)(F) is hereby amended in its entirety to provide as follows:

"(F) any investment (net of all related repayments and returns of capital) made by any Borrower in any Unrestricted Subsidiary, in the form of a capitalized expense, capital contribution or loan, for purposes of investing in, or investing in an entity which is investing in, entities or participating in joint ventures formed under the laws of a foreign country, provided that such investment, together with the Aggregate Consideration, shall not exceed (x) \$150,000 in the aggregate during the period commencing on the date Amendment No. 5 is executed through December 31, 2004, and (y) \$250,000 during each calendar year thereafter."

(c) Section 12(r) is hereby amended in its entirety to provide as follows:

2

"(r) The Borrowers shall maintain EBITDA for the months set forth below ending on the last day of such month in an amount not less than the amount set forth below:

Month ended	Minimum EBITDA for the month then ended	Cumulative Minimum EBITDA from August 1, 2004 through the month then ended
August 31, 2004	\$(100,000)	\$(100,000)
September 30, 2004	\$ 260,000	\$ 160,000
October 31, 2004	\$ 185,000	\$ 345,000
November 30, 2004	\$ 225,000	\$ 570,000
December 31, 2004	\$ 360,000	\$ 930,000

Thereafter, commencing with the fiscal quarter ending March 31, 2005, the Borrowers shall maintain EBITDA of not less than \$7,750,000 at the end of each fiscal quarter with respect to the four (4) fiscal quarters then ended;"

(d) Section 12(x) is hereby amended in its entirety to provide as follows:

"(x) On or before August 31, 2004, Borrowers shall retain a consultant to be selected by Borrowing Agent but who is satisfactory to Lender. The terms of the engagement shall be subject to a satisfactory review by Lender. The consultant shall prepare a report analyzing the contingency scenarios and

Lender shall have received a copy of such report on or before September 30, 2004. In addition, on or before September 30, 2004, Borrowers shall deliver to Lender revised month by month projected operating budget and cash flow for the twelve months ending December 31, 2004"

4. Conditions of Effectiveness. This Agreement shall become effective as of the date hereof, provided that the following conditions shall have been satisfied: Lender shall have received (i) four (4) copies of this Agreement executed by the Borrowers and the limited guarantors (each a "Limited Guarantor") and the guarantor ("Guarantor") listed on the signature page hereto, and, (ii) payment of a waiver and amendment fee in the sum of \$25,000 which fee shall be charged by Lender to Borrowers' loan account as a Revolving Advance, (iii) a draft of Borrowers' financial statements for the two fiscal quarters ended June 30, 2004 showing all write-off's during such period, (iv) a draft of Borrowers' financial statements for the month ended July 31, 2004 showing that EBITDA was not less than \$(350,000) for such period and (v) a compliance certificate

3

executed by the chief financial officer of Borrowers in substantially the form of Exhibit A to this Agreement and a report setting forth the covenant calculations, each as of June 30, 2004, (including advances to Unrestricted Subsidiaries).

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

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

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

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

6. 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 Agreement shall not operate as a waiver of any right, power or remedy of Lender, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

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

8. 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 Amendment

or the Ancillary Agreements (all of the foregoing

hereinafter called the "Released Matters"). Borrowers acknowledge that the agreements in this Section are intended to be in full satisfaction of all or any alleged injuries or damages arising in connection with the Released Matters.

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

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

[Remainder of page intentionally left blank]

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

- SPAR MARKETING FORCE, INC.
- 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: _____
 Name: Charles Cimitile
 Title: Chief Financial Officer of
 each of the foregoing entities

WEBSTER BUSINESS CREDIT CORPORATION

By: _____
 Name:
 Its:

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

CONSENTED AND AGREED TO BY:

WILLIAM H. BARTELS, Limited Guarantor

ROBERT G. BROWN, Limited Guarantor

PIA Merchandising Limited, Guarantor

By:

Name:
Its:

EXHIBIT A
FORM OF
COMPLIANCE CERTIFICATE

I, Charles Cimitile, in my capacity as the Chief Financial Officer of SPAR Group, Inc., hereby certify that, with respect to the Third Amended and Restated Revolving Credit and Security Agreement dated January 24, 2004 (as it may be amended, modified, extended or restated from time to time, the "Credit Agreement"; capitalized terms not otherwise defined in this Certificate shall have the meaning given to them in the Credit Agreement) among 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 ALL STORE MARKETING SERVICES, INC., and SPAR BERT FIFE, INC. (each of the foregoing a "Borrower" and collectively the "Borrowers"), and WEBSTER BUSINESS CREDIT CORPORATION (formerly known as Whitehall Business Credit Corporation) ("Lender"):

1. Attached hereto are the financial statements required pursuant to Section 11 of the Credit Agreement for the [month] [quarter] [year] ending _____.

2. With respect to any quarterly or annual financial statements, attached hereto as Schedule 1 are detailed calculations demonstrating compliance with the financial covenants contained in Sections 12(o), (p), (q) and (r) of the Credit Agreement. Borrowers are in compliance with such covenants as of the date hereof.

3. [Based on an examination by the company sufficient to enable it to make an informed statement, the company does not believe that any Event of Default exists which has not been previously disclosed in writing to Lender] or [Since the last Compliance Certificate, one or more Events of Default have occurred as more fully described on Schedule 2, which sets forth the nature and extent of such Events of Default, a description of the corrective action taken or proposed to be taken with respect thereto]. [If Applicable add - Schedule 2 sets forth the actions, if any, taken with respect to Events of Default since the prior Compliance Certificate.

Dated this ____ day of _____, 200_.

SPAR Group, Inc.

By:

Name: Charles Cimitile
Title: Chief Financial Officer

SCHEDULE 1

Financial Covenants

A. Minimum Consolidated Net Worth

Consolidated Net Worth as of [current fiscal quarter end] \$ _____

Consolidated Net Worth as of [prior fiscal quarter end] \$ _____

Covenant Requirement - at least \$100,000 greater than the consolidated net worth as of the end of the prior fiscal quarter \$ _____

B. Minimum Fixed Charge Coverage Ratio: (a) EBITDA of Borrowers on a consolidated basis minus Non-Financed Capital Expenditures to (b) Fixed Charges

1. EBITDA calculations for any period:

(i) net income (or loss) of Borrowers on consolidated basis for such period (excluding extraordinary gains and extraordinary losses per GAAP), plus
---- \$ _____

(ii) all interest expense of Borrowers on an unsolicited basis for such period, plus \$ _____

(iii) all charges against income of Borrowers on a consolidated basis for such period for federal, estate and local taxes, plus \$ _____

9

(iv) depreciation expenses of Borrowers on a consolidated basis for such period, minus \$ _____

(v) amortization expenses of Borrowers on a consolidated basis for such period minus \$ _____

(vi) Capitalized cash expenses of any Borrower which for expenses were previously deducted from net income in calculating (i) through (iii) above, minus \$ _____

(vii) Non-Financed Capital Expenditures for such \$ _____
\$ _____ period.

Total (EBITDA minus Non-Financed Capital Expenditures) \$ _____
=====

2. Fixed Charges calculation for any period:

(i) all interest payments made on the Loans, plus \$ _____

(ii) All dividends or other distributions to stockholders and other payments made or paid with respect to any indebtedness for money borrowed (excluding the principal amount of Revolving Advances but including all payments made on capitalized leases) during such period (including, without limitation, payments permitted under Section 12(n)(iii)), \$ _____

10

plus

(iii) Income or franchise taxes paid in cash during such period, plus \$ _____

(iv) Payments on the Shareholders Notes during such period under Section 12(n)(iv) of the Credit Agreement, plus \$ _____

(v) PIA and SPAR Merger Payments made during _ such period.

Total Fixed Charges

Fixed Charge Coverage Ratio: _____:1.00
EBITDA to Fixed Charges

Covenant Requirement

Greater than or equal to 1.10 to 1.00

C. Minimum EBITDA

EBITDA (calculated in accordance with (B)(1)(i)-(vi)) above \$ _____

Covenant Requirement \$ _____

11

D. Maximum Capital Expenditures [Annual test]

Capital Expenditures for fiscal year \$ _____

Covenant Requirement \$2,000,000

CHANGE IN CONTROL SEVERANCE AGREEMENT

This Change in Control Severance Agreement (as modified, amended or restated from time to time in the manner provided herein, this "Agreement") is by and between the undersigned individual employee (the "Employee") and SPAR Group, Inc. (the "Company"). The Employee and the Company may be referred to individually as a "Party" and collectively as the "Parties".

In consideration of past, present and future employment by the Company, the mutual covenants below and other good and valuable consideration (the receipt and adequacy of which are hereby acknowledged), the Employee and Company hereby agree as follows:

Section 1. Introduction. The Employee is an officer of the Company or one of the SPAR Affiliates (as hereinafter defined). The Employee and the Company have entered into this Agreement in order to provide severance payments 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 (as such terms are hereinafter defined). However, this Agreement is not intended, and shall not be deemed or construed, to create any employment term or period, and except as otherwise provided in any other written agreement with the Employee, the Employee acknowledges and agrees that the Employee's employment is "at will" and modifiable from time to time and terminable at any time, for any reason or no reason, and without notice or benefit of any kind.

Section 2. Certain Definitions. 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. As used in this Agreement, the following capitalized terms and non-capitalized words and phrases shall have the meanings respectively assigned to them:

(a) "Authorized Representative" shall mean, for the Company or any SPAR Affiliate for whom the Employee works, any of (i) the Board, (ii) the Chairman, (iii) any other executive officer of the Company or applicable SPAR Affiliate who directly or indirectly supervises or is responsible for the Employee or (iv) any other Representative of the Company or applicable SPAR Affiliate who directly or indirectly supervises or is responsible for the Employee and is authorized to do so by the Board, the Chairman or any such executive officer, in each case other than the Employee.

(b) "Beneficial Owner" shall mean any person who beneficially owns (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act), securities issued by the referenced corporation or other entity, whether directly or indirectly, and whether individually, jointly with any other person(s) or otherwise.

(c) "Board" shall mean the Board of Directors of the Company or (except for purposes of a Change in Control) the applicable SPAR Affiliate.

(d) "Chairman" shall mean the Chairman of the Company or applicable SPAR Affiliate.

(e) "Change in Control" shall mean any of the following:

(i) when any "person" or "group" (as contemplated in Sections 3(a)(9) and 13(d)(3), respectively, of the Securities Exchange Act), becomes a Beneficial Owner of a Majority of Voting Securities issued by the Company, in each case other than any acquisition of Company Securities (A) in any transaction covered by or exempted under clause (iii) of this definition, (B) by the Employee or any group of which the Employee voluntarily is a member, (C) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any SPAR Affiliate or (D) by any corporation or other entity if, immediately following such acquisition, the Beneficial Owners of a Majority of Voting Securities of the acquirer (or its ultimate parent) outstanding immediately after such event are either (1) the persons who were the Beneficial Owners of all or substantially all of the voting Company Securities immediately prior to such acquisition and in substantially the same proportions as their ownership immediately prior to such event, or (2) by Robert G. Brown and/or William H. Bartels;

(ii) when individuals who are members of the Board as of the date hereof or who are added as hereinafter provided (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the then Incumbent Board shall thereafter be added (for the purposes hereof) as a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened solicitation of proxies or consents not by or on behalf of at least a majority of the then Incumbent Board;

-1-

(iii) any reorganization, merger or consolidation of the Company or any of its subsidiaries, in each case other than (A) any merger of any SPAR Affiliate (other than the Company) into the Company or any of its subsidiaries as the surviving entity, or (B) one in which all or substantially all of the Beneficial Owners' of the voting Company Securities immediately prior to such event are, immediately following such event, Beneficial Owners of a Majority of Voting Securities of either the Company or the surviving entity of a merger with the Company (or its ultimate parent), as the case may be, outstanding immediately after such event and in substantially the same proportions as their ownership immediately prior to such event;

(iv) the approval by the Company's Board or stockholders of a plan of complete liquidation of the Company; or

(v) any sale or other disposition by the Company of all or substantially all of its assets, in each case other than (A) any assignment or pledge of all or substantially all of the respective assets and properties of the Company and its subsidiaries to one or more lenders as security for their respective credit, indebtedness and guaranties, (B) any acquisition by the Company or any of its subsidiaries of the assets of any SPAR Affiliate (whether by assignment, merger, liquidation or otherwise), or (C) any transaction in which all or substantially all of the Beneficial Owners' of the voting Company Securities immediately prior to such event are, immediately following such event, Beneficial Owners of a Majority of Voting Securities of both the Company and the acquiring entity (or its ultimate parent) outstanding immediately after such event and in substantially the same proportions as their ownership immediately prior to such event;

provided, however, that it shall not constitute a Change in Control if and for so long as Robert G. Brown retains effective control of the Company and shall continue to be the chairman or the chief (or most senior, however designated) executive officer of the Company.

(f) "Company Securities" shall mean any securities issued by the Company, whether acquired directly from the Company, in the marketplace or otherwise.

(g) "Good Reason" shall mean the occurrence of any of the following events:

(i) the failure to elect or appoint, or re-elect or re-appoint, the Employee to, or removal or attempted removal of the Employee from, his position positions with the Company or applicable SPAR Affiliate (except in connection with the proper termination of the Employee's employment by the Company by reason of death, disability or Termination For Cause);

(ii) the assignment to the Employee of any duties inconsistent with the status of the Employee's office and/or position with the Company;

(iii) any adverse change in the Employee's title or in the nature or scope of the Employee's authorities, powers, functions or duties of the position(s) with the Company or applicable SPAR Affiliate;

(iv) the willful delay by the Company or applicable SPAR Affiliate for more than ten (10) business days in the payment to the Employee, when due, of any part of his or her compensation;

(v) a reduction in the Employee's salary or benefits (other than a discretionary bonus);

- (vi) a failure by the Company to obtain the assumption of, and agreement to perform, this Agreement by any successor to the Company; or
- (vii) a change in the location at which substantially all of the Employee's duties with the Company are to be performed from the county and state in which the Employee is currently performing substantially all of his or her duties (excluding those duties performed at home or on the road).
- (h) "Majority of Voting Securities" shall mean securities of the referenced person representing more than fifty percent (50%) of the combined voting power of the referenced person's then outstanding securities having the right to vote generally in the election of directors, managers or the equivalent.
- (i) "Representative" shall mean any subsidiary or other affiliate of the referenced person or any shareholder, partner, equity holder, member, director, officer, manager, employee, consultant, agent, attorney, accountant, financial advisor or other representative of the referenced person or of any of its subsidiaries or other affiliates, in each case other than the Employee.
- (j) "Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any corresponding or succeeding provisions of any applicable law (including those of any state or foreign jurisdiction), and the 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.

-2-

(k) "SPAR Affiliate" shall mean and currently includes (without limitation) each of the Company's direct and indirect subsidiaries (including, without limitation, SPAR Acquisition, Inc., SPAR Marketing, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR, Inc., SPAR Marketing Force, Inc., SPAR Trademarks, Inc., SPAR Group International, Inc., SPAR/PIA Retail Services, Inc., SPAR Technology Group, Inc., SPAR All Store Marketing Services, Inc., SPAR Canada, Inc., SPAR Canada Company, Retail Resources, Inc., Pivotal Field Services, Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co. d/b/a Retail Resources, Pivotal Sales Company, and PIA Merchandising Ltd.), the Company's affiliates (including, without limitation, SPAR Marketing Services Inc., SPAR Management Services, Inc., and SPAR InfoTech, Inc.), and each other entity under the control of or common control with any of the foregoing entities, in each case whether now existing or hereafter acquired, organized or existing.

(l) "SPAR Group" shall mean the Company and all of the SPAR Affiliates.

(m) "Termination For Cause" shall mean any termination of the Employee for any of the following reasons: (i) the Employee's willful, negligent or repeated breach of, or the Employee's willful, negligent or repeated nonperformance, misperformance or dereliction of any of his or her duties and responsibilities under, (A) any employment agreement or confidentiality agreement with the Company or any Spar Affiliate, (B) the directives of the Board or any Authorized Representative, or (C) the Company's policies and procedures governing his or her employment; (ii) the gross or repeated disparagement by the Employee of the business or affairs of the Company, any SPAR Affiliate or any of their Representatives that in the reasonable judgment of the Company or SGRP has adversely affected or would be reasonably likely to adversely affect the operations or reputation of any such person; (iii) any resume, application, report or other information furnished to the Company or any SPAR Affiliate by or on behalf of the Employee shall be in any material respect untrue, incomplete or otherwise misleading when made or deemed made; (iv) the Employee is indicted for, charged with, admits or confesses to, pleads guilty or no contest to, adversely settles respecting or is convicted of (A) any willful dishonesty or fraud (whether or not related to the Company or any SPAR Affiliate), (B) any theft or embezzlement by the Employee of any asset or property of the Company, any SPAR Affiliate or any of their respective Representatives, customers or vendors, (C) any other misdemeanor involving moral turpitude, or (D) any other felony; (vi) alcohol or drug abuse by the Employee; or (v) any other event or circumstance that constitutes cause for termination of an employee under applicable law and is not described in another clause of this subsection.

Section 3. Severance. (a) Lump Sum Payment. If the Employee's employment with the Company or applicable SPAR affiliate (or their respective successors in any Change in Control, as applicable) shall be terminated pending or within the twenty-four-month period following any Change in Control by (i) the Company for

any reason other than the Employee's death or permanent disability or a Termination For Cause, or (ii) by the Employee for Good Reason (either of which will be referred to as a "Severance Termination"), then the Company shall promptly (but not later than the tenth business day following such Severance Termination) pay (or cause the applicable SPAR Affiliate to promptly pay) to the Employee severance pay (in a lump sum) in an amount equal to the sum of:

- (i) the Employee's annual salary rate in effect immediately prior to his cessation of such employment (or, if greater, at the highest annual salary rate in effect at any time during the one-year period preceding the date of such termination), times a multiple (calculated to two decimal places) equal to the remainder of (i) 24 months (i.e., the number of months in the period referred to in the introduction to this subsection Section 3(a)), minus (ii) the number of months (to two decimal places, but not less than zero) by which the Severance Termination date followed the effective date of the Change in Control; and
- (ii) the maximum bonus that would have been paid or payable to the Employee under the Company's bonus proposal to the Employee for the full year of the Severance Termination as if all performance criteria had been fully satisfied, but in any event not to exceed twenty-five percent (25%) of the Employee's annual salary rate referred to above.

(b) Vacation Days. In addition and in any event, promptly (but not later than the tenth business day) following the date of any termination or resignation pending or following a Change in Control, the Company shall pay (or cause the applicable SPAR Affiliate to pay) to the Employee an amount equal to his or her accrued and unused vacation days, computed at the Employee's annual salary rate in effect immediately prior to his cessation of such employment (or, if greater, at the highest annual salary rate in effect at any time during the one-year period preceding the date of such termination) and in accordance with the applicable policy of the Company (or if changed pending or following a Change in Control, in accordance with the immediately preceding applicable policy of the Company).

(c) Insurance. In addition, during the two-year period following the effective date of any Change in Control, the Employee and his dependents shall continue to receive the insurance benefits received during the preceding year as well as any additional insurance benefits as may be provided to executive officers or their dependents during such period in accordance with the Company's policies and practices. The Employee's required co-payments shall not exceed those payable by the other executive officers of the SPAR Group.

-3-

(d) Stock Options. Each stock option granted to the Employee that has not, by its express terms, vested shall be deemed to have vested on the date of any Severance Termination, and shall thereafter be exercisable for the maximum period of time allowed for exercise thereof under the terms of such option, assuming that the Employee's employment with the Company had been terminated by the Company other than Termination For Cause or by the Employee for Good Reason. An election by the Employee to terminate his or her employment for Good Reason pending or following a Change in Control shall not otherwise be deemed a voluntary termination of employment of the Employee for the purpose of interpreting the provisions of any of the Company's employee benefit plans, programs, or policies.

(e) 401k. The Employee shall be entitled to a 401k matching contribution for the year of his Severance Termination, which the Company shall pay into the Employee's 401k (or deliver to the Employee for deposit into any rollover account respecting such 401k) at the same time for such year as matching contributions are made to the 401k plans of other executive officers.

(f) Illness not affecting Good Reason. The Employee's right to terminate his employment for Good Reason pending or following a Change in Control shall not be affected by his illness or incapacity, whether physical or mental, unless the Company shall at the time be entitled to terminate his or her employment by reason thereof.

(g) Parachute Payments. Notwithstanding any other provision of this Section 3, if it is determined that part or all of the compensation or benefits to be paid to the Employee under this Agreement in connection with the Employee's Severance Termination, or under any other plan, arrangement or agreement, constitutes a "parachute payment" under section 280G(b)(2) of the Internal Revenue Code of 1986, as amended, then the amount constituting a

parachute payment that would otherwise be payable to or for the benefit of the Employee first shall be deferred (to the greatest extent permitted by such applicable law), and to the extent not so deferred, shall be reduced (if required under such applicable law), but only to the extent necessary, so that such amount would not constitute a parachute payment. Any determination that a payment constitutes a parachute payment shall be made as promptly as practicable following the Employee's termination of employment (but not later than the date payment is required under subsection (a) of this Section) by the independent public accountants that audited the Company's financial statements for the fiscal year preceding the year in which the Employee's employment was terminated, whose determination shall be final and binding in all cases. Unless the Employee is given notice that a payment (or payments) will constitute a parachute payment prior to the earlier of (1) receipt of such payments or (2) the tenth business day following his or her Severance Termination, no payment (or payments) shall be deemed to constitute a parachute payment. If the determination made pursuant to this subsection would result in a deferral (to the greatest extent permitted under such applicable law) and to the extent not so deferred, a reduction (to the minimum extent required by such applicable law) of the payments that would otherwise be paid to the Employee, the Employee may elect, in his sole discretion, which and how much of any particular entitlement shall be so deferred or reduced (giving effect to any payments and benefits that may have been received prior to such termination) and shall advise the Company in writing of his election within 10 days of the determination of the deferral or reduction in payments. If no such election is made by the Employee within such 10-day period, the Company shall determine which and how much of any entitlement shall be deferred (to the greatest extent permitted under such applicable law) and, to the extent not so deferred, reduced (to the extent required under such applicable law) and shall notify the Employee promptly of such determination. The Company shall (or shall cause the applicable SPAR Affiliate to) pay to, or distribute to or for the benefit of, the Employee such amounts as are then due to the Employee under this Agreement and shall timely pay to, or distribute to or for the benefit of, the Employee in the future such amounts as become due to the Employee under this Agreement.

(h) Extension of Benefits: Any extension of benefits following a Severance Termination shall be deemed to be in addition to, and not in lieu of, any period for benefits continuation provided for by applicable law at the Company's, the Employee's or his dependents' expense, as applicable.

(i) Temporary Suspension of Section's Benefits. Notwithstanding any other provision of this Section 3, in the event that the Employee's Termination For Cause pending or following a Change in Control is solely based on the Employee having been indicted for or charged with any one or more of the deeds described in clause (iv) of the definition of Termination For Cause, the benefits of this Section 3 (other than those under subsections (b), (c) and (h) hereof respecting vacation pay, insurance and the like) shall be temporarily withheld until such time as either:

- (i) the first to occur of (A) the final determination by an appropriate authority (including an arbitrator) that the Employee is not guilty or is acquitted of such deed(s), (B) the Company's written acknowledgement that the Employee is not guilty or acquitted of such deed(s) or the substantive equivalent or any settlement with the Employee to any such effect, or (C) the passage of twelve months following such termination without the good faith prosecution (criminal or civil) of the Employee for or arbitration of such deed(s), in any which case the termination shall be deemed a Severance Termination and the Employee shall be entitled at such time to (x) all the

-4-

benefits of this Section 3 as of such first to occur date, plus (y) the Employee's salary and maximum bonuses for the period from termination through the date severance is actually paid under subsection (a) of this Section 3 (the "Resolution Period"), plus (z) an extension of the Employees benefit periods under subsections (c) and (h) of this Section 3 and stock option exercise period(s) under subsection (d) of this Section 3 equal to the length of the Resolution Period; or

- (ii) the Employee admits or confesses to, pleads guilty or no contest to, adversely settles respecting or is convicted of such deed(s), in any which case the Employee shall not be entitled to any of the benefits of this Section 3, any salary or bonus pending such resolution, or any of the benefits of subsection (b) hereof.

(j) Employee's Estate. In the event the Employee shall die after a Severance Termination (including, without limitation, during the Resolution Period), this Agreement and the benefits of this Section 3 shall inure to the benefits of the estate, heirs and legal representatives of the deceased Employee in accordance with his or her will or applicable law, as the case may be.

Section 4. Waivers of Notice, Etc. Each Party hereby absolutely, unconditionally, irrevocably and expressly waives forever each and all of the following: (a) acceptance and notice of any acceptance of this Agreement; (b) notice of any action taken or omitted in reliance hereon; (c) 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 Agreement; (d) notice of any material and adverse effect, whether individually or in the aggregate, upon the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation or condition (financial or otherwise) of a Party, its Representative or any other person;; and (e) any other proof, notice or demand of any kind whatsoever with respect to any or all of a Party's obligations or promptness in making any claim or demand under this Agreement.

Section 5. Consent to Exclusive New York Jurisdiction and Venue, Waiver of Personal Service, Etc. 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 each shall have exclusive personal jurisdiction and proper venue with respect to any claim or dispute under this Agreement between the Employee and the Company or SPAR Affiliate or any other aspect of their employment relationship; In any such claim or dispute between the Employee and the Company or any SPAR Affiliate, no Party will raise, and each Party hereby absolutely, unconditionally, irrevocably, expressly and forever waives, any objection or defense to any such jurisdiction as an inconvenient forum. Each Party hereby absolutely, unconditionally, irrevocably, expressly and forever waives personal service of any summons, complaint or other process on such Party or any authorized agent for service of such Party in any claim or dispute under this Agreement (irrespective of whether more parties may be involved). Each Party each hereby acknowledges and agrees with the other Party that service of process may be made in any such claim or dispute under this Agreement upon such Party by (i) delivery pursuant to Section 7 hereof or (ii) any manner of service available under the applicable law at address referenced in Section 7 hereof.

Section 6. Arbitration. (a) Arbitration Generally. Except as otherwise provided in this Section, any unresolved dispute or controversy with respect to this Agreement shall be settled exclusively by arbitration conducted by the American Arbitration Association (including any successor body of similar function, "AAA") in accordance with the AAA's Commercial Arbitration Rules then in effect ("AAA Rules") and held in Westchester County, New York. In any arbitration, no Party will raise, and each Party hereby expressly and irrevocably waives, any objection or defense to such location as an inconvenient forum. To commence an arbitration, the aggrieved Party shall submit an arbitration notice (including a copy of this Agreement and a reasonable description of its claims) to the AAA at its headquarters in New York, New York, and request a list of qualified arbitrators. The Parties agree that each arbitrator must have significant experience and knowledge in the applicable field of endeavor and (to the extent applicable) in the accounting field and GAAP.

(b) Arbitrator Selection. Unless the Parties agree in writing to a single arbitrator prior to selection and a mechanism for his or her selection, three arbitrators shall be chosen by the Parties from the list submitted by the AAA within ten business days of receiving such list (or any subsequent list if applicable). Either Party may object to any proposed arbitrator that does not reasonably appear to have the required experience and knowledge or does not reasonably appear to be a disinterested, unrelated third party. If the Parties cannot agree on the three arbitrators, each Party shall select a single disinterested arbitrator from the AAA's list with such qualifications and the two arbitrators so selected by the Parties shall select the third arbitrator with such qualifications in accordance with the AAA Rules. The arbitration shall begin within 30 business days of such appointment unless another date and/or place is otherwise agreed upon in writing by the Parties.

(c) Arbitrator's Limited Authority. The arbitrator(s) shall not have the authority to add to, detract from, or modify any provision of this Agreement. The Parties hereby instruct and direct the arbitrator to determine each claim or severable part thereof in accordance with the terms and provisions of this Agreement, and the arbitrator(s) shall not "split the difference" or employ

other equitable principles of allocation. Discovery will be strictly limited to documents of the parties specifically applicable to the claims, excluding, however, those items protected by attorney/client, accountant or other professional or work product privilege (which the parties hereby agree have not been waived by the Parties hereto or other applicable Persons). No depositions, interrogatories or other prescreening of a Party or its Representatives or expert witnesses will be permitted. No punitive, consequential or similar damages shall be awarded by the arbitrator(s).

(d) Arbitrator's Decision. The arbitrator(s) shall render a decision and award within sixty (60) days after the commencement of the arbitration. Such decision and award shall be in writing, shall be delivered to each Party and shall be conclusive and binding on the Parties. Judgment on such decision and award may be entered in any court of competent jurisdiction.

(e) Arbitrator's Fees and Expenses. Except as otherwise provided in this Agreement, each Party shall pay (i) the fees and disbursements of its own attorneys and the expenses of its proof, and (ii) half of the fees and expenses of the AAA and the arbitrator(s), in each case irrespective of outcome.

Section 7. Notice. Any notice, request, demand, service of process or other communication permitted or required to be given to a Party under this Agreement shall be in writing and shall be sent to the applicable Party at the address set forth on the signature page below (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 during normal business hours 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. The Employee also may use and rely on the accuracy of the address of the Company designated as its executive office in its most recent filing under the Securities Exchange Act. The Parties acknowledge and agree that such actual receipt will be presumed with, among other things, evidence of the signature by a Representative of, or adult in the same household as, the receiving Party on a return receipt, courier manifest or other courier's acknowledgment of delivery or receipt.

Section 8. Interpretation, Headings, Severability, Reformation, Etc. The Parties agree that the provisions of this Agreement have been negotiated, shall be construed fairly as to all Parties, and shall not be construed in favor of or against any Party. The section headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. 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 provision of this Agreement shall be determined to be superseded, invalid, illegal or unenforceable pursuant to applicable law by a governmental authority, that determination shall not impair or affect the validity, legality or enforceability (a) by that authority of the remaining provisions of this Agreement, which shall be enforced as if the unenforceable provision were deleted or reduced or (b) by any other authority of any of the provisions of this Agreement. If any provision of this Agreement 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 by the Parties, to reduce the scope or duration of such provision to the maximum permissible under applicable law so that said provision shall be enforceable in such reduced form.

Section 9. Successors and Assigns; Assignment; Intended Beneficiaries. Whenever in this Agreement reference is made to any person, such reference shall be deemed to include the successors, assigns, and legal Representatives of such person, and, without limiting the generality of the foregoing, all representations, warranties, covenants and other agreements made by or on behalf of the Employee in this Agreement shall inure to the benefit of the successors

and assigns of the Company and the SPAR Affiliates; provided, however, that nothing herein shall be deemed to authorize or permit the Employee to assign any rights or obligations under this Agreement to any other person, and the Employee agrees to not make any such assignment. Without limiting the generality of the foregoing, the Employee acknowledges and agrees that the Company may pledge this Agreement and all 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 the Company as so assigned in accordance with the this Agreement, 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 the Company hereunder or otherwise. The representations, agreements and other terms and provisions of this Agreement are for the exclusive benefit of the Parties hereto and the SPAR Affiliates, and, except as otherwise expressly provided herein, no other person 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. The provisions of this Agreement are expressly intended to benefit each of the members of the SPAR Group, who may enforce any such provisions directly, irrespective of whether the Company participates in such enforcement. However, no SPAR Affiliate shall have, or shall be deemed or construed to have, any obligation or liability to the Employee under this Agreement or otherwise.

-6-

Section 10. Survival of Agreements, Etc. Each of the representations and warranties (as of the date(s) made or deemed made), covenants, waivers, releases and other agreements and obligations of each Party contained in this Agreement: (a) shall be absolute, irrevocable and unconditional, irrespective of (among other things) (i) the validity, legality, binding effect or enforceability of any of the other terms and provisions of this Agreement or any other agreement (if any) between the Parties, or (ii) 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 Agreement and each other agreement (if any) between the Parties and the performance of any obligation of such Party hereunder or thereunder, (ii) any waiver, modification, amendment or restatement of any other term or provision of this Agreement or any other agreement (if any) between the Parties (except as and to the extent expressly modified by the terms and provisions of any such waiver, modification, amendment or restatement), (iii) any full, partial or non-exercise of any of the rights, powers, privileges, remedies and interests of a Party or any SPAR Affiliate under this Agreement, any other agreement (if any) between the Parties or applicable law against such other Party or any other person or with respect to any obligation of such Party, 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), (iv) any extension, stay, moratorium or statute of limitations or similar time constraint under any applicable law, (v) any pledge, assignment, sale, conveyance or other transfer by the Company (in whole or in part) to any other person of this Agreement or any other agreement (if any) between the Parties or any one or more of the rights, powers, privileges, remedies or interests of the Company therein, (vi) any act or omission on the part of the Company, any SPAR Affiliate, any of their respective Representatives or any other person, (vii) any termination or other departure of the Employee from his or her employment, whether for cause or otherwise, or any dispute involving any aspect of such employment; or (viii) any other act, event, or circumstance that otherwise might constitute a legal or equitable counterclaim, defense or discharge of a contracting party, co-obligor, guarantor, pledgor or surety; in each case without notice to or further assent from the Employee or any other person (except for such notices or consents as may be expressly required to be given to such Party under this Agreement or any other agreement (if any) between the Parties); (c) shall not be subject to any defense, counterclaim, setoff, right of recoupment, abatement, reduction or other claim or determination that the Employee may have against the Company, any SPAR Affiliate, any of their respective Representatives or any other person; (d) shall not be diminished or qualified by the death, disability, dissolution, reorganization, insolvency, bankruptcy, custodianship or receivership of Party or any other person, or the inability of any of them to pay its debts or perform or otherwise satisfy its obligations as they become due for any reason whatsoever; and (e) with respect to any provision expressly limited to a period of time, shall remain and continue in full force and effect (i) through the specific time period(s) and (ii) thereafter with respect to events or circumstances occurring prior to the end of such time period(s).

Section 11. No Waiver by Action, Cumulative Rights, Etc. Any waiver or

consent from a Party respecting any provision of this Agreement 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 a Party at any time to require performance of, or to exercise or enforce its rights or remedies with respect to, any provision of this Agreement shall not affect the Party's right at a later time to exercise or enforce any such provision. Any acceptance by or on behalf of a Party of any partial or late payment, reimbursement or performance of any obligation of the other Party shall not constitute a satisfaction or waiver of the obligation of such other Party then due or the resulting default, and any acceptance by or on behalf of a Party of any payment, reimbursement or performance of any obligation of such other Party during the continuance of any default under this Agreement or any other agreement (if any) between the Parties shall not constitute a waiver or cure thereof, and a Party or its designee may accept or reject any such payment, reimbursement or performance without affecting any of its rights, powers, privileges, remedies and other interests under this Agreement, other agreements (if any) between the Parties and applicable law. No notice to or demand on a Party shall entitle such Party to any other or notice or demand in similar or other circumstances. All rights, remedies and other interests of the Parties and the SPAR Affiliates hereunder are cumulative and not alternatives, and they are in addition to (and shall not limit) any other right, remedy or other interest of the Employee under this Agreement or the Company or any SPAR Affiliate under this Agreement, the rules, policies or procedures of the Company or applicable law.

Section 12. Counterparts; New York Governing Law; Amendments, This Agreement shall be effective as of the date written below when executed by the Employee. This Agreement may have been executed in two or more counterpart copies of the entire document or signatures pages hereto, all of which, when taken together, shall constitute a single agreement binding upon all of the Parties hereto. This Agreement and all other aspects of the Employee's employment 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. Each and every modification and amendment of this Agreement 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 representation, warranty, covenant or other provision of this Agreement shall be in writing and signed by each affected Party hereto.

-7-

Section 13. Waiver of Jury Trial; All Waivers Knowing, Intentional, Etc. In any action, suit or proceeding in any jurisdiction brought against the Employee by the Company or any SPAR Affiliate, or vice versa, each Party hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury. This waiver of jury trial by the Parties, and each other waiver, release, relinquishment or similar surrender of rights (however expressed) made by a Party in this Agreement, has been absolutely, unconditionally, irrevocably, knowingly and intentionally made by such Party.

Section 14. Entire Agreement. No Party or Representative of such Party 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 with respect to the matters contained in this Agreement other than as expressly set forth herein. This Agreement 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 or otherwise) between the Parties, with respect to the matters contained in this Agreement.

In Witness Whereof, the Parties hereto have executed and delivered this Agreement as of the last date written below:

COMPANY:
SPAR Group, Inc.

EMPLOYEE:

By: /s/ Robert G. Brown

Officer's Signature

/s/ Kori G. Belzer

Employee's Signature

Company's Current Address:
SPAR Group, Inc.
580 White Plains Road

Kori G. Belzer

Tarrytown, New York 10591

Dated as of: August 12, 2004

Employee's Current Address:

Dated as of: August 12, 2004

CHANGE IN CONTROL SEVERANCE AGREEMENT

This Change in Control Severance Agreement (as modified, amended or restated from time to time in the manner provided herein, this "Agreement") is by and between the undersigned individual employee (the "Employee") and SPAR Group, Inc. (the "Company"). The Employee and the Company may be referred to individually as a "Party" and collectively as the "Parties".

In consideration of past, present and future employment by the Company, the mutual covenants below and other good and valuable consideration (the receipt and adequacy of which are hereby acknowledged), the Employee and Company hereby agree as follows:

Section 1. Introduction. The Employee is an officer of the Company or one of the SPAR Affiliates (as hereinafter defined). The Employee and the Company have entered into this Agreement in order to provide severance payments 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 (as such terms are hereinafter defined). However, this Agreement is not intended, and shall not be deemed or construed, to create any employment term or period, and except as otherwise provided in any other written agreement with the Employee, the Employee acknowledges and agrees that the Employee's employment is "at will" and modifiable from time to time and terminable at any time, for any reason or no reason, and without notice or benefit of any kind.

Section 2. Certain Definitions. 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. As used in this Agreement, the following capitalized terms and non-capitalized words and phrases shall have the meanings respectively assigned to them:

(a) "Authorized Representative" shall mean, for the Company or any SPAR Affiliate for whom the Employee works, any of (i) the Board, (ii) the Chairman, (iii) any other executive officer of the Company or applicable SPAR Affiliate who directly or indirectly supervises or is responsible for the Employee or (iv) any other Representative of the Company or applicable SPAR Affiliate who directly or indirectly supervises or is responsible for the Employee and is authorized to do so by the Board, the Chairman or any such executive officer, in each case other than the Employee.

(b) "Beneficial Owner" shall mean any person who beneficially owns (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act), securities issued by the referenced corporation or other entity, whether directly or indirectly, and whether individually, jointly with any other person(s) or otherwise.

(c) "Board" shall mean the Board of Directors of the Company or (except for purposes of a Change in Control) the applicable SPAR Affiliate.

(d) "Chairman" shall mean the Chairman of the Company or applicable SPAR Affiliate.

(e) "Change in Control" shall mean any of the following:

(i) when any "person" or "group" (as contemplated in Sections 3(a)(9) and 13(d)(3), respectively, of the Securities Exchange Act), becomes a Beneficial Owner of a Majority of Voting Securities issued by the Company, in each case other than any acquisition of Company Securities (A) in any transaction covered by or exempted under clause (iii) of this definition, (B) by the Employee or any group of which the Employee voluntarily is a member, (C) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any SPAR Affiliate or (D) by any corporation or other entity if, immediately following such acquisition, the Beneficial Owners of a Majority of Voting Securities of the acquirer (or its ultimate parent) outstanding immediately after such event are either (1) the persons who were the Beneficial Owners of all or substantially all of the voting Company Securities immediately prior to such acquisition and in substantially the same proportions as their ownership immediately prior to

such event, or (2) by Robert G. Brown and/or William H. Bartels;

- (ii) when individuals who are members of the Board as of the date hereof or who are added as hereinafter provided (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the then Incumbent Board shall thereafter be added (for the purposes hereof) as a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened solicitation of proxies or consents not by or on behalf of at least a majority of the then Incumbent Board;

-1-

- (iii) any reorganization, merger or consolidation of the Company or any of its subsidiaries, in each case other than (A) any merger of any SPAR Affiliate (other than the Company) into the Company or any of its subsidiaries as the surviving entity, or (B) one in which all or substantially all of the Beneficial Owners' of the voting Company Securities immediately prior to such event are, immediately following such event, Beneficial Owners of a Majority of Voting Securities of either the Company or the surviving entity of a merger with the Company (or its ultimate parent), as the case may be, outstanding immediately after such event and in substantially the same proportions as their ownership immediately prior to such event;
- (iv) the approval by the Company's Board or stockholders of a plan of complete liquidation of the Company; or
- (v) any sale or other disposition by the Company of all or substantially all of its assets, in each case other than (A) any assignment or pledge of all or substantially all of the respective assets and properties of the Company and its subsidiaries to one or more lenders as security for their respective credit, indebtedness and guaranties, (B) any acquisition by the Company or any of its subsidiaries of the assets of any SPAR Affiliate (whether by assignment, merger, liquidation or otherwise), or (C) any transaction in which all or substantially all of the Beneficial Owners' of the voting Company Securities immediately prior to such event are, immediately following such event, Beneficial Owners of a Majority of Voting Securities of both the Company and the acquiring entity (or its ultimate parent) outstanding immediately after such event and in substantially the same proportions as their ownership immediately prior to such event;

provided however that it shall not constitute a Change in Control if and for so long as Robert G. Brown retains effective control of the Company and shall continue to be the chairman or the chief (or most senior, however designated) executive officer of the Company.

(f) "Company Securities" shall mean any securities issued by the Company, whether acquired directly from the Company, in the marketplace or otherwise.

(g) "Good Reason" shall mean the occurrence of any of the following events:

- (i) the failure to elect or appoint, or re-elect or re-appoint, the Employee to, or removal or attempted removal of the Employee from, his position positions with the Company or applicable SPAR Affiliate (except in connection with the proper termination of the Employee's employment by the Company by reason of death, disability or Termination For Cause);
- (ii) the assignment to the Employee of any duties inconsistent with the status of the Employee's office and/or position with the Company;
- (iii) any adverse change in the Employee's title or in the nature or scope of the Employee's authorities, powers, functions or duties of the position(s) with the Company or applicable SPAR Affiliate;
- (iv) the willful delay by the Company or applicable SPAR Affiliate for more than ten (10) business days in the payment to the Employee, when due, of any part of his or her compensation;
- (v) a reduction in the Employee's salary or benefits (other than a discretionary bonus);

(vi) a failure by the Company to obtain the assumption of, and agreement to perform, this Agreement by any successor to the Company; or

(vii) a change in the location at which substantially all of the Employee's duties with the Company are to be performed from the county and state in which the Employee is currently performing substantially all of his or her duties (excluding those duties performed at home or on the road.

(h) "Majority of Voting Securities" shall mean securities of the referenced person representing more than fifty percent (50%) of the combined voting power of the referenced person's then outstanding securities having the right to vote generally in the election of directors, managers or the equivalent.

(i) "Representative" shall mean any subsidiary or other affiliate of the referenced person or any shareholder, partner, equity holder, member, director, officer, manager, employee, consultant, agent, attorney, accountant, financial advisor or other representative of the referenced person or of any of its subsidiaries or other affiliates, in each case other than the Employee.

(j) "Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any corresponding or succeeding provisions of any applicable law (including those of any state or foreign jurisdiction), and the 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.

-2-

(k) "SPAR Affiliate" shall mean and currently includes (without limitation) each of the Company's direct and indirect subsidiaries (including, without limitation, SPAR Acquisition, Inc., SPAR Marketing, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR, Inc., SPAR Marketing Force, Inc., SPAR Trademarks, Inc., SPAR Group International, Inc., SPAR/PIA Retail Services, Inc., SPAR Technology Group, Inc., SPAR All Store Marketing Services, Inc., SPAR Canada, Inc., SPAR Canada Company, Retail Resources, Inc., Pivotal Field Services, Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co. d/b/a Retail Resources, Pivotal Sales Company, and PIA Merchandising Ltd.), the Company's affiliates (including, without limitation, SPAR Marketing Services Inc., SPAR Management Services, Inc., and SPAR InfoTech, Inc.), and each other entity under the control of or common control with any of the foregoing entities, in each case whether now existing or hereafter acquired, organized or existing.

(l) "SPAR Group" shall mean the Company and all of the SPAR Affiliates.

(m) "Termination For Cause" shall mean any termination of the Employee for any of the following reasons: (i) the Employee's willful, negligent or repeated breach of, or the Employee's willful, negligent or repeated nonperformance, misperformance or dereliction of any of his or her duties and responsibilities under, (A) any employment agreement or confidentiality agreement with the Company or any Spar Affiliate, (B) the directives of the Board or any Authorized Representative, or (C) the Company's policies and procedures governing his or her employment; (ii) the gross or repeated disparagement by the Employee of the business or affairs of the Company, any SPAR Affiliate or any of their Representatives that in the reasonable judgment of the Company or SGRP has adversely affected or would be reasonably likely to adversely affect the operations or reputation of any such person; (iii) any resume, application, report or other information furnished to the Company or any SPAR Affiliate by or on behalf of the Employee shall be in any material respect untrue, incomplete or otherwise misleading when made or deemed made; (iv) the Employee is indicted for, charged with, admits or confesses to, pleads guilty or no contest to, adversely settles respecting or is convicted of (A) any willful dishonesty or fraud (whether or not related to the Company or any SPAR Affiliate), (B) any theft or embezzlement by the Employee of any asset or property of the Company, any SPAR Affiliate or any of their respective Representatives, customers or vendors, (C) any other misdemeanor involving moral turpitude, or (D) any other felony; (vi) alcohol or drug abuse by the Employee; or (v) any other event or circumstance that constitutes cause for termination of an employee under applicable law and is not described in another clause of this subsection.

Section 3. Severance. (a) Lump Sum Payment. If the Employee's employment with the Company or applicable SPAR affiliate (or their respective successors in any Change in Control, as applicable) shall be terminated pending or within the twenty-four-month period following any Change in Control by (i) the Company for

any reason other than the Employee's death or permanent disability or a Termination For Cause, or (ii) by the Employee for Good Reason (either of which will be referred to as a "Severance Termination"), then the Company shall promptly (but not later than the tenth business day following such Severance Termination) pay (or cause the applicable SPAR Affiliate to promptly pay) to the Employee severance pay (in a lump sum) in an amount equal to the sum of:

- (i) the Employee's annual salary rate in effect immediately prior to his cessation of such employment (or, if greater, at the highest annual salary rate in effect at any time during the one-year period preceding the date of such termination), times a multiple (calculated to two decimal places) equal to the remainder of (i) 24 months (i.e., the number of months in the period referred to in the introduction to this subsection Section 3(a)), minus (ii) the number of months (to two decimal places, but not less than zero) by which the Severance Termination date followed the effective date of the Change in Control; and
- (ii) the maximum bonus that would have been paid or payable to the Employee under the Company's bonus proposal to the Employee for the full year of the Severance Termination as if all performance criteria had been fully satisfied, but in any event not to exceed twenty-five percent (25%) of the Employee's annual salary rate referred to above.

(b) Vacation Days. In addition and in any event, promptly (but not later than the tenth business day) following the date of any termination or resignation pending or following a Change in Control, the Company shall pay (or cause the applicable SPAR Affiliate to pay) to the Employee an amount equal to his or her accrued and unused vacation days, computed at the Employee's annual salary rate in effect immediately prior to his cessation of such employment (or, if greater, at the highest annual salary rate in effect at any time during the one-year period preceding the date of such termination) and in accordance with the applicable policy of the Company (or if changed pending or following a Change in Control, in accordance with the immediately preceding applicable policy of the Company).

(c) Insurance. In addition, during the two-year period following the effective date of any Change in Control, the Employee and his dependents shall continue to receive the insurance benefits received during the preceding year as well as any additional insurance benefits as may be provided to executive officers or their dependents during such period in accordance with the Company's policies and practices. The Employee's required co-payments shall not exceed those payable by the other executive officers of the SPAR Group.

-3-

(d) Stock Options. Each stock option granted to the Employee that has not, by its express terms, vested shall be deemed to have vested on the date of any Severance Termination, and shall thereafter be exercisable for the maximum period of time allowed for exercise thereof under the terms of such option, assuming that the Employee's employment with the Company had been terminated by the Company other than Termination For Cause or by the Employee for Good Reason. An election by the Employee to terminate his or her employment for Good Reason pending or following a Change in Control shall not otherwise be deemed a voluntary termination of employment of the Employee for the purpose of interpreting the provisions of any of the Company's employee benefit plans, programs, or policies.

(e) 401k. The Employee shall be entitled to a 401k matching contribution for the year of his Severance Termination, which the Company shall pay into the Employee's 401k (or deliver to the Employee for deposit into any rollover account respecting such 401k) at the same time for such year as matching contributions are made to the 401k plans of other executive officers.

(f) Illness not affecting Good Reason. The Employee's right to terminate his employment for Good Reason pending or following a Change in Control shall not be affected by his illness or incapacity, whether physical or mental, unless the Company shall at the time be entitled to terminate his or her employment by reason thereof.

(g) Parachute Payments. Notwithstanding any other provision of this Section 3, if it is determined that part or all of the compensation or benefits to be paid to the Employee under this Agreement in connection with the Employee's Severance Termination, or under any other plan, arrangement or agreement, constitutes a "parachute payment" under section 280G(b)(2) of the Internal Revenue Code of 1986, as amended, then the amount constituting a

parachute payment that would otherwise be payable to or for the benefit of the Employee first shall be deferred (to the greatest extent permitted by such applicable law), and to the extent not so deferred, shall be reduced (if required under such applicable law), but only to the extent necessary, so that such amount would not constitute a parachute payment. Any determination that a payment constitutes a parachute payment shall be made as promptly as practicable following the Employee's termination of employment (but not later than the date payment is required under subsection (a) of this Section) by the independent public accountants that audited the Company's financial statements for the fiscal year preceding the year in which the Employee's employment was terminated, whose determination shall be final and binding in all cases. Unless the Employee is given notice that a payment (or payments) will constitute a parachute payment prior to the earlier of (1) receipt of such payments or (2) the tenth business day following his or her Severance Termination, no payment (or payments) shall be deemed to constitute a parachute payment. If the determination made pursuant to this subsection would result in a deferral (to the greatest extent permitted under such applicable law) and to the extent not so deferred, a reduction (to the minimum extent required by such applicable law) of the payments that would otherwise be paid to the Employee, the Employee may elect, in his sole discretion, which and how much of any particular entitlement shall be so deferred or reduced (giving effect to any payments and benefits that may have been received prior to such termination) and shall advise the Company in writing of his election within 10 days of the determination of the deferral or reduction in payments. If no such election is made by the Employee within such 10-day period, the Company shall determine which and how much of any entitlement shall be deferred (to the greatest extent permitted under such applicable law) and, to the extent not so deferred, reduced (to the extent required under such applicable law) and shall notify the Employee promptly of such determination. The Company shall (or shall cause the applicable SPAR Affiliate to) pay to, or distribute to or for the benefit of, the Employee such amounts as are then due to the Employee under this Agreement and shall timely pay to, or distribute to or for the benefit of, the Employee in the future such amounts as become due to the Employee under this Agreement.

(h) Extension of Benefits: Any extension of benefits following a Severance Termination shall be deemed to be in addition to, and not in lieu of, any period for benefits continuation provided for by applicable law at the Company's, the Employee's or his dependents' expense, as applicable.

(i) Temporary Suspension of Section's Benefits. Notwithstanding any other provision of this Section 3, in the event that the Employee's Termination For Cause pending or following a Change in Control is solely based on the Employee having been indicted for or charged with any one or more of the deeds described in clause (iv) of the definition of Termination For Cause, the benefits of this Section 3 (other than those under subsections (b), (c) and (h) hereof respecting vacation pay, insurance and the like) shall be temporarily withheld until such time as either:

- (i) the first to occur of (A) the final determination by an appropriate authority (including an arbitrator) that the Employee is not guilty or is acquitted of such deed(s), (B) the Company's written acknowledgement that the Employee is not guilty or acquitted of such deed(s) or the substantive equivalent or any settlement with the Employee to any such effect, or (C) the passage of twelve months following such termination without the good faith prosecution (criminal or civil) of the Employee for or arbitration of such deed(s), in any which case the termination shall be deemed a Severance

-4-

Termination and the Employee shall be entitled at such time to (x) all the benefits of this Section 3 as of such first to occur date, plus (y) the Employee's salary and maximum bonuses for the period from termination through the date severance is actually paid under subsection (a) of this Section 3 (the "Resolution Period"), plus (z) an extension of the Employees benefit periods under subsections (c) and (h) of this Section 3 and stock option exercise period(s) under subsection (d) of this Section 3 equal to the length of the Resolution Period; or

- (ii) the Employee admits or confesses to, pleads guilty or no contest to, adversely settles respecting or is convicted of such deed(s), in any which case the Employee shall not be entitled to any of the benefits of this Section 3, any salary or bonus pending such resolution, or any of the benefits of subsection (b) hereof.

(j) Employee's Estate. In the event the Employee shall die after a Severance Termination (including, without limitation, during the Resolution Period), this Agreement and the benefits of this Section 3 shall inure to the benefits of the estate, heirs and legal representatives of the deceased Employee in accordance with his or her will or applicable law, as the case may be.

Section 4. Waivers of Notice, Etc. Each Party hereby absolutely, unconditionally, irrevocably and expressly waives forever each and all of the following: (a) acceptance and notice of any acceptance of this Agreement; (b) notice of any action taken or omitted in reliance hereon; (c) 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 Agreement; (d) notice of any material and adverse effect, whether individually or in the aggregate, upon the assets, business, cash flow, expenses, income, liabilities, operations, properties, prospects, reputation or condition (financial or otherwise) of a Party, its Representative or any other person;; and (e) any other proof, notice or demand of any kind whatsoever with respect to any or all of a Party's obligations or promptness in making any claim or demand under this Agreement.

Section 5. Consent to Exclusive New York Jurisdiction and Venue, Waiver of Personal Service, Etc. 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 each shall have exclusive personal jurisdiction and proper venue with respect to any claim or dispute under this Agreement between the Employee and the Company or SPAR Affiliate or any other aspect of their employment relationship; In any such claim or dispute between the Employee and the Company or any SPAR Affiliate, no Party will raise, and each Party hereby absolutely, unconditionally, irrevocably, expressly and forever waives, any objection or defense to any such jurisdiction as an inconvenient forum. Each Party hereby absolutely, unconditionally, irrevocably, expressly and forever waives personal service of any summons, complaint or other process on such Party or any authorized agent for service of such Party in any claim or dispute under this Agreement (irrespective of whether more parties may be involved). Each Party each hereby acknowledges and agrees with the other Party that service of process may be made in any such claim or dispute under this Agreement upon such Party by (i) delivery pursuant to Section 7 hereof or (ii) any manner of service available under the applicable law at address referenced in Section 7 hereof.

Section 6. Arbitration. (a) Arbitration Generally. Except as otherwise provided in this Section, any unresolved dispute or controversy with respect to this Agreement shall be settled exclusively by arbitration conducted by the American Arbitration Association (including any successor body of similar function, "AAA") in accordance with the AAA's Commercial Arbitration Rules then in effect ("AAA Rules") and held in Westchester County, New York. In any arbitration, no Party will raise, and each Party hereby expressly and irrevocably waives, any objection or defense to such location as an inconvenient forum. To commence an arbitration, the aggrieved Party shall submit an arbitration notice (including a copy of this Agreement and a reasonable description of its claims) to the AAA at its headquarters in New York, New York, and request a list of qualified arbitrators. The Parties agree that each arbitrator must have significant experience and knowledge in the applicable field of endeavor and (to the extent applicable) in the accounting field and GAAP.

(b) Arbitrator Selection. Unless the Parties agree in writing to a single arbitrator prior to selection and a mechanism for his or her selection, three arbitrators shall be chosen by the Parties from the list submitted by the AAA within ten business days of receiving such list (or any subsequent list if applicable). Either Party may object to any proposed arbitrator that does not reasonably appear to have the required experience and knowledge or does not reasonably appear to be a disinterested, unrelated third party. If the Parties cannot agree on the three arbitrators, each Party shall select a single disinterested arbitrator from the AAA's list with such qualifications and the two arbitrators so selected by the Parties shall select the third arbitrator with such qualifications in accordance with the AAA Rules. The arbitration shall begin within 30 business days of such appointment unless another date and/or place is otherwise agreed upon in writing by the Parties.

(c) Arbitrator's Limited Authority. The arbitrator(s) shall not have the authority to add to, detract from, or modify any provision of this Agreement. The Parties hereby instruct and direct the arbitrator to determine each claim or severable part thereof in accordance with the terms and provisions of this Agreement, and the arbitrator(s) shall not "split the difference" or employ

other equitable principles of allocation. Discovery will be strictly limited to documents of the parties specifically applicable to the claims, excluding, however, those items protected by attorney/client, accountant or other professional or work product privilege (which the parties hereby agree have not been waived by the Parties hereto or other applicable Persons). No depositions, interrogatories or other prescreening of a Party or its Representatives or expert witnesses will be permitted. No punitive, consequential or similar damages shall be awarded by the arbitrator(s).

(d) Arbitrator's Decision. The arbitrator(s) shall render a decision and award within sixty (60) days after the commencement of the arbitration. Such decision and award shall be in writing, shall be delivered to each Party and shall be conclusive and binding on the Parties. Judgment on such decision and award may be entered in any court of competent jurisdiction.

(e) Arbitrator's Fees and Expenses. Except as otherwise provided in this Agreement, each Party shall pay (i) the fees and disbursements of its own attorneys and the expenses of its proof, and (ii) half of the fees and expenses of the AAA and the arbitrator(s), in each case irrespective of outcome.

Section 7. Notice. Any notice, request, demand, service of process or other communication permitted or required to be given to a Party under this Agreement shall be in writing and shall be sent to the applicable Party at the address set forth on the signature page below (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 during normal business hours 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. The Employee also may use and rely on the accuracy of the address of the Company designated as its executive office in its most recent filing under the Securities Exchange Act. The Parties acknowledge and agree that such actual receipt will be presumed with, among other things, evidence of the signature by a Representative of, or adult in the same household as, the receiving Party on a return receipt, courier manifest or other courier's acknowledgment of delivery or receipt.

Section 8. Interpretation, Headings, Severability, Reformation, Etc. The Parties agree that the provisions of this Agreement have been negotiated, shall be construed fairly as to all Parties, and shall not be construed in favor of or against any Party. The section headings in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. 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 provision of this Agreement shall be determined to be superseded, invalid, illegal or unenforceable pursuant to applicable law by a governmental authority, that determination shall not impair or affect the validity, legality or enforceability (a) by that authority of the remaining provisions of this Agreement, which shall be enforced as if the unenforceable provision were deleted or reduced or (b) by any other authority of any of the provisions of this Agreement. If any provision of this Agreement 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 by the Parties, to reduce the scope or duration of such provision to the maximum permissible under applicable law so that said provision shall be enforceable in such reduced form.

Section 9. Successors and Assigns; Assignment; Intended Beneficiaries. Whenever in this Agreement reference is made to any person, such reference shall be deemed to include the successors, assigns, and legal Representatives of such person, and, without limiting the generality of the foregoing, all representations, warranties, covenants and other agreements made by or on behalf of the Employee in this Agreement shall inure to the benefit of the successors

and assigns of the Company and the SPAR Affiliates; provided, however, that nothing herein shall be deemed to authorize or permit the Employee to assign any rights or obligations under this Agreement to any other person, and the Employee agrees to not make any such assignment. Without limiting the generality of the foregoing, the Employee acknowledges and agrees that the Company may pledge this Agreement and all 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 the Company as so assigned in accordance with the this Agreement, 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 the Company hereunder or otherwise. The representations, agreements and other terms and provisions of this Agreement are for the exclusive benefit of the Parties hereto and the SPAR Affiliates, and, except as otherwise expressly provided herein, no other person 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. The provisions of this Agreement are expressly intended to benefit each of the members of the SPAR Group, who may enforce any such provisions directly, irrespective of whether the Company participates in such enforcement. However, no SPAR Affiliate shall have, or shall be deemed or construed to have, any obligation or liability to the Employee under this Agreement or otherwise.

-6-

Section 10. Survival of Agreements, Etc. Each of the representations and warranties (as of the date(s) made or deemed made), covenants, waivers, releases and other agreements and obligations of each Party contained in this Agreement: (a) shall be absolute, irrevocable and unconditional, irrespective of (among other things) (i) the validity, legality, binding effect or enforceability of any of the other terms and provisions of this Agreement or any other agreement (if any) between the Parties, or (ii) 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 Agreement and each other agreement (if any) between the Parties and the performance of any obligation of such Party hereunder or thereunder, (ii) any waiver, modification, amendment or restatement of any other term or provision of this Agreement or any other agreement (if any) between the Parties (except as and to the extent expressly modified by the terms and provisions of any such waiver, modification, amendment or restatement), (iii) any full, partial or non-exercise of any of the rights, powers, privileges, remedies and interests of a Party or any SPAR Affiliate under this Agreement, any other agreement (if any) between the Parties or applicable law against such other Party or any other person or with respect to any obligation of such Party, 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), (iv) any extension, stay, moratorium or statute of limitations or similar time constraint under any applicable law, (v) any pledge, assignment, sale, conveyance or other transfer by the Company (in whole or in part) to any other person of this Agreement or any other agreement (if any) between the Parties or any one or more of the rights, powers, privileges, remedies or interests of the Company therein, (vi) any act or omission on the part of the Company, any SPAR Affiliate, any of their respective Representatives or any other person, (vii) any termination or other departure of the Employee from his or her employment, whether for cause or otherwise, or any dispute involving any aspect of such employment; or (viii) any other act, event, or circumstance that otherwise might constitute a legal or equitable counterclaim, defense or discharge of a contracting party, co-obligor, guarantor, pledgor or surety; in each case without notice to or further assent from the Employee or any other person (except for such notices or consents as may be expressly required to be given to such Party under this Agreement or any other agreement (if any) between the Parties); (c) shall not be subject to any defense, counterclaim, setoff, right of recoupment, abatement, reduction or other claim or determination that the Employee may have against the Company, any SPAR Affiliate, any of their respective Representatives or any other person; (d) shall not be diminished or qualified by the death, disability, dissolution, reorganization, insolvency, bankruptcy, custodianship or receivership of Party or any other person, or the inability of any of them to pay its debts or perform or otherwise satisfy its obligations as they become due for any reason whatsoever; and (e) with respect to any provision expressly limited to a period of time, shall remain and continue in full force and effect (i) through the specific time period(s) and (ii) thereafter with respect to events or circumstances occurring prior to the end of such time period(s).

Section 11. No Waiver by Action, Cumulative Rights, Etc. Any waiver or

consent from a Party respecting any provision of this Agreement 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 a Party at any time to require performance of, or to exercise or enforce its rights or remedies with respect to, any provision of this Agreement shall not affect the Party's right at a later time to exercise or enforce any such provision. Any acceptance by or on behalf of a Party of any partial or late payment, reimbursement or performance of any obligation of the other Party shall not constitute a satisfaction or waiver of the obligation of such other Party then due or the resulting default, and any acceptance by or on behalf of a Party of any payment, reimbursement or performance of any obligation of such other Party during the continuance of any default under this Agreement or any other agreement (if any) between the Parties shall not constitute a waiver or cure thereof, and a Party or its designee may accept or reject any such payment, reimbursement or performance without affecting any of its rights, powers, privileges, remedies and other interests under this Agreement, other agreements (if any) between the Parties and applicable law. No notice to or demand on a Party shall entitle such Party to any other or notice or demand in similar or other circumstances. All rights, remedies and other interests of the Parties and the SPAR Affiliates hereunder are cumulative and not alternatives, and they are in addition to (and shall not limit) any other right, remedy or other interest of the Employee under this Agreement or the Company or any SPAR Affiliate under this Agreement, the rules, policies or procedures of the Company or applicable law.

Section 12. Counterparts; New York Governing Law; Amendments, This Agreement shall be effective as of the date written below when executed by the Employee. This Agreement may have been executed in two or more counterpart copies of the entire document or signatures pages hereto, all of which, when taken together, shall constitute a single agreement binding upon all of the Parties hereto. This Agreement and all other aspects of the Employee's employment 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. Each and every modification and amendment of this Agreement 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 representation, warranty, covenant or other provision of this Agreement shall be in writing and signed by each affected Party hereto.

-7-

Section 13. Waiver of Jury Trial; All Waivers Knowing, Intentional, Etc. In any action, suit or proceeding in any jurisdiction brought against the Employee by the Company or any SPAR Affiliate, or vice versa, each Party hereby absolutely, unconditionally, irrevocably and expressly waives forever trial by jury. This waiver of jury trial by the Parties, and each other waiver, release, relinquishment or similar surrender of rights (however expressed) made by a Party in this Agreement, has been absolutely, unconditionally, irrevocably, knowingly and intentionally made by such Party.

Section 14. Entire Agreement. No Party or Representative of such Party 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 with respect to the matters contained in this Agreement other than as expressly set forth herein. This Agreement 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 or otherwise) between the Parties, with respect to the matters contained in this Agreement.

In Witness Whereof, the Parties hereto have executed and delivered this Agreement as of the last date written below:

COMPANY:
SPAR Group, Inc.

EMPLOYEE:

By: /s/ Robert G. Brown

Officer's Signature

/s/ Patricia Franco

Employee's Signature

Company's Current Address:
SPAR Group, Inc.
580 White Plains Road

Patricia Franco

Tarrytown, New York 10591

Dated as of: August 12, 2004

Employee's Current Address:

Dated as of: August 12, 2004

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

I, Robert G. Brown, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended June 30, 2004 (this "report"), of SPAR Group, Inc. (the "registrant");

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

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

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

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

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

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

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

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

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

Date: August 23, 2004

/s/ Robert G. Brown

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

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

I, Charles Cimitile, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three-month period ended June 30, 2004 (this "report"), of SPAR Group, Inc. (the "registrant");

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

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

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

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

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

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

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

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

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

Date: August 23, 2004

/s/ Charles Cimitile

Charles Cimitile, Chief Financial Officer,
Treasurer and Secretary

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

In connection with the quarterly report on Form 10-Q for the three month period ended June 30, 2004 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and Chief Executive Officer

August 23, 2004

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

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

In connection with the quarterly report on Form 10-Q for the three month period ended June 30, 2004 (this "report"), of SPAR Group, Inc. (the "registrant"), the undersigned hereby certifies that, to his knowledge:

1. The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the registrant.

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

August 23, 2004

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