UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

ANNUAL REPORT ON FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2002

Commission file number 0-27824

SPAR GROUP, INC.

| Delaware | 33-0684451 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

580 WHITE PLAINS ROAD, TARRYTOWN, NEW YORK 10591

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

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

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

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

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

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

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on June 30, 2002, based on the closing price of the Common Stock as reported by the Nasdaq Small Cap Market on such date, was approximately $ 12,147,050.

The number of shares of the Registrant's Common Stock outstanding as of December 31, 2002 was 18,824,527 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

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## PART I

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

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

### ITEM 1. BUSINESS.

GENERAL

SPAR Group, Inc., a Delaware corporation ("SPAR Group", "SGRP" or the "Company"), is a supplier of in-store merchandising and marketing services both throughout the United States and internationally. The Company's operations are divided into two divisions: the Merchandising Services Division and the International Division. The Merchandising Services Division provides merchandising services, database marketing, teleservices and marketing research to manufacturers and retailers with product distribution primarily in mass merchandisers, drug chains and grocery stores in the United States. The International Division established in July 2000, currently provides merchandising services through a joint venture in Japan and focuses on expanding the Company's merchandising services business throughout the world.

CONTINUING OPERATIONS

Merchandising Services Division

The Company provides nationwide retail merchandising and marketing services to home entertainment, PC software, general merchandise, health and beauty care, consumer goods and food products companies in mass merchandisers, drug chains and retail grocery stores in the United States. Merchandising services primarily consist of regularly scheduled dedicated routed services and special projects provided at the store level for a specific retailer or multiple manufacturers primarily under single or multi-year contracts. Services also include stand-alone large-scale implementations such as new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. These services may include sales enhancing activities such as ensuring that client products authorized for distribution are in stock and on the shelf, adding new products that are approved for distribution but not presently on the shelf, setting category shelves in accordance with approved store schematics, ensuring that shelf tags are in place, checking for the overall salability of client products and



setting new and promotional items placing, and/or removing point of purchase and other related media advertising. Specific in-store services can be initiated by retailers or manufacturers, and include new store openings, new product launches, special seasonal or promotional merchandising, focused product support and product recalls.

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

International Division

In July 2000, the Company established its International Division, SPAR Group International, Inc. ("SGI"), to focus on expanding its merchandising services business world-wide. Also in July 2000, the Company entered into a joint venture with a large Japanese distributor and together established SPAR FM to provide merchandising services in Japan.

DISCONTINUED OPERATIONS

Incentive Marketing Division

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

Technology Division

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

INDUSTRY OVERVIEW

Merchandising Services Division

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



The Company believes merchandising services previously undertaken by retailers and manufacturers have been increasingly outsourced to third parties. Historically, retailers staffed their stores as needed to ensure inventory levels, the advantageous display of new items on shelves, and the maintenance of shelf schematics. In an effort to improve their margins, retailers decreased their own store personnel and increased their reliance on manufacturers to perform such services. Initially, manufacturers attempted to satisfy the need for merchandising services in retail stores by utilizing their own sales representatives. However, manufacturers discovered that using their own sales representatives for this purpose was expensive and inefficient. Therefore, manufacturers have increasingly outsourced the merchandising services to third parties capable of operating at a lower cost by (among other things) serving multiple manufacturers simultaneously.

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

International Division

The Company believes another current trend in business is globalization. As companies expand into foreign markets they will need assistance in marketing their products. As evidenced in the United States, retailer and manufacturer sponsored merchandising programs are both expensive and inefficient. The Company also believes that the difficulties encountered by these programs are only exacerbated by the logistics of operating in foreign markets. This environment has created an opportunity for the Company to exploit its Internet-based technology and business model that are successful in the United States. In July 2000, the Company established its International Division, which operates through SPAR Group International, Inc., to cultivate foreign markets, modify the necessary systems and implement the Company's business model worldwide by expanding its merchandising services business off shore. The Company formed an International Division task force consisting of members of the Company's information technology, operations and finance groups to evaluate and develop foreign markets. The initial focus of the International Division was on the Pacific Rim region. In Japan, SPAR Group International, Inc. and a leading Japanese based distributor established a joint venture to provide the latest in-store merchandising services to the Japanese market. As part of the joint venture agreement, the Company translated several of its proprietary

Internet-based logistical, communications and reporting software applications into Japanese. Through its Auburn Hills, Michigan server, the Company provides the joint venture access to this logistical, communications and reporting software. More recently, the Company has begun to focus on other potential merchandising markets worldwide and has hired representatives in Greece and Australia to assist in those efforts. The Company is actively pursuing expansion into various other markets.



MERGER AND RESTRUCTURING

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

BUSINESS STRATEGY

As the marketing services industry continues to grow, consolidate and expand both in the United States and internationally, large retailers and manufacturers are increasingly outsourcing their marketing needs to third-party providers. The Company believes that offering marketing services on a national and global basis will provide it with a competitive advantage. Moreover, the Company believes that successful use of and continuous improvements to a sophisticated technology infrastructure, including its proprietary Internet-based software, is key to providing clients with a high level of customer service while maintaining efficient, low cost operations. The Company's objective is to become an international retail merchandising and marketing service provider by pursuing its operating and growth strategy, as described below.

Increased Sales Efforts:

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

New Products:

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

Acquisitions:

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

merchandising service businesses. Through such acquisitions, the Company may realize additional operating and revenue synergies and may leverage existing relationships with manufacturers, retailers and other businesses to create cross-selling opportunities. However, there can be no assurance that any of the acquisitions



will occur or whether, if completed, the integration of the acquired businesses will be successful or the anticipated efficiencies and cross-selling opportunities will occur. The Company is not currently a party to any definitive and binding purchase arrangement with respect to any contemplated acquisition.

Improve Operating Efficiencies:

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

Leverage and Improve Technology:

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

DESCRIPTION OF SERVICES

The Company currently provides a broad array of merchandising and marketing services on a national, regional and local basis to leading home entertainment, general merchandise, consumer goods, food, and health and beauty care manufacturers and retail companies through its Merchandising Services Division.

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



Merchandising Services Division

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

Syndicated Services

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

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

Dedicated Services

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

Project Services

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

Other Marketing Services

Other marketing services performed by the Company include:

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

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

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

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

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

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

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

International Division

The Company believes another current trend in business is globalization. As companies expand into foreign markets they will need assistance in marketing their products. As evidenced in the United States, retailer and manufacturer sponsored merchandising programs are both expensive and inefficient. The Company believes that the difficulties encountered by these programs are only exacerbated by the logistics of operating in foreign markets. The Company believes such factors have created an opportunity to exploit its Internet-based technology and business model that are successful in the United States. The Company has formed a task force consisting of information technology, operations and finance to evaluate and develop foreign markets. The initial focus of the International Division, SPAR Group International, Inc., has been on the Pacific Rim region. SPAR Group International, Inc. and a leading Japanese based distributor established a joint venture to provide the latest in-store merchandising services to the Japanese market. The Company is actively pursuing expansion to other markets.

SALES AND MARKETING

Merchandising Services Division

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

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



The Company's business development process includes a due diligence

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

International Division

The Company's marketing efforts within its International Division are designed to develop new business internationally. The Company has recently hired representatives in Europe and Australia to help in these efforts. The Division's corporate business development team targets specific areas and develops strategic relationships to cultivate business for worldwide expansion.

CUSTOMERS

Merchandising Services Division

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

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

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

One customer accounted for 26%, 25% and 20% of the Company's net revenues for the years ended December 31, 2002, 2001, and 2000, respectively. This customer also accounted for approximately 40%, 24% and 26% of accounts receivable at December 31, 2002, 2001 and 2000, respectively.

A second customer accounted for 11%, 9% and 5% of the Company's net revenues for the years ended December 31, 2002, 2001, and 2000, respectively. This second customer also accounted for approximately 5%, 4% and 4% of accounts receivable at December 31, 2002, 2001 and 2000, respectively.

Approximately 24%, 31%, and 18% of net revenues for the years ended December 31, 2002, 2001, and 2000, respectively, resulted from merchandising services performed for others at Kmart stores. Kmart filed for protection under the U.S. Bankruptcy Code in January 2002. During 2002, Kmart closed a significant number of stores in the United States. While the Company's customers and the resultant contractual relationships are with the manufacturers and not this retailer, the Company's business would be negatively impacted if this retailer were to close all or most of its stores.



International Division

The Company believes that the potential international customers for this division have similar profiles to its Merchandising Services Division customers. The initial focus of the International Division had been on Japan and the Pacific Rim region. The Company is actively pursuing expansion to Europe and other markets.

COMPETITION

The marketing services industry is highly competitive.

Competition in the Company's Merchandising Services Division arises from a number of large enterprises, many of which are national in scope. The Company

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

TRADEMARKS

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

EMPLOYEES

As of December 31, 2002, the Company's Merchandising Services Division's labor force consisted of approximately 9,500 people, approximately 300 full-time employees, approximately 2,600 part-time employees and approximately 6,600 independent contractors (furnished principally through related parties, see Item 13 - Certain Relationships and Related Transactions, below), of which 193 full-time employees were engaged in operations and 11 were engaged in sales. The Company considers its relations with its employees to be good. The Company's Merchandising Services Division also utilized the services of its affiliate, SPAR Management Services, Inc. ("SMSI"), to schedule and supervise its field force, including its own part-time employees as well as the independent contractors furnished by another affiliate SPAR Marketing Services, Inc. ("SMS") (see Item 13 - Certain Relationships and Related Transactions, below).

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

CERTAIN RISK FACTORS

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



DEPENDENCY ON LARGEST CUSTOMERS

One customer accounted for 26%, 25% and 20% of the Company's net revenues for the years ended December 31, 2002, 2001, and 2000, respectively. This customer also accounted for approximately 40%, 24% and 26% of accounts receivable at December 31, 2002, 2001 and 2000, respectively. A second customer accounted for 11%, 9% and 5% of the Company's net revenues for the years ended December 31, 2002, 2001, and 2000, respectively. This second customer also accounted for approximately 5%, 4% and 4% of accounts receivable at December 31, 2002, 2001 and 2000, respectively. The loss of either such customer and the failure to attract new large customers, could significantly decrease the Company's revenues and such decreased revenues could have a material adverse effect on the Company's business, results of operations and financial condition.

In addition, approximately 24%, 31%, and 18% of net revenues for the years ended December 31, 2002, 2001, and 2000, respectively, resulted from merchandising services performed for manufacturers and others at Kmart, which is currently operating under Chapter 11 of the Federal Bankruptcy Code. During 2002, Kmart closed a significant number of stores in the United States. There

can be no assurance that this retailer will continue to operate all or any of its remaining stores. While the Company's customers and the resultant contractual relationships are with the manufacturers and not this retailer, if this retailer were to close all or most of its stores, such closures could significantly decrease the Company's revenues and could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

DEPENDENCE ON TREND TOWARD OUTSOURCING

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

FAILURE TO SUCCESSFULLY COMPETE

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

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



VARIABILITY OF OPERATING RESULTS AND UNCERTAINTY IN CUSTOMER REVENUE

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

FAILURE TO DEVELOP NEW PRODUCTS

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

INABILITY TO IDENTIFY, ACQUIRE AND SUCCESSFULLY INTEGRATE ACQUISITIONS

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

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



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

UNCERTAINTY OF FINANCING FOR, AND DILUTION RESULTING FROM, FUTURE ACQUISITIONS

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

RELIANCE ON THE INTERNET

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

ECONOMIC AND RETAIL UNCERTAINTY

The markets in which the Company operates are cyclical and subject to the effects of economic downturns. The current political, social and economic conditions, including the impact of terrorism on consumer and business behavior, make it difficult for the Company, its vendors and its customers to accurately forecast and plan future business activities. Substantially all of the Company's key customers are either retailers or those seeking to do product merchandising at retailers. If the retail industry experiences a significant economic downturn, a reduction in product sales could significantly decrease the Company's revenues. The Company also has risks associated with its customers changing their business plans and/or reducing their marketing budgets in response to economic conditions, which also could also significantly decrease the Company's revenues. Such revenue decreases could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

SIGNIFICANT STOCKHOLDERS: VOTING CONTROL AND MARKET ILLIQUIDITY

Mr. Robert G. Brown, a founder, a director, the Chairman, President and Chief Executive Officer of the Company, beneficially owns approximately 44.0% of the Company's outstanding Common Stock, and Mr. William H. Bartels, a founder, a director, and a Vice Chairman of the Company beneficially owns approximately 27.7% of the Company's outstanding Common Stock. These stockholders have, should they choose to act together, and under certain circumstances Mr. Brown acting alone has, the ability to control all matters requiring



stockholder approval, including the election of directors and the approval of mergers and other business combination transactions.

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

DEPENDENCE UPON AND POTENTIAL CONFLICTS IN SERVICES PROVIDED BY AFFILIATES

The success of the Company's business is dependent upon the successful execution of its field services by SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI"), and programming services provided by SPAR Infotech, Inc. ("SIT"), each of which is an affiliate but not a subsidiary of the Company, and none of which is consolidated in the Company's financial statements or results. SMS provides substantially all of the field representatives used by the Company in conducting its business (76% of field expense in 2002). SMSI provides substantially all of the field management services used by the Company in conducting its business. SIT provides substantially all of the Internet programming services and other programming needs used by the Company in conducting its business (see Item 13 - Certain Relationships and Related Transactions, below), which are provided to the Company by SMS and SMSI on a cost-plus basis pursuant to contracts that are cancelable on 60 days notice prior to December 31 of each year and by SIT on an hourly charge basis pursuant to a contract that is cancelable on 30 days notice.

The Company has determined that these services are provided at rates favorable to the Company.

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

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

THE COMPANY HAS NOT PAID AND DOES NOT INTEND TO PAY CASH DIVIDENDS

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

RISKS ASSOCIATED WITH INTERNATIONAL JOINT VENTURES

While the Company endeavors to limit its exposure for claims and losses in any international joint ventures through contractual provisions, insurance and use of single purpose subsidiaries for such ventures, there can be no assurance that the Company will not be held liable for the claims against and losses of a



particular international joint venture under applicable local law or local interpretation of any joint venture or insurance provisions. If any such claims and losses should occur, be material in amount and be successfully asserted against the Company, such claims and losses could have a material adverse effect on the Company's business, results of operations and financial condition or the desired increases in the Company's business, revenues and profits.

ITEM 2. PROPERTIES.

The Company maintains its corporate headquarters in approximately 6,000 square feet of leased office space located in Tarrytown, New York, under a lease with a term expiring in May 2004.

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

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

| LOCATION | OFFICE USE |
|---|---|
| Tarrytown, NY | Corporate Headquarters |
| Auburn Hills, MI | Regional Office, Warehouse and Teleservices Center |
| Eden Prairie, MN | Regional Office |

| | |
|---|---|
| Cincinnati, OH | Regional Office |
| Largo, FL | Regional Office |

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

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

None.



PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

PRICE RANGE OF COMMON STOCK

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

| | 2001 | | 2002 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $ 1.6094 | $ .5625 | $ 2.4100 | $ 1.6000 |
| Second Quarter | 1.3000 | .7000 | 2.5000 | 2.0000 |
| Third Quarter | 2.2700 | .8700 | 2.8200 | 1.9600 |
| Fourth Quarter | 2.8000 | .9200 | 4.9200 | 1.9100 |

As of December 31, 2002, there were approximately 700 beneficial shareholders of the Company's Common Stock

DIVIDENDS

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

ITEM 6. SELECTED FINANCIAL DATA.

The following selected condensed consolidated financial data sets forth, for the periods and the dates indicated, summary financial data of the Company and its subsidiaries. The selected financial data have been derived from the

Company's financial statements, which have been audited by independent public accountants.



SPAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

| | YEAR ENDED DECEMBER 31, | | | | NINE MONTHS ENDED DECEMBER 31, |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999(2) | 1998(2) |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Net revenues | $ 69,612 | $ 70,891 | $ 81,459 | $ 79,613 | $ 32,601 |
| Cost of revenues | 40,331 | 40,883 | 50,278 | 50,499 | 16,217 |
| Gross profit | 29,281 | 30,008 | 31,181 | 29,114 | 16,384 |
| Selling, general and administrative expenses | 18,804 | 19,380 | 24,761 | 23,213 | 9,978 |
| Depreciation and amortization | 1,844 | 2,682 | 2,383 | 1,204 | 142 |
| Operating income | 8,633 | 7,946 | 4,037 | 4,697 | 6,264 |
| Other (income) expense | (26) | 107 | (790) | (90) | (149) |
| Interest expense | 363 | 561 | 1,326 | 976 | 304 |
| Income from continuing operations before provision for income taxes | 8,296 | 7,278 | 3,501 | 3,811 | 6,109 |
| Income tax provision | 2,998 | 3,123 | 780 | 3,743 | - |
| Income from continuing operations | 5,298 | 4,155 | 2,721 | 68 | 6,109 |
| Discontinued operations: | | | | | |
| Loss from discontinued operations net of tax benefits of $935, $858 and $595, respectively | - | (1,597) | (1,399) | (563) | - |
| Estimated loss on disposal of discontinued operations, including provision of $1,000 for losses during phase-out period and disposal costs net of tax benefit of $2,618 | - | (4,272) | - | - | - |
| Net income (loss) | $ 5,298 | $ (1,714) | $ 1,322 | $ (495) | $ 6,109 |
| Unaudited pro forma data (1): | | | | | |
| Income from continuing operations before provision for income taxes | | | | $ 3,811 | $ 6,109 |
| Pro forma income tax provision | | | | 1,840 | 2,253 |
| Pro forma income from continuing operations | | | | 1,971 | 3,856 |
| Pro forma loss from discontinued operations net of pro forma tax benefit of $429 | | | | (729) | - |
| Pro forma net income | | | | $ 1,242 | $ 3,856 |
| Basic/diluted net income (loss) per common share: | | | | | |
| Actual/Pro forma income from continuing operations | $ 0.28 | $ 0.23 | $ 0.15 | $ 0.13 | $ 0.30 |
| Discontinued operations: | | | | | |
| Actual/Pro forma loss from discontinued operations | - | (0.09) | (0.08) | (0.05) | - |
| Estimated loss on disposal of discontinued operations | - | (0.23) | - | - | - |
| Loss from discontinued operations | - | (0.32) | (0.08) | (0.05) | - |
| Actual/Pro-forma net income (loss) | $ 0.28 | $ (0.09) | $ 0.07 | $ 0.08 | $ 0.30 |
| Actual/Pro forma weighted average shares outstanding - basic | 18,761 | 18,389 | 18,185 | 15,361 | 12,659 |
| Actual/Pro forma weighted average shares outstanding - diluted | 19,148 | 18,467 | 18,303 | 15,367 | 12,659 |



| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999(2) | 1998(2) |
| BALANCE SHEET DATA: | | | | | |
| Working capital (deficiency) | $ 6,319 | $ 8,476 | $ (2,273) | $ (639) | $ (2,214) |
| Total assets | 29,757 | 41,155 | 48,004 | 54,110 | 14,865 |
| Current portion of long-term debt | - | 57 | 1,143 | 1,147 | 685 |
| Line of credit and long-term debt, net | 148 | 13,287 | 10,093 | 16,009 | 311 |

| | | | | | |
|---|---|---|---|---|---|
| Total stockholders' equity (deficit) | 16,592 | 10,934 | 12,240 | 10,886 | (1,405) |

(1) The unaudited pro forma income tax information is presented in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," as if the Company had been subject to federal and state income taxes for all periods presented.
(2) In July 1999, PIA and the Spar Companies merged with the SPAR Companies deemed the accounting acquirer. The results of operations include the results of PIA from the acquisition date forward.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In the United States, the Company provides merchandising services to manufacturers and retailers principally in mass merchandiser, drug, grocery, and other retail trade classes through its Merchandising Services Division. The Company established its International Division in July 2000, and through a joint venture with a leading Japanese wholesaler, the Company provides in-store merchandising services to the Japanese market. The Company accounts for its investment in the joint venture utilizing the equity method.

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

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

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

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

The Company's critical accounting policies, including the assumptions and judgments underlying them, are disclosed in the Note 2 to the Financial Statements. These policies have been consistently applied in all material respects and address such matters as revenue recognition, depreciation methods, asset impairment recognition, business combination accounting, and discontinued business accounting. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are appropriate in the circumstances. Two critical accounting policies are revenue recognition. allowance for doubtful accounts:

REVENUE RECOGNITION

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company continually monitors the collectability of its accounts receivable based upon current customer credit information available. Utilizing this information, the Company has established an allowance for doubtful accounts of $301,000 and $325,000 at December 31, 2002 and 2001, respectively. Historically, the Company's estimates have not differed materially from the actual results.



RESULTS OF OPERATIONS

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

| | YEAR ENDED DECEMBER 31, 2002 | | YEAR ENDED DECEMBER 31, 2001 | | YEAR ENDED DECEMBER 31, 2000 | |
|---|---|---|---|---|---|---|
| | (dollars in millions) | | | | | |
| | Dollars | % | Dollars | % | Dollars | % |
| Net revenues | $ 69.6 | 100.0% | $ 70.9 | 100.0% | $ 81.5 | 100.0% |
| Cost of revenues | 40.3 | 57.9 | 40.9 | 57.7 | 50.3 | 61.7 |
| Selling, general & administrative expenses | 18.8 | 27.0 | 19.4 | 27.4 | 24.8 | 30.4 |
| Depreciation & amortization | 1.8 | 2.6 | 2.7 | 3.8 | 2.4 | 2.9 |
| Other income & expenses, net | 0.4 | 0.6 | 0.6 | 0.8 | 0.5 | 0.7 |
| Income from continuing operations before income tax provision | 8.3 | 11.9 | 7.3 | 10.3 | 3.5 | 4.3 |
| Income tax provision | 3.0 | 4.3 | 3.1 | 4.4 | 0.8 | 1.0 |
| Income from continuing operations | 5.3 | 7.6% | 4.2 | 5.9% | 2.7 | 3.3% |
| Discontinued operations: | | | | | | |
| Loss from discontinued operations, net of tax benefits | - | | (1.6) | | (1.4) | |
| Estimated loss on disposal of discontinued operations, net of tax benefits | - | | (4.3) | | - | |
| Net income (loss) | $ 5.3 | | $ (1.7) | | $ 1.3 | |



RESULTS FROM CONTINUING OPERATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002, COMPARED TO TWELVE MONTHS ENDED DECEMBER 31, 2001

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

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

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information systems,

executive compensation, human resource expenses, legal and accounting expenses. The following table sets forth the operating expenses as a percentage of net revenues for the time periods indicated:

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

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

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

INTEREST EXPENSE

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



INCOME TAXES

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

DISCONTINUED OPERATIONS

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

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

Cost of revenues in the Incentive Marketing Division consists of direct

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

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

NET INCOME/(LOSS)

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



RESULTS FROM CONTINUING OPERATIONS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001, COMPARED TO TWELVE MONTHS ENDED DECEMBER 31, 2000

Net revenues from continuing operations for the twelve months ended December 31, 2001, were $70.9 million, compared to $81.5 million for the twelve months ended December 31, 2000, a 12.9% decrease. The decrease of 12.9% in net revenues is primarily attributed to discontinued in-store merchandising programs by the PIA Companies.

Cost of revenue from continuing operations consist of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses, of which approximately 37% and 19% were purchased from the Company's affiliate, SMS in 2001 and 2000 respectively (see Item 13 - Certain Relationships and Related Transactions, below). Cost of revenues as a percentage of net revenues decreased 4.0% to 57.7% for the twelve months ended December 31, 2001, compared to 61.7% for the twelve months ended December 31, 2000. This decrease is principally attributable to reduced merchandiser labor costs due to efficiencies realized in 2001 from the continued consolidation of the multi-level field organization of the PIA Companies.

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

| | Year Ended December 31, 2001 | | Year Ended December 31, 2000 | | Increase (decr.) |
|---|---|---|---|---|---|
| | (dollars in millions) | | | | |
| | Dollars | % | Dollars | % | % |
| Selling, general & administrative | $ 19.4 | 27.4% | $ 24.8 | 30.4% | (21.7)% |
| Depreciation and amortization | 2.7 | 3.8 | 2.4 | 2.9 | 12.6% |

| | | | | | |
|---|---|---|---|---|---|
| Total operating expenses | $ 22.1 | 31.2% | $ 27.2 | 33.3% | (18.7)% |

Selling, general and administrative expenses decreased by $5.4 million or 21.7% for the twelve months ended December 31, 2001, to $19.4 million compared to $24.8 million for the twelve months ended December 31, 2000. This decrease was primarily due to the efficiencies resulting from the continued integration with the PIA Companies. Selling, general, and administrative expenses for the Technology Division were $0.8 million and $0.4 million for the twelve months ended December 31, 2001 and December 31, 2000, respectively.

Depreciation and amortization increased by $0.3 million for the twelve months ended December 31, 2001, due primarily to the amortization of customized internal software costs capitalized under SOP 98-1.

OTHER EXPENSE

For 2001, the Company recognized a loss of $107,000 from its share in the Japan Joint Venture.

OTHER INCOME

In January 2000, the Company sold its investment in an affiliate for approximately $1.5 million. The sale resulted in a gain of approximately $0.8 million, which is included in other income.



INTEREST EXPENSE

Interest expense decreased $0.7 million to $0.6 million for the twelve months ended December 31, 2001, from $1.3 million for the twelve months ended December 31, 2000, due to decreased debt levels, as well as decreased interest rates in 2001.

INCOME TAXES

The provision for income taxes was $3.1 million and $0.8 million for the twelve months ended December 31, 2001, and December 31, 2000, respectively. The increase in the effective tax rate and the resultant taxes in 2001 is primarily due to the $0.8 million deferred tax benefit that resulted from a change in the Company's valuation allowance in 2000 that did not reoccur in 2001.

DISCONTINUED OPERATIONS

| | Year Ended December 31, 2001 | | Year Ended December 31, 2000 | |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| | Dollars | % | Dollars | % |
| Net revenues | $ 31.2 | 100.0% | $ 28.1 | 100.0% |
| Cost of revenues | 26.0 | 83.4 | 22.7 | 81.0 |
| Selling, general and administrative expenses | 5.7 | 18.4 | 5.7 | 20.2 |
| Depreciation and amortization | 1.2 | 3.4 | 1.2 | 4.2 |

Net revenues from the Incentive Marketing Division for the twelve months ended December 31, 2001, were $31.2 million, compared to $28.1 million for the twelve months ended December 31, 2000, an 11.2% increase. The increase in net revenues was primarily due to an increase in project revenue principally from new clients.

Cost of revenues in the Incentive Marketing Division consists of direct labor, independent contractor expenses, food, beverages, entertainment and travel costs. Cost of revenues from the Incentive Marketing Division, as a

percentage of net revenues increased 2.4% to 83.4% for the twelve months ended December 31, 2001, compared to 81.0% for the twelve months ended December 31, 2000, primarily due to the programming mix, with higher cost programs accounting for a greater portion of the revenues in 2001.

Operating expenses include selling, general and administrative expenses as well as depreciation and amortization. Selling, general and administrative expenses which include corporate overhead, project management, information systems, executive compensation, human resource expenses and accounting expenses were $5.7 million for the twelve months ended December 31, 2001 and 2000. Depreciation and amortization was $1.2 million for the twelve months ended December 31, 2001 and 2000.

NET (LOSS)/INCOME

The SPAR Group had a net income from continuing operations of approximately $4.2 million or $0.23 per basic and diluted share for the year ended December 31, 2002, compared to a net income from continuing operations of approximately $2.7 million or $0.15 per basic and diluted share for the year ended December 31, 2002.

The increase in net income from continuing operations per basic and diluted share is primarily the result of increased gross profit margins and substantial reductions in selling, general and administrative expenses. The SPAR Group had a net loss of approximately $1.7 million or $0.09 per basic and diluted share for the year ended December 31, 2001, compared to net income of $1.3 million or $0.07 per basic and diluted share for the year ended December 31, 2000. The decrease in net income of $3.0 million or $0.16 per basic and diluted share is primarily due to a net loss from discontinued operations of approximately $4.3 million or $0.23 per basic and diluted share, partially offset by an increase of approximately $1.4 million or $0.07 per basic and diluted share of net income from continuing operations.



LIQUIDITY AND CAPITAL RESOURCES

In the twelve months ended December 31, 2002, the Company had a net income of $5.3 million. Net cash provided by operating activities for the twelve months ended December 31, 2002, was $12.7 million, compared with net cash used by operations of $0.2 million for the twelve months ended December 31, 2001. Cash provided by operating activities in 2002 was primarily a result of net operating profits and decreases in accounts receivable and deferred tax assets, increases in accounts payable and other accrued liabilities, partially offset by decreases in restructuring charges and increases in prepaid expenses.

Net cash used in investing activities for the twelve months ended December 31, 2002, was $1.2 million, compared with net cash used of $1.7 million for the twelve months ended December 31, 2001. The net cash used in investing activities in 2002 resulted primarily from the purchases of property and equipment.

Net cash used by financing activities for the twelve months ended December 31, 2002, was $11.5 million, compared with net cash provided by financing activities of $2.0 million for the twelve months ended December 31, 2001. The net cash used by financing activities in 2002 was primarily due to payments on the line of credit.

The above activity resulted in no change in cash and cash equivalents for the twelve months ended December 31, 2002.

At December 31, 2002, the Company had positive working capital of $6.3 million as compared to $8.5 million at December 31, 2001. The decrease in working capital is due to decreases in accounts receivable and deferred taxes, increases in accrued expenses, and other current liabilities, and a reclassification of stockholder debt, partially off set by decreases in accounts payable, increases in prepaid expenses and net change in current assets and liabilities from discontinued operations. Excess cash generated was utilized to pay down the line of credit. The Company's current ratio was 1.49 and 1.52 at December 31, 2002, and 2001, respectively.

In January 2003, the Company and Whitehall Business Credit Corporation ("Whitehall"), as successor to the business of IBJ Whitehall Business Credit

Corporation, entered into the Third Amended and Restated Revolving Credit and Security Agreement and related documents (the "New Credit Facility"). The New Credit Facility provides the Company and its subsidiaries other than PIA Merchandising Limited (collectively, the "Borrowers") with a $15.0 million Revolving Credit Facility that matures on January 23, 2006. The Revolving Credit Facility allows the Borrowers to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The New Credit Facility bears interest at Whitehall's "Alternative Base Rate" or LIBOR plus two and one-half percent and is secured by all the assets of the Company and its subsidiaries.

The New Credit Facility replaces a previous 1999 agreement between the Company and IBJ Whitehall Business Credit Corporation (the "Old Credit Facility") that was scheduled to mature on February 28, 2003. The Old Credit Facility as amended provided for a $15.0 million Revolving Credit Facility, as well as, a $2.5 million Term Loan. The Revolving Credit facility allowed the Borrowers to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The Term Loan amortized in equal monthly installments of $83,334 and was repaid in full as of December 31, 2001. The revolving loan interest rate was Whitehall's "Alternate Base Rate" plus one-half of one percent (0.50%) (a total of 4.75% per annum at December 31, 2002).



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

Both Credit Facilities contain certain financial covenants which must be met by the Borrowers on a consolidated basis, among which are a minimum "Net Worth", a "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum EBITDA, as such terms are defined in the respective agreement. The Company was in compliance with all such financial covenants at December 31, 2002.

The balances outstanding on the revolving line of credit were $0.1 million and $11.3 million at December 31, 2002 and December 31, 2001, respectively. As of December 31, 2002, based upon the borrowing base formula, the SPAR Group had availability of $11.1 million of the $14.9 million unused revolving line of credit.

As of December 31, 2002, a total of approximately $4.0 million remained outstanding under notes with certain stockholders. These notes have an interest rate of 8% and are due on demand. The Company paid $3.0 million in January 2003 and expects to pay the remaining balance of approximately $1.0 million in 2003. The current Bank Loan Agreement contains certain restrictions on the repayment of stockholder debt.

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

In connection with the sale of SPGI on June 30, 2002, the Company agreed to provide a discretionary revolving line of credit to SPGI not to exceed $2.0 million (the "Revolver") through September 30, 2005. The Revolver is secured by a pledge of all the assets of SPGI and is guaranteed by PMI. To date, there have been no advances against the Revolver. Under the Revolver terms, SPGI is required to deposit all of its cash to the Company's lockbox. At December 31, 2002, the Company had cash deposits due SPGI totalling approximately $0.9 million.

CERTAIN CONTRACTUAL OBLIGATIONS

The following table contains a summary of certain of the Company's contractual obligations by category as at December 31, 2002 (in thousands).

| CONTRACTUAL OBLIGATIONS | Total | PAYMENTS DUE BY PERIOD Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| Long-Term Debt Obligations | $ 148 | $ 148 | $ - | $ - | $ - |
| Due to Stockholders | 3,951 | 3,951 | | | |
| Operating Lease Obligations | 2,996 | 1,004 | 1,393 | 599 | - |
| Other Contractual Obligations included on the Registrant's Balance Sheet | 1,035 | 1,035 | - | - | - |
| Total | $ 8,130 | $ 6,138 | $ 1,393 | $ 599 | $ - |

In addition to the above, the Company had contingent libailtities to SPGI of approximately $2.0 million (see above).



ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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

INVESTMENT PORTFOLIO

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See Item 16 of this Annual Report on form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information in connection with

each person who is or was at December 31, 2002, an executive officer and/or director for the Company.

| NAME | AGE | POSITION WITH SPAR GROUP, INC. |
|---|---|---|
| Robert G. Brown. . . . . | 60 | Chairman, Chief Executive Officer, President and Director |
| William H. Bartels . . . . | 59 | Vice Chairman and Director |
| Robert O. Aders (1). . . . | 75 | Director |
| Jack W. Partridge (1) . . . | 57 | Director |
| Jerry B. Gilbert (1) . . . | 68 | Director |
| George W. Off (1). . . . . | 55 | Director |
| Charles Cimitile. . . . . | 48 | Chief Financial Officer and Secretary |
| James H. Ross. . . . . | 69 | Treasurer |

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

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

William H. Bartels serves as the Vice Chairman and a Director of the Company and has held such positions since July 8, 1999 (the effective date of the PIA Merger). Mr. Bartels served as the Vice-Chairman, Secretary, Treasurer and Senior Vice President of the SPAR Marketing Companies (SBRS since 1994, SINC since 1979, SMNEV since November 1993 and SMF since SMF acquired its assets and business in 1996), and has been responsible for the Company's sales and marketing efforts, as well as for overseeing joint ventures and acquisitions.

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



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

Jerry B. Gilbert serves as a Director of the Company and has done so since June 4, 2001. Mr. Gilbert served as Vice President of Customer Relations

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

George W. Off serves as Director of the Company and has done so since July 1, 2001. Mr. Off is Chairman and Chief Executive Officer of Checkpoint Systems, Inc. since August 2002. He serves as a Director of Telephone and Data Systems since 1997. Mr. Off was Chairman of the Board of Directors of Catalina Marketing Corporation, a New York Stock Exchange listed company, from July 1998 until he retired in July 2000. He served as President and Chief Executive Officer of Catalina from 1994 to 1998. Prior to that, Mr. Off was President and Chief Operating Officer from 1992 to 1994 and Executive Vice President from 1990 to 1992. Catalina is a leading supplier of in-store electronic scanner-activated consumer promotions.

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

James H. Ross serves as the Treasurer of the Company and has held such positions since July 8, 1999 (the effective date of the Merger). Mr. Ross has been the Chief Financial Officer of the SPAR Marketing Companies since 1991, and was the General Manager of SBRS from 1994-1999. In September 2001, Mr. Ross retired from full-time employment. Mr. Ross continues to serve the Company on a consulting basis.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

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

Based solely on its review of the copies of such forms received by it for the year ended December 31, 2002, or written representations from certain reporting persons for such year, the Company believes that its Insiders complied with all applicable Section 16(a) filing requirements for such year, with the exception that Robert G. Brown, William H. Bartels, Jack W. Partridge, Robert O. Aders, Jerry B. Gilbert and George W. Off untimely filed certain Statements of Changes in Beneficial Ownership on Form 4. All such Section 16(a) filing requirements have since been completed by each of the aforementioned individuals.



ITEM 11. EXECUTIVE COMPENSATION AND OTHER INFORMATION OF SPAR GROUP, INC.

EXECUTIVE COMPENSATION

The following table sets forth all compensation received for services rendered to the Company in all capacities for the years ended December 31, 2002, 2001 and 2000 (i) by the Company's Chief Executive Officer, and (ii) each of the other three most highly compensated executive officers of the Company who were serving as executive officers at December 31, 2002 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITIONS | YEAR | ANNUAL COMPENSATION SALARY ($) | ANNUAL COMPENSATION BONUS ($) | LONG TERM COMPENSATION AWARDS SECURITIES UNDERLYING OPTIONS (#)(1) | LONG TERM COMPENSATION AWARDS ALL OTHER COMPENSATION ($)(2) |
|---|---|---|---|---|---|
| Robert G. Brown | 2002 | 164,340 | -- | -- | 2,040 |
| Chief Executive Officer, Chairman of | 2001 | 141,202 | -- | 765,972 | -- |
| the Board, President, and Director | 2000 | 16,800 | -- | 765,972 | -- |
| William H. Bartels | 2002 | 164,340 | -- | -- | 2,040 |
| Vice Chairman and Director | 2001 | 139,230 | -- | 471,992 | -- |
| | 2000 | 16,800 | -- | -- | -- |
| Charles Cimitile | 2002 | 230,564 | -- | 20,000 | 2,040 |
| Chief Financial Officer | 2001 | 188,000 | -- | 75,000 | -- |
| | 2000 | 188,000 | -- | 25,000 | -- |
| James H. Ross (3) | 2002 | 72,043 | 5,000 | -- | -- |
| Treasurer and Vice President | 2001 | 101,773 | 7,500 | 43,000 | 1,557 |
| | 2000 | 94,800 | 9,000 | 5,000 | 3,337 |

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(1) In January 2001, each of the above officers voluntarily surrendered for cancellation their options for the purchase of the following numbers of shares of common stock under the 1995 Plan: Mr. Brown - 765,972; Mr. Bartels - 471,992; Mr. Cimitile - 75,000; and Mr. Ross - 40,000.
(2) Other compensation represents the Company's 401k contribution.
(3) In September 2001, Mr. Ross retired from full-time employment. Mr. Ross continues to serve the Company on a consulting basis.



SUMMARY ADDITIONAL COMPENSATION TABLE (FROM AFFILIATED COMPANIES)

Robert G. Brown and William H. Bartels (the "SMS Principals") are the sole owners of SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI"), and SPAR Infotech, Inc. ("SIT"), which provide significant services to the Company as more fully described in Item 13 - Certain Relationships and Related Transactions. Although the SMS Principals were not paid any salaries as officers of SMS, SMSI or SIT, each of those companies are "Subchapter S" corporations, and accordingly the SMS Principals benefit from any income of such companies allocated to them, all of which income (or substantially all of which income, but not loss, in the case of SIT) is earned from the performance of services for the Company. The following table sets forth all income allocated to the SMS Principals by SMS, SMSI or SIT for the years ended December 31, 2002, 2001 and 2000.

| NAME | YEAR | SMS INCOME ($) | SMSI INCOME ($) | SIT LOSS ($)(1) |
|---|---|---|---|---|
| Robert G. Brown | 2002 | 494,987 | 174,092 | (85,183) |
| | 2001 | 211,117 | 16,477 | (227,370) |
| | 2000 | 262,744 | 150,685 | (318,034) |
| William H. Bartels | 2002 | 314,992 | 110,787 | (54,208) |
| | 2001 | 134,348 | 10,486 | (144,690) |
| | 2000 | 167,202 | 95,891 | (202,387) |

(1) The subchapter "S" income/loss allocated to the SMS Principals by SIT includes losses on activities unrelated to the Company's business.

STOCK OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information regarding each grant of stock options made during the year ended December 31, 2002, to each of the Named Executive Officers. No stock appreciation rights ("SAR's") were granted during

such period to such person.

| NAME | INDIVIDUAL GRANTS: NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) | PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN PERIOD (%) | EXERCISE PRICE ($/SH) | EXPIRATION DATE | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION(1): 5% ($) | 10% ($) |
|---|---|---|---|---|---|---|
| Charles Cimitile | 10,000 (2) | 3.0 | 1.78 | 2/14/12 | 27,614 | 41,971 |
| | 10,000 (2) | 3.0 | 2.45 | 5/09/12 | 38,008 | 57,770 |
| | 20,000 | 6.0 | | | 65,622 | 99,741 |

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(1) The potential realizable value is calculated based upon the term of the option at its time of grant. It is calculated by assuming that the stock price on the date of grant appreciates at the indicated annual rate, compounded annually for the entire term of the option.
(2) These options vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.



AGGREGATED STOCK OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

The following table sets forth the number of shares of Common Stock of the Company purchased by each of the Named Executive Officers in the exercise of stock options during the year ended December 31, 2002, the value realized in the purchase of such shares (i.e., the market value at the time of exercise less the exercise price to purchase such shares), and the number of shares that may be purchased and value of the exercisable and unexercisable options held by each of the Named Executive Officers at December 31, 2002.

| NAME | SHARES ACQUIRED ON EXERCISE (#) | VALUE REALIZED ($) | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END (#): EXERCISABLE | UNEXERCISABLE | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ($): EXERCISABLE | UNEXERCISABLE |
|---|---|---|---|---|---|---|
| Robert G. Brown | 95,746 | 100,533 | -- | 478,733 | -- | 179,047 |
| William H. Bartels | 58,999 | 61,949 | -- | 294,995 | -- | 110,328 |
| Charles Cimitile | -- | -- | 68,750 | 51,250 | 137,000 | 87,975 |
| James H. Ross | -- | -- | 33,250 | 14,750 | 63,965 | 29,570 |

STOCK OPTION AND PURCHASE PLANS

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

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of the Company's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The exercise price of nonqualified stock options must have been equal to at least 85% of the fair market value of the Company's common stock at the date of grant. Since 2000, the Company has not granted any new options under this Plan. At December 31, 2002, options to purchase 72,000 shares of the Company's common stock remain outstanding under this Plan. The 1995 Plan was superceded by the 2000 Stock Option Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors

and provided for the purchase of up to 120,000 shares of the Company's common stock. Since 2000, the Company has not granted any new options under this Plan. During 2002, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2002, 20,000 options to purchase shares of the Company's common stock remained outstanding under this Plan. The Director's Plan has been replaced by the 2000 Plan with respect to all new options issued.

On July 8, 1999, in connection with the merger, the Company established the Special Purpose Stock Option Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were 134,114 options granted at $0.01 per share. Since July 8, 1999, the Company has not granted any new options under this plan. During 2002, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2002, options to purchase 25,750 shares of the Company's common stock remain outstanding under this Plan.



On December 4, 2000, the Company adopted the 2000 Plan, as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000 under the 1995 Plan). The options have a term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders for whom the term is five years. The exercise price of nonqualified stock options must be equal to at least 85% of the fair market value of the Company's common stock at the date of grant (although typically the options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of the Company's common stock at the date of grant. During 2002, options to purchase 332,792 shares of the Company's common stock were granted, options to purchase 230,463 shares of the Company's common stock were exercised and options to purchase 481,250 shares of the Company's stock were cancelled under this Plan. At December 31, 2002, options to purchase 1,980,431 shares of the Company's common stock remain outstanding under this Plan and options to purchase 1,079,614 shares of the Company's common stock were available for grant under this Plan.

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

COMPENSATION OF DIRECTORS

The Company's Compensation Committee administers the compensation plan for its outside Directors. Each member of the Company's Board who is not otherwise an employee or officer of the Company or any subsidiary or affiliate of the Company (each, an "Eligible Director") is eligible to receive the compensation contemplated under such plan.

In January 2001, the Company adopted the Director Compensation Plan, which was amended by the Compensation Committee in February of 2003. Under the amended plan, each non-employee director receives thirty thousand dollars ($30,000) per annum (increased from twenty thousand dollars ($20,000) per annum for 2002 and 2001) and the Chairman of the Audit Committee will receive an additional $5,000 per annum. Payments are made quarterly in equal installments. It is intended that each quarterly payment will be 50% in cash ($3,750, up from $2,500 for 2002 and 2001) and 50% ($3,750, up from $2,500 for 2002 and 2001) in stock options to purchase shares of the Company's common stock with an exercise price of $0.01 per share (plus an additional $1,250 per quarter for the Chairman

of the Audit Committee, half in cash and half in $.01 stock options). The number of shares of the Company's common stock that can be purchased under each $.01 stock option granted will be determined based upon the closing stock price at the end of each quarter. In addition, each non-employee director receives options to purchase 10,000 shares of the Company's common stock upon acceptance of the directorship, 2,500 additional options to purchase shares of the Company's common stock after one year of service and 2,500 additional options to purchase shares of the Company's common stock for each additional year of service thereafter. These options will have an exercise price equal to the closing price of the Company's common stock on the day of grant. All of the options have been and will be granted under the 2000 Plan described above, under which each member of the SPAR Board is eligible to participate. Non-employee directors will be reimbursed for all reasonable expenses incurred during the course of their duties. There is no additional compensation for committee participation, phone meetings, or other Board activities.



COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Board's Compensation Committee was at any time during the year ended December 31, 2002 or at any other time an officer or employee of the Company. No executive officer or board member of the Company serves as a member of the board of directors or compensation committee of any other entity, that has one or more executive officers serving as a member of the Company's Board or Compensation Committee, except for the positions of Messrs. Brown and Bartels as directors and officers of the Company (including each of its subsidiaries) and each of its affiliates, including SMS, SMSI and SIT (see Item 13 - Certain Relationships and Related Transactions, below).



ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS OF THE COMPANY

The following table sets forth certain information regarding beneficial ownership of the Company's common stock as of March 21, 2003 by: (i) each person (or group of affiliated persons) who is known by the Company to own beneficially more than 5% of the Company's common stock; (ii) each of the Company's directors; (iii) each of the executive officers named in the Summary Compensation Table; and (iv) the Company's directors and executive officers as a group. Except as indicated in the footnotes to this table, the persons named in the table, based on information provided by such persons, have sole voting and sole investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable.

| TITLE OF CLASS | NAME AND ADDRESS OF BENEFICIAL OWNER NUMBER OF SHARES | BENEFICIALLY OWNED | PERCENTAGE |
|---|---|---|---|
| Common Shares | Robert G. Brown (1) | 8,517,905(2) | 44.0% |
| Common Shares | William H. Bartels (1) | 5,370,194(3) | 27.7% |
| Common Shares | James H. Ross (1) | 117,615(4) | * |
| Common Shares | Robert O. Aders (1) | 76,919(5) | * |
| Common Shares | Charles Cimitile (1) | 73,750(6) | * |
| Common Shares | Jack W. Partridge (1) | 24,259(7) | * |
| Common Shares | George W. Off (1) | 23,283(8) | * |

| | | | |
|---|---|---|---|
| Common Shares | Jerry B. Gilbert (1) | 17,600(9) | * |
| Common Shares | Richard J. Riordan (10)<br>300 S. Grand Avenue, Suite 2900<br>Los Angeles, CA 90071 | 1,209,922 | 6.2% |
| Common Shares | Heartland Advisors, Inc. (11)<br>790 North Milwaukee Street<br>Milwaukee, Wisconsin 53202 | 1,547,900 | 8.0% |
| Common Shares | Executive Officers and Directors | 14,221,525 | 73.4% |

* Less than 1%

(1) The address of such owners is c/o SPAR Group, Inc. 580 White Plains Road, Tarrytown, New York.
(2) Includes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees. Includes 143,620 shares issuable upon exercise of options.
(3) Excludes 1,800,000 shares held by a grantor trust for the benefit of certain family members of Robert G. Brown over which Robert G. Brown, James R. Brown, Sr. and William H. Bartels are trustees, beneficial ownership of which are disclaimed by Mr. Bartels. Includes 115,385 shares issuable upon exercise of options.
(4) Includes 33,750 shares issuable upon exercise of options.
(5) Includes 26,919 shares issuable upon exercise of options.
(6) Includes 73,750 shares issuable upon exercise of options.
(7) Includes 13,291 shares issuable upon exercise of options.
(8) Includes 16,783 shares issuable upon exercise of options.
(9) Includes 17,600 shares issuable upon exercise of options.
(10) Represents record ownership as of March 21, 2003.
(11) All information regarding share ownership is taken from and furnished in reliance upon the Schedule 13G (Amendment No. 9), filed by Heartland Advisors, Inc. with the Securities and Exchange Commission on February 13, 2003.



EQUITY COMPENSATION PLANS

The following table contains a summary of the number of shares of Common Stock of the Company to be issued upon the exercise of options, warrants and rights outstanding at December 31, 2002, the weighted-average exercise price of those outstanding options, warrants and rights, and the number of additional shares of Common Stock remaining available for future issuance under the plans as at December 31, 2002.

EQUITY COMPENSATION PLAN INFORMATION

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) | Weighted average exercise price of outstanding options, warrants and rights ($) | Number of securities remaining available for future issuance of options, warrants and rights (#) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 2,098,181 | 1.52 | 1,079,614 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 2,098,181 | 1.52 | 1,079,614 |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

stockholders and executive officers and directors of SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI"), SPAR Infotech, Inc. ("SIT"), and certain other affiliated companies.

SMS and SMSI (through SMS) provided approximately 71% of the Company's field representatives (through its independent contractor field force) and substantially all of the Company's field management services at a total cost of approximately $30.5 million and $15.1 million for the twelve months ended December 31, 2002, and 2001, respectively. Under the terms of the Field Service Agreement, SMS provides the services of approximately 6,600 field representatives and SMSI provides approximately 90 full-time national, regional and district managers to the SPAR Marketing Companies as they may request from time to time, for which the Company has agreed to pay SMS for all of its costs of providing those services plus 4%. However, SMS may not charge the Company for any past taxes or associated costs for which the SMS Principals have agreed to indemnify the SPAR Companies. Although the SMS Principals were not paid any salaries as officers of SMS or SMSI, SMS, and SMSI are "Subchapter S" corporations, and accordingly the SMS Principals benefit from any income of such companies allocated to them (see Item 11 - Summary Additional Compensation Table - Affiliated Companies above).

SIT provided Internet computer programming services to the Company at a total cost of approximately $1,626,000 and $1,185,000 for the twelve months ended December 31, 2002, and 2001, respectively. Under the terms of the programming agreement between SMF and SIT effective as of October 1, 1998 (the "Programming Agreement"), SIT continues to provide programming services to SMF as SMF may request from time to time, for which SMF has agreed to pay SIT competitive hourly wage rates and to reimburse SIT's out-of-pocket expenses. Although the SMS Principals were not paid any salaries as officers of SIT, SIT is a "Subchapter S" corporation, and accordingly the SMS Principals would benefit from any income allocated to them if SIT were to be profitable.



In July 1999, SMF, SMS and SIT entered into a Software Ownership Agreement with respect to Internet job scheduling software jointly developed by such parties. In addition, SPAR Trademarks, Inc. ("STM"), SMS and SIT entered into trademark licensing agreements whereby STM has granted non-exclusive royalty-free licenses to SIT, SMS and SMSI for their continued use of the name "SPAR" and certain other trademarks and related rights transferred to STM, a wholly owned subsidiary of the Company.

The SMS Principals also owned an indirect minority (less than 5%) equity interest in Affinity Insurance Ltd., which provides certain insurance to the Company.

At December 31, 2002, the Company owed a total of $4.0 million to the SMS Principals (See Item 7-Liquidity and Capital Resources and Note 10 to the Financial Statements), $3.0 million of which has since been repaid.

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

ITEM 14. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer, Robert Brown, and Chief Financial Officer, Charles Cimitile, have reviewed the Company's disclosure controls and procedures within 90 days prior to the filing of this report. Based upon this review, these officers believe that the Company's disclosure controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

CHANGES IN INTERNAL CONTROLS

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

the date of this Form 10-K.

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The Company and its subsidiaries did not engage Ernst & Young LLP ("E&Y") to provide advice regarding financial information systems design or implementation, but did engage E&Y for consulting services related to the ESOP during 2002 (for which E&Y was paid $13,700) and for tax services in 2002 and 2001 (for which E&Y was paid $13,500 and $107,952 respectively). No other non-audit services were performed by E&Y in 2002 or 2001. Commencing in 2003, all non-audit services to be performed by the Company's auditor will require approval by the Company's Audit Committee on a case-by-case basis. In connection with the standards for independence of the Company's independent public accountants promulgated by the Securities and Exchange Commission, the Audit Committee would consider whether the provision of such non-audit services would be compatible with maintaining the independence of E&Y.

AUDIT FEES

During the Company's fiscal year ended December 31, 2002, and 2001, respectively, fees billed by Ernst & Young LLP for all audit services rendered to the Company and its subsidiaries were $143,000 and $159,700, respectively. Audit services principally include fees for the Company's audits and 10-Q filing reviews.



PART IV

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A)1. INDEX TO FINANCIAL STATEMENTS FILED AS PART OF THIS REPORT:



2. FINANCIAL STATEMENT SCHEDULES.



3. EXHIBITS.

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 3.1 | Certificate of Incorporation of SPAR Group, Inc. (referred to therein under its former name PIA), as amended (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 33-80429), as filed with the Securities and Exchange Commission ("SEC") on December 14, 1995 (the "Form S-1")), and the Certificate of Amendment filed with the Secretary of State of the State of Delaware on July 8, 1999 (which, among other things, changes the Company's name to SPAR Group, Inc.) (incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the 3rd Quarter ended September 30, 1999). |

3.2 By-laws of the Company (referred to therein under its former name PIA) (incorporated by reference to the above referenced Form S-1).

4.1 Registration Rights Agreement entered into as of January 21, 1992, by and between RVM Holding Corporation. RVM/PIA, a California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverine (incorporated by reference to the Form S-1).

10.1 2000 Stock Option Plan, as amended, (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).

10.2 2001 Employee Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).

10.3 2001 Consultant Stock Purchase Plan (incorporated by reference to the Company's Proxy Statement for the Company's Annual meeting held on August 2, 2001, as filed with the SEC on July 12, 2001).



10.4 Service Agreement dated as of January 4, 1999, by and between SPAR Marketing Force, Inc., and SPAR Marketing Services, Inc. (incorporated by reference to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 1999).

10.5 Business Manager Agreement dated as of July 8, 1999, by and between SPAR Marketing Force, Inc., and SPAR Marketing Services, Inc. (incorporated by reference to the Company's Form 10-K/A (Amendment No. 1) for the fiscal year ended December 31, 1999).

10.6 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Marketing Services, Inc., and SPAR Trademarks, Inc., filed herewith.

10.7 Trademark License Agreement dated as of July 8, 1999, by and between SPAR Infotech, Inc., and SPAR Trademarks, Inc., filed herewith

10.8 [Reserved].

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

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

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

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

10.12 Third Amended and Restated Revolving Credit and Security Agreement by and among Whitehall Business Credit Corporation (the "Lender") with SPAR Marketing Force, Inc., SPAR Group, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR

Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., SPAR Group International, Inc., SPAR Technology Group, Inc., SPAR/PIA Retail Services, Inc., Retail Resources, Inc., Pivotal Field Services Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co. and Pivotal Sales Company (collectively, the "Borrowers"), dated as of January 24, 2003, and filed herewith.

21.1 List of Subsidiaries

23.1 Consent of Ernst & Young LLP.

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

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

(B) REPORTS ON FORM 8-K.

None.



SIGNATURES

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

SPAR GROUP, INC.

By: /s/ Robert G. Brown
---
Robert G. Brown
President, Chief Executive Officer and
Chairman of the Board

Date: March 31, 2003
---

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

| SIGNATURE | TITLE |
|---|---|
| /s/ Robert G. Brown<br>---<br>Robert G. Brown<br>Date: March 31, 2003 | President, Chief Executive Officer, Director and Chairman of the Board |
| /s/ William H. Bartels<br>---<br>William H. Bartels<br>Date: March 31, 2003 | Vice Chairman and Director |
| /s/ Robert O. Aders<br>---<br>Robert O. Aders<br>Date: March 31, 2003 | Director |
| /s/ Jack W. Partridge<br>---<br>Jack W. Partridge<br>Date: March 31, 2003 | Director |

/s/ Jerry B. Gilbert — Director

Jerry B. Gilbert
Date: March 31, 2003

/s/ George W. Off — Director

George W. Off
Date: March 31, 2003

/s/ Charles Cimitile — Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)

Charles Cimitile
Date: March 31, 2003



CERTIFICATIONS

I, Robert G. Brown, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 31, 2003

/s/ Robert G. Brown
---
Robert G. Brown
Chairman, President and Chief
Executive Officer



CERTIFICATIONS

I, Charles Cimitile, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 31, 2003

/s/ Charles Cimitile
---
Charles Cimitile
Chief Financial Officer

## Report of Independent Auditors

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

We have audited the consolidated balance sheets of SPAR Group, Inc. and Subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 16(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SPAR Group, Inc. and Subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

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

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 7, 2003

SPAR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

| | DECEMBER 31, 2002 | 2001 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ - | $ - |
| Accounts receivable, net | 17,415 | 21,144 |
| Prepaid expenses and other current assets | 783 | 440 |
| Deferred income taxes | 903 | 3,241 |
| Total current assets | 19,101 | 24,825 |
| Property and equipment, net | 1,972 | 2,644 |
| Goodwill | 7,858 | 8,357 |
| Deferred income taxes | 705 | 389 |
| Other assets | 121 | 110 |

| | | |
|---|---|---|
| Net long-term assets from discontinued operations | - | 4,830 |
| Total assets | $ 29,757 | $ 41,155 |
| LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: | | |
| Accounts payable | $ 422 | $ 440 |
| Accrued expenses and other current liabilities | 6,097 | 5,257 |
| Accrued expenses, due to affiliates | 958 | 611 |
| Restructuring charges, current | 1,354 | 1,597 |
| Due to certain stockholders | 3,951 | 2,655 |
| Net current liabilities from discontinued operations | - | 5,732 |
| Current portion of long-term debt | - | 57 |
| Total current liabilities | 12,782 | 16,349 |
| Line of credit | 148 | 11,287 |
| Long-term debt due to certain stockholders | - | 2,000 |
| Restructuring charges, long term | 235 | 585 |
| 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 - 18,824,527 -- 2002; 18,582,615 -- 2001 | 188 | 186 |
| Treasury stock | (30) | - |
| Additional paid-in capital | 10,919 | 10,531 |
| Retained earnings | 5,515 | 217 |
| Total stockholders' equity | 16,592 | 10,934 |
| Total liabilities and stockholders' equity | $ 29,757 | $ 41,155 |

See accompanying notes.



SPAR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

| | YEAR ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| Net revenues | $ 69,612 | $ 70,891 | $ 81,459 |
| Cost of revenues | 40,331 | 40,883 | 50,278 |
| Gross profit | 29,281 | 30,008 | 31,181 |
| Selling, general, and administrative expenses | 18,804 | 19,380 | 24,761 |
| Depreciation and amortization | 1,844 | 2,682 | 2,383 |
| Operating income | 8,633 | 7,946 | 4,037 |
| Other (income) expense | (26) | 107 | (790) |
| Interest expense | 363 | 561 | 1,326 |
| Income from continuing operations before provision for income taxes | 8,296 | 7,278 | 3,501 |
| Provision for income taxes | 2,998 | 3,123 | 780 |
| Net income from continuing operations | 5,298 | 4,155 | 2,721 |

| | | | |
|---|---|---|---|
| Discontinued operations: | | | |
| Loss from discontinued operations, net of tax benefits of $938 and $858 for 2001 and 2000, respectively | - | (1,597) | (1,399) |
| Estimated loss on disposal of discontinued operations in 2001, net of tax benefit of $2,618 | - | (4,272) | - |
| Net income (loss) | $ 5,298 | $ (1,714) | $ 1,322 |
| Basic/diluted net income (loss) per common share: | | | |
| Income from continuing operations | $ 0.28 | $ 0.23 | $ 0.15 |
| Loss from discontinued operations | - | (0.32) | (0.08) |
| Net income (loss) | $ 0.28 | $ (0.09) | $ 0.07 |
| Weighted average shares outstanding - basic | 18,761 | 18,389 | 18,185 |
| Weighted average shares outstanding - diluted | 19,148 | 18,467 | 18,303 |

See accompanying notes.



SPAR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands)

| | COMMON STOCK | | | | | |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | TREASURY STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | TOTAL STOCKHOLDERS' EQUITY |
| Balance at December 31, 1999 | 18,155 | $ 182 | $ - | $ 10,095 | $ 609 | $10,886 |
| Stock options exercised and employee stock purchase plan purchases | 117 | - | - | 32 | - | 32 |
| Net income | - | - | - | - | 1,322 | 1,322 |
| Balance at December 31, 2000 | 18,272 | 182 | - | 10,127 | 1,931 | 12,240 |
| Stock options exercised and employee stock purchase plan purchases | 311 | 4 | - | 404 | - | 408 |
| Net loss | - | - | - | - | (1,714) | (1,714) |
| Balance at December 31, 2001 | 18,583 | $186 | - | $ 10,531 | $ 217 | $10,934 |
| Stock options exercised and employee stock purchase plan purchases | 242 | 2 | - | 388 | - | 390 |
| Purchase of treasury stock | - | - | (30) | - | - | (30) |
| Net income | - | - | - | - | 5,298 | 5,298 |
| Balance at December 31, 2002 | 18,825 | $ 188 | $ (30) | $ 10,919 | $ 5,515 | $16,592 |

See accompanying notes.



SPAR GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ 5,298 | $ (1,714) | $ 1,322 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation | 1,844 | 2,217 | 1,839 |
| Amortization | - | 1,630 | 1,725 |
| Estimated loss on disposal of discontinued operations | - | 4,272 | - |
| Gain on sale of affiliate | - | - | (790) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 3,729 | 13 | 5,318 |
| Prepaid expenses and other current assets | (354) | 318 | (346) |
| Deferred income taxes | 2,022 | 1,710 | (185) |
| Accounts payable, accrued expenses and other current liabilities | 766 | (7,202) | 216 |
| Restructuring charges | (593) | (1,487) | (2,766) |
| Net cash provided (used in) by operating activities | 12,712 | (243) | 6,333 |
| INVESTING ACTIVITIES | | | |
| Purchases of property and equipment | (1,172) | (1,744) | (1,941) |
| Purchase of businesses, net of cash acquired | - | - | (62) |
| Sale of investment in affiliate | - | - | 1,500 |
| Net cash used in investing activities | (1,172) | (1,744) | (503) |
| FINANCING ACTIVITIES | | | |
| Net (payments) borrowings on line of credit | (11,139) | 3,526 | (5,596) |
| Payments on long-term debt | (57) | (1,465) | (1,113) |
| Net payments to certain stockholders | (704) | (482) | (182) |
| Payments of note payable, MCI | - | - | (1,045) |
| Proceeds from issuance of common stock | 390 | 408 | 32 |
| Purchase of treasury stock | (30) | - | - |
| Net cash (used in) provided by financing activities | (11,540) | 1,987 | (7,904) |
| Net decrease in cash | - | - | (2,074) |
| Cash at beginning of year | - | - | 2,074 |
| Cash at end of year | $ - | $ - | $ - |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| Interest paid | $ 686 | $ 1,892 | $ 1,394 |

See accompanying notes.



SPAR Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2002

## 1. BUSINESS AND ORGANIZATION

The SPAR Group, Inc., a Delaware corporation ("SPAR Group", "SGRP", or the "Company"), is a supplier of in-store merchandising and marketing services throughout the United States and internationally. The Company also provides database marketing, teleservices and marketing research. As part of a strategic realignment in the fourth quarter of 2001, the Company made the decision to divest its Incentive Marketing Division, SPAR Performance Group, Inc. ("SPGI"). The Company explored various alternatives for the sale of SPGI and subsequently sold the business to SPGI's employees through the establishment of an employee

stock ownership plan on June 30, 2002. In addition, in October 2002, the Company dissolved its Technology Division that was established in March 2000 for the purpose of marketing its proprietary Internet-based computer software. The Company's continuing operations are now divided into two divisions: the Merchandising Services Division and the International Division. The Merchandising Services Division provides merchandising services, database marketing, teleservices and marketing research to manufacturers and retailers with product distribution primarily in mass merchandisers, drug chains and grocery stores in the United States. The International Division established in July 2000, currently provides merchandising services through a joint venture in Japan and focuses on expanding the Company's merchandising services business throughout the world.

MERCHANDISING SERVICES DIVISION

The Company's Merchandising Services Division consists of SPAR Marketing, Inc. ("SMI") (an intermediate holding company), SPAR Marketing Force, Inc. ("SMF"), SPAR Marketing, Inc., ("SMNEV"), SPAR/Burgoyne Retail Services, Inc. ("SBRS"), and SPAR, Inc. ("SINC") PIA Merchandising, Co., Inc., Pacific Indoor Display d/b/a Retail Resources, Pivotal Sales Company and PIA Merchandising Ltd. The Merchandising Services Division provides nationwide retail merchandising and marketing services to home entertainment, PC software, general merchandise, health and beauty care, consumer goods and food products companies in the United States. The Company provides these services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug chains and retail grocery stores.

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





1. BUSINESS AND ORGANIZATION (CONTINUED)

INTERNATIONAL DIVISION

In July 2000, the Company established its International Division, SPAR Group International, Inc. ("SGI"), to focus on expanding its merchandising services business world-wide. Currently, the Company provides merchandising services in Japan through a joint venture with a large Japanese distributor and is actively pursuing expansion into other markets.

DISCONTINUED OPERATIONS - INCENTIVE MARKETING DIVISION

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

The $6.0 million sales price was evidenced by two Term Loans, an Initial Term

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

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

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

These payments will be applied first to accrued and unpaid interest on the Term Loans and Revolver, then to the Additional Term Loan until repaid, and then to the Initial Term Loan. Because collection of the notes depends on the future operations of PHI, the $6.0 million notes were fully reserved pending collection.

In addition to the Term Loans, SIM agreed to provide a discretionary revolving line of credit to SPGI not to exceed $2.0 million (the "Revolver"). The Revolver is secured by a pledge of all the assets of SPGI and is guaranteed by PHI. The Revolver provides for advances in excess of the borrowing base through September 30, 2003. Through September 30, 2003, the Revolver bears interest at the higher of the Term Loans interest rate or the prime commercial lending rate as announced in the Wall Street Journal plus 4.0% per annum. As of October 1, 2003, the Revolver will include a borrowing base calculation (principally 85% of eligible accounts receivable). Prior to September 1, 2003, SPGI may request that SIM provide advances of up to $1,000,000 in excess of the borrowing base. If advances are limited to the borrowing base on and after October 1, 2003, the interest rate will be reduced to the higher of the Term Loans interest rate less 4.0% per annum or the prime commercial lending rate as announced in the Wall Street Journal plus 4.0%





1. BUSINESS AND ORGANIZATION (CONTINUED)

per annum. If SPGI requests that advances be allowed in excess of the borrowing base, the interest rate will remain unchanged.

Due to the speculative nature of the loan SIM has established a reserve for collection of approximately $0.8 million against the $2.0 million Revolver commitment. This revenue is included in other current liabilities.

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

Operating losses of $682,000 incurred from January 1, 2002, through June 30, 2002, the date of divestiture, were charged against the aforementioned reserve. In addition, $318,000 of costs to dispose of SPGI were also charged against the reserve. The 2001 and 2000 consolidated statements of operations were restated to report the results of discontinued operations separately from continuing operations. Operating results of the discontinued operations are summarized as

follows (in thousands):

| | SIX MONTHS ENDED JUNE 30, 2002 | YEAR ENDED DECEMBER 31, 2001 | 2000 |
|---|---|---|---|
| Net sales | $15,735 | $31,202 | $28,070 |
| Less: | | | |
| Cost of sales | 13,092 | 26,032 | 22,692 |
| Selling, general and administrative expenses | 2,814 | 5,736 | 5,654 |
| Interest expense | 383 | 804 | 800 |
| Depreciation | 128 | 306 | 322 |
| Amortization | - | 859 | 859 |
| OPERATING LOSS | (682) | (2,535) | (2,257) |
| Provision for income tax benefit | (259) | (938) | (858) |
| NET LOSS | $ (423) | $ (1,597) | $(1,399) |





1. BUSINESS AND ORGANIZATION (CONTINUED)

Net non-current assets and current liabilities of discontinued operations, classified separately in the 2001 balance sheet, are summarized below (in thousands):

| | 2001 |
|---|---|
| Net non-current assets of discontinued operations: | |
| Property and equipment | $ 444 |
| Goodwill and other intangibles, net | 4,386 |
| | $ 4,830 |
| Net current liabilities of discontinued operations: | |
| Accounts receivable, net | 2,050 |
| Prepaid expenses and other current assets | 228 |
| Prepaid program costs | 3,470 |
| Accounts payable | (1,642) |
| Accrued expenses and other current liabilities | (1,727) |
| Deferred revenue | (7,090) |
| Current portion of long-term debt | (21) |
| Other current charges | (1,000) |
| | $(5,732) |

Other current charges represent the costs to dispose of SPGI and the losses from operations expected prior to the disposal of the business on June 30, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

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

CASH EQUIVALENTS

The Company considers all highly liquid short-term investments with maturities of three months or less at the time of acquisition to be cash equivalents.

REVENUE RECOGNITION

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

UNBILLED ACCOUNTS RECEIVABLE

Unbilled accounts receivable represent services performed but not billed.





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company continually monitors the collectability of its account receivable based upon current customer credit information available. Utilizing this information, the Company has established an allowance for doubtful accounts of $301,000 and $325,000 at December 31, 2002 and 2001, respectively.

PROPERTY AND EQUIPMENT

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

INTERNAL USE SOFTWARE DEVELOPMENT COSTS

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

The Company capitalized $774,000, $430,000, and $994,000 of costs related to software developed for internal use in 2002, 2001 and 2000, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment, whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable and the undiscounted cash flows estimated to be generated by those total assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's balance sheets include the following financial instruments: accounts receivable, accounts payable and a line of credit. The Company considers the carrying amounts of current assets and liabilities in the financial statements to approximate the fair value for these financial instruments, because of the relatively short period of time between origination of the instruments and their expected realization or payment. The carrying

amount of the line of credit approximates fair value because the obligation bears interest at a floating rate. The carrying amount of long-term debt to certain stockholders approximates fair value because the current effective interest rates reflect the market rate for unsecured debt with similar terms and remaining maturities.





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISK AND OTHER RISKS

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

One customer accounted for 26%, 25% and 20% of net revenues for the years ended December 31, 2002, 2001 and 2000, respectively. This customer approximated 40%, 24% and 26% of accounts receivable at December 31, 2002, 2001, and 2000, respectively.

A second customer accounted for 11%, 9% and 5% of the Company's net revenues for the years ended December 31, 2002, 2001, and 2000, respectively. This second customer also accounted for approximately 5%, 4% and 4% of accounts receivable at December 31, 2002, 2001 and 2000, respectively.

Approximately 24%, 31%, and 18% of net revenues for the years ended December 31, 2002, 2001, and 2000, respectively, resulted from merchandising services performed for others at Kmart stores. Kmart filed for protection under the U.S. Bankruptcy Code in January 2002. During 2002, Kmart closed a significant number of stores in the United States. While the Company's customers and the resultant contractual relationships are with the manufacturers and not this retailer, the Company's business would be negatively impacted if this retailer were to close all or most of its stores.

INCOME TAXES

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





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock

Based Compensation, requires disclosure of 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. The Company has disclosed in Note 9 to the consolidated financial statements actual and pro forma basic and diluted net income (loss) per share as if the Company had applied the fair value method of accounting.

EARNINGS PER SHARE

Basic earnings per share amounts are based upon the weighted average number of common shares outstanding. Diluted earnings per share amounts are based upon the weighted average number of common and potential common shares outstanding for each period represented. Potential common shares outstanding include stock options, using the treasury stock method.

USE OF ESTIMATES

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





2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL

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

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

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Reported net income (loss) | $ 5,298 | $ (1,714) | $ 1,322 |
| Add: Goodwill amortization | - | 771 | 866 |
| Adjusted net income (loss) | $ 5,298 | $ (943) | $ 2,188 |
| Basic and diluted net income (loss) per share: | | | |
| Reported net income (loss) | $ 0.28 | $ (0.09) | $ 0.07 |
| Add: Goodwill amortization | - | 0.04 | 0.05 |
| Adjusted net income (loss) | $ 0.28 | $ (0.05) | $ 0.12 |

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

In 2001, the amount of goodwill related to the July 1999 merger of SPAR Companies and PIA Merchandising Services, Inc. ("PIA") decreased approximately $1.2 million as a result of the reduction of estimates associated with pre-merger related liabilities and restructure reserves. In 2002, the amount of goodwill related to this transaction decreased approximately $0.5 million as a result of a change in the valuation allowance required on deferred tax assets related to the PIA operating loss carryforward.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' financial statements to conform to the 2002 presentation.





3. SUPPLEMENTAL BALANCE SHEET INFORMATION

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

| | DECEMBER 31, 2002 | 2001 |
|---|---|---|
| Trade | $ 11,973 | $ 16,366 |
| Unbilled | 5,743 | 5,095 |
| Non-trade | - | 8 |
| | 17,716 | 21,469 |
| Less allowance for doubtful accounts | 301 | 325 |
| | $ 17,415 | $ 21,144 |

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

| | DECEMBER 31, 2002 | 2001 |
|---|---|---|
| Equipment | $ 4,175 | $ 3,792 |
| Furniture and fixtures | 509 | 509 |
| Leasehold improvements | 138 | 123 |
| Capitalized software development costs | 3,278 | 2,504 |
| | 8,100 | 6,928 |
| Less accumulated depreciation and amortization | 6,128 | 4,284 |
| | $ 1,972 | $ 2,644 |





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

| | DECEMBER 31, 2002 | 2001 |
|---|---|---|
| Accrued salaries and other related costs | $ 321 | $1,224 |
| Accrued merger related costs | 1,945 | 2,397 |
| Due to SPGI (cash deposits) | 917 | - |
| Other | 2,914 | 1,636 |
| | $6,097 | $5,257 |

4. LINE OF CREDIT AND LONG-TERM LIABILITIES

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

The New Credit Facility replaces a previous 1999 agreement between the Company and IBJ Whitehall Business Credit Corporation (the "Old Credit Facility") that was scheduled to mature on February 28, 2003. The Old Credit Facility as amended provided for a $15.0 million Revolving Credit Facility, as well as a $2.5 million Term Loan. The Revolving Credit facility allowed the Borrowers to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). The Term Loan amortized in equal monthly installments of $83,334 and was repaid in full as of December 31, 2001. The revolving loans bore interest at Whitehall's "Alternate Base Rate" plus one-half of one percent (0.50%) (a total of 4.75% per annum at December 31, 2002).

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

Both Credit Facilities contain certain financial covenants which must be met by the Borrowers on a consolidated basis, among which are a minimum "Net Worth", a "Fixed Charge Coverage Ratio", a capital expenditure limitation and a minimum EBITDA, as such terms are defined in the respective agreement. The Company was in compliance with all such financial covenants at December 31, 2002.

The balances outstanding on the revolving line of credit under the Old Credit Facility were $0.1 million and $11.3 million at December 31, 2002, and December 31, 2001, respectively. As of December 31, 2002, based upon the borrowing base formula, the SPAR Group had availability under the Old Credit Facility of $11.1 million of the $14.9 million unused revolving line of credit. Availability would have been the same under the New Credit Facility had it been in effect on December 31, 2002.





4. LINE OF CREDIT AND LONG-TERM LIABILITIES (CONTINUED)

The Company's line of credit and long-term liabilities consist of the following at December 31 (in thousands):

| | 2002 | 2001 |
|---|---|---|

| | | |
|---|---|---|
| Revolving line of credit, maturing February 2003 | $148 | $11,287 |
| Other long-term liabilities | - | 57 |
| | $148 | 11,344 |
| Current maturities of long-term liabilities | - | 57 |
| | $148 | $11,287 |

5. INCOME TAXES

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

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Current | $ 476 | $ 109 | - |
| Deferred | 2,522 | 3,014 | $780 |
| | $2,998 | $3,123 | $780 |

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

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Provision for income taxes at federal statutory rate | $2,821 | $2,475 | $1,190 |
| State income taxes, net of federal benefit | 175 | 317 | 140 |
| Permanent differences | (48) | 317 | 321 |
| Change in valuation allowance | - | - | (825) |
| Other | 50 | 14 | (46) |
| Provision for income taxes | $2,998 | $3,123 | $ 780 |





5. INCOME TAXES (CONTINUED)

Deferred taxes consist of the following (in thousands):

| | DECEMBER 31, | |
|---|---|---|
| | 2002 | 2001 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $3,876 | $4,150 |
| Restructuring | 454 | 879 |
| Accrued compensation and related benefits | 160 | 446 |
| SIM reserve against loan commitment | 320 | - |
| Allowance for doubtful accounts and other receivable | 114 | 166 |
| Loss on disposal of incentive business SPGI | - | 2,618 |
| Other | 206 | 290 |

| | | |
|---|---|---|
| Valuation allowance | (3,126) | (3,622) |
| Total deferred tax assets | 2,004 | 4,927 |
| Deferred tax liabilities: | | |
| Nonrecurring charge for termination of Subchapter S election | - | 797 |
| Capitalized software development costs | 396 | 500 |
| Total deferred tax liabilities | 396 | 1,297 |
| Net deferred tax assets | $1,608 | $3,630 |

At December 31, 2002, the Company has net operating loss carryforwards (NOLs) of $10.2 million available to reduce future federal taxable income. The Company's net operating loss carryforwards begin to expire in the year 2012. Section 382 of the Internal Revenue Code restricts the annual utilization of the NOLs incurred prior to a change in ownership. Such a change in ownership had occurred in 1999, thereby restricting the NOLs prior to such date available to the Company to approximately $657,500 per year.

The Company has established a valuation allowance for the deferred tax assets related to the available NOLs that are deductible for years subsequent to 2005 totaling $3,126,000. The $3,126,000 valuation allowance at December 31, 2002 when realized will result in a reduction of goodwill associated with the PIA acquisition. In 2002 and 2001, the Company reduced the valuation allowance and goodwill by $499,000 and $250,000 respectively. In 2001, in addition to the goodwill adjustment discussed above, the Company also realized the benefit of certain deferred tax assets and decreased the valuation allowance by $387,000.





6. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Company leases equipment and certain office space in several cities, under non-cancelable operating lease agreements. Certain leases contain escalation clauses and require the Company to pay its share of any increases in operating expenses and real estate taxes. Rent expense was approximately $1.0 million, $1.0 million, and $1.1 million for the years ended December 31, 2002, 2001, and 2000, respectively. At December 31, 2002, future minimum commitments under all non-cancelable operating lease arrangements are as follows (in thousands):

| | |
|---|---|
| 2003 | $1,004 |
| 2004 | 831 |
| 2005 | 562 |
| 2006 | 545 |
| 2007 | 54 |

MATTERS

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

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





7. EMPLOYEE BENEFITS

RETIREMENT/PENSION PLANS

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Employer contributions were approximately $117,000, $118,000, and $68,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

Certain of the Company's PIA employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Pension expense related to these plans was approximately $60,000, $77,000, and $24,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

STOCK PURCHASE PLANS

The Company has Employee and Consultant Stock Purchase Plans (the "SP Plans"). The SP Plans allow employees and consultants of the Company to purchase common stock, without having to pay any commissions on the purchases. On August 8, 2002, the Company's Board of Directors approved a 15% discount for employee purchases and a 15% cash bonus for affiliate consultant purchases. The maximum amount that any employee or consultant can contribute to the SP Plans per quarter is $6,250, and the total number of shares reserved by the Company for purchase under the SP Plans is 500,000. During 2002, 2001 and 2000, the Company sold 10,104 shares, 2,638 shares, and 452 shares of common stock, at a weighted average price of $2.51, $1.90, and $3.03 per share, respectively.





8. RELATED-PARTY TRANSACTIONS

The SPAR Group, Inc. is affiliated through common ownership with SPAR Marketing Services, Inc. ("SMS"), SPAR Management Services, Inc. ("SMSI") and SPAR Infotech, Inc. ("SIT"). SMS and SMSI (through SMS) provided approximately 71% of the Company's field representatives (through its independent contractor field force) and substantially all of the Company's field management services. Under the terms of the Field Service Agreement, SMS provides the services of approximately 6,600 field representatives and through SMSI provides approximately 90 full-time national, regional and district managers to the SPAR Marketing Companies as they may request from time to time, for which the Company has agreed to pay SMS for all of its costs of providing those services plus 4%.

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

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

| | YEAR ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| Services provided by affiliates: | | | |
| Independent contractor services | $ 23,262 | $ 8,337 | $ 5,177 |
| Field management services | $ 7,280 | $ 6,779 | $ 4,388 |
| Internet and software program consulting services | $ 1,626 | $ 1,185 | $ 769 |
| Services provided to affiliates: | | | |
| Management services | $ 732 | $ 390 | $ 692 |

| Balance due to (from) affiliates included in accrued liabilities (in thousands): | DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| SPAR Management Services, Inc. | $ - | $ - | $ (26) |
| SPAR Marketing Services, Inc. | 932 | 611 | 582 |
| SPAR Infotech, Inc. | 26 | - | (4) |
| | $ 958 | $ 611 | $ 552 |

In addition to the above, through the services of Affinity (f/k/a Infinity) Insurance, Ltd., the Company purchased insurance coverage for its casualty and property insurance risk for approximately $1,128,000, 1,085,000 and $994,000 for the years ended December 31, 2002, 2001, and 2000, respectively.

The Company had an investment in an affiliate that provided telemarketing and related services that was sold in 2000 for $1.5 million, for a gain of approximately $790,000 that was included in other income.

In 2000, the Company's affiliate SMS settled its claim with the Internal Revenue Service. As a result of this settlement, the $500,000 contingent liability amount the Company had accrued at December 31, 1999, was reversed with a corresponding credit made to cost of revenues.





9. STOCK OPTIONS

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

The 1995 Plan provided for the granting of either incentive or nonqualified stock options to specific employees, consultants, and directors of the Company for the purchase of up to 3,500,000 shares of the Company's common stock. The options had a term of ten years from the date of issuance, except in the case of incentive stock options granted to greater than 10% stockholders for which the term was five years. The exercise price of nonqualified stock options must have been equal to at least 85% of the fair market value of the Company's common stock at the date of grant. Since 2000, the Company has not granted any new options under this Plan. At December 31, 2002, options to purchase 72,000 shares

of the Company's common stock remain outstanding under this Plan. The 1995 Plan was superceded by the 2000 Stock Option Plan with respect to all new options issued.

The Director's Plan was a stock option plan for non-employee directors and provided for the purchase of up to 120,000 shares of the Company's common stock. Since 2000, the Company has not granted any new options under this Plan. At December 31, 2002, 20,000 options to purchase shares of the Company's common stock remained outstanding under this Plan. The Director's Plan has been replaced by the 2000 Plan with respect to all new options issued.

On July 8, 1999, the Company established the Special Purpose Stock Option Plan of PIA Merchandising Services, Inc. to provide for the issuance of substitute options to the holders of outstanding options granted by SPAR Acquisition, Inc. There were 134,114 options granted at $0.01 per share. Since July 8, 1999, the Company has not granted any new options under this plan. During 2002, no options to purchase shares of the Company's common stock were exercised under this Plan. At December 31, 2002, options to purchase 25,750 shares of the Company's common stock remain outstanding under this Plan.

On December 4, 2000, the Company adopted the 2000 Plan as the successor to the 1995 Plan and the Director's Plan with respect to all new options issued. The 2000 Plan provides for the granting of either incentive or nonqualified stock options to specified employees, consultants, and directors of the Company for the purchase of up to 3,600,000 (less those options still outstanding under the 1995 Plan or exercised after December 4, 2000, under the 1995 Plan). The options have a term of ten years from the date of issuance except in the case of incentive stock options granted to greater than 10% stockholders for whom the term is five years. The exercise price of nonqualified stock options for tax purposes must be equal to at least 85% of the fair market value of the Company's common stock at the date of grant (although typically such options are issued at 100% of the fair market value), and the exercise price of incentive stock options must be equal to at least the fair market value of the Company's common stock at the date of grant. At December 31, 2002, options to purchase 1,980,431 shares of the Company's common stock remain outstanding under this Plan and options to purchase 1,079,614 shares of the Company's common stock were available for grant under this Plan.





9. STOCK OPTIONS (CONTINUED)

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

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

| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| Options outstanding, December 31, 1999 | 3,305,522 | $5.22 |
| Granted | 479,500 | 2.59 |
| Exercised | (115,864) | .27 |

| | | |
|---|---|---|
| Canceled or expired | (679,309) | 5.94 |
| Options outstanding, December 31, 2000 | 2,989,849 | 4.82 |
| Granted | 2,564,844 | 1.31 |
| Exercised | (309,492) | 1.30 |
| Canceled or expired | (2,761,474) | 5.00 |
| Options outstanding, December 31, 2001 | 2,483,727 | 1.42 |
| Granted | 332,792 | 2.01 |
| Exercised | (230,463) | 1.23 |
| Canceled or expired | (487,875) | 5.05 |
| Options outstanding, December 31, 2002 | 2,098,181 | 1.52 |
| Option price range at end of year | $0.01 to $14.00 | |





9. STOCK OPTIONS (CONTINUED)

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Weighted average grant date fair value of options granted during the year | $1.60 | $1.28 | $1.68 |

The following table summarizes information about stock options outstanding at December 31, 2002:

| | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|---|---|---|---|---|---|
| RANGE OF EXERCISE PRICES | NUMBER OUTSTANDING AT DECEMBER 31, 2002 | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AT DECEMBER 31, 2002 | WEIGHTED AVERAGE EXERCISE PRICE |
| Less than $1.00 | 217,593 | 8.0 years | $0.53 | 137,343 | $ 0.42 |
| $1.01 - $2.00 | 1,629,588 | 6.6 years | 1.34 | 815,927 | 1.30 |
| $2.01 - $4.00 | 219,000 | 9.1 years | 2.49 | 24,750 | 3.13 |
| Greater than $4.00 | 32,000 | 4.7 years | 10.63 | 29,000 | 11.21 |
| Total | 2,098,181 | 7.0 years | 1.52 | 1,007,020 | 1.51 |

Outstanding warrants are summarized below:

| | SHARES SUBJECT TO WARRANTS | EXERCISE PRICE PER SHARE |
|---|---|---|
| Balance, December 31, 2002 | 113,062 | $0.01 - $8.51 |

The above warrants expire at various dates from 2003 through 2004.

9. STOCK OPTIONS (CONTINUED)

The Company has adopted 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 plans. Had compensation cost for the Company's option plans been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net income (loss) and pro forma net income (loss) per share from continuing operations would have been reduced to the adjusted amounts indicated below (in thousands, except per share data):

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Net income (loss), as reported | $ 5,298 | $ (1,714) | $ 1,322 |
| Stock based employee compensation (benefit) expense under the fair market value method | 1,844 | (1,129) | 1,957 |
| Pro forma net income (loss) | 3,454 | (585) | (635) |
| Basic and diluted net income (loss) per share, as reported | $ 0.28 | $ (0.09) | $ 0.07 |
| Basic and diluted net income (loss) per share | $ 0.18 | $ (0.03) | $ (0.03) |

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

The fair value of each option grant is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 0% for all years; volatility factor of expected market price of common stock of 85%, 187%, and 237% for 2002, 2001, and 2000, respectively; risk-free interest rate of 4.03%, 5.14%, and 6.89%; and expected lives of six years.

10. NOTES PAYABLE TO CERTAIN STOCKHOLDERS

As of December 31, 2002, notes payable to certain stockholders total approximately $4.0 million, which bear an interest rate of 8.0% and are due on demand. In January 2003, $3.0 million was repaid to such stockholders. While the New Credit Facility contains certain restrictions on the repayment of stockholder debt, the Company anticipates paying the remaining balance in 2003.

11. SEGMENTS

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

12. RESTRUCTURING CHARGES

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

12. RESTRUCTURING CHARGES (CONTINUED)

The following table displays a roll forward of the liabilities for restructuring charges from December 31, 1999 to December 31, 2002 (in thousands):

| | EMPLOYEE SEPARATION | EQUIPMENT LEASE SETTLEMENTS | OFFICE LEASE SETTLEMENTS | TOTAL |
|---|---|---|---|---|
| December 31, 1999 Balance | $ 1,115 | $ 2,414 | $ 1,542 | $ 5,071 |
| Adjustments in Restructuring Charges | 748 | 1,367 | (619) | 1,496 |
| 2000 payments | (1,376) | (1,011) | (379) | (2,766) |
| December 31, 2000 Balance | 487 | 2,770 | 544 | 3,801 |
| Adjustments in Restructuring Charges | (132) | -- | -- | (132) |
| 2001 payments | (355) | (1,008) | (124) | (1,487) |
| December 31, 2001 Balance | -- | 1,762 | 420 | 2,182 |
| 2002 payments | -- | (593) | -- | (593) |
| DECEMBER 31, 2002 BALANCE | $ -- | $ 1,169 | $ 420 | $ 1,589 |

The maturities of restructuring charges at December 31, 2002, are as follows (in thousands):

| | |
|---|---|
| 2003 | 1,354 |
| 2004 | 235 |

Management believes that the remaining reserves for restructuring are adequate to complete its plan.



13. EARNINGS PER SHARE

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

| | YEAR ENDED DECEMBER 31, 2002 | 2001 | 2000 |
|---|---|---|---|
| Numerators: | | | |
| Net income from continuing operations | $ 5,298 | $ 4,155 | $ 2,721 |

| | | | |
|---|---|---|---|
| Loss from operations of discontinued division | - | (5,869) | (1,399) |
| Net income (loss) | $ 5,298 | $ (1,714) | $ 1,322 |
| Denominator: | | | |
| Shares used in basic earnings per share calculation | 18,761 | 18,389 | 18,185 |
| Effect of diluted securities: | | | |
| Employee stock options | 387 | 78 | 118 |
| Shares used in diluted earnings per share calculations | 19,148 | 18,467 | 18,303 |
| Basic and diluted earnings per common share: | | | |
| Income from continuing operations | $ 0.28 | $ 0.23 | $ 0.15 |
| Loss from operations of discontinued division | - | (0.32) | (0.08) |
| Net income (loss) | $ 0.28 | $ (0.09) | $ 0.07 |





14. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly data for 2002 and 2001 was as follows (in thousands, except earnings per share data):

| | QUARTER | | | |
|---|---|---|---|---|
| | FIRST | SECOND | THIRD | FOURTH |
| YEAR ENDED DECEMBER 31, 2002: | | | | |
| Net revenues | $ 16,046 | $ 17,542 | $ 17,775 | $ 18,249 |
| Gross profit | 6,295 | 6,951 | 7,015 | 9,020 |
| Net income | $ 482 | $ 1,068 | $ 1,213 | $ 2,535 |
| Basic/diluted net income per common share | $ 0.03 | $ 0.06 | $ 0.06 | $ 0.13 |
| YEAR ENDED DECEMBER 31, 2001: | | | | |
| Net revenues | $ 14,941 | $ 16,091 | $ 19,025 | $ 20,834 |
| Gross profit | 6,193 | 6,231 | 7,356 | 10,228 |
| Income from continuing operations | 147 | 700 | 1,263 | 2,045 |
| Income (loss) from discontinued operations | 530 | (381) | (686) | (5,332)(1) |
| Net income (loss) | $ 677 | $ 319 | $ 577 | $ (3,287) |
| Basic/diluted net income (loss) per common share: | | | | |
| Income from continuing operations | $ 0.01 | $ 0.04 | $ 0.07 | $ 0.11 |
| Income (loss) from discontinued operations | 0.03 | (0.02) | (0.04) | (0.29) |
| Net income (loss) | $ 0.04 | $ 0.02 | $ 0.03 | $ (0.18) |

(1) Includes a $4,272,000 estimated loss on disposal of SPGI

SPAR Group, Inc. and Subsidiaries

Schedule II - Valuation and Qualifying Accounts

(In thousands)

| | BALANCE AT BEGINNING OF PERIOD | CHARGED TO COSTS AND EXPENSES | DEDUCTIONS (1) | BALANCE AT END OF PERIOD |
|---|---|---|---|---|
| Year ended December 31, 2002: | | | | |
| Deducted from asset accounts: | | | | |
| Allowance for doubtful accounts | $ 325 | $ 262 | $ 286 | $ 301 |
| Year ended December 31, 2001: | | | | |
| Deducted from asset accounts: | | | | |
| Allowance for doubtful accounts | $ 2,648 | $ 472 | $ 2,795 | $ 325 |
| Year ended December 31, 2000: | | | | |
| Deducted from asset accounts: | | | | |
| Allowance for doubtful accounts | $ 2,035 | $ 1,304 | $ 691 | $ 2,648 |

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

EXHIBIT 10.6

# TRADEMARK LICENSE AGREEMENT

## Introduction

This Trademark License Agreement, dated as of July 8, 1999 (as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided herein, this "Agreement"), is by and between SPAR Marketing Services, Inc., a Nevada corporation currently having an address at 303 South Broadway, Suite 140, Tarrytown, New York 10591(the "Licensee"), and SPAR Trademarks, Inc., a Nevada corporation currently having an address at 303 South Broadway, Suite 140, Tarrytown, New York 10591 (the "Licensor"). The Licensor and the Licensee are sometimes referred to herein individually as a "Party" and collectively as the "Parties".

## Recitals

The Licensor is the owner of the Trademarks (as these and the other capitalized terms used in these Recitals are defined in Section 1, below) with respect to the Products and Services, and the Licensee desires to use the Trademarks in the Territory in connection with the Products and Services. The Licensor is willing to grant to the Licensee the nonexclusive right and license to use the Trademarks on and in connection with the Products and Services in the Territory, all upon the terms and provisions and subject to the conditions set forth in this Agreement.

## Agreement

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

Section 1. Definitions. Each use in this Agreement of a neuter pronoun shall be deemed to include references to the masculine and feminine variations thereof, and vice versa, and a singular pronoun shall be deemed to include a reference to the plural variation thereof, and vice versa, in each case as the context may permit or require. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Merger Agreement (as hereinafter defined). As used in this Agreement, the following capitalized terms and non-capitalized words and phrases shall have the meanings respectively assigned to them below, which meanings shall be applicable equally to the singular and plural forms of the terms so defined:

(1) "Merger Effective Time" shall mean the "Effective Time" under (and as defined in) the Agreement and Plan of Merger dated as of February 28, 1999, among the SPAR Companies and the PIA Companies (which is the time the merger thereunder takes effect and the SPAR Companies and PIA Companies come under common control), as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided therein (the "Merger Agreement").

(2) "PIA Company" and "PIA Companies" shall respectively mean any one or more of PIA Merchandising Services, Inc., a Delaware corporation, SG Acquisition, Inc., a Nevada corporation (which is merging into SPAR Acquisition, Inc.), PIA Merchandising Co., Inc., a California corporation, and their respective subsidiaries as of the Merger Effective Time.

(3) "Products" shall mean the products claimed in the registrations for the Trademarks listed in Exhibit A hereto and any other products for which the Licensor has such Trademark rights.

(4) "Representative" of any Party shall mean any of its directors, officers, employees, attorneys, heirs, executors, administrators, or agents, any of such Party's sublicensees, affiliates, successors and assigns, or any of their respective directors, officers, employees, attorneys, heirs, executors, administrators, or agents.

(5) "Services" shall mean the services claimed in the registrations for the Trademarks listed in Exhibit A hereto and any other services for which

the Licensor has such Trademark rights.



(6) "SPAR Company" and "SPAR Companies" shall respectively mean any one or more of SPAR Acquisition, Inc., a Nevada corporation, SPAR Marketing, Inc., a Delaware corporation, SPAR Marketing, Inc., a Nevada corporation, SPAR Marketing Force, Inc., a Nevada corporation, SPAR, Inc., a Nevada corporation, SPAR/Burgoyne Retail Services, Inc., an Ohio corporation, SPAR Incentive Marketing, Inc., a Delaware corporation, SPAR MCI Performance Group, Inc., a Delaware corporation, and SPAR Trademarks, Inc., a Nevada corporation.

(7) "Territory" shall mean the United States and Canada.

(8) "Trademark" and "Trademarks" shall respectively mean any and all of the registered trademarks of the Licensor registered in the United States and Canada listed in Exhibit A hereto, any additional registered trademarks of the Licensor deriving or containing any Trademark, and any and all renewals thereof.

Section 2. Grant of License and Affiliate Sublicenses; Limits on Use.

(1) License. Subject to the terms and conditions herein contained, the Licensor hereby grants to the Licensee a royalty-free, nonexclusive license to use: (i) the Trademarks (alone or as part of other words or phrases) on and in connection the Products and Services in the Territory; and (ii) to the extent the Licensor has any right, title or interest therein, the name "SPAR" (alone or as part of other words or phrases) in its legal and/or trade name and on or in connection with any products or services other than the Products and Services.

(2) Sublicenses. The Licensee from time to time may add one or more subsidiaries or affiliates (but only those under common ownership and control with the Licensee) as a sublicensee under this Agreement (each a "Sublicensee" and collectively "Sublicensees"). Each Sublicensee hereby assumes and agrees to be bound by the terms, provisions and conditions as set forth in this Agreement as if it were the "Licensee" and a "Party" hereunder. In the event the control or ownership of any Sublicensee, its business or substantially all of its assets are sold or transferred so that such Sublicensee, business or assets cease to be under common ownership and control with the Licensee, such subsidiary or affiliate shall automatically cease to be a Sublicensee hereunder from and after such sale or transfer, without, however, relieving or otherwise affecting any of the obligations of such former Sublicensees with respect to its obligations with respect to actions or events arising prior to such sale or transfer.

(3) License May Follow Group Sale. In the event that the control or ownership of all or substantially all of the Licensee and Sublicensees or all or substantially all of their businesses or assets are sold or transferred (a "Group Sale"), this Agreement may be transferred (in whole) as part of such Group Sale by written notice to the Licensor and (if an asset sale) the assumption of this Agreement by the purchasers by the delivery to the Licensor of an assumption agreement in form and substance reasonably acceptable to the Licensor, duly executed by the new Licensee. Any entity not included in the Group Sale shall automatically cease to be a Licensee or Sublicensee hereunder from and after such sale or transfer, without, however, relieving or otherwise affecting any of its obligations with respect to actions or events arising prior to such sale or transfer.

(4) No Unpermitted Users. No Party shall cause, suffer, or permit any of its affiliates or cause any other person to use any Trademark in any material respect unless such person is a permitted Licensee or Sublicensee hereunder.

Section 3. Term. The term of this Agreement shall commence on the date of this Agreement and continue through December 31, 2098 (as and if extended pursuant to this Section, the "Term"). The Term of this Agreement is automatically renewable for additional consecutive ninety-nine year terms. If the Licensee (in the Licensee's sole and absolute discretion) chooses not to renew, a written request from the Licensee seeking termination must be received by the Licensor at least 90 days prior to the scheduled end of the then current Term. The Term is also subject to earlier termination as provided in this Agreement. Upon the termination of this Agreement by the Licensee, (i) the right and license to use the Trademarks granted to the Licensee hereunder shall forthwith terminate, (ii) the Licensee shall promptly thereafter shall cease and desist from using the marks on or in connection with the Products or Services, and (iii) the Licensee shall, promptly upon receipt of the written request of

the Licensor, without charge, execute any and all documents, and record them with any and all appropriate governmental agencies within the



Territory, as may be necessary to remove the Trademarks from its company name and to otherwise reasonably evidence that the Licensee no longer has the right and license to use the Trademarks; provided, however, that upon such termination of this Agreement, the Licensee shall have the right to continue to sell any existing inventory of the Products and to use the Trademarks in connection with such sale for a period of up to three months after the effective date of termination of this Agreement.

Section 4. Non-Exclusivity of License; Limits on Licensor's Use and Licensing Rights: Validity of Trademarks.

(1) Retained Rights and Limits on Use. The Licensee acknowledges and agrees that, all rights in the Trademarks, other than those specifically granted in this Agreement, are reserved by the Licensor, and the Licensor may (during the Term or thereafter) specifically grant other licenses to use the Trademarks on or in connection with (i) any one or more of the Products and Services within or outside the Territory or (ii) any other products or services within or outside the Territory to the extent it has rights therein.

(2) Ownership and Validity of Trademarks. The Licensee acknowledges and agrees that the Licensor is the legal, valid and exclusive owner of the Trademarks. The Licensee covenants and agrees that it will not, individually or with any other licensee or person, at any time during the term of this Agreement or thereafter, directly or indirectly, challenge, contest or aid in challenging or contesting (i) the legality or validity of any of the Trademarks, (ii) the ownership by the Licensor of any of the Trademarks, or (iii) the title of or registration by the Licensor of any of the Trademarks, in each case whether such Trademarks are now existing or hereafter acquired, created or obtained and all renewals thereof.

Section 1. Compliance with Applicable Law. The Licensee covenants and agrees with the Licensor that, during the Term of this Agreement, unless the Licensor (in its sole and absolute discretion) consents otherwise in writing, the Licensee shall comply with all applicable laws, rules, regulations and ordinances in effect at any time and from time to time in the Territory in connection with the Products and Services utilizing any of the Trademarks if the non-compliance therewith would materially impair the prestige and goodwill of the Trademarks.

Section 5. Standards of Quality. The Licensee acknowledges to and covenants and agrees with the Licensor that, during the Term of this Agreement, unless the Licensor (in its sole and absolute discretion) consents otherwise in writing: (a) none of the Products or Services shall fail in any material respect to meet the standards of quality with respect to the Trademarks in place at the time of commencement of this Agreement ("Standards of Quality") if such failure would materially impair the prestige and goodwill of the Trademarks; and (b) none of the Products or Services of the Licensee shall otherwise materially impair the prestige and goodwill of the Trademarks.

Section 6. Registration for the Trademarks in the Territory.

(1) Registration Maintenance. During the term of this Agreement, the Licensor shall undertake, in its own name, to renew and maintain registration for the Trademarks in the Territory. The Licensee shall cooperate with the Licensor in the execution, filing and prosecution of any such instrument(s) or document(s) as the Licensor from time to time may reasonably request (i) to obtain renewal and/or maintain registration for the Trademarks in the Territory and (ii) to confirm the Licensor's ownership rights therein. The Licensor makes no representation or warranty hereby that the registrations for the Trademarks will be renewable or maintainable in the Territory, and the failure to renew or maintain the registrations thereof shall not be deemed a breach hereof by the Licensor.

(2) Costs and Expenses. Any and all costs and expenses (including, without limitation, the fees and expenses of attorneys and other professionals) incurred by the Licensor in the renewal or maintenance of any of the Trademarks in the Territory shall be borne by the Licensor.

Section 7. Royalties. The license granted under this Agreement is royalty-free. The Licensee shall not be required to account to the Licensor with respect to its use of the Trademarks.



Section 8. Representations and Warranties Respecting the Licensee. The Licensee represents and warrants to the Licensor that, as of the date hereof and as of the date of each amendment, renewal or extension hereof or assumption hereof, except as otherwise disclosed to the Licensor in writing: (a) the Licensee is a corporation duly incorporated, validly existing and in good standing under the laws its state of incorporation; (b) the Licensee has the legal capacity, power, authority and unrestricted right to execute and deliver this Agreement and to perform all of its obligations hereunder; (c) the execution and delivery by the Licensee of this Agreement and the performance by the Licensee of all of its obligations hereunder will not violate or be in conflict with any term or provision of (i) any applicable law, (ii) any judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to the Licensee or any material part of the Licensee's assets and properties, (iii) any of its organizational documents, or (iv) any material agreement or document to which it is a party or subject or that applies to any material part of the Licensee's assets and properties; (d) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and performance by the Licensee of this Agreement or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Agreement; and (e) this Agreement is a legal, valid and binding obligation of the Licensee, enforceable against the Licensee in accordance with its terms and provisions.

Section 9. Representations and Warranties Respecting the Licensor. The Licensor represents and warrants to the Licensee that, as of the date hereof and as of the date of each amendment, renewal or extension hereof or assumption hereof, except as otherwise disclosed to the Licensee in writing: (a) the Licensor is a corporation duly incorporated, validly existing and in good standing under the laws its state of incorporation; (b) the Licensor has the legal capacity, power, authority and unrestricted right to execute and deliver this Agreement and to perform all of its obligations hereunder; (c) the execution and delivery by the Licensor of this Agreement and the performance by the Licensor of all of its obligations hereunder will not violate or be in conflict with any term or provision of (i) any applicable law, (ii) any judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to the Licensor or any material part of the Licensor's assets and properties, (iii) any of its organizational documents, or (iv) any material agreement or document to which it is a party or subject or that applies to any material part of the Licensor's assets and properties; (d) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and performance by the Licensor of this Agreement or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Agreement; (e) this Agreement is a legal, valid and binding obligation of the Licensor, enforceable against the Licensor in accordance with its terms and provisions; (f) the Licensor is the registered, legal and beneficial owner of the Trademarks; (g) the Licensor has full power and authority and the unrestricted right to grant the licenses contemplated hereunder; (h) the license of the Trademarks hereunder is made free and clear of any and all liens or encumbrances; (i) the Trademark registrations are in full force and effect; and (j) the Licensor has no knowledge of any infringements or competing claims with respect to any Trademark.

Section 10. Termination.

(1) Termination for Cause. The Licensor shall have the right to terminate this Agreement (and the licenses and other rights, remedies and interests granted to the Licensee hereunder), and end the Term, by written notice to the Licensee in the event the Licensee shall default in the performance or satisfaction of any of the terms and provisions of this Agreement, which violation or failure shall have continued for more than thirty (30) days after notice thereof by the Licensor to the Licensee and which violation or failure has materially impaired the prestige and goodwill of the Trademarks, provided, however, that if such default is capable of being cured

and if the Licensee shall have commenced to cure such default within such period and shall proceed continuously in good faith and with due diligence to cure such default, then such thirty day period shall instead be such longer period as may be reasonably necessary to effect such cure (not to exceed 180 days).

(2) Termination Without Prejudice; Certain Continuing Provisions. The termination of this Agreement (and the licenses and other rights, remedies and interests granted to the Licensee hereunder), for any reason, shall be without prejudice to any other right or remedy the Licensor may have, including (without limitation) the right of the Licensor to recover from the Licensee any and all (i) damages to which it may be entitled by reason of the happening of the event giving rise to such termination or any other event



and (ii) reimbursements, indemnifications and other amounts that remain unsatisfied by the Licensors hereunder, which rights and remedies all shall survive any such termination hereunder. In addition, the terms and provisions of this subsection and Sections 12 through 21 hereof shall survive any such termination hereunder.

Section 11. Infringement.

(1) Defense of Infringements. In the event that legal proceeding shall be instituted by any third party with respect to the alleged infringement by the Trademarks on the rights of any third party, the Licensor shall have the right, at its option and expense and either in its name, in the name of the Licensee, or in the name of both the Licensor and the Licensee, to be represented by counsel selected by the Licensor, and to defend against, negotiate, settle or otherwise deal with such proceeding. The Licensee may participate in or (if the Licensor elects not to do so) defend any such proceeding at its own cost and expense (subject to reimbursement by the Licensor of reasonable costs and expenses if the Licensee prevails in such proceeding) and with counsel of its choice; provided, however, that if the Licensor defends the proceeding, the Licensor shall control such proceeding. The Licensee shall not settle such proceeding, or any claim or demand, admit liability or take any action with respect thereto without the prior written consent of the Licensor, which shall not be unreasonably withheld.

(2) No Liability for Continuing Unauthorized Use. If any of the Trademarks shall be declared by a court of competent jurisdiction to be an infringement on the rights of any third party so that the Licensee may not thereafter continue in the use thereof, or if the Licensee shall unlawfully use any of the Trademarks after the Term, the Licensor shall not be liable to the Licensee or any other person or entity for any damages or otherwise as a result of continuing use by the Licensee after such declaration or the end of the Term.

(3) Notice and Prosecution of Infringement. The Licensee shall promptly notify the Licensor of any infringement, counterfeiting or passing-off of any of the Trademarks of which it has actual knowledge, whether by the use of any of the Trademarks or otherwise, but shall not take any action, legal or otherwise, with respect to such infringement, counterfeiting or passing-off without prior notice to the Licensor. In the event that the Licensee deems legal proceedings to be reasonably necessary to enjoin any third party with respect to the alleged infringement, counterfeiting or passing-off of any of the Trademarks, the Licensor shall have the right, at its option and expense and either in its name, in the name of the Licensee, or in the name of both the Licensor and the Licensee, to be represented by counsel selected by the Licensor, and to prosecute, negotiate, settle or otherwise deal with such proceeding. The Licensee may participate in or (if the Licensor elects not to do so) prosecute any such proceeding at its own cost and expense (subject to reimbursement by the Licensor of reasonable costs and expenses if the Licensee prevails in such proceeding) and with counsel of its choice; provided, however, that if the Licensor prosecutes the proceeding, the Licensor shall control such proceeding. The Licensee shall not settle such proceeding, or any claim or demand, release any liability or take any action with respect thereto without the prior written consent of the Licensor, which shall not be unreasonably withheld.

(4) Licensee and Licensor Cooperation. The Licensee will cooperate fully with the Licensor at the Licensor's expense in any such action the Licensor may decide to take, and, if requested by the Licensor, shall join with the Licensor in such actions as the Licensor may deem advisable for the

protection of the Trademarks or the Licensor's rights. The Licensor will cooperate fully with the Licensor at the Licensee's expense (subject to reimbursement as provided above) in any such permitted action the Licensee may decide to take, and, if requested by the Licensee, shall join with the Licensee in such actions as the Licensor may deem advisable for the protection of the Trademarks or the Licensee's rights.

(5) Costs and Expenses. Except as otherwise provided above, any and all costs and expenses (including, without limitation, the fees and expenses of attorneys and other professionals) incurred in the protection or defense of any of the Trademarks in the Territory, or the defense of any use or application of the Trademarks, shall be borne by the Licensor.

Section 12. Expenses of and Indemnity by the Licensee.

(1) The Licensee will pay and discharge, at its own expense, any and all expenses, charges, fees and taxes (other than as provided in subsection (b) of this Section and Section 6 hereof) arising



out of or incidental to the carrying on of the Licensee's business, and the Licensee will indemnify and hold the Licensor harmless from any and all claims that may be imposed on the Licensor for such expenses, charges, fees and taxes.

(2) Except as otherwise provided in Section 10 hereof, the Licensee shall indemnify, defend (with counsel selected by the Licensee and reasonably acceptable to the Licensor) and hold the Licensor and its representatives and agents harmless from, against and with respect to any claim, suit, loss, damage, demands, injuries or expense (including the reasonable fees and expenses of attorneys and other professionals) arising out of or related directly or indirectly to any Product, Service, or other Trademark bearing item sold or provided by the Licensee or any other act or omission of the Licensee, except to the extent attributable to the bad faith, negligence or willful misconduct of the Licensor or its representatives.

Section 13. Relationship between the Parties. The rights, powers, privileges, remedies and interests accorded to the Licensor under this Agreement and applicable law are for the protection of the Licensor, not the Licensee, and no term or provision of this Agreement is intended (or shall be deemed or construed) to impose on the Licensor any duty or obligation to the Licensee to monitor or police any of the activities of the Licensee. No term or provision of this Agreement is intended to create, nor shall any such term or provision be deemed or construed to have created, any employment, joint venture, partnership, trust, agency or other fiduciary relationship between the Licensee and the Licensor or constitute the Licensee as an employee, joint venturer, partner, trustee, agent or other representative for or of the Licensor. The Licensee shall not be entitled or have any power or authority to bind or obligate the Licensor in any manner whatsoever or to hold itself out as an employee, joint venturer, partner, trustee, agent or other representative for or of the Licensor.

Section 14. Waiver of Jury Trial. In any action, suit or proceeding in any jurisdiction brought against any Party by any other Party, each Party hereby irrevocably waives trial by jury.

Section 15. Consent to New York Jurisdiction and Venue, 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 personal jurisdiction and proper venue with respect to any dispute between the Parties; provided that the foregoing consent shall not deprive any Party of the right in its discretion to voluntarily commence or participate in any other forum having jurisdiction and venue. In any dispute, no Party will raise, and each Party hereby expressly and irrevocably waives, any objection or defense to any such jurisdiction as an inconvenient forum.

Section 16. Notices. Except as otherwise expressly provided, any notice, request, demand or other communication permitted or required to be given under this Agreement shall be in writing, shall be sent by one of the following means to the addressee at the address set forth above (or at such other address as shall be designated hereunder by notice to the other parties and persons receiving copies, effective upon actual receipt) and shall be deemed

conclusively to have been given: (i) on the first Business Day following the day timely deposited with Federal Express (or other equivalent national overnight courier) or United States Express Mail, with the cost of delivery prepaid or for the account of the sender; (ii) on the fifth Business Day following the day duly sent by certified or registered United States mail, postage prepaid and return receipt requested; or (iii) when otherwise actually received by the addressee on a Business Day (or on the next Business Day if received after the close of normal business hours or on any non-business day).

Section 17. Further Assurances. Each Party agrees to do such further acts and things and to execute and deliver such statements, assignments, agreements, instruments and other documents as the other Party from time to time reasonably may request in order to (a) evidence or confirm the transfer or issuance of any stock or Asset or (b) effectuate the purpose and the terms and provisions of this Agreement, each in such form and substance as may be acceptable to the Parties.

Section 18. Interpretation, Headings, Severability, Etc. The parties acknowledge and agree that the terms and provisions of this Agreement have been negotiated, shall be construed fairly as to all parties hereto, and shall not be construed in favor of or against any party. The section headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. In the event that any term or provision of this Agreement (other than Section 1 hereof) shall be finally determined to be superseded, invalid, illegal or otherwise unenforceable pursuant to applicable law by a governmental authority having jurisdiction and venue, that determination shall not impair or otherwise



affect the validity, legality or enforceability (a) by or before that authority of the remaining terms and provisions of this Agreement, which shall be enforced as if the unenforceable term or provision were deleted or reduced pursuant to the next sentence, as applicable, or (b) by or before any other authority of any of the terms and provisions of this Agreement. If any term or 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, to reduce the scope or duration of such term or provision to the maximum permissible under applicable law so that said term or provision shall be enforceable in such reduced form.

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Section 19. 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, heirs 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 any Party in this Agreement shall inure to the benefit of the successors, assigns, heirs and legal representatives of each other Party; provided, however, that nothing herein shall be deemed to authorize or permit the Licensee to assign any of its rights or obligations under this Agreement to any other person, and the Licensee covenants and agrees that it shall not make any such assignment, except as otherwise provided in Section 1 hereof or with the prior written consent of the Licensor. The representations, warranties and other terms and provisions of this Agreement are for the exclusive benefit of the Parties hereto, and, except as otherwise expressly provided herein, no other person (including creditors of any party hereto) shall have any right or claim against any Party by reason of any of those terms and provisions or be entitled to enforce any of those terms and provisions against any Party.

Section 20. No Waiver by Action, Etc. Any waiver or consent respecting any representation, warranty, covenant or other term or provision of this Agreement shall be effective only in the specific instance and for the specific purpose 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 or times to require performance of, or to exercise its rights with respect to, any representation, warranty, covenant or other term or provision of this Agreement in no manner (except as otherwise expressly provided herein)

shall affect its right at a later time to enforce any such provision. No notice to or demand on any Party in any case shall entitle such Party to any other or further notice or demand in the same, similar or other circumstances. All rights, powers, privileges, remedies and other interests of each Party hereunder are cumulative and not alternatives, and they are in addition to and shall not limit (except as otherwise expressly provided herein) any other right, power, privilege, remedy or other interest of such Party under this Agreement or applicable law.

Section 21. Counterparts; New York Governing Law; Amendments; Entire Agreement. This Agreement shall be effective as of the date first written above when executed by Parties and delivered to the Licensor. This Agreement may have been executed in two or more counterpart copies of the entire document or of signature pages to the document, each of which may be executed by one or more of the Parties hereto, but all of which, when taken together, shall constitute a single agreement binding upon all of the Parties hereto. This Agreement shall be governed by and construed in accordance with the applicable laws pertaining in the State of New York (other than those 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, and each and every waiver of, or consent to any departure from, any representation, warranty, covenant or other term or provision of this Agreement shall be in writing and signed by each affected Party. This Agreement contains the entire agreement of the parties and supersedes all prior and other representations, agreements and understandings (oral or otherwise) between the parties with respect to the matters contained herein.

IN WITNESS WHEREOF, the Parties have duly executed and delivered this Agreement as of the date first above written.

SPAR Marketing Services, Inc.

By: /s/ Robert G. Brown
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Robert G. Brown
Chief Executive Officer

SPAR Trademarks, Inc.

By: /s/ Robert G. Brown
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Robert G. Brown
Chief Executive Officer

## EXHIBIT A

United States

| Mark | Reg. No. | Reg. Date |
|---|---|---|
| SPAR | 1,357,128 | August 27, 1985 |
| SPAR & design | 1,357,132 | August 27, 1985 |
| SPAR & design | 1,387,743 | March 25, 1986 |
| SPAR | 1,441,909 | June 9, 1987 |
| SPAR | 1,597,275 | May 22, 1990 |

Canada

| Mark | Reg. No. | Reg. Date |
|---|---|---|
| SPAR | 337,986 | March 11, 1988 |
| SPAR & design | 337,987 | March 11, 1988 |
| SPAR & design | 341,996 | June 23, 1988 |
| SPAR | 349,073 | December 16, 1988 |
| SPAR & design | 390,182 | November 15, 1991 |

EXHIBIT 10.7

# TRADEMARK LICENSE AGREEMENT

## INTRODUCTION

THIS TRADEMARK LICENSE AGREEMENT, dated as of July 8, 1999 (as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided herein, this "Agreement"), is by and between SPAR INFOTECH, INC., a Nevada corporation currently having an address at 303 South Broadway, Suite 140, Tarrytown, New York 10591(the "Licensee"), and SPAR TRADEMARKS, INC., a Nevada corporation currently having an address at 303 South Broadway, Suite 140, Tarrytown, New York 10591 (the "Licensor"). The Licensor and the Licensee are sometimes referred to herein individually as a "Party" and collectively as the "Parties".

## RECITALS

The Licensor is the owner of the Trademarks (as these and the other capitalized terms used in these Recitals are defined in Section 1, below) with respect to the Products and Services, and the Licensee desire to use the Trademarks in the Territory in connection with the Products and Services. The Licensor is willing to grant to the Licensee the nonexclusive right and license to use the Trademarks on and in connection with the Products and Services in the Territory, all upon the terms and provisions and subject to the conditions set forth in this Agreement.

## AGREEMENT

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

SECTION 1. DEFINITIONS. Each use in this Agreement of a neuter pronoun shall be deemed to include references to the masculine and feminine variations thereof, and vice versa, and a singular pronoun shall be deemed to include a reference to the plural variation thereof, and vice versa, 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 below, which meanings shall be applicable equally to the singular and plural forms of the terms so defined:

(a) "Business Competitive With the Licensee" shall mean any substantial business activity in collecting, analyzing and/or disseminating scanner data, ex-factory shipment data and/or other similar information.

(b) "Business Competitive With Marketing Force" shall mean any substantial business activity conducted by any person that is competitive with any substantial business activity conducted by any SPAR Company or PIA Company at the Merger Effective Time (whether or not such person's activity is actually conducted in competition with any SPAR Company or PIA Company), excluding, however, any Business Competitive With the Licensee (whether or not so conducted by any SPAR Company or PIA Company).

(c) "Merger Effective Time" shall mean the "Effective Time" under (and as defined in) the Agreement and Plan of Merger dated as of February 28, 1999, among the SPAR Companies and the PIA Companies (which is the time the merger thereunder takes effect and the SPAR Companies and PIA Companies come under common control), as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided therein.



(d) "PIA Company" and "PIA Companies" shall respectively mean any one or more of PIA MERCHANDISING SERVICES, INC., a Delaware corporation, SG ACQUISITION, INC., a Nevada corporation (which is merging into SPAR Acquisition, Inc.), PIA MERCHANDISING CO., INC., a California corporation, and their respective subsidiaries as of the Merger Effective Time.

(e) "Products" shall mean the products claimed in the registrations for the Trademarks listed in Exhibit A hereto and any other products for which the Licensor has such Trademark rights.

(f) "Representative" of any Party shall mean any of its directors, officers, employees, attorneys, heirs, executors, administrators, or agents, any of such Party's sublicensees, affiliates, successors and assigns, or any of their respective directors, officers, employees, attorneys, heirs, executors, administrators, or agents.

(g) "Services" shall mean the services claimed in the registrations for the Trademarks listed in Exhibit A hereto and any other services for which the Licensor has such Trademark rights.

(h) "SPAR Company" and "SPAR Companies" shall respectively mean any one or more of SPAR ACQUISITION, INC., a Nevada corporation, SPAR MARKETING, INC., a Delaware corporation, SPAR MARKETING, INC., a Nevada corporation, SPAR MARKETING FORCE, INC., a Nevada corporation, SPAR, INC., a Nevada corporation, SPAR/BURGOYNE RETAIL SERVICES, INC., an Ohio corporation, SPAR INCENTIVE MARKETING, INC., a Delaware corporation, SPAR MCI PERFORMANCE GROUP, INC., a Delaware corporation, and SPAR TRADEMARKS, INC., a Nevada corporation.

(i) "Territory" shall mean the United States and Canada.

(j) "Trademark" and "Trademarks" shall respectively mean any and all of the registered trademarks of the Licensor registered in the United States and Canada listed in Exhibit A hereto, any additional registered trademarks of the Licensor deriving or containing any Trademark, and any and all renewals thereof.

Section 2. Grant of License and Affiliate Sublicenses; Limits on Use.

(a) License. Subject to the terms and conditions herein contained, the Licensor hereby grants to the Licensee a royalty-free, nonexclusive license to use: (i) the Trademarks (alone or as part of other words or phrases) on and in connection the Products and Services in the Territory; and (ii) to the extent the Licensor has any right, title or interest therein, the name "SPAR" (alone or as part of other words or phrases) in its legal and/or trade name and on or in connection with any products or services other than the Products and Services.

(b) Sublicenses. The Licensee from time to time may add one or more subsidiaries or affiliates (but only those under common ownership and control with the Licensee) as a sublicensee under this Agreement (each a "Sublicensee" and collectively "Sublicensees"). Each Sublicensee hereby assumes and agrees to be bound by the terms, provisions and conditions as set forth in this Agreement as if it were the "Licensee" and a "Party" hereunder. In the event the control or ownership of any Sublicensee, its business or substantially all of its assets are sold or transferred so that such Sublicensee, business or assets cease to be under common ownership and control with the Licensee, such subsidiary or affiliate shall automatically cease to be a Sublicensee hereunder from and after such sale or transfer, without, however, relieving or otherwise affecting any of the obligations of such former Sublicensees with respect to its obligations with respect to actions or events arising prior to such sale or transfer.

(c) License May Follow Group Sale. In the event that the control or ownership of all or substantially all of the Licensee and Sublicensees or all or substantially all of their businesses or assets are



sold or transferred (a "Group Sale"), this Agreement may be transferred (in whole) as part of such Group Sale by written notice to the Licensor and (if an asset sale) the assumption of this Agreement by the purchasers by the delivery to the Licensor of an assumption agreement in form and substance reasonably acceptable to the Licensor, duly executed by the new Licensee; provided, however, that this Agreement may not be so transferred to anyone whose business is in any material respect a Business Competitive With Marketing Force. Any entity not included in the Group Sale shall automatically cease to be a Licensee or Sublicensee hereunder from and after such sale or transfer, without, however,

relieving or otherwise affecting any of its obligations with respect to actions or events arising prior to such sale or transfer.

(d) Limits on the Licensee's Use of Trademarks. Neither the Licensee nor any of its Sublicensees shall use any Trademark in any material respect in any Business Competitive With Marketing Force.

(e) No Unpermitted Users. No Party shall cause, suffer, or permit any of its affiliates or cause any other person to use any Trademark in any material respect unless such person is a permitted Licensee or Sublicensee hereunder.

Section 3. Term. The term of this Agreement shall commence on the date of this Agreement and continue through December 31, 2098 (as and if extended pursuant to this Section, the "Term"). The Term of this Agreement is automatically renewable for additional consecutive ninety-nine year terms. If the Licensee (in the Licensee's sole and absolute discretion) chooses not to renew, a written request from the Licensee seeking termination must be received by the Licensor at least 90 days prior to the scheduled end of the then current Term. The Term is also subject to earlier termination as provided in this Agreement. Upon the termination of this Agreement by the Licensee, (i) the right and license to use the Trademarks granted to the Licensee hereunder shall forthwith terminate, (ii) the Licensee shall promptly thereafter shall cease and desist from using the marks on or in connection with the Products or Services, and (iii) the Licensee shall, promptly upon receipt of the written request of the Licensor, without charge, execute any and all documents, and record them with any and all appropriate governmental agencies within the Territory, as may be necessary to remove the Trademarks from its company name and to otherwise reasonably evidence that the Licensee no longer has the right and license to use the Trademarks; provided, however, that upon such termination of this Agreement, the Licensee shall have the right to continue to sell any existing inventory of the Products and to use the Trademarks in connection with such sale for a period of up to three months after the effective date of termination of this Agreement.

Section 4. Non-Exclusivity of License; Limits on Licensor's Use and Licensing Rights: Validity of Trademarks.

(a) Retained Rights and Limits on Use. The Licensee acknowledges and agrees that, all rights in the Trademarks, other than those specifically granted in this Agreement, are reserved by the Licensor, and the Licensor may (during the Term or thereafter) specifically grant other licenses to use the Trademarks on or in connection with (i) any one or more of the Products and Services within or outside the Territory or (ii) any other products or services within or outside the Territory to the extent it has rights therein; provided, however, that the Licensor covenants and agrees that neither the Licensor nor any of its affiliates (as sublicensees or otherwise) shall (A) use any Trademark in any material respect in any Business Competitive With the Licensee, or (B) license or otherwise grant any rights in or to any Trademark to any person whose business is in any material respect a Business Competitive With the Licensee.

(b) Ownership and Validity of Trademarks. The Licensee acknowledges and agrees that the Licensor is the legal, valid and exclusive owner of the Trademarks. The Licensee covenants and agrees that it will not, individually or with any other licensee or person, at any time during the term of this Agreement or thereafter, directly or indirectly, challenge, contest or aid in challenging or contesting (i) the



legality or validity of any of the Trademarks, (ii) the ownership by the Licensor of any of the Trademarks, or (iii) the title of or registration by the Licensor of any of the Trademarks, in each case whether such Trademarks are now existing or hereafter acquired, created or obtained and all renewals thereof.

Section 1. Compliance with Applicable Law. The Licensee covenants and agrees with the Licensor that, during the Term of this Agreement, unless the Licensor (in its sole and absolute discretion) consents otherwise in writing, the Licensee shall comply with all applicable laws, rules, regulations and ordinances in effect at any time and from time to time in the Territory in connection with the Products and Services utilizing any of the Trademarks if the non-compliance therewith would materially impair the prestige and goodwill of the Trademarks.

Section 5. Standards of Quality. The Licensee acknowledges to and covenants and agrees with the Licensor that, during the Term of this Agreement, unless the Licensor (in its sole and absolute discretion) consents otherwise in writing: (a) none of the Products or Services shall fail in any material respect to meet the standards of quality with respect to the Trademarks in place at the time of commencement of this Agreement ("Standards of Quality") if such failure would materially impair the prestige and goodwill of the Trademarks; and (b) none of the Products or Services of the Licensee shall otherwise materially impair the prestige and goodwill of the Trademarks.

Section 6. Registration for the Trademarks in the Territory.

(a) Registration Maintenance. During the term of this Agreement, the Licensor shall undertake, in its own name, to renew and maintain registration for the Trademarks in the Territory. The Licensee shall cooperate with the Licensor in the execution, filing and prosecution of any such instrument(s) or document(s) as the Licensor from time to time may reasonably request (i) to obtain renewal and/or maintain registration for the Trademarks in the Territory and (ii) to confirm the Licensor's ownership rights therein. The Licensor makes no representation or warranty hereby that the registrations for the Trademarks will be renewable or maintainable in the Territory, and the failure to renew or maintain the registrations thereof shall not be deemed a breach hereof by the Licensor.

(b) Costs and Expenses. Any and all costs and expenses (including, without limitation, the fees and expenses of attorneys and other professionals) incurred by the Licensor in the renewal or maintenance of any of the Trademarks in the Territory shall be borne by the Licensor.

Section 7. Royalties. The license granted under this Agreement is royalty-free. The Licensee shall not be required to account to the Licensor with respect to its use of the Trademarks.

Section 8. Representations and Warranties Respecting the Licensee. The Licensee represents and warrants to the Licensor that, as of the date hereof and as of the date of each amendment, renewal or extension hereof or assumption hereof, except as otherwise disclosed to the Licensor in writing: (a) the Licensee is a corporation duly incorporated, validly existing and in good standing under the laws its state of incorporation; (b) the Licensee has the legal capacity, power, authority and unrestricted right to execute and deliver this Agreement and to perform all of its obligations hereunder; (c) the execution and delivery by the Licensee of this Agreement and the performance by the Licensee of all of its obligations hereunder will not violate or be in conflict with any term or provision of (i) any applicable law, (ii) any judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to the Licensee or any material part of the Licensee's assets and properties, (iii) any of its organizational documents, or (iv) any material agreement or document to which it is a party or subject or that applies to any material part of the Licensee's assets and properties; (d) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and



performance by the Licensee of this Agreement or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Agreement; and (e) this Agreement is a legal, valid and binding obligation of the Licensee, enforceable against the Licensee in accordance with its terms and provisions.

Section 9. Representations and Warranties Respecting the Licensor. The Licensor represents and warrants to the Licensee that, as of the date hereof and as of the date of each amendment, renewal or extension hereof or assumption hereof, except as otherwise disclosed to the Licensee in writing: (a) the Licensor is a corporation duly incorporated, validly existing and in good standing under the laws its state of incorporation; (b) the Licensor has the legal capacity, power, authority and unrestricted right to execute and deliver this Agreement and to perform all of its obligations hereunder; (c) the execution and delivery by the Licensor of this Agreement and the performance by the Licensor of all of its obligations hereunder will not violate or be in conflict with any term or provision of (i) any applicable law, (ii) any

judgment, order, writ, injunction, decree or consent of any court or other judicial authority applicable to the Licensor or any material part of the Licensor's assets and properties, (iii) any of its organizational documents, or (iv) any material agreement or document to which it is a party or subject or that applies to any material part of the Licensor's assets and properties; (d) no consent, approval or authorization of, or registration, declaration or filing with, any governmental authority or other person is required as a condition precedent, concurrent or subsequent to or in connection with the due and valid execution, delivery and performance by the Licensor of this Agreement or the legality, validity, binding effect or enforceability of any of the terms and provisions of this Agreement; (e) this Agreement is a legal, valid and binding obligation of the Licensor, enforceable against the Licensor in accordance with its terms and provisions; (f) the Licensor is the registered, legal and beneficial owner of the Trademarks; (g) the Licensor has full power and authority and the unrestricted right to grant the licenses contemplated hereunder; (h) the license of the Trademarks hereunder is made free and clear of any and all liens or encumbrances; (i) the Trademark registrations are in full force and effect; and (j) the Licensor has no knowledge of any infringements or competing claims with respect to any Trademark.

Section 10. Termination.

(a) Termination for Cause. The Licensor shall have the right to terminate this Agreement (and the licenses and other rights, remedies and interests granted to the Licensee hereunder), and end the Term, by written notice to the Licensee in the event the Licensee shall default in the performance or satisfaction of any of the terms and provisions of this Agreement, which violation or failure shall have continued for more than thirty (30) days after notice thereof by the Licensor to the Licensee and which violation or failure has materially impaired the prestige and goodwill of the Trademarks, provided, however, that if such default is capable of being cured and if the Licensee shall have commenced to cure such default within such period and shall proceed continuously in good faith and with due diligence to cure such default, then such thirty day period shall instead be such longer period as may be reasonably necessary to effect such cure (not to exceed 180 days).

(b) Termination Without Prejudice; Certain Continuing Provisions. The termination of this Agreement (and the licenses and other rights, remedies and interests granted to the Licensee hereunder), for any reason, shall be without prejudice to any other right or remedy the Licensor may have, including (without limitation) the right of the Licensor to recover from the Licensee any and all (i) damages to which it may be entitled by reason of the happening of the event giving rise to such termination or any other event and (ii) reimbursements, indemnifications and other amounts that remain unsatisfied by the Licensors hereunder, which rights and remedies all shall survive any such termination hereunder. In addition, the terms and provisions of this subsection and Sections 12 through 21 hereof shall survive any such termination hereunder.



Section 11. Infringement.

(a) Defense of Infringements. In the event that legal proceeding shall be instituted by any third party with respect to the alleged infringement by the Trademarks on the rights of any third party, the Licensor shall have the right, at its option and expense and either in its name, in the name of the Licensee, or in the name of both the Licensor and the Licensee, to be represented by counsel selected by the Licensor, and to defend against, negotiate, settle or otherwise deal with such proceeding. The Licensee may participate in or (if the Licensor elects not to do so) defend any such proceeding at its own cost and expense (subject to reimbursement by the Licensor of reasonable costs and expenses if the Licensee prevails in such proceeding) and with counsel of its choice; provided, however, that if the Licensor defends the proceeding, the Licensor shall control such proceeding. The Licensee shall not settle such proceeding, or any claim or demand, admit liability or take any action with respect thereto without the prior written consent of the Licensor, which shall not be unreasonably withheld.

(b) No Liability for Continuing Unauthorized Use. If any of the Trademarks shall be declared by a court of competent jurisdiction to be an infringement on the rights of any third party so that the Licensee may not thereafter continue in the use thereof, or if the Licensee shall unlawfully use

any of the Trademarks after the Term, the Licensor shall not be liable to the Licensee or any other person or entity for any damages or otherwise as a result of continuing use by the Licensee after such declaration or the end of the Term.

(c) Notice and Prosecution of Infringement. The Licensee shall promptly notify the Licensor of any infringement, counterfeiting or passing-off of any of the Trademarks of which it has actual knowledge, whether by the use of any of the Trademarks or otherwise, but shall not take any action, legal or otherwise, with respect to such infringement, counterfeiting or passing-off without prior notice to the Licensor. In the event that the Licensee deems legal proceedings to be reasonably necessary to enjoin any third party with respect to the alleged infringement, counterfeiting or passing-off of any of the Trademarks, the Licensor shall have the right, at its option and expense and either in its name, in the name of the Licensee, or in the name of both the Licensor and the Licensee, to be represented by counsel selected by the Licensor, and to prosecute, negotiate, settle or otherwise deal with such proceeding. The Licensee may participate in or (if the Licensor elects not to do so) prosecute any such proceeding at its own cost and expense (subject to reimbursement by the Licensor of reasonable costs and expenses if the Licensee prevails in such proceeding) and with counsel of its choice; provided, however, that if the Licensor prosecutes the proceeding, the Licensor shall control such proceeding. The Licensee shall not settle such proceeding, or any claim or demand, release any liability or take any action with respect thereto without the prior written consent of the Licensor, which shall not be unreasonably withheld.

(d) Licensee and Licensor Cooperation. The Licensee will cooperate fully with the Licensor at the Licensor's expense in any such action the Licensor may decide to take, and, if requested by the Licensor, shall join with the Licensor in such actions as the Licensor may deem advisable for the protection of the Trademarks or the Licensor's rights. The Licensor will cooperate fully with the Licensor at the Licensee's expense (subject to reimbursement as provided above) in any such permitted action the Licensee may decide to take, and, if requested by the Licensee, shall join with the Licensee in such actions as the Licensor may deem advisable for the protection of the Trademarks or the Licensee's rights.

(e) Costs and Expenses. Except as otherwise provided above, any and all costs and expenses (including, without limitation, the fees and expenses of attorneys and other professionals) incurred in the protection or defense of any of the Trademarks in the Territory, or the defense of any use or application of the Trademarks, shall be borne by the Licensor.



Section 12. Expenses of and Indemnity by the Licensee.

(a) The Licensee will pay and discharge, at its own expense, any and all expenses, charges, fees and taxes (other than as provided in subsection (b) of this Section and Section 6 hereof) arising out of or incidental to the carrying on of the Licensee's business, and the Licensee will indemnify and hold the Licensor harmless from any and all claims that may be imposed on the Licensor for such expenses, charges, fees and taxes.

(b) Except as otherwise provided in Section 10 hereof, the Licensee shall indemnify, defend (with counsel selected by the Licensee and reasonably acceptable to the Licensor) and hold the Licensor and its representatives and agents harmless from, against and with respect to any claim, suit, loss, damage, demands, injuries or expense (including the reasonable fees and expenses of attorneys and other professionals) arising out of or related directly or indirectly to any Product, Service, or other Trademark bearing item sold or provided by the Licensee or any other act or omission of the Licensee, except to the extent attributable to the bad faith, negligence or willful misconduct of the Licensor or its representatives.

Section 13. Relationship between the Parties. The rights, powers, privileges, remedies and interests accorded to the Licensor under this Agreement and applicable law are for the protection of the Licensor, not the Licensee, and no term or provision of this Agreement is intended (or shall be deemed or construed) to impose on the Licensor any duty or obligation to the Licensee to monitor or police any of the activities of the Licensee. No term or provision of this Agreement is intended to create, nor shall any such term or provision be deemed or construed to have created, any employment, joint venture,

partnership, trust, agency or other fiduciary relationship between the Licensee and the Licensor or constitute the Licensee as an employee, joint venturer, partner, trustee, agent or other representative for or of the Licensor. The Licensee shall not be entitled or have any power or authority to bind or obligate the Licensor in any manner whatsoever or to hold itself out as an employee, joint venturer, partner, trustee, agent or other representative for or of the Licensor.

Section 14. Waiver of Jury Trial. In any action, suit or proceeding in any jurisdiction brought against any Party by any other Party, each Party hereby irrevocably waives trial by jury.

Section 15. Consent to New York Jurisdiction and Venue, 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 personal jurisdiction and proper venue with respect to any dispute between the Parties; provided that the foregoing consent shall not deprive any Party of the right in its discretion to voluntarily commence or participate in any other forum having jurisdiction and venue. In any dispute, no Party will raise, and each Party hereby expressly and irrevocably waives, any objection or defense to any such jurisdiction as an inconvenient forum.

Section 16. Notices. Except as otherwise expressly provided, any notice, request, demand or other communication permitted or required to be given under this Agreement shall be in writing, shall be sent by one of the following means to the addressee at the address set forth above (or at such other address as shall be designated hereunder by notice to the other parties and persons receiving copies, effective upon actual receipt) and shall be deemed conclusively to have been given: (i) on the first Business Day following the day timely deposited with Federal Express (or other equivalent national overnight courier) or United States Express Mail, with the cost of delivery prepaid or for the account of the sender; (ii) on the fifth Business Day following the day duly sent by certified or registered United States mail, postage prepaid and return receipt requested; or (iii) when otherwise actually received by the addressee on a Business Day (or on the next Business Day if received after the close of normal business hours or on any non-business day).

Section 17. Further Assurances. Each Party agrees to do such further acts and things and to execute and deliver such statements, assignments, agreements, instruments and other documents as the other Party from time to time reasonably may request in order to (a) evidence or confirm the transfer or



issuance of any stock or Asset or (b) effectuate the purpose and the terms and provisions of this Agreement, each in such form and substance as may be acceptable to the Parties.

Section 18. Interpretation, Headings, Severability, Etc. The parties acknowledge and agree that the terms and provisions of this Agreement have been negotiated, shall be construed fairly as to all parties hereto, and shall not be construed in favor of or against any party. The section headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. In the event that any term or provision of this Agreement (other than Section 1 hereof) shall be finally determined to be superseded, invalid, illegal or otherwise unenforceable pursuant to applicable law by a governmental authority having jurisdiction and venue, that determination shall not impair or otherwise affect the validity, legality or enforceability (a) by or before that authority of the remaining terms and provisions of this Agreement, which shall be enforced as if the unenforceable term or provision were deleted or reduced pursuant to the next sentence, as applicable, or (b) by or before any other authority of any of the terms and provisions of this Agreement. If any term or 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, to reduce the scope or duration of such term or provision to the maximum permissible under applicable law so that said term or provision shall be enforceable in such reduced form.

Section 19. 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, heirs 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 any Party in this Agreement shall inure to the benefit of the successors, assigns, heirs and legal representatives of each other Party; provided, however, that nothing herein shall be deemed to authorize or permit the Licensee to assign any of its rights or obligations under this Agreement to any other person, and the Licensee covenants and agrees that it shall not make any such assignment, except as otherwise provided in Section 1 hereof or with the prior written consent of the Licensor. The representations, warranties and other terms and provisions of this Agreement are for the exclusive benefit of the Parties hereto, and, except as otherwise expressly provided herein, no other person (including creditors of any party hereto) shall have any right or claim against any Party by reason of any of those terms and provisions or be entitled to enforce any of those terms and provisions against any Party.

Section 20. No Waiver by Action, Etc. Any waiver or consent respecting any representation, warranty, covenant or other term or provision of this Agreement shall be effective only in the specific instance and for the specific purpose 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 or times to require performance of, or to exercise its rights with respect to, any representation, warranty, covenant or other term or provision of this Agreement in no manner (except as otherwise expressly provided herein) shall affect its right at a later time to enforce any such provision. No notice to or demand on any Party in any case shall entitle such Party to any other or further notice or demand in the same, similar or other circumstances. All rights, powers, privileges, remedies and other interests of each Party hereunder are cumulative and not alternatives, and they are in addition to and shall not limit (except as otherwise expressly provided herein) any other right, power, privilege, remedy or other interest of such Party under this Agreement or applicable law.

[END OF PAGE]



Section 21. Counterparts; New York Governing Law; Amendments; Entire Agreement. This Agreement shall be effective as of the date first written above when executed by Parties and delivered to the Licensor. This Agreement may have been executed in two or more counterpart copies of the entire document or of signature pages to the document, each of which may be executed by one or more of the Parties hereto, but all of which, when taken together, shall constitute a single agreement binding upon all of the Parties hereto. This Agreement shall be governed by and construed in accordance with the applicable laws pertaining in the State of New York (other than those 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, and each and every waiver of, or consent to any departure from, any representation, warranty, covenant or other term or provision of this Agreement shall be in writing and signed by each affected Party. This Agreement contains the entire agreement of the parties and supersedes all prior and other representations, agreements and understandings (oral or otherwise) between the parties with respect to the matters contained herein.

IN WITNESS WHEREOF, the Parties have duly executed and delivered this Agreement as of the date first above written.

SPAR INFOTECH, INC.

By: /s/ Robert G. Brown
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Robert G. Brown
Chief Executive Officer

SPAR TRADEMARKS, INC.

By: /s/ Robert G. Brown
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Robert G. Brown
Chief Executive Officer



SCHEDULE A

United States

| Mark | Reg. No. | Reg. Date |
|---|---|---|
| SPAR | 1,357,128 | August 27, 1985 |
| SPAR & design | 1,357,132 | August 27, 1985 |
| SPAR & design | 1,387,743 | March 25, 1986 |
| SPAR | 1,441,909 | June 9, 1987 |
| SPAR | 1,597,275 | May 22, 1990 |

Canada

| Mark | Reg. No. | Reg. Date |
|---|---|---|
| SPAR | 337,986 | March 11, 1988 |
| SPAR & design | 337,987 | March 11, 1988 |
| SPAR & design | 341,996 | June 23, 1988 |
| SPAR | 349,073 | December 16, 1988 |
| SPAR & design | 390,182 | November 15, 1991 |

EXHIBIT 10.12

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THIRD AMENDED AND RESTATED REVOLVING CREDIT

AND

SECURITY AGREEMENT

==========

WHITEHALL BUSINESS CREDIT CORPORATION
(LENDER)

WITH

SPAR MARKETING FORCE, INC.
SPAR GROUP, INC.
SPAR, INC.
SPAR/BURGOYNE RETAIL SERVICES, INC.
SPAR INCENTIVE MARKETING, INC.
SPAR TRADEMARKS, INC.
SPAR MARKETING, INC. (DE)
SPAR MARKETING, INC. (NV)
SPAR ACQUISITION, INC.
SPAR GROUP INTERNATIONAL, INC.
SPAR TECHNOLOGY GROUP, INC.
SPAR/PIA RETAIL SERVICES, INC.
RETAIL RESOURCES, INC.
PIVOTAL FIELD SERVICES, INC.
PIA MERCHANDISING CO., INC.
PACIFIC INDOOR DISPLAY CO.
AND
PIVOTAL SALES COMPANY
(BORROWERS)

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January 24, 2003

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THIRD AMENDED AND RESTATED REVOLVING CREDIT
AND SECURITY AGREEMENT

Third Amended and Restated Revolving Credit and Security Agreement ("Agreement") dated January 24, 2003 among SPAR MARKETING FORCE, INC., a corporation organized under the laws of the State of Nevada ("SMF"), SPAR, INC., a corporation organized under the laws of the State of Nevada ("SPAR"), SPAR/BURGOYNE RETAIL SERVICES, INC., a corporation organized under the laws of the State of Ohio ("SBRS"), SPAR GROUP, INC., a corporation organized under the laws of the State of Delaware ("SGI"), SPAR INCENTIVE MARKETING, INC., a corporation organized under the laws of the State of Delaware ("SIM"), SPAR TRADEMARKS, INC., a corporation organized under the laws of the State of Nevada ("STM"), SPAR MARKETING, INC. (DE), a corporation organized under the laws of the State of Delaware ("SMIDE"), SPAR MARKETING, INC. (NV), a corporation organized under the laws of the State of Nevada ("SMINV"), SPAR ACQUISITION, INC., a corporation organized under the laws of the State of Nevada ("SAI"), SPAR GROUP INTERNATIONAL, INC., a corporation organized under the laws of the State of Nevada ("International"), SPAR TECHNOLOGY GROUP, INC., a corporation organized under the laws of the State of Nevada ("STG"), SPAR/PIA RETAIL SERVICES, INC., a corporation organized under the laws of the State of Nevada ("Pia Retail"), RETAIL RESOURCES, INC., a corporation organized under the laws of the State of Nevada ("Retail"), PIVOTAL FIELD SERVICES, INC., a corporation organized under the laws of the State of Nevada ("Pivotal Field"), PIA MERCHANDISING CO., INC., a corporation organized under the laws of the State of California ("PIA"), PACIFIC INDOOR DISPLAY CO., a corporation organized under the laws of the State of California ("Pacific") and PIVOTAL SALES COMPANY, a corporation organized under the laws of the State of California ("Pivotal"),

(each a "Borrower" and collectively, "Borrowers"), and WHITEHALL BUSINESS CREDIT CORPORATION ("Lender").

## BACKGROUND

SMF entered into a Revolving Credit and Security Agreement with Lender (as successor to IBJ Schroder Bank & Trust Company, IBJ Schroder Business Credit Corporation and IBJ Whitehall Business Credit Corporation) dated March 4, 1996 (as same may have been amended, modified or supplemented, the "Original Loan Agreement"). Thereafter, certain Borrowers signatory thereto and Lender entered into the First Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of March 10, 1999 (as same may have been amended, modified or supplemented, the "First Amended Loan Agreement"). Finally, certain Borrowers signatory thereto (the "Existing Borrowers") and Lender entered into the Second Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of September 22, 1999 (as same may be amended, modified or supplemented, (the "Second Amended Loan Agreement"). By execution of this Agreement, Borrowers and Lender wish to amend and restate the Second Amended Loan Agreement on the terms and conditions herein set forth and to add International as a Borrower.

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

## AMENDMENT AND RESTATEMENT

As of the date of this Agreement, the terms, conditions, covenants, agreements, representations and warranties contained in the Second Amended Loan Agreement shall be deemed amended and restated in their entirety as follows and the Second Amended Loan Agreement shall be consolidated with and into and superseded by this Agreement; provided, however, that nothing contained in this Agreement shall impair limit or effect the security interests heretofore granted, pledged and/or assigned to Lender as security for the Obligations to Lender under the Second Amended Loan Agreement, except as otherwise herein provided.

1. (A) General Definitions. When used in this Agreement, the following terms shall have the following meanings:

"Advance Rates" shall mean, collectively, the Receivables Advance Rate and the Unbilled Receivables Advance Rate.

"Affiliate" of any Person shall mean (a) any Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director or officer (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, (i) to vote 20% or more of the securities having ordinary voting power for the election of directors of such Person, or (ii) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agreement" shall have the meaning set forth in the preamble hereof.

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the higher of (i) the Federal Funds Rate in effect on such day plus 1/2 of 1% and (ii) the Base Rate in effect on such day.

"Ancillary Agreements" shall mean all agreements, instruments, and documents including, without limitation, mortgages, guaranties, pledges, powers of attorney, consents, assignments, contracts, notices, security agreements, trust agreements whether heretofore, concurrently, or hereafter executed by or on behalf of Borrowers or delivered to Lender, relating to this Agreement or to the transactions contemplated by this Agreement.

"Authority" shall have the meaning set forth in Section 12(f)(iii) hereof.

"Bank" shall mean Webster Bank together with its successors and assigns.

"Base Rate" shall mean the base commercial lending rate of Lender as

publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by Lender as a means of pricing some loans to its customers and is neither tied to



any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by Lender to any particular class or category of customers of Lender.

"Blocked Account" shall have the meaning set forth in Section 23 hereof.

"Borrower" or "Borrowers" shall have the meaning set forth in the preamble to this Agreement and shall extend to all permitted successors and assigns of such Persons.

"Borrowing Agent" shall mean SMF.

"Business Day" shall mean with respect to Eurodollar Rate Loans, any day on which commercial banks are open for domestic and international business, including dealings in Dollar deposits in London, England and New York, New York and with respect to all other matters, any day other than a day on which commercial banks in New York are authorized or required by law to close.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss.ss.9601 et seq.

"Change of Ownership" shall mean (a) any transfer (whether in one or more transactions) of common stock of any Borrower that results in more than 50% on a fully diluted basis of the common stock of any Borrower being held by Persons other than the Original Owners (including for the purposes of the calculation of percentage ownership, any shares of common stock into which any capital stock of any Borrower is convertible or for which any such shares of the capital stock of any Borrower or of any other Person may be exchanged and any shares of common stock issuable upon exercise of any warrants, options or similar rights which may at the time of calculation be held by such Persons) or (b) any merger, consolidation or sale of substantially all of the property or assets of any Borrower other than a merger, consolidation or sale of substantially all of the property or assets of one Borrower to, with, or into, another Borrower.

"Closing Date" shall mean January 24, 2003 or such other date as may be agreed upon by the parties hereto.

"Collateral" shall mean and include:

(a) all Receivables;

(b) all Equipment;

(c) all General Intangibles;

(d) all Inventory;

(e) all Investment Property (exclusive of the stock of SPG);



(f) all Subsidiary Stock;

(g) all Leasehold Interests;

(h) all of each Borrower's right, title and interest in and to: (i) its respective goods and other property including, but not limited to all merchandise returned or rejected by Customers, relating to or securing any of the Receivables; (ii) all of each Borrower's rights as a consignor, a consignee, an unpaid vendor, mechanic, artisan, or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (iii) all additional amounts due to any Borrower from any Customer relating to the

Receivables; (iv) other property, including warranty claims, relating to any goods securing this Agreement; (v) all of each Borrower's contract rights, rights of payment which have been earned under a contract right, letter of credit rights (whether or not the letter of credit is evidenced by a writing), instruments (including promissory notes), documents, chattel paper, warehouse receipts, deposit accounts, and money; (vi) if and when obtained by any Borrower, all real and personal property of third parties in which such Borrower has been granted a lien or security interest as security for the payment or enforcement of Receivables; and (vii) all supporting obligations that secure payment or performance of any account, chattel paper, document, general intangible or investment property and any other goods, personal property or real property now owned or hereafter acquired in which any Borrower has expressly granted a security interest or may in the future grant a security interest to Lender hereunder, under any Ancillary Agreement, or in any amendment or supplement hereto or thereto, or under any other agreement between Lender and any Borrower;

(i) all of each Borrower's ledger sheets, ledger cards, files, correspondence, records, books of account, business papers, computers, computer software (whether owned by any Borrower or in which it has an interest), computer programs, tapes, disks and documents relating to (a), (b), (c), (d), (e), (f), (g) or (h) of this definition; and

(j) all proceeds and products of (a), (b), (c), (d), (e), (f), (g), (h) and (i) of this definition in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments and other instruments for the payment of money, chattel paper, security agreements, documents, eminent domain proceeds, condemnation proceeds and tort claim proceeds.

"Consents" shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities and other third parties, domestic or foreign, necessary to carry on Borrower's business, including, without limitation, any Consents required under all applicable federal, state or other applicable law.

"Current Assets" at a particular date, shall mean all cash, cash equivalents, accounts and inventory of Borrowers on a consolidated basis and all other items which would, in conformity with GAAP, be included by GAAP under current assets on a balance sheet of Borrowers on a consolidated basis as at such date; provided, however, that such amounts shall not include (a) any amounts for any indebtedness owing by an Affiliate of any Borrower, unless



such indebtedness arose in connection with the sale of goods or other property or the rendition of services in the ordinary course of business and would otherwise constitute current assets in conformity with GAAP, (b) any shares of stock issued by an Affiliate of any Borrower, (c) the cash surrender value of any life insurance policy (d) any assets which would be classified as intangible assets under GAAP, or (e) any prepaid expenses.

"Current Liabilities" at a particular date, shall mean all amounts which would, in conformity with GAAP, be included by GAAP under current liabilities on a balance sheet of Borrowers on a consolidated basis as at such date, but in any event including, without limitation, the amounts of (a) all indebtedness payable on demand, or, at the option of the Person to whom such indebtedness is owed, not more than twelve (12) months after such date, (b) any payments in respect of any indebtedness (whether installment, serial maturity, sinking fund payment or otherwise) required to be made not more than twelve (12) months after such date, (c) all reserves in respect of liabilities or indebtedness payable on demand or, at the option of the Person to whom such indebtedness is owed, not more than twelve (12) months after such date, the validity of which is contested at such date, and (d) all accruals for federal or other taxes measured by income payable within a twelve (12) month period excluding Revolving Advances and Shareholder Notes.

"Customer" shall mean and include the account debtor with respect to any Receivable and/or the prospective purchaser of goods, services or both with respect to any contract or contract right, and/or any party who enters into or proposes to enter into any contract or other arrangement with any Borrower, pursuant to which such Borrower is to deliver any personal property or perform

any services.

"Default" shall mean an event which, with the giving of notice or passage of time or both, would constitute an Event of Default.

"Default Rate" shall mean a rate equal to two (2%) percent per annum in excess of the applicable Revolving Interest Rate or per annum rate for Letter of Credit Fees.

"Depository Accounts" shall have the meaning set forth in Section 23 hereof.

"Dollar" and the sign "$" shall mean lawful money of the United States of America.

"Domestic Rate Loan" shall mean any Loan that bears interest based upon the Alternate Base Rate.

"Earnings Before Interest and Taxes" shall mean for any period the sum of (i) net income (or loss) of Borrowers on a consolidated basis for such period (excluding extraordinary gains and extraordinary losses per GAAP), plus (ii) all interest expense of Borrowers on a consolidated basis for such period, plus (iii) all charges against income of Borrowers on a consolidated basis for such period for federal, state and local taxes.

"EBITDA" shall mean for any period the sum of (i) Earnings Before Interest and Taxes for such period plus (ii) depreciation expenses of Borrowers on a consolidated basis for such period, plus (iii) amortization expenses of Borrowers on a consolidated basis for such period, less (iv) capitalized cash expenses of International and any other such capitalized expenses of any Borrower which expenses were previously deducted from net income in calculating Earnings Before Interest and Taxes.

"Eligible Receivables" shall mean and include with respect to each Borrower each Receivable of such Borrower arising in the ordinary course of such Borrower's business which Lender, in its sole credit judgment exercised in good faith, shall deem to be an Eligible Receivable, based on the following criteria and such other considerations as Lender may from time to time reasonably deem appropriate. A Receivable shall not be deemed eligible unless such Receivable is subject to Lender's perfected security interest and no other lien other than Permitted Liens, and is evidenced by an invoice, bill of lading or other documentary evidence satisfactory to Lender. In addition, no Receivable shall be an Eligible Receivable if:

(a) it arises out of a sale made by any Borrower to a Subsidiary or Affiliate of any Borrower or to a Person controlled by a Subsidiary or Affiliate of any Borrower unless such sale was on an arms-length basis and the aggregate amount of all such arms-length sales to a Subsidiary or Affiliate of any Borrower or to a Person controlled by a Subsidiary or Affiliate of any Borrower is less than $1,000,000, provided, however, such sales in excess of $1,000,000 in the aggregate shall not constitute Eligible Receivables to the extent of such excess unless approved by Lender in writing (and otherwise constitute Eligible Receivables);

(b) it is due or unpaid more than ninety (90) days after the original invoice date;

(c) fifty percent (50%) or more of the Receivables from the Customer are not deemed Eligible Receivables hereunder. Such percentage may, in Lender's sole discretion exercised in good faith, be increased or decreased from time to time;

(d) any covenant, representation or warranty contained in this Agreement with respect to such Receivable has been breached;

(e) the Customer shall (i) apply for, suffer, or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or call a meeting of its creditors, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi)

file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, any petition which is filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;



(f) the sale is to a Customer outside the continental United States of America, unless the sale is on letter of credit, guaranty or acceptance terms, in each case acceptable to Lender in its sole discretion exercised in good faith;

(g) the sale to the Customer is on a bill-and-hold, guaranteed sale, sale-and-return, sale on approval, consignment or any other repurchase or return basis or is evidenced by chattel paper;

(h) Lender believes, in its sole judgment exercised in good faith, that collection of such Receivable is insecure or that such Receivable may not be paid by reason of the Customer's financial inability to pay;

(i) the Customer is the United States of America, any state or any department, agency or instrumentality of any of them, unless the applicable Borrower effectuates an assignment of its right to payment of such Receivable to Lender pursuant to the Assignment of Claims Act of 1940, as amended (31 U.S.C. Sub-Section 3727 and 41 U.S.C. Sub-Section 15 et seq.) or has otherwise complied with other applicable statutes or ordinances;

(j) the goods giving rise to such Receivable have not been shipped and delivered to and accepted by the Customer or the services giving rise to such Receivable have not been performed by the applicable Borrower and accepted by the Customer or the Receivable otherwise does not represent a final sale;

(k) such Receivable causes the aggregate amount of Receivables of the Customer to exceed a credit limit determined by Lender in its sole discretion exercised in good faith;

(l) the Receivable is subject to any offset, deduction, defense, dispute, or counterclaim, to the extent of such offset, deduction, defense, dispute or counterclaim unless such amount exceeds fifty percent (50%) of the otherwise Eligible Receivable (notwithstanding the amount of such offset, deduction, defense, dispute or counterclaim), or the Customer is also a creditor or supplier of a Borrower or the Receivable is contingent in any respect or for any reason; provided, however, to the extent any Customer is a creditor or supplier to any or all Borrowers, then so long as not more than $250,000 is owed to such Customer by such Borrower or Borrowers, no offset need be taken against Receivables due from such Customer;

(m) the applicable Borrower has made any agreement with a Customer for any deduction therefrom, except for discounts or allowances made in the ordinary course of business, all of which discounts or allowances are reflected in the calculation of the face value of each respective invoice related thereto;

(n) shipment of the merchandise or the rendition of services has not been completed;

(o) any return, rejection or repossession of the merchandise has occurred;



(p) such Receivable is not payable to a Borrower; or

(q) such Receivable is not otherwise satisfactory to Lender as determined in good faith by Lender in the exercise of its discretion in a reasonable manner.

"Eligible Unbilled Receivables" at any date, shall mean Receivables of Borrowers created no more than sixty (60) days prior to such date

which, but for the fact invoices for payment have not yet been sent to Customers, would constitute Eligible Receivables hereunder.

"Equipment" shall mean and include as to each Borrower all of such Borrower's goods (other than Inventory) whether now owned or hereafter acquired and wherever located including, without limitation, all equipment, machinery, apparatus, motor vehicles, fittings, furniture, furnishings, fixtures, parts, accessories and all replacements and substitutions therefor or accessions thereto.

"Eurodollar Rate Loan" shall mean a Loan at any time that bears interest based on the Eurodollar Rate.

"Eurodollar Rate" shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto the rate per annum (such Eurodollar Rate to be adjusted to the next higher 1/100 of one (1%) percent) equal to the quotient of (a) LIBOR, divided by (b) a number equal to 1.00 minus the aggregate of the rates (expressed as a decimal) of reserve requirements current on the day that is two Business Days prior to the beginning of the Interest Period (including without limitation basic, supplemental, marginal and emergency reserves) under any regulation promulgated by the Board of Governors of the Federal Reserve System (or any other governmental authority having jurisdiction over Bank) as in effect from time to time, dealing with reserve requirements prescribed for Eurocurrency funding including any reserve requirements with respect to "Eurocurrency liabilities" under Regulation D of the Board of Governors of the Federal Reserve System.

"Event of Default" shall mean the occurrence of any of the events set forth in Section 19.

"Excess Cash Flow" for any fiscal period shall mean EBITDA of Borrowers on a consolidated basis for such fiscal period minus capital expenditures made by Borrowers on a consolidated basis during such fiscal period minus Fixed Charges.

"Federal Funds Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or if such rate is not so published for any day which is a Business Day, the average of quotations for such day on such transactions received by Lender from three Federal funds brokers of recognized standing selected by Lender.



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

"Fixed Charges" shall mean the sum (without duplication) of (i) all interest payments made on the Loans hereunder, plus (ii) all dividends or other distributions to stockholders and other payments made or paid with respect to any indebtedness for money borrowed (excluding the principal amount of Revolving Advances but including all payments made on capitalized leases) during such period (including, without limitation, payments permitted under Section 12(n)(iii)), plus (iii) income or franchise taxes paid in cash during such period, plus (iv) payments on the Shareholders Notes during such period under Section 12(n)(iv) of this Agreement, plus, (v) PIA and SPAR Merger Payments made during such period.

"Formula Amount" shall have the meaning set forth in Section 2(a) hereof.

"GAAP" shall mean generally accepted accounting principles, practices and procedures in the United States of America in effect from time to time.

"General Intangibles" shall mean and include as to each Borrower all of such Borrower's general intangibles, whether now owned or hereafter acquired including, without limitation, all payment intangibles, choses in action, commercial tort claims, causes of action, corporate or other business

records, inventions, designs, patents, patent applications, equipment formulations, manufacturing procedures, quality control procedures, trademarks, service marks, trade secrets, goodwill, copyrights, design rights, registrations, licenses, license fees, franchises, customer lists, tax refunds, tax refund claims, overpayments, overpayment claims, reclamation rights, computer programs and computer software, all claims under guaranties, security interests or other security held by or granted to such Borrower to secure payment of any of the Receivables by a Customer, all rights of indemnification and all other intangible property of every kind and nature (other than Receivables).

"Guarantor" shall mean any Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and "Guarantors" means collectively all such Persons. As of the Closing Date, the existing Guaranties of William Bartels and Robert Brown shall be terminated and of no force and effect.

"Guaranty" shall mean any guaranty of the obligations of Borrowers executed by a Guarantor in favor of Lender.

"Hazardous Substance" shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated byphenyls, petroleum and petroleum products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA or any other applicable environmental law and in the regulations adopted pursuant thereto.



"Holdings" shall mean SPAR Group, Inc.

"Interest Period" shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 4(b).

"Inventory" shall mean and include as to each Borrower all of such Borrower's now owned or hereafter acquired inventory, goods, merchandise and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in such Borrower's business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

"Investment Property" shall mean and include as to each Borrower, all such Borrowers' now owned or hereafter acquired securities (whether certificated or uncertificated), stocks, mutual fund shares, money market shares and U.S. Government securities or other "investment property" as defined in the Uniform Commercial Code.

"Issuer" shall mean any Person who issues a Letter of Credit and/or accepts a draft pursuant to the terms hereof.

"Leased Premises Reserve" shall mean the equivalent of three (3) months rental charges for each of the following leased premises of Borrowers for which a Landlord Waiver in form and substance satisfactory to Lender has not been received by Lender: (i) 1791 Harmon Road, Auburn Hills, Michigan, and (ii) 580 White Plains Road, Tarrytown, New York.

"Leasehold Interest" shall mean all of each Borrower's right, title and interest in and to real property owned by a Person other that a Borrower, whether as tenant, lessee, licensee, operator or otherwise.

"Lender" shall have the meaning ascribed to such term in the Preamble and shall include each person which is a transferee, successor or assign of Lender.

"Letter of Credit Fees" shall have the meaning set forth in Section 5(b)(v).

"Letters of Credit" shall have the meaning set forth in Section 2A(a).

"LIBOR" shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto, the rate per annum quoted by Lender to Borrowing Agent two (2) Business Days prior to the first day of such Interest Period as the rate available to Bank in the interbank market for offshore Dollar deposits in immediately available funds for a period equal to such Interest Period and in an amount equal to the amount of such Eurodollar Rate Loan.

"Loans" means the Revolving Advances, the Letters of Credit and all other extensions of credit hereunder.



"Maximum Revolving Amount" means $15,000,000.

"Net Worth" shall mean, at a particular date (a) the aggregate amount of all assets of Borrowers on a consolidated basis as may be properly classified as such in accordance with GAAP consistently applied less (b) the aggregate amount of all liabilities of Borrowers on a consolidated basis, in accordance with GAAP, consistently applied.

"New Borrower" or "New Borrowers" shall mean, individually and collectively, International, STG, PIA Retail, Retail and Pivotal Field.

"Non-Financed Capital Expenditures" shall mean capital expenditures not financed with proceeds of purchase money financing permitted in Section 12(n)(i)(A).

"Obligations" shall mean and include all Loans, all advances, debts, liabilities, obligations, covenants and duties owing by each Borrower to Lender (or any corporation that directly or indirectly controls or is controlled by or is under common control with Lender) of every kind and description (whether or not evidenced by any note or other instrument and whether or not for the payment of money or the performance or non-performance of any act), direct or indirect, absolute or contingent, due or to become due, contractual or tortious, liquidated or unliquidated, whether existing by operation of law or otherwise now existing or hereafter arising including, without limitation, any debt, liability or obligation owing from any Borrower to others which Lender may have obtained by assignment or otherwise and further including, without limitation, all interest, charges or any other payments any Borrower is required to make by law or otherwise in each case arising under or as a result of this Agreement and the Ancillary Agreements, together with all reasonable expenses and reasonable attorneys' fees chargeable to Borrowers' account or incurred by Lender in connection with Borrowers' account whether provided for herein or in any Ancillary Agreement.

"Original Closing Date" shall mean March 4, 1996.

"Original Owners" shall mean (1) as to Holdings; Robert G. Brown and William H. Bartels and any Permitted Transferees, (2) as to PIA and SAI; Holdings; (3) as to Pacific and Pivotal; PIA, (4) as to SIM, STM and SMF; SAI, (5) as to SPG; SIM and (6) as to SMF, SMINV, SPAR, SBRS; SMIDE.

"Payment Office" shall mean initially One State Street, New York, New York 10004; thereafter, such other office of Lender in New York, New York, if any, which it may designate by notice to Borrowing Agent to be the Payment Office.

"Permitted Liens" shall mean: (i) liens of carriers, warehousemen, mechanics and materialmen incurred in the ordinary course of business securing sums (a) not overdue or (b)



being diligently contested in good faith, provided that adequate reserves with respect thereto are maintained on the books of Borrowers in conformity with GAAP and no such lien shall have any effect on the priority of the liens in favor of Lender; (ii) liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance or other forms of governmental insurance or benefits, relating to employees, securing sums (a) not overdue or (b) being diligently contested in good faith provided that adequate reserves with respect thereto are maintained on the books of Borrowers in

conformity with GAAP; (iii) liens in favor of Lender; (iv) liens for taxes (a) not yet due or (b) being diligently contested in good faith, provided that adequate reserves with respect thereto are maintained on the books of Borrowers in conformity with GAAP; (v) liens incurred in respect of judgments and awards not exceeding $250,000 in the aggregate and which are satisfied, vacated, discharged, stayed or bonded within 30 days from the making thereof; (vi) in the case of real estate, easements, rights-of-way, restrictions, covenants or other agreements of record and other similar charges or encumbrances not interfering with the ordinary conduct of the business of Borrowers; (vii) security or similar deposits made, or collateral pledged to secure performance bonds delivered, in the ordinary course of business to secure the performance of tenders, bids, leases or contracts not to exceed $250,000; (viii) the security interests (including leases treated as security interests) in assets purchased or leased with financings permitted by Section 12(n)(i) hereof so long as they respectively secure only the corresponding purchase money indebtedness or capitalized lease obligations; and (ix) liens specified on Schedule 1(a) hereto including any renewals or extensions thereof, but those liens or pledges shall not be increased or extended to other indebtedness unless otherwise permitted by the terms and provisions of this Agreement.

"Permitted Transferees" shall mean with respect to any person, his/her parents, spouse, siblings and/or any of their children, or a trust for the benefit of any of them, provided, that, with respect to any such trust, such Person retains the sole right to vote such common stock.

"Person" shall mean an individual, partnership, corporation, limited liability company, limited liability partnership, trust or unincorporated organization, or a government or agency or political subdivision thereof.

"PIA and SPAR Merger Payments" shall mean payments made to vendors on payables associated with the acquisition of PIA under the SPAR Merger Agreement as detailed in Disclosure Schedule 1 to be delivered to Lender.

"Pledge Agreements" shall mean collectively, the Pledge Agreements executed by each of Holdings, PIA, SAI, SIM and SMF in favor of Lender pursuant to which each such Person pledges 100% of the stock of each of its Subsidiaries to Lender as Collateral for the Obligations.

"Principal Shareholders" shall mean William Bartels and Robert Brown.

"Receivables" shall mean and include as to each Borrower all of such Borrower's accounts (including, without limitation, all health-care insurance receivables), contract rights, instruments (including those evidencing indebtedness owed to Borrowers by their Affiliates), documents, chattel paper (whether tangible or electronic), general intangibles relating to accounts, drafts and acceptances, and all other forms of obligations owing to such Borrower arising out of or in connection with the sale or lease of Inventory or the rendition of services, all guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Lender hereunder.



"Receivables Advance Rate" shall have the meaning set forth in the definition of Receivables Availability.

"Receivables Availability" means 85% ("Receivables Advance Rate") of the net face amount of Borrowers' Eligible Receivables, subject to Section 2(c) hereof.

"Revolving Advances" shall mean Loans made other than Letters of Credit.

"Revolving Credit Note" shall mean the $15,000,000 Fifth Amended and Restated Revolving Credit Note dated as of January 24, 2003 executed by Borrowers in favor of Lender.

"Revolving Interest Rate" shall mean an interest rate per annum equal to (a) the Alternate Base Rate with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one-half percent (2.50%) with respect to Eurodollar Rate Loans.

"Second Amended Loan Agreement Closing Date" shall mean September 22, 1999.

"Shareholder Notes" shall mean the promissory notes to the Principal Shareholders from those Borrowers and in the amounts set forth in Exhibit A hereto.

"SPAR Merger Agreement" shall mean that certain Agreement and Plan of Merger, dated as of February 28, 1999 (as the same may be supplemented, modified, amended, restated or replaced from time to time in the manner provided therein), made by and among PIA Merchandising Services, Inc., SG Acquisition, Inc., PIA Merchandising Co., Inc., the Borrowers, and SPAR Acquisition, Inc., SPAR Marketing, Inc., SPAR Incentive Marketing, Inc., SPAR MCI Performance Group, Inc., and SPAR Trademarks, Inc. (the Borrowers, SPAR Acquisition, Inc., SPAR Marketing, Inc., SPAR Incentive Marketing, Inc., SPAR MCI Performance Group, Inc., and SPAR Trademarks, Inc. are referred to therein collectively as the "SPAR Parties".)

"SPG" shall mean SPAR Performance Group, Inc. (f/k/a SPAR MCI Performance Group, Inc.), a Delaware corporation.

"SPG Holdings" shall mean Performance Holdings, Inc., a Delaware corporation.

"SPG Holdings Term Loan Agreement" shall mean that certain Term Loan, Guaranty and Security Agreement entered into as of June 30, 2002 by and between SIM and SPG Holdings.

"SPG Holdings Term Notes" shall mean collectively, (i) that certain Term Note in the amount of $2,500,000 and (ii) that certain Term Note in the amount of $3,500,000, in each case issued by SPG Holdings in favor of SIM.

"SPG Loan Agreement" shall mean that certain Revolving Credit, Guaranty and Security Agreement dated as of June 30, 2002 among SIM, SPG Holdings and SPG.



"SPG Loans" shall mean loans made by SGI pursuant to an SPG Loan Agreement.

"Stock Purchase Agreement" shall mean that certain Stock Purchase and Sale Agreement dated as of June 30, 2002 by and between SPG Holdings and SIM.

"Subordinated Right" and "Subordinated Rights" shall respectively mean for each Borrower any and all subrogation, contribution and other similar rights of such Borrower against or in respect of (i) any other Borrower, or (ii) any of their respective assets and properties, whether resulting from any payment made by such Borrower or otherwise; in each case whether now or hereafter existing, acquired or created.

"Subsidiary" shall mean a corporation or other entity of whose shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

"Subsidiary Stock" means all of the issued and outstanding shares of stock owned by (1) PIA of Pacific and Pivotal, (2) SAI of SIM, STM and SMIDE, (3) SMIDE of SMF, SMINV, SPAR and SBRS and (4) SGI of PIA and SAI.

"Supplemental Amount" shall mean, for each period of time, the amount set forth below opposite such time period:

| Time Period | Supplemental Amount |
|---|---|
| Closing Date through 3/31/2003 | $1,500,000 |
| 04/01/2003 through 06/30/2003 | $1,300,000 |
| 07/01/2003 through 09/30/2003 | $1,100,000 |
| 10/01/2003 through 12/31/2003 | $900,000 |

| | |
|---|---|
| 01/01/2004 through 03/31/2004 | $700,000 |
| 04/01/2004 through 06/30/2004 | $500,000 |
| 07/01/2004 through 09/30/2004 | $300,000 |
| 10/01/2004 through 12/31/2004 | $100,000 |
| 01/01/2005 and thereafter | $0 |

"Term" shall mean the Closing Date through January 24, 2006 subject to acceleration upon the occurrence of an Event of Default hereunder or other termination hereunder.

"Transactions" shall mean the transactions contemplated by this Agreement.

"Unbilled Receivables Availability" means 70% ("Unbilled Receivables Advance Rate") of the net face amount of Eligible Unbilled Receivables, subject to Section 2(c) hereof.



"UCC Article 9" shall mean Article 9 of the Uniform Commercial Code as in effect in the State of New York on July 1, 2001, as same may be amended from time to time.

"Undrawn Availability" at a particular date shall mean an amount equal to (a) the lesser of (i) the Formula Amount or (ii) the Maximum Revolving Amount, minus (b) the outstanding amount of Loans.

"Uniform Commercial Code" shall mean the Uniform Commercial Code as adopted in the State of New York as same may be amended from time to time.

"Working Capital" at a particular date shall mean the excess, if any, of Current Assets over Current Liabilities at such date.

(B) Accounting Terms. As used in this Agreement, the Revolving Credit Note, the Ancillary Agreements or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1 or elsewhere in this Agreement and accounting terms partly defined in Section 1 to the extent not defined, shall have the respective meanings given to them under GAAP.

(C) Uniform Commercial Code Terms. All terms used herein and defined in the Uniform Commercial Code as adopted in the State of New York shall have the meaning given therein unless otherwise defined herein. Without limiting the foregoing, the terms "accounts," "chattel paper," "instruments," "general intangibles," "payment intangibles," "support obligations," "securities," "investment property," "documents," "supporting obligations," "deposit accounts," "payment intangibles," "software," "letter of credit rights," "inventory," "equipment" and "fixtures," as and when used in the description of Collateral, shall have the meanings given to such terms in Articles 8 or 9 of the Uniform Commercial Code.

(D) Certain Matters of Construction. The terms "herein", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided in the respective definitions thereof, all references to any instruments or agreements, including, without limitation, references to any of the Ancillary Agreements and Shareholder Notes shall include any and all modifications or amendments thereto and any and all extensions, restatements or renewals thereof (but without waiving the necessity of obtaining any required consent hereunder to any such modification, amendment, extension, restatement or renewal).

2. Revolving Advances.

(a) Borrowing Base. Subject to the terms and conditions set forth herein and in the Ancillary Agreements, Lender will (at the request of Borrowing Agent) make Revolving Advances to the Borrowers from time to time during the Term which, in the aggregate at any

time outstanding, will not exceed the lesser of (x) the Maximum Revolving Amount less the aggregate amount of outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) Receivables Availability, plus

(ii) Unbilled Receivables Availability, plus

(iii) the Supplemental Amount, minus

(iv) the aggregate amount of outstanding Letters of Credit, minus

(v) the Leased Premises Reserve and such other reserves as Lender may reasonably deem proper and necessary from time to time.

The sum of 2(a)(y)(i) plus (ii) plus (iii) minus (v) shall be referred to as the "Formula Amount".

(b) Notwithstanding the limitations set forth above or elsewhere in this Agreement, Lender retains the right to lend Borrowers (at Borrowing Agent's request) or permit to continue outstanding from time to time such amounts in excess of such limitations as Lender may determine in its sole discretion.

(c) Borrowers acknowledge that the exercise of Lender's discretionary rights hereunder, which rights shall be exercised in good faith, may result during the Term in one or more increases or decreases in the Advance Rates in the event Lender determines in good faith that there has been a material adverse change in the quality of the applicable class of eligible assets and such material adverse change is not otherwise reflected in the applicable reserves (as modified), and Borrowers hereby consent to any such increases or decreases in the Advance Rates which may limit or restrict advances requested by Borrowers. Lender will notify Borrowing Agent of any change in the Advance Rates or any new eligibility criteria for Eligible Receivables or Eligible Unbilled Receivables, the proposed effective date thereof and the reasons therefore; provided that new Advance Rate(s) shall not take effect sooner than 7 Business Days after such notice without the Borrowers consent; and provided, however, that failure by Lender to give any such notice shall not give rise to any cause of action by Borrowers against Lender. In the event Lender reduces any Advance Rate, Borrowers shall have a period of 120-days following receipt of Lender's notice of such reduction within which to repay the Loans and other Obligations in full and terminate the Agreement, and in such case Borrowers shall not be required to pay the fee specified in Section 18 hereof or any other premium or penalty. In the event Borrowers have obtained a written commitment within such 120-day period from a lender that would create a facility to fund such prepayments, and Borrowers and such new lender are proceeding in good faith to close such facility, the Borrowers shall have an additional period of thirty (30) days following the expiration of such 120-day period within which to close such facility and prepay the Loans and other Obligations without the payment of such fee or other premium or penalty.



(d) If Borrowers do not pay any interest, fees, costs or charges to Lender when due, Borrowers shall thereby be deemed to have requested, and Lender is hereby authorized at its discretion to make and charge to Borrowers' account, a Revolving Advance to Borrowers as of such date in an amount equal to such unpaid interest, fees, costs or charges.

(e) Any sums expended by Lender due to any Borrower's failure to perform or comply with its obligations under this Agreement, including but not limited to the payment of taxes, insurance premiums or leasehold obligations, shall be charged to Borrowers' account as a Revolving Advance and added to the Obligations.

(f) Lender will account to Borrowing Agent monthly with a statement of all Revolving Advances and other advances, charges and payments made pursuant to this Agreement, and such account rendered by Lender shall be deemed final, binding and conclusive upon Borrowers unless Lender is notified by Borrowing Agent in writing to the contrary within thirty (30) days of the date each

account was rendered specifying the item or items to which objection is made.

(g) During the Term, Borrowers may borrow, prepay and reborrow Revolving Advances, all in accordance with the terms and conditions hereof. Any prepayment in full shall be subject to the provisions of Section 18 hereof, if applicable. No reduction in the Maximum Revolving Amount shall occur without an amendment to this Agreement.

(h) Borrowers shall apply the proceeds of the Revolving Loans to provide for their working capital needs, to finance capital expenditures and to repay Shareholder Notes as permitted under Section 12(n)(iv) hereof.

(i) The aggregate balance of Revolving Advances plus Letters of Credit outstanding at any time shall not exceed the lesser of the Formula Amount or the Maximum Revolving Amount.

(j) In no event shall the aggregate outstanding balance of Revolving Advances plus Letters of Credit utilized by, or for the benefit of, (a) International exceed $3,000,000, (b) STG exceed $2,000,000 or (c) PIA Retail, Retail and Pivotal exceed $500,000 individually.

2A. Letters of Credit.

(a) Subject to the terms and conditions hereof, Lender shall issue or cause the issuance of standby Letters of Credit by the Issuer ("Letters of Credit") on behalf of Borrowers provided, however, that Lender will not be required to issue or cause to be issued any Letters of Credit to the extent that the face amount of such Letters of Credit would then cause the sum of (A) (i) the outstanding Revolving Advances plus (ii) outstanding Letters of Credit (with the requested Letter of Credit being deemed to be outstanding for purposes of this calculation) to exceed the lesser of (x) the Maximum Revolving Amount or (y) the Formula Amount. The maximum amount of outstanding Letters of Credit shall not exceed $1,000,000 in the aggregate at any time. All disbursements or payments related to Letters of Credit shall be deemed to be



Revolving Advances and shall bear interest at the Revolving Interest Rate; Letters of Credit that have not been drawn upon shall not bear interest.

(b) Borrowing Agent may request Lender to issue or cause the issuance of a Letter of Credit by delivering to Lender at the Payment Office, Lender's and/or Issuer's standard form of Letter of Credit Application and Letter of Credit and Security Agreement (collectively, the "Letter of Credit Application") completed to the satisfaction of Lender, and such other certificates, documents and other papers and information as Lender may reasonably request. Letters of Credit shall be subject to the terms and conditions set forth in the Letter of Credit Application.

(c) Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date in no event later than the last day of the Term. Each Letter of Credit Application and each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, and any amendments or revision thereof adhered to by the Issuer and, to the extent not inconsistent therewith, the laws of the State of New York provided, however, if any Borrower requests the issuance of any Letter of Credit having an expiry date later than the last day of the Term, then on the last day of the Term Borrowers will cause cash to be deposited and maintained in an account with Lender, as cash collateral in an amount equal to one hundred and five percent (105%) of such Letters of Credit, such cash collateral to be required without the necessity of any demand, but otherwise to be held by Lender in accordance with the second paragraph of Section 5(b)(v).

(d) In connection with the issuance of any Letter of Credit, each Borrower shall indemnify, save and hold Lender and each Issuer harmless from any loss, cost, expense or liability, including, without limitation, payments made by Lender or any Issuer, and expenses and reasonable attorneys' fees incurred by Lender arising out of, or in connection with, any Letter of Credit to be issued or created for any Borrower. Borrowers shall be bound by Lender's or any Issuer's regulations and good faith interpretations of any Letter of Credit

issued for Borrowers' account, although this interpretation may be different from any Borrower's own; and, neither Lender, nor any Issuer nor any of their correspondents shall be liable for any error, negligence, or mistakes, whether of omission or commission, in following any Borrower's or Borrowing Agent's instructions or those contained in any Letter of Credit or of any modifications, amendments or supplements thereto or in issuing or paying any Letter of Credit, except for Lender's or any Issuer's or such correspondents' gross (not mere) negligence or willful misconduct.

(e) Borrowing Agent shall authorize and direct Issuer to name the applicable Borrower as the "Applicant" or "Account Party" therein and to deliver to Lender all instruments, documents, and other writings and property received by the Issuer pursuant to the Letter of Credit and to accept and rely upon Lender's instructions and agreements with respect to all matters arising in connection with the Letter of Credit, the application therefor or any acceptance created thereunder.



(f) In connection with all Letters of Credit issued or caused to be issued or created by Lender under this Agreement, each Borrower hereby appoints Lender, or its designee, as its attorney, with full power and authority (i) to sign and/or endorse such Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances; (ii) to sign such Borrower's name on bills of lading; (iii) to clear Inventory through the United States of America Customs Department ("Customs") in the name of such Borrower or Lender or Lender's designee, and to sign and deliver to Customs officials powers of attorney in the name of such Borrower for such purpose; and (iv) to complete in such Borrower's name or Lender's, or in the name of Lender's designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither Lender nor its attorneys will be liable for any acts or omissions nor for any error of judgment or mistakes of fact or law, except for Lender's or its attorney's gross (not mere) negligence or willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

3. Repayment of Loans.
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(a) Borrowers shall be required to (i) make a mandatory prepayment hereunder at any time that the aggregate outstanding principal balance of the Revolving Advances made by Lender to Borrowers hereunder together with outstanding Letters of Credit is in excess of the lesser of the Maximum Revolving Amount or the Formula Amount in an amount equal to such excess, (ii) repay on the expiration of the Term (x) the then aggregate outstanding principal balance of Revolving Advances made by Lender to Borrowers hereunder together with accrued and unpaid interest, fees and charges and (y) all other amounts owed Lender under this Agreement and the Ancillary Agreements, and (iii) if any Borrower requests the issuance of any Letter of Credit having an expiry date later than the last day of the Term, on the last day of the Term, cause cash to be deposited and maintained in an account with Lender, as cash collateral in an amount equal to one hundred and five percent (105%) of such Letters of Credit, such cash collateral to be required without the necessity of any demand, but otherwise to be held by Lender in accordance with the second paragraph of Section 5(b)(v).

(b) Each Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Lender on account of the Obligations one (1) Business Day following the Business Day Lender receives such remittances in good funds via wire transfer or electronic depository check from either the Blocked Account bank or Depository Account bank. Lender shall reverse any credit previously made to Borrowers' account for the amount of any credit returned to Lender unpaid and said reversal of credit may result in the need for a Revolving Advance for such reversal and related fees.

4. (a) Procedure for Revolving Advances. In accordance with Section 25 hereof, Borrowing Agent may notify Lender prior to 12:00 noon on a Business Day of a Borrower's request to incur, on that day, a Revolving Advance hereunder. All Revolving Advances shall be disbursed from whichever office or other place Lender may designate from time to time and, together with any and all other Obligations of Borrowers to Lender, shall be charged to Borrowers' account on Lender's books. The proceeds of each Revolving Advance made by Lender shall be made available to the applicable Borrower on the day so requested by way of

credit to such Borrower's operating account maintained with Lender or such other bank as



Borrowing Agent may designate following notification to Lender. Any and all Obligations due and owing hereunder may be charged to Borrowers' account and shall constitute Revolving Advances. Lender shall give Borrowing Agent prompt written notice of any and all Revolving Advances (other than interest and fees pursuant to Section 5 hereof) made pursuant to Lender's authority hereunder to charge Borrowers' account or make any Revolving Advance sufficient to cover any amount due hereunder to Lender; provided, however, that failure by Lender to give any such notice shall not give rise to any cause of action by Borrowers against Lender.

(b) Notwithstanding the provisions of subsection (a) above, in the event any Borrower desires to obtain a Eurodollar Rate Loan, Borrowing Agent shall give Lender at least three (3) Business Days' prior written notice, specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Loan to be borrowed, which amount shall be $500,000 or, if greater, an integral multiple of $100,000, and (iii) the duration of the first Interest Period therefor. Interest Periods for Eurodollar Rate Loans shall be for one, two, three or six months. No Eurodollar Rate Loan shall be made available to Borrowers during the continuance of [a Default or] an Event of Default.

(c) Each Interest Period of a Eurodollar Rate Loan shall commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrowing Agent may elect as set forth in (b)(iii) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term.

Borrowing Agent shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its notice of borrowing given to Lender pursuant to Section 4(b) or by its notice of conversion given to Lender pursuant to Section 4(d), as the case may be. Borrowing Agent shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Lender of such duration not less than three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Lender does not receive timely notice of the Interest Period elected by Borrowing Agent, Borrowing Agent shall be deemed to have elected to convert to a Domestic Rate Loan subject to Section 4(d) hereinbelow.

(d) Provided that no Event of Default shall have occurred and be continuing, any Borrower may, on the last Business Day of the then current Interest Period applicable to any outstanding Eurodollar Rate Loan, or on any Business Day with respect to Domestic Rate Loans, convert any such loan or portion thereof into a loan of another type in the same aggregate principal amount provided that any conversion of a Eurodollar Rate Loan shall be made only on the last Business Day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Borrowing Agent on behalf of any Borrower desires to convert a Loan, it shall give Lender not less than three (3) Business Days' prior written notice to convert from a Domestic Rate Loan to a Eurodollar Rate Loan or one (1) Business Day's prior written notice to convert from a Eurodollar Rate Loan to a Domestic Rate Loan, specifying the date of such conversion, the Loans to be converted and if the conversion is from a Domestic Rate Loan to a Eurodollar Rate Loan, the duration of the first Interest Period therefor. After giving effect to each such conversion, there shall not be outstanding more than six (6) Eurodollar Rate Loans, in the aggregate.



(e) At their option and upon three (3) Business Days' prior written notice, Borrowers may prepay the Eurodollar Rate Loans in whole at any time or in part from time to time, without premium or penalty, but with accrued interest on the principal being prepaid to the date of such repayment. Borrowers shall specify the date of prepayment of Loans which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, Borrowers shall indemnify

Lender therefor in accordance with Section 4(f) hereof.

(f) Borrowers shall indemnify Lender and hold Lender harmless from and against any and all losses or expenses that Lender may sustain or incur as a consequence of any prepayment or any default by any Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by any Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including (but not limited to) any breakage cost payable by Lender to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder.

(g) Notwithstanding any other provision hereof, if any applicable law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for Lender (for purposes of this subsection (g), the term "Lender" shall include Lender and the office or branch where Lender or any corporation or bank controlling such Lender makes or maintains any Eurodollar Rate Loans) to make or maintain its Eurodollar Rate Loans, the obligation of Lender to make Eurodollar Rate Loans hereunder shall forthwith be cancelled and Borrowers shall, if any affected Eurodollar Rate Loans are then outstanding, promptly upon request from Lender, either pay all such affected Eurodollar Rate Loans or convert such affected Eurodollar Rate Loans to Domestic Rate Loans. If any such payment or conversion of any Eurodollar Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan, Borrowers shall pay Lender, upon Lender's request, such amount or amounts as may be necessary to compensate Lender for any loss or expense sustained or incurred by Lender in respect of such Eurodollar Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Lender to lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Rate Loan. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lender to Borrowing Agent or any Borrower shall be conclusive absent manifest error.

5. Interest and Fees.
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(a) Interest.
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(i) Interest on Loans shall be payable in arrears on the first day of each month with respect to Domestic Rate Loans and, with respect to Eurodollar Rate Loans, at the end of each Interest Period; provided, that interest on Eurodollar Rate Loans for periods in excess of three (3) months shall be paid on the three-month anniversary of the initial Eurodollar Rate Loan or renewal thereof, with the balance of interest paid at the end of the Interest Period. Interest charges shall be computed on the actual principal amount of Revolving Advances



outstanding during the month at a rate per annum equal to the applicable Revolving Interest Rate. Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Revolving Interest Rate for Domestic Rate Loans shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. The Eurodollar Rate shall be adjusted with respect to Eurodollar Rate Loans without notice or demand of any kind on the effective date of any change in the Reserve Percentage as of such effective date. Lender shall endeavor to give notice of such change to the Borrowers; provided, however Lender shall have no liability for the failure to so notify.

(ii) Interest shall be computed on the basis of actual days elapsed over a 360-day year. At Lender's option, Lender may charge Borrowers' account for the applicable amount of such interest.

(iii) Upon the occurrence and during the continuance of an Event of Default, interest and the Letter of Credit Fees shall be payable at the Default Rate.

(iv) Notwithstanding the foregoing, in no event shall interest exceed the maximum rate permitted under any applicable law or regulation, and if any provision of this Agreement or an Ancillary Agreement is in contravention of

any such law or regulation, such provision shall be deemed amended to provide for interest at said maximum rate and any excess amount shall either be applied, at Lender's option, to the outstanding Revolving Advances in such order as Lender shall determine or refunded by Lender to Borrowers.

(v) Borrowers shall pay principal, interest and all other amounts payable hereunder, or under any Ancillary Agreement, without any deduction whatsoever, including, but not limited to, any deduction for any set-off or counterclaim.

(b) Fees.
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(i) Closing Fee. Upon the execution of this Agreement, Borrowers shall pay to Lender a closing fee in an amount equal to $50,000 which shall be fully earned, nonrefundable and due on the Closing Date. The closing fee may be charged to Borrowers' account.

(ii) Unused Line Fee. In the event the average closing daily unpaid balances of all Revolving Advances plus all outstanding Letters of Credit hereunder during any calendar month is less than the Maximum Revolving Amount, Borrower shall pay to Lender a fee at a rate per annum equal to one quarter of one percent (.25%) on the amount by which the Maximum Revolving Amount exceeds such average daily unpaid balance. Such fee shall be calculated on the basis of a year of 360 days and actual days elapsed, and shall be charged to Borrowers' account on the first day of each month with respect to the prior month.

(iii) Collateral Evaluation Fee. Borrowers shall pay Lender a collateral evaluation fee equal to $2,000 per month commencing on the first day of the month following the Closing Date and on the first day of each month thereafter during the Term. The collateral



evaluation fee shall be deemed earned in full on the date when same is due and payable hereunder and shall not be subject to rebate or proration upon termination of this Agreement for any reason.

(iv) Collateral Monitoring Fee. Upon Lender's performance of any reasonable and customary collateral monitoring - namely any field examination, collateral analysis or other business analysis, the need for which is to be determined by Lender and which monitoring is undertaken by Lender or for Lender's benefit, an amount equal to $750 per day, per person, for each person employed to perform such monitoring together with all reasonable and customary costs, disbursements and expenses incurred by Lender and the person performing such collateral monitoring shall be charged to Borrowers' account; provided, however, Lender shall not charge Borrowers' account for the performance of more than three (3) field examinations in any calendar year unless an Event of Default shall have occurred.

(v) Letter of Credit Fees.
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Borrowers shall pay (x) to Lender, fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by two and one-quarter percent (2.25%) per annum, such fees to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable monthly in arrears on the first day of each month and on the last day of the Term and (y) to the Issuer, any and all fees and expenses as agreed upon by the Issuer and Borrowers in connection with any Letter of Credit, including, without limitation, in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder and shall reimburse Lender for any and all fees and expenses, if any, paid by Lender to the Issuer (all of the foregoing fees, the "Letter of Credit Fees") in accordance with Schedule 5(b)(v) for standard items. All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Issuer's prevailing charges for that type of transaction. All Letter of Credit Fees payable hereunder shall be deemed earned in full on the date when the same are

due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason.

On demand following an Event of Default, Borrowers will cause cash to be deposited and maintained in an account with Lender, as cash collateral, in an amount equal to one hundred and five percent (105%) of the outstanding Letters of Credit, and each Borrower hereby irrevocably authorizes Lender, in its discretion, on such Borrower's behalf and in such Borrower's name, to open such an account and to make and maintain deposits therein, or in an account opened by such Borrower, in the amounts required to be made by such Borrower, out of the proceeds of Receivables or other Collateral or out of any other funds of Borrowers coming into Lender's possession at any time. Lender will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Lender and Borrowers mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. Borrowers may not withdraw amounts credited to any such



account except upon payment and performance in full of all Obligations and termination of this Agreement.

(vi) Success Fee. On or before July 31, 2003, Lender have the right to purchase 16,667 shares of the common stock of SGI from SGI at a purchase price of one penny per share at Lender's option at any time after the average closing price on the NASDAQ Stock Exchange of SGI's common stock over any consecutive ten (10) trading day period (the "Average Share Price") shall be at least $15.00 per share. Such purchase shall be effectuated by three (3) business days prior written notice from Lender to SGI. Lender's right to purchase SGI's common stock shall be deemed a right earned in full on the Second Amended Loan Agreement Closing Date and shall not be subject to adjustment upon termination of this Agreement for any reason. Any sale of such stock by Lender shall be subject to any and all restrictions imposed under any and all applicable federal, state and local securities laws. Lender's right to purchase shares of SGI as per this Section 5(b)(iv) shall expire August 1, 2003.

(vii) Supplemental Amount Fees. Borrowers shall pay to Lender a Supplemental Amount use fee to the extent the outstanding Revolving Advances to the Borrowers and the undrawn amount of outstanding Letters of Credit issued for the account of the Borrowers exceeds the Formula Amount (calculated as if the Supplemental Amount was $0), equal to one percent (1%) per annum of such excess (with the excess amount upon which such fee is payable being capped at the Supplemental Amount in effect at the time such Revolving Advances and Letters of Credit were outstanding), calculated daily on the basis of a 360 day year for the actual number of days elapsed but payable monthly, in arrears on the first day of each month and the last day of the Term. All fees payable hereunder shall be deemed earned in full on the date when the same is due and payable hereunder and shall not be subject to rebate or proration upon termination of this Agreement for any reason.

(c) Increased Costs. In the event that any adoption of or change in any applicable law, treaty or governmental regulation, or any change in the interpretation or application thereof, or compliance by Lender therewith (for purposes of this Section 5(c), the term "Lender" shall include Lender and any corporation or bank controlling Lender) and the office or branch where Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(i) subject Lender to any tax of any kind whatsoever with respect to this Agreement or change the basis of taxation of payments to Lender of principal, fees, interest or any other amount payable hereunder or under any Ancillary Agreements (except for changes in the rate of tax on the overall net income of Lender, the components of such income or the calculation of such income by the jurisdiction in which it maintains its principal office);

(ii) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Lender, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(iii) impose on Lender or the interbank Eurodollar market any other condition with respect to this Agreement or any Ancillary Agreements; and the result of any of the foregoing is to increase the cost to Lender of making, renewing or maintaining its Loans hereunder by an amount that Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the Loans by an amount that Lender deems to be material, then, to the extent the base rate does not reflect such increased costs, in any case Borrowers shall promptly pay Lender, upon its demand, such additional amount as will compensate Lender for such additional cost or such reduction, as the case may be provided that the foregoing shall not apply to increased costs which are reflected in the Eurodollar Rate. Lender shall certify the amount and calculation of such additional cost or reduced amount to Borrowers, and such certification shall be conclusive absent manifest error.

(d) Capital Adequacy.
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(i) In the event that Lender shall have determined that any adoption of or change in any applicable law, rule, regulation or guideline regarding capital adequacy, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Lender therewith (for purposes of this Section 5(d), the term "Lender" shall include Lender and any corporation or bank controlling Lender) and the office or branch where Lender (as so defined) makes or maintains any Eurodollar Rate Loans with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Lender's capital as a consequence of its obligations hereunder to a level below that which Lender could have achieved but for such adoption, change or compliance (taking into consideration Lender's policies with respect to capital adequacy) by an amount deemed by Lender to be material, then, from time to time, then, to the extent the base rate does not reflect such changes, Borrowers shall pay upon demand to Lender such additional amount or amounts as will compensate Lender for such reduction. In determining such amount or amounts, Lender may use any reasonable averaging or attribution methods.

(ii) A certificate of Lender setting forth such amount or amounts as shall be necessary to compensate Lender with respect to Section 5(d)(i) hereof, and calculation thereof, when delivered to Borrowers shall be conclusive absent manifest error.

(e) Basis For Determining Interest Rate Inadequate or Unfair. In the event that Lender shall have determined that:

(i) reasonable means do not exist for ascertaining the Eurodollar Rate for any Interest Period; or

(ii) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan, then Lender shall give Borrowing Agent prompt written,



telephonic or telegraphic notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrowing Agent shall notify Lender no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (ii) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Lender, no later than 10:00 a.m. (New York City time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Lender, no later than 10:00 a.m.

(New York City time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Lender shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and Borrowers shall not have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

(f) The protection of Section 5(c) and Section 5(d) shall be available to Lender regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition. In the event the impact of any adoption or change referred to in Section 5(c) or Section 5(d) does not affect all institutions which are similar to Lender to a similar extent as the effect upon Lender, and the cost imposed upon Borrowers by Lender pursuant to Section 5(c) or Section 5(d) exceeds $25,000, then Borrowers shall have the right to terminate this Agreement and prepay all obligations within one hundred and twenty (120) days of such imposition without the requirement of paying any early termination fee pursuant to Section 18 hereof.

6. Security Interest.
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(a) To secure the prompt payment to Lender of the Obligations, Existing Borrowers hereby acknowledge, confirm and agree that Lender has and shall continue to have a continuing security interest in and upon all of the Collateral heretofore granted to Lender pursuant to the Second Amended Loan Agreement, and to the extent not otherwise granted thereunder, each Borrower (including, without limitation, International) hereby assigns, pledges and grants to Lender a continuing security interest in and to all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located (whether or not the same is subject to Article 9 of the Uniform Commercial Code). All of each Borrower's ledger sheets, files, records, books of account, business papers and documents relating to its Collateral shall, until delivered to or removed by Lender, be kept by such Borrower in trust for Lender until all Obligations have been paid in full. Each confirmatory assignment schedule or other form of assignment hereafter executed by any Borrower shall be deemed to include the foregoing grant, whether or not the same appears therein.



(b) Lender may file one or more financing statements, continuation statements and amendments thereto disclosing Lender's security interest in the Collateral and describing the Collateral as all assets of the applicable Person(s) or words of similar effect and which contain any other information required by Part 5 of UCC Article 9 for the sufficiency or filing acceptance of any financing statements, continuations statements or amendments, each without any Borrower's signature appearing thereon or Lender may sign on Borrower's behalf as provided in Section 14 hereof. Upon a Borrower's request, Lender shall provide such Borrower with copies of any and all financing statements and modifications filed by Lender. The parties agree that a carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement. If any Receivable becomes evidenced by a promissory note or any other instrument for the payment of money, Borrowers will immediately deliver such instrument to Lender appropriately endorsed or assigned.

(c) Each Borrower hereby confirms and ratifies the Lender's authorization to file all UCC financing statements filed by Lender with respect to such Borrower on or prior to the Closing Date.

7. Representations Concerning the Collateral. Each Borrower represents and warrants (each of which such representations and warranties shall be deemed repeated upon the making of each request for a Revolving Advance and made as of the time of each and every Revolving Advance hereunder):

(a) all the Collateral: (i) is owned by such Borrower free and clear of all claims, liens, security interests and encumbrances (including without limitation any claims of infringement), except (A) those in Lender's favor and (B) Permitted Liens; and (ii) is not subject to any agreement prohibiting the granting of a security interest or requiring notice of or consent to the granting of a security interest;

(b) all Receivables (i) represent complete bona fide transactions which require no further act under any circumstances on such Borrower's part to make such Receivables payable by the Customers, except for Receivables whereby such Borrower estimates its time spent and bills Receivables on such basis, (ii) to the best of such Borrower's knowledge, are not subject to any present, future or contingent offsets or counterclaims (other than allowances, accommodations, compromises or adjustments made in the ordinary course of business or which have the effect of reducing availability under this Agreement), and (iii) do not represent bill and hold sales, consignment sales, guaranteed sales, sale or return or other similar understandings or obligations of any Affiliate or Subsidiary of such Borrower.

8. Covenants Concerning the Collateral. During the Term, each Borrower covenants that it shall:

(a) not dispose of any of the Collateral whether by sale, lease or otherwise except for (i) the sale of Inventory in the ordinary course of business, and (ii) the disposition or transfer of obsolete or worn-out Equipment in the ordinary course of business during any fiscal year having an aggregate fair market value of not more than $250,000 in the aggregate for such Borrower and only to the extent that (x) the proceeds of any such disposition are used to acquire



replacement Equipment which is subject to Lender's first priority security interest or (y) the proceeds of which are remitted to Lender in reduction of the Obligations;

(b) not encumber, mortgage, pledge, assign or grant any security interest in any Collateral or any of such Borrower's other assets to anyone other than Lender except for Permitted Liens;

(c) disclose in appropriate footnotes under GAAP in any financial statement prepared by it to disclose Lender's security interest in the Collateral;

(d) defend the Collateral against the claims and demands of all parties;

(e) keep and maintain the Equipment in good operating condition, except for ordinary wear and tear, and shall make all reasonable and necessary repairs and replacements thereof so that the value and operating efficiency shall at all times be maintained and preserved. No Borrower shall permit any such items to become a fixture to real estate or accessions to other personal property if such items have an original cost in excess of $250,000 in the aggregate;

(f) not extend the payment terms of any Receivable in excess of $250,000 without prompt notice thereof to Lender;

(g) at any time and from time to time, take such steps as Lender may reasonably request (i) to obtain an acknowledgment, in form and substance reasonably satisfactory to Lender, of any bailee having possession of any of the Collateral, stating that the bailee holds such Collateral for Lender, (ii) to obtain "control" of any letter-of-credit rights, deposit accounts or electronic chattel paper (as such terms are defined in UCC Article 9 with corresponding provisions thereof defining what constitutes "control" for such items of Collateral), with any agreements establishing control to be in form and substance reasonably satisfactory to Lender, and (iii) otherwise to insure the continued perfection and priority of Lender's security interest in any of the Collateral and of its rights therein;

(h) if such Borrower acquires a "commercial tort claim" (as such term is defined in UCC Article 9) in excess of $250,000, promptly notify Lender in writing therein providing a reasonable description and summary thereof, and upon delivery thereof to Lender, such Borrower shall be deemed to thereby grant to Lender (and each Borrower hereby grants to Lender) a security interest and lien in and to such commercial tort claim and all proceeds thereof, all upon the terms of and governed by this Agreement[, provided, that so long as no Default has occurred, this provision shall not limit Borrowers' right to litigate any such claims]; and

(i) perform all other steps requested by Lender to create and maintain in Lender's favor a valid perfected first security interest in all Collateral.

9. Collection and Maintenance of Collateral and Records. Lender may at any time verify each Borrower's Receivables utilizing an audit control company or any other agent of Lender. Lender or Lender's designee may notify Customers, at any time following the occurrence and during the continuance of and Event of Default, of Lender's security interest in



Receivables, collect them directly and charge the collection costs and expenses to Borrowers' account. In the event that, notwithstanding the provisions of Section 23 hereof, any Borrower receives any amount representing the proceeds of any Collateral, such Borrower shall receive all such amounts for Lender's benefit in trust as Lender's trustee and immediately deposit such payments in accordance with Section 23 hereof. On a weekly basis, or more frequently if requested by Lender (including, without limitation, on a daily basis), each Borrower shall provide Lender with schedules describing all Receivables created or acquired by such Borrower since the date of the previous schedule of Receivables created or acquired and shall execute and deliver confirmatory written assignments of such Receivables to Lender, but such Borrower's failure to execute and deliver such schedules or written confirmatory assignments of such Receivables shall not affect or limit Lender's security interest or other rights in and to the Receivables. Each Borrower shall furnish, at Lender's reasonable request, copies of contracts, invoices or the equivalent, and any original shipping and delivery receipts for all merchandise sold or services rendered and such other documents and information as Lender may reasonably require. Each Borrower shall also provide Lender on a monthly (within ten (10) days after the end of each month) or more frequent basis, as reasonably requested by Lender, a detailed or aged trial balance of all of such Borrower's existing Receivables specifying the names and balances due for each Customer and such other information pertaining to the Receivables as Lender may request. Each Borrower shall provide Lender on a monthly (within ten (10) days after the end of each month), or more frequent basis, as requested by Lender, an aged trial balance of such Borrower's existing accounts payable. Each Borrower shall provide Lender, as requested by Lender, such other schedules, documents and/or information regarding the Collateral as Lender may require.

10. Inspections. At all times during normal business hours, Lender shall have the right to (a) visit and inspect each Borrower's properties and the Collateral, (b) inspect, audit and make extracts from each Borrower's relevant books and records, including, but not limited to, management letters prepared by independent accountants, and (c) discuss with each Borrower's principal officers, and independent accountants, such Borrower's business, assets, liabilities, financial condition, results of operations and business prospects. Each Borrower will deliver to Lender any instrument necessary for Lender to obtain records from any service bureau maintaining records for such Borrower. At the request of Lender, SIM shall arrange with SPG to have Lender or its employees or agents designated as SIM's representative for purposes of Section 5.03 of the SPG Loan Agreement. This Section 10 does not change the effectiveness of the proviso to Section 5(b)(iv). Prior to the occurrence of an Event of Default, Lender shall provide Borrowers with at least two (2) Business Days prior notice of its intention to exercise rights under this Section 10. Lender shall be reasonable in exercising its rights under this Section 10.

11. Financial Information. Borrowers shall provide Lender (a) as soon as available, but in any event within one hundred twenty (120) days after the end of Borrowers' fiscal year, a balance sheet on a consolidated basis as at the end of such fiscal year and the related statements of income, retained earnings and changes in cash flow for such fiscal year, setting forth in comparative form the figures as at the end of and for the previous fiscal year, which shall have been reported on by independent certified public accountants who shall be reasonably satisfactory to Lender and shall be accompanied by an unqualified audit report issued by such



independent certified public accountants, together with the Form 10-K submitted by Borrowers to the Securities and Exchange Commission (unless an extension has been granted by the Securities and Exchange Commission, in which case the Form

10-K shall be delivered to Lender when due to the Securities and Exchange Commission); (b) as soon as available, but in any event within one hundred twenty (120) days after the end of Borrowers' fiscal year, a balance sheet and the related statements of income for each business segment of Borrowers on a consolidated and consolidating (by segment) basis as at the end of each of Borrowers' fiscal years which have been internally prepared by Borrowers; (c) as soon as available, but in any event within forty-five (45) days after the close of each month and quarter, the balance sheet and the related statements of income for each business segment of Borrowers on a consolidated and consolidating (by segment) basis as at the end of such month and quarter and the related statements of retained earnings and changes in cash flow for each business segment of Borrowers on a consolidated basis for such month and quarter, which have been internally prepared by Borrowers, it being understood that the statements of retained earnings and cash flow will be provided only as part of the Form 10-Q submitted by Borrowers to the Securities and Exchange Commission; (d) as soon as available, but in any event within forty-five (45) days after the close of each quarter, the Form 10-Q submitted by Borrowers to the Securities and Exchange Commission (unless an extension has been granted by the Securities and Exchange Commission, in which case the Form 10-Q shall be delivered to Lender when due to the Securities and Exchange Commission); and (e) as soon as available, but in any event within five (5) Business Days after any Borrower's receipt thereof, all financial statements of SPG that are delivered to Borrowers pursuant to the terms of the SPG Loan Agreement. All financial statements required under (a), (b), (c), (d) and (e) above shall be prepared in accordance with GAAP, subject to year-end adjustments in the case of monthly and quarterly statements. Internally prepared financial statements referenced herein shall be provided on a basis consistent with current practices and formats. Together with the financial statements furnished pursuant to (a) above, Borrowers shall deliver a certificate of Borrowers' certified public accountants addressed to Lender stating that (i) they have caused this Agreement and the Ancillary Agreements to be reviewed and (ii) in making the examination necessary for the issuance of such financial statements, nothing has come to their attention to lead them to believe that any Event of Default exists and, in particular, they have no knowledge of any Event of Default or, if such is not the case, specifying such Event of Default and its nature, when it occurred and whether it is continuing. At the times the financial statements are furnished pursuant to (a), (b) and (c) above, a certificate of each Borrower's President or Chief Financial Officer shall be delivered to Lender stating that, based on an examination sufficient to enable him to make an informed statement, no Event of Default exists, or, if such is not the case, specifying such Event of Default and its nature, when it occurred, whether it is continuing and the steps being taken by Borrowers with respect to such event. If any internally prepared financial information, including that required under this Section, is unsatisfactory in any reasonable manner to Lender, Lender may request that Borrowers' independent certified public accountants review same.

In addition to the foregoing financial statements, Borrowers shall furnish Lender no less than thirty (30) days after the beginning of each fiscal year commencing with fiscal year 2003, a month by month projected operating budget and cash flow for such fiscal year (including an income statement for each month and a balance sheet as at the end of the last month in each fiscal quarter), such projections to be accompanied by a certificate signed by Borrower's



President or Chief Financial Officer to the effect that such projections have been prepared on the basis of sound financial planning practice consistent with past budgets and financial statements and that such officer has no reason to question the reasonableness of any material assumptions on which such projections were prepared.

12. Additional Representations, Warranties and Covenants. Each Borrower represents and warrants (each of which such representations and warranties shall be deemed repeated upon the making of a request for a Revolving Advance and made as of the time of each Revolving Advance made hereunder, excluding, however, those events subject to an express written waiver or consent from Lender or those expressly permitted or not prohibited by the covenants), and covenants that:

(a) Such Borrower is duly incorporated and in good standing under the laws of the states listed on Schedule 12(a) and is qualified to do business and is in good standing in the states listed on Schedule 12(a), which constitute all states in which qualification and good standing are necessary for Borrower to

conduct its business and own its property and where the failure to so qualify would have a material adverse effect on such Borrower or its business; and such Borrower has delivered to Lender true and complete copies of its certificate of incorporation and by-laws and will promptly notify Lender of any amendment or changes thereto.

(b) Except as set forth on Schedule 12(b) hereof, such Borrower has no Subsidiaries;

(c) the execution, delivery and performance of this Agreement and the Ancillary Agreements (i) have been duly authorized, (ii) are not in contravention of such Borrower's certificate of incorporation, by-laws or of any material indenture, material agreement or material undertaking to which such Borrower is a party or by which such Borrower is bound and (iii) are within such Borrower's corporate powers;

(d) this Agreement and the Ancillary Agreements executed and delivered by such Borrower are such Borrower's legal, valid and binding obligations, enforceable in accordance with their terms;

(e) such Borrower keeps and will continue to keep all of its books and records concerning the Collateral at such Borrower's executive offices located at the addresses set forth on Schedule 12(e) and will not move such books and records without giving Lender at least thirty (30) days prior written notice;

(f) (i) the operation of such Borrower's business is and will continue to be in compliance in all material respects with all applicable federal, state and local laws, including but not limited to all applicable environmental laws and regulations;

(ii) in the event such Borrower obtains, gives or receives notice of any release or threat of release of a reportable quantity of any Hazardous Substances on its property in violation of any applicable law (any such event being hereinafter referred to as a "Hazardous



Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions on its property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of any environmental laws affecting its property or such Borrower's interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any governmental Person or entity, including any state agency responsible in whole or in part for environmental matters in the state in which such property is located or the United States Environmental Protection Agency (any such governmental Person or entity hereinafter the "Authority"), then such Borrower shall, within five (5) Business Days, give written notice of same to Lender detailing facts and circumstances of which any Borrower is aware giving rise to the Hazardous Discharge or Environmental Complaint and periodically inform Lender of the status of the matter. Such information is to be provided to allow Lender to protect its security interest in the Collateral and is not intended to create nor shall it create any obligation upon Lender with respect thereto;

(iii) such Borrower shall respond promptly to any Hazardous Discharge for which such Borrower is or may be responsible or liable or Environmental Complaint directed at such Borrower alleging such Borrower's responsibility or liability and take all necessary action in order to safeguard the health of any Person and to avoid subjecting the Collateral to any lien, charge, claim or encumbrance. If such Borrower shall fail to respond promptly to any such Hazardous Discharge or Environmental Complaint or such Borrower shall fail to comply with any of the requirements of any environmental laws to which such Borrower is subject, Lender may, but without the obligation to do so, to the extent reasonably required to protect, and for the sole purpose of protecting, Lender's interest in Collateral: (A) give such notices or (B) enter onto such Borrower's property (or authorize third parties to enter onto such property) and take such actions as Lender (or such third parties as directed by Lender) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. Lender shall endeavor to give notice thereof to the Borrowers; provided, however Lender shall have no liability for the failure to so notify. All reasonable costs and expenses incurred by Lender (or such third parties) in the exercise of

any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the Default Rate for Domestic Rate Loans constituting Revolving Advances shall be paid upon demand by such Borrower, and until paid shall be added to and become a part of the Obligations secured by the liens created by the terms of this Agreement or any other agreement between Lender and any or all Borrowers;

(iv) Borrowers shall defend and indemnify Lender and hold Lender harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including attorney's fees, suffered or incurred by Lender under or on account of any environmental laws (including, without limitation, the assertion of any lien thereunder) with respect to any Hazardous Discharge, the presence of any hazardous substances affecting any Borrower's property (whether or not the same originates or emerges from any Borrower's property or any contiguous real estate) including any loss of value of the Collateral as a result of the foregoing, except to the extent such loss, liability, damage and expense is attributable to any Hazardous Discharge resulting from actions on the part of Lender. Each Borrower's obligations



under this Section 12(f) shall arise upon the discovery of the presence of any Hazardous Substances on any Borrower's property, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any hazardous substances. Each Borrower's obligation and the indemnifications hereunder shall survive the termination of this Agreement; and

(iii) for purposes of this Section 12(f) all references to any Borrower's property shall be deemed to include all of each Borrower's right, title and interest in and to all owned and/or leased premises;

(g) based upon the Employee Retirement Income Security Act of 1974 ("ERISA"), and the regulations and published interpretations thereunder: (i) no Borrower maintains or contributes to any plan other than those listed on Schedule 12(g) hereto; (ii) no Borrower has engaged in any Prohibited Transactions as defined in paragraph 406 of ERISA and paragraph 4975 of the Internal Revenue Code, as amended; (iii) each Borrower has met all applicable minimum funding requirements under paragraph 302 of ERISA in respect of its plans; (iv) no Borrower has any knowledge of any event or occurrence which would cause the Pension Benefit Guaranty Corporation to institute proceedings under Title IV of ERISA to terminate any employee benefit plan(s); (v) no Borrower has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than such Borrower's employees; and (vi) no Borrower has withdrawn, completely or partially, from any multi-employer pension plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980;

(h) the Borrowers (taken as a whole) are solvent, able to pay their debts as they mature, have capital sufficient to carry on their business and all businesses in which they are about to engage and the fair saleable value of their assets (calculated on a going concern basis) is in excess of the amount of their liabilities;

(i) there is no pending or threatened litigation, actions or proceeding known to any Borrower which involve the possibility (if adversely determined) of materially and adversely affecting such Borrower's business, assets, operations, condition or prospects, financial or otherwise, or the Collateral or the ability of such Borrower to perform this Agreement except as disclosed on Disclosure Schedule 12(i);

(j) all balance sheets and income statements which have been delivered to Lender since December 31, 1999 fairly, accurately and properly state such Borrower's financial condition as at the indicated dates or for the indicated periods on a basis consistent with that of previous financial statements and there has been no material adverse change in such Borrower's financial condition as reflected in such statements since the date thereof and such statements do not fail to disclose any fact or facts which might materially and adversely affect such Borrower's financial condition except as corrected in subsequent statements;

(k) (x) such Borrower possesses all of the material licenses, patents,

copyrights, trademarks, tradenames and permits necessary to conduct its business, (y) there has been no assertion or claim of violation or infringement with respect thereof and (z) all such licenses, patents, copyrights, trademarks, tradenames and permits are listed on Schedule 12(k);



(l) such Borrower's federal tax identification number is set forth on Schedule 12(l). Such Borrower has filed all federal, state and local tax returns and other reports each is required by law to file and has paid all taxes in excess of $10,000, assessments, fees and other governmental charges that are due and payable. The provision for taxes on the books of such Borrower are adequate for all years not closed by applicable statutes, and for the current fiscal year, and such Borrower does not have any knowledge of any deficiency or additional assessment in connection therewith not provided for on its books. Such Borrower will pay or discharge when due all taxes, assessments and governmental charges or levies imposed upon it except for items contested in good faith and disclosed to Lender;

(m) it will promptly inform Lender in writing of: (i) the commencement of all proceedings and investigations by or before and/or the receipt of any notices from, any governmental or nongovernmental body and all actions and proceedings in any court or before any arbitrator against or in any way concerning any of such Borrower's properties, assets or business, which might singly or in the aggregate, have a materially adverse effect on such Borrower; (ii) any amendment of such Borrower's certificate of incorporation or by-laws; (iii) any change in such Borrower's business, assets, liabilities, condition (financial or otherwise), results of operations or business prospects which has had or could be reasonably likely to have a materially adverse effect on such Borrower; (iv) any Event of Default; (v) any default or any event which with the passage of time or giving of notice or both would constitute a default under any agreement for the payment of money to which such Borrower is a party or by which such Borrower or any of such Borrower's properties may be bound which would have a material adverse effect on such Borrower's business, operations, property or condition (financial or otherwise) or the Collateral; (vi) any change in the location of such Borrower's executive offices; (vii) any change in the location of such Borrower's Inventory or Equipment from the locations listed on Schedule 12(m) attached hereto to a location not listed on Schedule 12(m), (viii) any change in such Borrower's corporate name; (ix) any material delay in any Borrower's performance of any of its obligations to any Customer and of any assertion of any material claims, offsets or counterclaims by any Customer and of any allowances, credits and/or other monies granted by it to any Customer; (x) furnish to and inform Lender of all material adverse information relating to the financial condition of any Customer; (xi) any material return of goods; (xii) any amendment to either the SPG Loan Agreement or the SPG Holdings Term Loan Agreement; and (xiii) any material default by (A) SPG or SPG Holdings under the SPG Loan Agreement or (B) SPG Holdings under the SPG Holdings Term Loan Agreement.

(n) it will not:

(i) create, incur, assume or suffer to exist any indebtedness (exclusive of trade debt) whether secured or unsecured other than Borrowers' indebtedness to Lender, except for (A) purchase money indebtedness incurred in the purchase of Equipment in the ordinary course of business so long as each obligation for purchase money indebtedness is secured only by the Equipment purchased, (B) obligations constituting indebtedness under GAAP arising under capitalized leases entered into in the ordinary course of business and (C) indebtedness evidenced by the Shareholder Notes; provided, however, that the aggregate



amounts permitted under clauses (A) and (B) shall not exceed $2,000,000 per annum in the aggregate for all Borrowers in any fiscal year.

(ii) declare, pay or make any dividend or distribution on any shares of its common stock or preferred stock or apply any of its funds, property or assets to the purchase, redemption or

other retirement of any common or preferred stock; provided, however, Borrowers shall be permitted to make stock purchases in the aggregate of up to $500,000, provided, that the Borrowers shall have Undrawn Availability of not less than $2,500,000 for the ten day period prior to such buyback and after giving affect to such buyback;

(iii) directly or indirectly, repurchase, redeem, retire, acquire in advance of maturity or prepay any indebtedness in excess of $500,000 in the aggregate (other than to Lender or any other Borrowers permitted in this section) other than non-cash exchanges (other than for tax consequences with any distributions to shareholders for tax consequences to be a distribution which is included in Fixed Charges) of Shareholder Notes for common stock or as otherwise permitted by Section 12(n)(iv) hereof;

(iv) make any principal payment in cash on the Shareholder Notes other than (A) on or after the Closing Date, a one time payment in the amount of $3,000,000 less prepayments of up to $1,000,000 made on and after December 31, 2002 and before the Closing Date; provided, however that no such payment shall be made if as of the date of such payment (1) the Borrowers shall have an average Undrawn Availability of less than $2,500,000 for the previous Fiscal Quarter (assuming the Supplemental Amount was $0), or (2) after giving effect to such payment the Borrowers shall have an Undrawn Availability of less than $2,500,000 (inclusive of the Supplemental Amount), (B) a payment after March 31, 2003 (1) in the amount of $500,000; provided, however that no such payment shall be made if as of the date of such payment (x) the Borrowers shall have an average Undrawn Availability of less than $2,500,000 (inclusive of the Supplemental Amount) for the previous Fiscal Quarter or (y) after giving effect to such payment the Borrowers shall have an Undrawn Availability of less than $2,500,000 (inclusive of the Supplemental Amount) and (2) in the amount of up to $500,000; provided, however that no such payment shall be made if (w) such payment is greater than fifty percent (50%) of the Excess Cash Flow of Borrowers for the twelve months ending on March 31, 2003, (x) as of the date of such payment the Borrowers shall have an Undrawn Availability of less than $2,500,000 for the previous Fiscal Quarter (assuming the Supplemental Amount was $0), (y) as of the date of such payment after giving effect to such payment the Borrowers shall have an Undrawn Availability of less than $2,500,000 (inclusive of the Supplemental Amount) or (z) as of the date of such payment Lender has not received Borrowers' certified financial statements for the Fiscal Year ending on December 31, 2002, (C) if necessary, payments of up to $250,000 per Fiscal Quarter thereafter; provided, however that no such payments shall be made if as of the date of such payment (1) the Borrowers



shall have an Undrawn Availability of less than $2,500,000 for the previous Fiscal Quarter (inclusive of the Supplemental Amount), or (2) after giving effect to such payment the Borrowers shall have an average Undrawn Availability of less than $2,500,000 (inclusive of the Supplemental Amount); provided, further that no payments may be made on the Shareholder Notes if, (A) prior to making any such payment, Borrowers fail to deliver a compliance certificate evidencing their compliance with the Undrawn Availability and Fixed Charge Coverage Ratio covenants set forth in this Section 12(n) or (B) after giving effect to any such payment, (i) the Borrowers shall have, on a consolidated basis, a Fixed Charge Coverage Ratio as of the date of such payment with respect to the previous twelve (12) fiscal months then ended (for purposes of this proviso, clause (iv) of the defined term Fixed Charges shall be deemed to include the proposed payment as well as any actual payments made during the applicable twelve (12) month fiscal period) of not less than 1.3 to 1.0 (for purposes of measuring the Fixed Charge Coverage Ratio with respect to the initial $3,000,000 of payments on the Shareholder Notes, so long as any initial payment on the Shareholder Notes is made on or before March 31, 2003 the Fixed

Charge Coverage Ratio requirement shall have been met) and (ii) a Default or an Event of Default shall have occurred or would occur after giving affect to any such payments;

(v) make advances, loans or extensions of credit to any Person, except for (A) the granting of customary payment terms to customers, (B) loans or advances by Borrowers to employees in the ordinary course of business, including for purposes of relocation, provided that such loans and advances do not exceed $250,000 in the aggregate during any fiscal year, (C) services, advances and transfers among Borrowers made in the ordinary course of business provided that such services, advances and transfers are paid for or repaid, as the case may be, within ninety (90) days, (D) loans made on June 30, 2002 by SIM to SPG Holdings pursuant to the SPG Holdings Term Loan Agreement, and (E) loans made by SGI to SPG pursuant to the SPG Loan Agreement, provided, however, that the initial amount of SPG Loans under the SPG Loan Agreement shall not exceed $2,300,000, provided, further, that the outstanding amount of SPG Loans shall not exceed $3,500,000;

(vi) become either directly or contingently liable upon the obligations of any Person by assumption, endorsement or guaranty thereof or otherwise, except for (A) checks and other instruments endorsed for collection or deposit in the ordinary course of business, (B) any guaranty of any obligation of a Subsidiary or Affiliate of any Borrower if such Borrower could have incurred such obligation directly under this Agreement, (C) any guaranty of any loan to an employee of any Borrower if such Borrower could have made such loan directly under this Section, or (D) any other guaranty so long as the amount of the guaranteed obligations under this clause (D) shall not exceed $500,000 in the aggregate;



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

(viii) form any Subsidiary or enter into any partnership, joint venture or similar arrangement;

(ix) materially change the nature of the business in which it is presently engaged;

(x) change its fiscal year or make any changes in accounting treatment and reporting practices or in the tax reporting treatment except as required by GAAP or except as required by law and upon written notice to Lender;

(xi) enter into any transaction with any Affiliate, except in ordinary course on arms-length terms;

(xii) bill Receivables under any name except the present name of such Borrower or

(xiii) amend either the SPG Loan Agreement or the SPG Holdings Term Loan Agreement in a manner which materially adversely affects the rights of Lender;

(o) it shall cause to be maintained for Borrowers on a consolidated basis at the end of the fiscal quarter ending December 31, 2002 Net Worth of at least $13,500,000 and it shall increase such net worth at the end of each fiscal quarter thereafter by at least $100,000;

(p) commencing with the fiscal quarter ending December 31, 2002, it shall maintain a Fixed Charge Coverage Ratio for Borrowers on a consolidated basis at the end of each fiscal quarter with respect to the four (4) fiscal

quarters then ended of not less than 1.10 to1.0;

(q) it will not make capital expenditures (including, without limitation, expenditures for software and assets acquired through capitalized lease transactions) in any fiscal year in an aggregate amount in excess of $2,000,000 for all Borrowers;

(r) commencing with the fiscal quarter ending December 31, 2002, the Borrowers shall maintain EBITDA not less than $7,750,000 at the end of each fiscal quarter with respect to the four (4) fiscal quarters then ended;

(s) all financial projections of each Borrower's performance prepared by Borrowers or at Borrowers' direction and delivered to Lender will represent, at the time of



delivery to Lender, each Borrower's best estimate of such Borrower's future financial performance and will be based upon assumptions which are reasonable in light of such Borrower's past performance and then current business conditions;

(t) none of the proceeds of the Revolving Advances hereunder will be used directly or indirectly to "purchase" or "carry" "margin stock" or to repay indebtedness incurred to "purchase" or "carry" "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect;

(u) it will bear the full risk of loss from any loss of any nature whatsoever with respect to the Collateral. At it's own cost and expense in amounts and with carriers acceptable to Lender, it shall (i) keep all its insurable properties and properties in which it has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to each Borrower's including, without limitation, business interruption insurance; (ii) maintain a bond or insurance in such amounts as is customary in the case of companies engaged in businesses similar to each Borrower's insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of any Borrower either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (iii) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (iv) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which such Borrower is engaged in business; (v) furnish Lender with (x) copies of all policies and evidence of the maintenance of such policies at least thirty (30) days before any expiration date, and (y) appropriate loss payable endorsements in form and substance satisfactory to Lender, naming Lender as loss payee and providing that as to Lender the insurance coverage shall not be impaired or invalidated by any act or neglect of any Borrower and the insurer will provide Lender with at least thirty (30) days notice prior to cancellation. Each Borrower shall instruct the insurance carriers that in the event of any loss thereunder, the carriers shall make payment for such loss to Lender and not to such Borrower and Lender jointly. If any insurance losses are paid by check, draft or other instrument payable to any Borrower and Lender jointly, Lender may endorse such Borrower's name thereon and do such other things as Lender may deem advisable to reduce the same to cash. Lender is hereby authorized to adjust and compromise claims. All loss recoveries received by Lender upon any such insurance may be applied to the Obligations, in such order as Lender in its sole discretion shall determine (which prepayment shall be without any premium or penalty or any reduction in the Maximum Revolving Amount). Any surplus shall be paid by Lender to the applicable Borrower or applied as may be otherwise required by law. Each Borrower acknowledges that it shall remain liable for any Obligations remaining unpaid after any such application in accordance with the terms of this Agreement;

(v) on or before the Closing Date Lender shall receive complete copies of the SPG Loan Agreement, the SPG Holdings Term Loan Agreement, the SPG Holdings Term Notes and the Stock Purchase Agreement (including all exhibits, schedules and disclosure letters

referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof. None of such documents and agreements has been amended or supplemented, nor have any of the provisions thereof been waived, except pursuant to a written agreement or instrument which has heretofore been delivered to Lender. Borrowers will enforce all of its rights under the SPG Loan Agreement, the SPG Holdings Term Loan Agreement, the SPG Holdings Term Notes and the Stock Purchase Agreement and all documents executed in connection therewith including, but not limited to, all indemnification rights, and pursue all remedies available to it with diligence and in good faith in connection with the enforcement of any such rights; and

(w) if share price is not available in readily accessible public sources, within five (5) days after the last Business Day of each month, Borrowers shall deliver to Lender a report listing the Average Share Price for the month then ended.

13. Conditions Precedent.

13.1 Conditions to Initial Advances. The agreement of Lender to make the Revolving Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Lender, immediately prior to or concurrently with the making of such Revolving Advances, of the following conditions precedent:

(i) Notes. Lender shall have received the Revolving Credit Note duly executed and delivered by an authorized officer of each Borrower;

(ii) Filings, Registrations and Recordings. Each document (including, without limitation, any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by Lender to be filed, registered or recorded in order to create, in favor of Lender, a perfected security interest in or lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Lender shall have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(iii) Corporate Proceedings of Borrowers. Lender shall have received copy of the resolutions in form and substance reasonably satisfactory to Lender, of the Board of Directors of each Borrower authorizing (i) the execution, delivery and performance of this Agreement and the Ancillary Agreements and (ii) the granting by such Borrower of the security interests in and liens upon the Collateral in each case certified by the Secretary or an Assistant Secretary of such Borrower as of the Closing Date; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate;

(iv) Incumbency Certificates of Borrowers. Lender shall have received a certificate of the Secretary or an Assistant Secretary or other officer of Borrower, dated the Closing Date, as to the incumbency and signature of the officers of such Borrower executing this



Agreement, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(v) Certificates. Lender shall have received a copy of the Articles or Certificate of Incorporation of each Borrower and all amendments thereto, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation together with copies of the By-Laws of each Borrower and all agreements of each Borrower's shareholders certified as accurate and complete by the Secretary of such Borrower;

(vi) Good Standing Certificates. Lender shall have received good standing certificates for each Borrower, issued by the Secretary of State or

other appropriate official of each Borrower's jurisdiction of incorporation and each jurisdiction where the conduct of each Borrower's business activities or the ownership of its properties necessitates qualification;

(vii) Legal Opinion. Lender shall have received the executed legal opinions of Jenkens & Gilchrist Parker Chapin LLP in form and substance satisfactory to Lender which shall cover such matters incident to the transactions contemplated by this Agreement, the Notes, the Pledge Agreements and the Ancillary Agreements as Lender may reasonably require and Borrower hereby authorizes and directs such counsel to deliver such opinions to Lender;

(viii) No Litigation. (x) No litigation, investigation or proceeding before or by any arbitrator or governmental authority shall be continuing or threatened against any Borrower or against the officers or directors of any Borrower (A) in connection with the this Agreement or the Ancillary Agreements or any of the transactions contemplated thereby and which, in the reasonable opinion of Lender, is deemed material or (B) which if adversely determined, would, in the reasonable opinion of Lender, have a material adverse effect on the business, assets, operations or condition (financial or otherwise) of any Borrower; and (y) no injunction, writ, restraining order or other order of any nature materially adverse to any Borrower or the conduct of its business or inconsistent with the due consummation of the Transactions shall have been issued by any governmental authority;

(ix) Financial Condition Certificate. Lender shall have received an executed Officers Certificate in form and substance satisfactory to Lender.

(x) Collateral Examination. Lender shall have completed Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lender, of the Receivables, Inventory, General Intangibles and Equipment of each Borrower and all books and records in connection therewith;

(xi) Fees. Lender shall have received all fees payable to Lender on or prior to the Closing Date pursuant to Section 5(b) hereof;

(xii) Ancillary Agreements. Lender shall have received executed copies of the Pledge Agreements and all Ancillary Agreements listed in Lender's checklist of closing documents dated the Closing Date, each in form and substance satisfactory to Lender;



(xiii) Insurance. Lender shall have received in form and substance satisfactory to Lender, certified copies of each Borrower's casualty insurance policies, together with loss payable endorsements on Lender's standard form of loss payee endorsement naming Lender as loss payee, and certified copies of each Borrower's liability insurance policies, together with endorsements naming Lender as a co-insured;

(xiv) Payment Instructions. Lender shall have received written instructions from Borrowers directing the application of proceeds of the Revolving Advances made pursuant to this Agreement and stating that such Borrower has Eligible Receivables and Eligible Unbilled Receivables (based upon the objective criteria set forth in this Agreement) in amounts sufficient in value and amount to support Revolving Advances in the amount by or on behalf of Borrower on the date of such certificate;

(xv) Blocked Accounts. Lender shall have received duly executed agreements establishing the Blocked Accounts or Depository Accounts with financial institutions acceptable to Lender for the collection or servicing of the Receivables and proceeds of the Collateral;

(xvi) Consents. Lender shall have received (a) any and all Consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Ancillary Agreements and (b) such Consents and waivers of such third parties as might assert claims with respect to the Collateral listed in Lender's checklist of closing documents dated the Closing Date;

(xvii) Intercompany Documentation. Lender shall have received (a) complete copies of the SPG Loan Agreement, the SPG Holdings Term Loan Agreement, the SPG Holdings Term Notes and the Stock Purchase Agreement (including all

exhibits, schedules and disclosure letters referred to therein or delivered pursuant thereto, if any) and all amendments thereto, waivers relating thereto and other side letters or agreements affecting the terms thereof and (b) evidence satisfactory to it that the contract issues and past due Receivables with a key Customer have been resolved;

(xviii) No Adverse Material Change. (i) Since September 30, 2002, there shall not have occurred (x) any material adverse change in the condition, financial or otherwise, operations, properties or prospects of Borrowers, (y) any material damage or destruction to any of the Collateral or any material depreciation in the value thereof and (z) any event, condition or state of facts which would reasonably be expected materially and adversely to affect the business, financial condition or results of operations of Borrowers and (ii) no representations made or information supplied to Lender shall have been proven to be inaccurate or misleading in any material respect;

(xviii) Closing Certificate. Lender shall have received a closing certificate signed by the Chief Financial Officer of each Borrower dated as of the Closing Date, stating that (i) all representations and warranties set forth in this Agreement and the Ancillary Agreements are true and correct on and as of such date, (ii) Borrowers on such date is in



compliance with all the terms and provisions set forth in this Agreement and the Ancillary Agreements, (iii) on such date no Default or Event of Default has occurred or is continuing and (iv) each Borrower is in compliance in all material respects with all relevant federal, state and local regulations;

(xix) Disclosure Schedules. Lender shall have received the Disclosure Schedules;

(xix) Compliance with Laws. Each Borrower is in compliance with all relevant federal, state and local regulations; and

(xxi) Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Transactions shall be satisfactory in form and substance to Lender and its counsel.

13.2 Conditions to Each Revolving Advance. The agreement of Lender to make any Revolving Advance or issue any Letter of Credit requested to be made on any date (including, without limitation, its initial Revolving Advance), is subject to the satisfaction of the following conditions precedent as of the date such Revolving Advance is made or such Letter of Credit is issued:

(i) Representations and Warranties. Each of the representations and warranties made by Borrowers in or pursuant to this Agreement and any related agreements to which it is a party shall be true and correct in all material respects on and as of such date as if made on and as of such date, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement or any related agreement shall be true and correct in all material respects on and as of the date made;

(ii) No Default. No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Revolving Advances requested to be made, on such date; provided, however that Lender in its sole discretion, may continue to make Revolving Advances and issue Letters of Credit notwithstanding the existence of an Event of Default or Default and that any Revolving Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(iii) Maximum Revolving Advances. In the case of any Revolving Advances requested to be made or Letters of Credit requested to be issued, after giving effect thereto, the aggregate Revolving Advances and outstanding Letters of Credit shall not exceed the lesser of the Formula Amount or the Maximum Revolving Amount.

Each request for a Revolving Advance or Letter of Credit by any Borrower or Borrowing Agent hereunder shall constitute a representation and warranty by each Borrower as of the date of such request that the conditions contained in this subsection shall have been satisfied.

14. Power of Attorney. Each Borrower hereby appoints Lender or any other Person whom Lender may designate as such Borrower's attorney, with power to: (i) endorse such Borrower's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security that may come into Lender's possession; (ii) sign such Borrower's name on any invoice or bill of lading relating to any Receivables, drafts against customers, schedules and assignments of Receivables, notices of assignment, financing statements and other public records, verifications of account and notices to or from customers; (iii) verify the validity, amount or any other matter relating to any Receivable by mail, telephone, telegraph or otherwise with Customers; (iv) execute customs declarations and such other documents as may be required to clear Inventory through Customs; (v) do all things necessary to carry out this Agreement and any Ancillary Agreement; and (vi) notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Lender, and to receive, open and dispose of all mail addressed to such Borrower. Each Borrower hereby ratifies and approves all acts of the attorney. Neither Lender nor the attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law, other than those occasioned by gross (not mere) negligence or willful misconduct. This power, being coupled with an interest, is irrevocable so long as any Receivable which is assigned to Lender or in which Lender has a security interest remains unpaid and until the Obligations have been fully satisfied. Lender shall not exercise this power under clauses (i), (ii), (iv), (v) and (vi) until on or after the occurrence and continuation of an Event of Default.

15. Expenses. Borrowers shall pay all of Lender's reasonable out-of-pocket costs and expenses, including without limitation reasonable fees and disbursements of counsel and appraisers, in connection with the preparation, execution and delivery of this Agreement and the Ancillary Agreements, and in connection with the prosecution or defense of any action, contest, dispute, suit or proceeding concerning any matter in any way arising out of, related to or connected with this Agreement or any Ancillary Agreement. Borrowers shall also pay all of Lender's out-of-pocket costs and expenses, including without limitation reasonable fees and disbursements of counsel, in connection with (a) the preparation, execution and delivery of any waiver, any amendment thereto or consent proposed or executed in connection with the transactions contemplated by this Agreement or the Ancillary Agreements, (b) Lender's obtaining performance of the Obligations under this Agreement and any Ancillary Agreements, including, but not limited to, the enforcement or defense of Lender's security interests, assignments of rights and liens hereunder as valid perfected security interests, (c) any attempt to inspect, verify, protect, collect, sell, liquidate or otherwise dispose of any Collateral, and (d) any consultations in connection with any of the foregoing. Borrowers shall also pay Lender's customary bank charges for all bank services performed or caused to be performed by Lender for any Borrower at Borrowing Agent's request or on any Borrower's behalf. All such costs and expenses together with all filing, recording and search fees, taxes and interest payable by Borrowers to Lender shall be payable on demand and shall be secured by the Collateral. If any tax by any governmental authority is or may be imposed on or as a result of any transaction between Borrowers and Lender which Lender is or may be required to withhold or pay, each Borrower agrees to indemnify and hold Lender harmless in respect of such taxes, and Borrowers will repay to Lender the amount of any such taxes which shall be charged to Borrowers' account; and until Borrowers shall furnish Lender with indemnity therefor (or supply Lender with evidence satisfactory to it that due provision for the payment thereof has been made), Lender



may hold without interest any balance standing to Borrowers' credit and Lender shall retain its security interests in any and all Collateral.

16. Successors and Assigns; Assignments.
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(i) This Agreement shall be binding upon and inure to the benefit of Borrowers, Lender, all future holders of the Revolving Credit Note and their respective successors and assigns, except that no Borrower may assign or transfer any of its respective rights or obligations under this Agreement

without the prior written consent of Lender.

(ii) Lender may assign any or all of the Obligations together with any or all of the security therefor and any transferee shall succeed to all of Lender's rights with respect thereto. Upon such transfer, Lender shall be released from all responsibility for the Collateral to the extent same is assigned to any transferee. Lender may from time to time sell or otherwise grant participations in any of the Obligations and the holder of any such participation shall, subject to the terms of any agreement between Lender and such holder, be entitled to the same benefits as Lender with respect to any security for the Obligations in which such holder is a participant. Each Borrower agrees that each such holder may exercise any and all rights of banker's lien, set-off and counterclaim with respect to its participation in the Obligations as fully as though Borrowers were directly indebted to such holder in the amount of such participation.

17. Waivers. Each Borrower waives presentment and protest of any instrument and notice thereof, notice of default and all other notices to which such Borrower might otherwise be entitled.

18. Term of Agreement. This Agreement shall continue in full force and effect until the expiration of the Term. Borrowers may terminate this Agreement at any time upon thirty (30) days' prior written notice upon payment in full of the Obligations; provided, that Borrowers pay an early termination fee in an amount equal to the Required Percentage of the Maximum Revolving Amount. For the purposes hereof, Required Percentage shall mean (a) 1.50% from the Closing Date to and including the date immediately preceding the first anniversary of the Closing Date, (b) .75% from the first anniversary of the Closing Date to and including the date immediately preceding the second anniversary of the Closing Date, and (c) 0% thereafter.

19. Events of Default. The occurrence of any of the following shall constitute an Event of Default:

(i) failure to make payment of any of the Obligations when required hereunder;

(ii) failure to pay any taxes in excess of $10,000 when due unless such taxes are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been provided on the applicable Borrower's books;



(iii) failure to perform under and/or committing any breach of this Agreement or any Ancillary Agreement or any other agreement between any Borrower and Lender;

(iv) occurrence of a default under any agreement to which any Borrower is a party with third parties which is not cured within any applicable grace period and which has a material adverse affect upon such Borrower's business, operations, property or condition (financial or otherwise) including all leases for any premises where any Borrower's books, records, Inventory or Equipment is located;

(v) any representation, warranty or statement made by any Borrower hereunder, in any Ancillary Agreement, any certificate, statement or document delivered pursuant to the terms hereof, or in connection with the transactions contemplated by this Agreement should at any time prove to have been false or misleading when made, in any material respect;

(vi) an attachment or levy is made upon any of Borrowers' assets having an aggregate value in excess of $500,000 in the aggregate for all Borrowers, or a judgment is rendered against any Borrower or any of Borrowers' property involving a liability of more than $500,000 in the aggregate for all Borrowers, which shall not have been vacated, discharged, stayed or bonded pending appeal within forty (40) days from the entry thereof;

(vii) any change in any Borrower's condition or affairs (financial or otherwise) which in Lender's opinion impairs the Collateral or the ability of any Borrower to perform its Obligations, said determination to be made by Lender in good faith;

(viii) any lien created hereunder or under any Ancillary Agreement for any reason ceases to be or is not a valid and perfected lien having a first priority interest, excluding, however, (i) liens upon Collateral that may be collected, sold or otherwise disposed of from time to time as contemplated under this Agreement or any Ancillary Agreement or (ii) liens whose perfection lapses through the action or inaction of Lender based upon accurate information timely provided to Lender by Borrowers;

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

(x) any Borrower shall admit in writing its inability, or be generally unable, to pay its debts as they become due, or cease operations of its present business;



(xi) any Guarantor, any Affiliate or any Subsidiary shall (i) apply for or consent to the appointment of, or the taking possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under the federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within forty-five (45) days, (x) any petition filed against it in any involuntary case under such bankruptcy laws, or (y) any proceeding or petition seeking the appointment of a receiver, custodian, trustee or liquidator of itself or all or a substantial part of its property or (viii) take any action for the purpose of effecting any of the foregoing;

(xii) any Borrower directly or indirectly sells, assigns, transfers, conveys, or suffers or permits to occur any sale, assignment, transfer or conveyance of any of its assets in the aggregate in excess of $500,000 or any interest therein, except as permitted in, or not prohibited by, this Agreement or any Ancillary Agreement;

(xiii) any Borrower fails to generally operate its business in the ordinary course of business;

(xiv) Lender shall in good faith deem itself insecure or unsafe or shall fear diminution in value, removal or waste of the Collateral;

(xv) a default by any Borrower in the payment, when due, of any principal of or interest on any indebtedness for money borrowed with an outstanding principal amount in excess of $250,000;

(xvi) any Change of Ownership;

(xvii) termination or material breach of any Guaranty or similar suretyship agreement executed and delivered to Lender in connection with the Obligations of Borrowers, or if any Guarantor attempts to terminate, challenges the validity of, or its liability under any such Guaranty or similar suretyship agreement; or

(xviii) a default by SIM of any of its obligations under the SPG Loan Agreement.

20. Remedies. Upon the occurrence of an Event of Default pursuant to Section 19(ix) herein, all Obligations shall be immediately due and payable and

this Agreement shall be deemed terminated; upon the occurrence and continuation of any other of the Events of Default, Lender shall have the right to demand repayment in full of all Obligations by written notice to Borrowing Agent whether or not otherwise due. Until all Obligations have been fully satisfied, Lender shall retain its security interest in all Collateral. Lender shall have, in addition to all other rights provided herein, the rights and remedies of a secured party under the Uniform



Commercial Code, and under other applicable law, all other legal and equitable rights to which Lender may be entitled, including without limitation, the right to take immediate possession of the Collateral, to require Borrowers to assemble the Collateral, at Borrowers' expense, and to make it available to Lender at a place designated by Lender which is reasonably convenient to both parties and to enter any of the premises of Borrowers or wherever the Collateral shall be located, with or without force or process of law, and to keep and store the same on said premises until sold. Further, Lender may, at any time or times after default by Borrowers, sell and deliver all Collateral held by or for Lender at public or private sale for cash, upon credit or otherwise, at such prices and upon such terms as Lender, in Lender's sole discretion, deems advisable or Lender may otherwise recover upon the Collateral in any commercially reasonable manner as Lender, in its sole discretion, deems advisable. Except as to that part of the Collateral which is perishable or threatens to decline speedily in nature or is of a type customarily sold on a recognized market, the requirement of reasonable notice shall be met if such notice is mailed postage prepaid to Borrowing Agent at its address as shown in Lender's records, at least ten (10) days before the time of the event of which notice is being given. Lender may be the purchaser at any sale, if it is public. In connection with the exercise of the foregoing remedies, Lender is granted permission to use all of each Borrower's trademarks, tradenames, tradestyles, patents, patent applications, licenses, franchises and other proprietary rights which are used in connection with (a) Inventory for the purpose of disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The proceeds of sale shall be applied first to all costs and expenses of sale, including attorneys' fees, and second to the payment (in whatever order Lender elects) of all Obligations. Lender will return any excess to Borrowers or as otherwise required by law and Borrowers shall remain liable to Lender for any deficiency.

21. Waiver; Cumulative Remedies. Failure by Lender to exercise any right, remedy or option under this Agreement or any supplement hereto or any other agreement between Borrowers and Lender or delay by Lender in exercising the same, will not operate as a waiver; no waiver by Lender will be effective unless it is in writing and then only to the extent specifically stated. Lender's rights and remedies under this Agreement will be cumulative and not exclusive of any other right or remedy which Lender may have.

22. Application of Payments. Each Borrower irrevocably waives the right to direct the application of any and all payments at any time or times hereafter received by Lender from or on any Borrower's behalf and each Borrower hereby irrevocably agrees that Lender shall have the continuing exclusive right to apply and reapply any and all payments received at any time or times hereafter against the Obligations hereunder in such manner as Lender may deem advisable notwithstanding any entry by Lender upon any of Lender's books and records.

23. Establishment of a Lockbox Account, Dominion Account. All proceeds of Collateral shall, at the direction of Lender, be deposited by the applicable Borrower into a lockbox account, dominion account or such other "blocked account" ("Blocked Accounts") as Lender may require pursuant to an arrangement with such bank as may be selected by Borrowers and be acceptable to Lender. Borrowers shall issue to any such bank an irrevocable letter of instruction directing said bank to transfer such funds so deposited to Lender, either to any account maintained by Lender at said bank or by wire transfer to appropriate account(s) of



Lender. All funds deposited in such Blocked Account shall immediately become the property of Lender and shall be applied to the Obligations in accordance with the terms of this Agreement, and Borrowers shall obtain the agreement by such

bank to waive any offset rights against the funds so deposited. Lender assumes no responsibility for such Blocked Account arrangement, including without limitation, any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder. Alternatively, Lender may establish depository accounts ("Depository Accounts") in the name of Lender at a bank or banks for the deposit of such funds and Borrowers shall deposit all proceeds of Collateral or cause same to be deposited, in kind, in such Depository Accounts of Lender in lieu of depositing same to the Blocked Accounts.

24. Revival. Each Borrower further agrees that to the extent any Borrower makes a payment or payments to Lender, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy act, state or federal law, common law or equitable cause, then, to the extent of such payment or repayment, the obligation or part thereof intended to be satisfied shall be revived and continued in full force and effect as if said payment had not been made.

25. Notice. Any notice or request hereunder may be given to Borrowers or to Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of address under this Section. Any notice or request hereunder shall be given by (a) hand delivery, (b) overnight courier, (c) registered or certified mail, return receipt requested, (d) telex or telegram, subsequently confirmed by registered or certified mail, or (e) telecopy to the number set out below (or such other number as may hereafter be specified in a notice designated as a notice of change of address) with telephone communication to a duly authorized officer of the recipient confirming its receipt as subsequently confirmed by registered or certified mail. Any notice or other communication required or permitted pursuant to this Agreement shall be deemed given (i) when personally delivered to any officer of the party to whom it is addressed, (ii) on the earlier of actual receipt thereof or five (5) days following posting thereof by certified or registered mail, postage prepaid, or (iii) upon actual receipt thereof when sent by a recognized overnight delivery service or (iv) upon actual receipt thereof when sent by telecopier to the number set forth below, in each case addressed to each party at its address set both below or at such other address as has been furnished in writing by a party to the other by like notice:

(A) If to Lender at:
Whitehall Business Credit Corporation
One State Street
New York, New York 10004
Attention: Joseph Zautra
Telephone: (212) 806-4538
Telecopier: (212) 806-4530



with a copy to:
Hahn & Hessen LLP
488 Madison Avenue
New York, New York 10022
Attention: Steven J. Seif, Esq.
Telephone: (212) 736-1000
Telecopier: (212) 594-7167

(B) If to Borrowing Agent or any Borrower at:
The SPAR Group
580 White Plains Road
Tarrytown, New York 10591
Attention: Charles Cimitile, Chief Financial Officer
Telephone: (914) 332-4100
Telecopier: (914) 332-0741

with a copy to:
Jenkens & Gilchrist Parker Chapin LLP
405 Lexington Avenue
New York, New York 10174
Attention: Lawrence David Swift, Esq.
Telephone: (212) 704-6147
Telecopier: (212) 704-6159

26. Governing Law and Waiver of Jury Trial. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE

OF NEW YORK. LENDER SHALL HAVE THE RIGHTS AND REMEDIES OF A SECURED PARTY UNDER APPLICABLE LAW INCLUDING, BUT NOT LIMITED TO, THE UNIFORM COMMERCIAL CODE OF NEW YORK. EACH BORROWER AGREES THAT ALL ACTIONS AND PROCEEDINGS RELATING DIRECTLY OR INDIRECTLY TO THIS AGREEMENT OR ANY ANCILLARY AGREEMENT OR ANY OTHER OBLIGATIONS SHALL BE LITIGATED IN THE FEDERAL DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK OR, AT LENDER'S OPTION, IN ANY OTHER COURTS LOCATED IN NEW YORK STATE OR ELSEWHERE AS LENDER MAY SELECT AND THAT SUCH COURTS ARE CONVENIENT FORUMS AND EACH BORROWER SUBMITS TO THE PERSONAL JURISDICTION OF SUCH COURTS. EACH BORROWER WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS THAT SERVICE OF PROCESS UPON SUCH BORROWER MAY BE MADE BY FEDERAL EXPRESS OR SIMILAR OVERNIGHT SERVICE OR BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, IN EACH CASE DIRECTED TO SUCH BORROWER AT SUCH BORROWER'S ADDRESS APPEARING ON LENDER'S RECORDS, AND SERVICE SO MADE SHALL BE DEEMED COMPLETED (A) ONE (1) BUSINESS DAY AFTER THE SAME SHALL HAVE BEEN SENT VIA FEDERAL EXPRESS OR SIMILAR OVERNIGHT SERVICE OR (B) FIVE (5) BUSINESS DAYS AFTER THE SAME SHALL HAVE BEEN MAILED BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED (UNLESS THE RETURN RECEIPT SHOWS ACTUAL RECEIPT OCCURRED EARLIER THAN THE DEEMED FIVE



BUSINESS DAY PERIOD, IN WHICH CASE THE DATE OF ACTUAL RECEIPT WILL CONTROL). EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BETWEEN ANY BORROWER, LENDER AND EACH BORROWER WAIVES THE RIGHT TO ASSERT IN ANY ACTION OR PROCEEDING INSTITUTED BY LENDER WITH REGARD TO THIS AGREEMENT OR ANY OF THE OBLIGATIONS ANY OFFSETS OR COUNTERCLAIMS WHICH IT MAY HAVE.

27. Limitation of Liability. Each Borrower acknowledges and understands that in order to assure repayment of the Obligations hereunder Lender may be required to exercise any and all of Lender's rights and remedies hereunder and agrees that neither Lender nor any of Lender's agents shall be liable for acts taken or omissions made in connection herewith or therewith except for actual gross (not mere) negligence or willful misconduct.

28. Entire Understanding. This Agreement and the Ancillary Agreements contain the entire understanding between Borrowers and Lender and any promises, representations, warranties or guarantees not herein contained shall have no force and effect unless in writing, signed by each Borrower's and Lender's respective officers. Neither this Agreement, the Ancillary Agreements, nor any portion or provisions thereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged.

29. Indemnity. Each Borrower shall indemnify Lender and each of its officers, directors, employees, and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Lender in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement, whether or not Lender is a party thereto, except to the extent that any of the foregoing arises out of the willful misconduct or gross (not mere) negligence of the party being indemnified.

30. Severability. Wherever possible each provision of this Agreement or the Ancillary Agreements shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or the Ancillary Agreements shall be prohibited by or invalid under applicable law such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions thereof.

31. Captions. All captions are and shall be without substantive meaning or content of any kind whatsoever.

32. Counterparts. This Agreement may be executed in one or more counterparts, all of which when taken together shall constitute one and the same agreement.

33. Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

34. Publicity. Subject to the prior approval (which approval shall not be unreasonably withheld or delayed) by Borrowing Agent with respect to Lender and by Lender with respect to any Borrower, any party hereto may make appropriate announcements of the financial arrangement entered into by and among Borrowers and Lender, including, without limitation, announcements which are commonly known as tombstones, in such publications and to such selected parties as the announcing party shall in its sole and absolute discretion deem appropriate.

35. Borrowing Agency Provisions.

(i) Borrowers hereby irrevocably designate Borrowing Agent to be their attorney and agent and in such capacity to borrow, sign and endorse notes, and execute and deliver all instruments, documents, writings and further assurances now or hereafter required hereunder, on behalf of Borrowers, and hereby authorize Lender to pay over or credit all loan proceeds hereunder in accordance with the request of Borrowing Agent.

(ii) The handling of this credit facility as a co-borrowing facility with a borrowing agent in the manner set forth in this Agreement is solely as an accommodation to Borrowers and at their request. Lender shall not incur liability to Borrowers as a result thereof. To induce Lender to do so and in consideration thereof, each Borrower hereby indemnifies Lender and holds Lender harmless from and against any and all liabilities, expenses, losses, damages and claims of damage or injury asserted against Lender by any Person arising from or incurred by reason of the handling of the financing arrangements of Borrowers as provided herein, reliance by Lender on any request or instruction from Lender or any other action taken by Lender with respect to this Section 35 except due to gross negligence (but not mere negligence) or willful misconduct by the indemnified party.

(iii) All Obligations shall be joint and several, and each Borrower shall be obligated to make payment (with the understanding that any payment made by any Borrower shall be applied to reduce the amount of the Loans and the remaining payment obligations of all of the Borrowers) upon the maturity of the Obligations by acceleration or otherwise, and, unless Lender otherwise agrees in writing, such obligation and liability on the part of each Borrower shall in no way be affected by any renewals and forbearance granted by Lender to any Borrower, failure of Lender to give any Borrower notice of borrowing or any other notice, any failure of Lender to pursue to preserve its rights against any Borrower, the release by Lender of any Collateral now or thereafter acquired from any Borrower, and such agreement by each Borrower to pay upon any notice issued pursuant thereto is unconditional and unaffected by prior recourse by Lender to another Borrower or any Collateral for such Borrower's Obligations or the lack thereof.



(iv) In the event any Borrower is deemed to be a Guarantor or surety of any other Borrower, then, to the extent such Borrower is deemed to be a Guarantor or surety, such Borrower hereby (a) agrees that its guaranty obligation hereunder is a continuing guaranty of payment and performance and not of collection and that its obligations shall not be discharged until payment and performance, in full, of the Obligations has occurred; and (b) waives any and all suretyship defenses, including, without limitation, with respect to: (1) the genuineness, validity, regularity, enforceability or any future amendment of, or change in, this Agreement, any Ancillary Agreement or any other agreement, document or instrument to which any Borrower is or may become a party; (2) the absence of any action to enforce this Agreement or any Ancillary Agreement or the waiver or consent by Lender with respect to any of the provisions hereof or thereof; (3) the existence, value or condition of, or failure to perfect its Lien against, any security for the Obligations or any action, or the absence of any action, by Lender in respect thereof (including the release of any such security); (4) the insolvency of any Borrower; (5) any change in the commitment, advance rates, Formula Amount, Maximum Revolving Amount or any related

provision; (6) the advance, repayment (including complete repayment) and readvance of Loans from time to time; (7) any extension or change in the time, manner, place and other terms and provisions of payment or performance of any of the Obligations; (8) any waiver, modification, renewal, amendment or restatement of this Agreement or any Ancillary Agreement (except as and to the extent expressly modified by such action); (9) any acceptance by the Lender of any partial or late payment or payment during any default; (10) any surrender, repossession, foreclosure, sale, leases or other realization, dealing, liquidation, setoff or disposition respecting any collateral in accordance with this Agreement any Ancillary Agreement or applicable law; (11) any investigation, analysis or evaluation by the Lender or its designees respecting any Borrower or any other person; or (12) any other action or circumstances that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor.

Each Borrower shall be regarded, and shall be in the same position, as principal debtor with respect to the Obligations guaranteed hereunder.

36. Subordination of Subrogation and Contribution Rights, Etc. Each Borrower covenants and agrees that until the Obligations have been fully paid and satisfied, any and all Subordinated Rights of such Borrower shall be subordinate to the Obligations and such Borrower shall not be entitled to any payment or satisfaction (in whole or in part) until, all of the Obligations have been fully paid and satisfied. Until such time (if ever) as the Obligations have been fully paid and satisfied and this Agreement has been terminated: (A) no Borrower shall seek any payment or exercise or enforce any right, power, privilege, remedy or interest that such Borrower may have with respect to any Subordinated Right and (B) any payment, asset or property delivered to or for the benefit of any Borrower in respect of any Subordinated Right shall be accepted in trust for the benefit of the Lender and shall be promptly paid or delivered to the Lender to be credited and applied to the payment and satisfaction of the Obligations, whether contingent, matured or unmatured, or to be held by the Lender as additional collateral, as the Lender may elect in its sole and absolute discretion.

37. Joinder. As of the date hereof, New Borrowers are hereby added as parties to all Obligations under this Agreement, and all references to any "Borrower" or "Borrowers" hereunder shall be deemed to include New Borrowers. Each New Borrower hereby adopts this



Agreement, assumes in full, and acknowledges that it is jointly and severally liable for, the payment, discharge, satisfaction and performance of all Obligations under this Agreement and the Ancillary Agreements (to which all Borrowers are a party) as if it were an original signatory thereunder. Each New Borrower hereby confirms its grant to Lender of a continuing lien and security interest in all presently existing and hereafter arising Collateral which such New Borrower now or hereafter owns or has an interest in, wherever located, to secure the prompt payment and performance of the Obligations. Schedule 37 sets forth all Persons (including joint ventures) in which any New Borrower has an interest. Each New Borrower shall execute such Ancillary Agreements as Lender may reasonably request in order to ensure a first priority perfected security interest in favor of Lender in such investments (limited to the economic benefit of such investments in "pass through" entities such as joint ventures, partnerships or limited liability companies).



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

SPAR MARKETING FORCE, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR/BURGOYNE RETAIL SERVICES, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR INCENTIVE MARKETING, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR TRADEMARKS, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer



SPAR MARKETING, INC. (DE)

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR MARKETING, INC. (NV)

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR ACQUISITION, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR GROUP INTERNATIONAL, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR TECHNOLOGY GROUP, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer



SPAR/PIA RETAIL SERVICES, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

RETAIL RESOURCES, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

PIVOTAL FIELD SERVICES, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

PIA MERCHANDISING CO., INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

PACIFIC INDOOR DISPLAY CO.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer



PIVOTAL SALES COMPANY

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

SPAR GROUP, INC.

By: /s/ Charles Cimitile
---
Name: Charles Cimitile
Title: Chief Financial Officer

WHITEHALL BUSINESS CREDIT CORPORATION

By: /s/ Joseph J. Zautra
---
Name: Joseph J. Zautra
Title: Vice President



EXHIBITS

| | |
|---|---|
| Exhibit 1(a) | Revolving Credit Note |
| Exhibit A | Shareholder Notes |

SCHEDULES

| | |
|---|---|
| Schedule 1 | Permitted Liens |
| Schedule 5(b)(v) | Letter of Credit Fees |
| Schedule 12(a) | State of Incorporation and Qualification |
| Schedule 12(b) | Subsidiaries |
| Schedule 12(e) | Books and Records |
| Schedule 12(g) | Plans |
| Schedule 12(k) | Licenses, Patents, Trademarks and Copyrights |
| Schedule 12(l) | Federal Tax Identification Number |
| Schedule 12(m) | Inventory Locations |
| Schedule 37 | Persons in which International has an interest |



Schedule 5(b)(v)
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WEBSTER BANK
SCHEDULE OF SELECTED CHARGES

STANDBY LETTER OF CREDIT

| | |
|---|---|
| Issuance | $150 |
| Amendment | $ 75 |
| Cancellation | $ 50 |



TABLE OF CONTENTS

Exhibit 21.1

SPAR GROUP, INC.
LIST OF SUBSIDIARIES

| SUBSIDIARY | STATE OF INCORPORATION |
|---|---|
| PIA Merchandising Co., Inc. | California |
| PIA Merchandising Limited | Nova Scotia |
| Pacific Indoor Display Co | California |
| Pivotal Sales Company | California |
| SPAR Acquisition, Inc | Nevada |
| SPAR Incentive Marketing, Inc | Delaware |
| SPAR Group International, Inc | Nevada |
| SPAR Trademarks, Inc | Nevada |
| SPAR Marketing, Inc. (f/k/a SPAR Acquisition, Inc.) | Delaware |
| SPAR Marketing Force, Inc | Nevada |
| SPAR Marketing, Inc | Nevada |
| SPAR/PIA Retail Services, Inc | Nevada |
| SPAR, Inc. (f/k/a SPAR/Burgoyne Information Services, Inc.) | Nevada |
| Pivotal Field Services, Inc | Nevada |
| Retail Resources, Inc | Nevada |
| SPAR/Burgoyne Retail Services, Inc. (f/k/a SPAR Retail Information, Inc.) | Ohio |
| SPAR Technology Group, Inc. (f/k/a SPARinc.com, Inc.) | Nevada |
| SPAR All Store Marketing Services, Inc | Nevada |

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement Form S-8 No. 333-07377 pertaining to the 1995 Stock Option Plans, in Registration Statement Form S-8 No. 333-53400 pertaining to the Special Purpose Stock Option Plan, in Registration Statement Form S-8 No. 333-73000 pertaining to the 2001 Employee Stock Purchase Plan, in Registration Statement Form S-8 No. 333-73002 pertaining to the 2000 Stock Option Plan and in Registration Statement Form S-8 No. 333-72998 pertaining to the 2001 Consultant Stock Purchase Plan of SPAR Group, Inc. of our report dated February 7, 2003, appearing in this Annual Report on Form 10-K of SPAR Group, Inc., for the year ended December 31, 2002.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 28, 2003

EXHIBIT 99.1

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report"), by SPAR Group, Inc. (the "Registrant"), the undersigned hereby certifies that, to his knowledge:

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

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

/s/ Robert G. Brown
---

Robert G. Brown
Chairman, President and Chief
Executive Officer
(Chief executive officer)

March 31, 2003

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO SPAR GROUP, INC. AND WILL BE RETAINED BY SPAR GROUP, INC., AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

EXHIBIT 99.2

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

In connection with the Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report"), by SPAR Group, Inc. (the "Registrant"), the undersigned hereby certifies that, to his knowledge:

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

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

/s/ Charles Cimitile
---

Charles Cimitile
Chief Financial Officer

March 31, 2003

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.