

SPAR GROUP INC

FORM 10-K (Annual Report)

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**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, 1999

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, SIXTH FLOOR, 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 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X]

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.

The aggregate market value of the Common Stock of the Registrant held by non-affiliates of the Registrant on March 30, 2000, based on the closing price of the Common Stock as reported by the Nasdaq SmallCap Market on such date, was approximately \$56,797,963.

The number of shares of the Registrant's Common Stock outstanding as of March 30, 2000 was 18,175,348 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 1999 in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

SPAR GROUP, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

THIS ANNUAL REPORT ON FORM 10-K INCLUDES "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT AND SECTION 21E OF THE EXCHANGE ACT INCLUDING, IN PARTICULAR, THE STATEMENTS ABOUT THE SPAR GROUP'S PLANS AND STRATEGIES UNDER THE HEADINGS "BUSINESS" AND "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." ALTHOUGH THE SPAR GROUP 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. ALL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE SPAR GROUP OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED BY THE CAUTIONARY STATEMENTS IN THE ANNUAL REPORT ON FORM 10-K.

ITEM 1. BUSINESS

GENERAL

The SPAR Group, Inc., a Delaware corporation formerly known as PIA Merchandising Services, Inc. ("SPAR Group" or the "Company") is a supplier of in-store merchandising and marketing services, and premium incentive marketing services throughout the United States and Canada. The Company also provides database marketing, teleservices, marketing research, and Internet-based software. The Company's operations are divided into three divisions: the Merchandising Services Division, the Incentive Marketing Division, and the Internet Division. The Merchandising Services Division provides merchandising services, database marketing, teleservices and marketing research to manufacturers and retailers primarily in the mass merchandiser, video, chain, discount drug store and grocery industries. The Incentive Marketing Division designs and implements premium incentives, manages meetings, group travel and training programs principally for corporate clients. In March 2000, the Company announced the formation of an Internet Division for the purpose of marketing its proprietary Internet-based computer software.

Merchandising Services Division

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., a Nevada corporation ("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, the original predecessor of which was founded in 1967, provide nationwide retail merchandising and marketing services to home video, consumer goods and food products companies. The PIA Companies, through a predecessor of the Company first organized in 1943, also are suppliers of in-store merchandising and sales services throughout the United States and Canada, and were "acquired" by the SPAR Companies for accounting purposes pursuant to the Merger on July 8, 1999 (See Merger and Restructuring, below). The PIA Companies provide these services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug and retail grocery stores. The Company currently operates in all 50 states and provides a broad range of in-store merchandising and other marketing services to many of the nation's leading companies.

Merchandising services generally consist of special projects or regularly scheduled routed services provided at the stores for a specific retailer or multiple manufacturers primarily under multiple year contracts. Services also include stand-alone large-scale implementations. These services may include 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 selling new and promotional items. Specific in-store services can be initiated by retailers and manufacturers, such as new product launches, special seasonal or promotional merchandising, focused product support and product recalls. These

services are used typically for large-scale implementations over 30 days. The Company also provides database marketing, teleservices and research services.

Incentive Marketing Division

The Company's Incentive Marketing Division was created in January, 1999 through the Company's purchase of the business and substantially all of the assets of BIMA Group, Inc., a Texas corporation ("BIMA" or "MCI") originally founded in 1987 and formerly known as MCI Performance Group, Inc. The purchase was made by the Company's indirect subsidiary SPAR Performance Group, Inc., formerly known as SPAR MCI Performance Group, Inc. ("SPGI"). SPGI provides a wide variety of consulting, creative, program administration, travel and merchandise fulfillment, and training services to companies seeking to retain and motivate employees, salespeople, dealers, distributors, retailers, and consumers toward certain actions or objectives. SPGI's strategy enables companies to outsource the entire design, implementation and fulfillment of incentive programs in a one-stop, "umbrella" shopping approach. SPGI typically consults with a client to design the most effective plan to achieve the client's goals. SPGI then provides services necessary to implement the program, generates detailed efficiency progress reports, and reports on the return on investment upon completion of the program.

Internet Division

In March 2000, the Company established its Internet Division to separately market its application software products and services. The Company has developed and is utilizing several Internet-based software products. The Internet Division was established to market these applications to businesses with multiple locations and large workforces desiring to improve day-to-day efficiency and overall productivity.

INDUSTRY OVERVIEW

Merchandising Services Division

According to estimates by ING Baring Furman Selz the merchandising industry generates two billion dollars annually. The merchandising industry includes manufacturers, retailers, food brokers, and professional service merchandising companies. Furthermore, they estimate that professional merchandising companies control approximately 50% of this market share and believe that half of this business is growing at 15% to 20% per year. According to a recent industry survey, more than 75% of the manufacturers are moving to third parties to handle in-store merchandising. The Company 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 shelf maintenance, display placement, reconfiguring products on store shelves, replenishing products and placing orders, and other services, such as test market research, mystery shopping, teleservices, database marketing and promotion planning and analysis.

Merchandising services previously undertaken by retailers, manufacturers and independent brokers 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. Manufacturers deployed their own sales representatives to ensure that their products were displayed on the shelves and were properly spaced and positioned. Independent brokers performed similar services on behalf of the manufacturers they represented. The Company believes that in an effort to improve their margins, retailers are increasing their reliance on manufacturers and brokers to perform such services. Initially, manufacturers attempted to satisfy their 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 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 re-merchandising and remodeling entire stores to respond to new product developments and changes in consumer preferences. The Company estimates that these activities have increased in frequency over the last five years, such that most stores are re-merchandised and remodeled approximately every twenty-four months. Both retailers and manufacturers are seeking third parties to help them meet the increased demand for these labor-intensive services.

Incentive Marketing Division

According to PROMO Magazine's 1999 annual report of the promotion industry, spending on the promotion of products and services in 1998 was \$85.4 billion, up \$6 billion or 8% from the 1997 level. The Company participates in the premium incentive and promotion fulfillment sectors. These sectors collectively account for \$28.7 billion or 34% of the promotion industry as a whole and grew 5.0% and 17.2%, respectively, during 1998. The Company believes that U.S. companies are increasingly using third party incentive providers as a more efficient and cost effective means to increase the productivity of their employees. Third party incentive premium providers can offer a customized, unique, turnkey solution specifically tailored to a company's needs. Additionally, incentive premium providers are able to capitalize on supplier relationships and to realize volume discounts, particularly on travel and merchandise.

Premium incentives are performance-determined rewards used to motivate employees, salespeople, dealers, and consumers, and are also used to differentiate a product, service or store. According to the Incentive Federation Survey, only 26.0% of U.S. businesses are using premium incentives to motivate employees and the majority of these businesses are large companies (with over 1,000 employees). The Company anticipates that this market segment will grow as additional companies realize the value of using incentives to motivate employees, sales forces and consumers.

The three most commonly used incentives are cash, travel and merchandise. Consumer promotions, including direct premium offers (using travel or merchandise in conjunction with a purchase of a product or service), sweepstakes (promotions that require only chance to win) and self-liquidating premiums (offering travel or merchandise premiums to consumers at a price that covers the marketer's costs) generate the most attention. However, most incentive expenditures are for trade incentives designed to motivate salespeople to sell and retailers to buy and display products. Recent trends include the growth of retail certificates or debit or cash cards in the merchandise fulfillment sector (the segment of the premium incentive sector concerned with providing merchandise as rewards in incentive programs). The travel fulfillment sector (the segment of the premium incentive sector concerned with providing travel as rewards in incentive programs) has seen growth in individual and group travel as well as meeting registration services (fee-based services used to simplify the process of signing up individuals to attend a meeting or seminar).

Internet Division

The Company believes there is a current trend towards consolidation in business today. This trend is creating larger, more complex companies that have multiple locations and large workforces covering large geographical areas. The Company also believes there is a growing trend of companies utilizing the Internet and Internet-based software. The Company has historically developed and utilized Internet-based software to manage its national businesses, including its national field force, with greater efficiency and communication speed than previously possible with paper based systems. The Company believes this software transcends the merchandising services industry and can be utilized in many other industries that have businesses with multiple locations and large workforces.

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 will be referred to post-Merger individually as "SGI" or the "Company"). Although the SPAR Companies became subsidiaries of PIA Delaware (now SGI) as a result of this "reverse" Merger, the transaction has been accounted for as required under GAAP as a purchase by SAI of the PIA Companies, with the books and records of SGI being adjusted to reflect the historical operating results of the SPAR Marketing Companies and SPGI (together with certain intermediate holding companies, the "SPAR Companies").

In connection with the Merger of the Company's subsidiary with SAI, the Company's Board of Directors approved a plan to restructure the operations of PIA. Restructure costs are composed of committed costs required to integrate the SPAR Marketing Companies and PIA's field organizations and the consolidation of administrative functions to achieve beneficial synergies and cost savings. As part of the PIA merger, the Company identified various cost reductions that would be realized by the merger. A detailed 29-point program was initiated by the Company with nine transition teams being formed within management to affect the cost cuts and ensure the projected savings levels were achieved. As of December 31, 1999, the Company had eliminated 15 PIA field offices, and reduced PIA's workforce by approximately 250 hourly employees, thereby reducing monthly selling, general and administrative expenses by approximately \$900,000 per month. The Company plans to continue to implement the cost cutting measures throughout the first two quarters of 2000 until the desired savings levels are reached. In addition, the Company has converted the PIA field workforce from a relatively fixed cost basis to a variable cost basis.

BUSINESS STRATEGY

As the marketing services industry continues to grow and consolidate, large retailers and manufacturers are increasingly outsourcing their marketing needs to third-party providers. The Company believes that offering marketing services in multi-use sectors on a national basis will provide it with a competitive advantage. Moreover, the Company believes that developing a sophisticated technology infrastructure, including 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 a national integrated service provider by pursuing its operating strategy, as described below.

Capitalize on Cross-Selling Opportunities. The Company intends to leverage its current client relationships by cross-selling the range of services offered by the Company. The Company believes that its retail merchandising and database marketing services can be packaged with its premium incentive services to provide a high level of customer service, and that additional cross-selling opportunities will increase if, as management intends, the Company acquires businesses in other sectors of the marketing services industry. The Company also intends to offer its proprietary Internet-based software to existing Merchandising Services and Incentive Marketing clients.

Achieve Operating Efficiencies. The Company intends to achieve greater operating efficiencies within its Divisions. The Company believes that, its existing field force and technology infrastructure can support additional customers and revenue in the Merchandising Services Division. In the Incentive Marketing Division, the Company believes that it can realize volume purchasing advantages with respect to travel and merchandise fulfillment. At the corporate level, the Company will seek to combine certain administrative functions, such as accounting and finance, insurance, strategic marketing and legal support.

Leverage Divisional Autonomy. The Company intends to conduct its operations on a decentralized basis whereby management of each Division will be responsible for its day-to-day operations, sales relationships and the identification of additional acquisition candidates in their respective sectors. A company-wide team of senior management will provide the Divisions with strategic oversight and guidance with respect to acquisitions, finance, marketing, operations and cross-selling opportunities. The Company believes that a decentralized management approach will result in better customer service by allowing management of each Division the flexibility to implement policies and make decisions based on the needs of their respective customers.

Implement Technology. The Company intends to utilize computer, Internet, and other technology to enhance its efficiency and ability to provide real-time data to its customers. 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 communicate with its field management over the Internet, schedule its field operations more efficiently, receive information over the Internet and incorporate the data immediately, quantify the benefits of its services to customers more quickly and respond to customers' needs and implement programs more rapidly. The Company believes that its proprietary Internet-based software technology gives them a competitive advantage in the marketplace.

DESCRIPTION OF SERVICES

The Company provides a broad array of merchandising and marketing services on a national, regional and local basis to leading entertainment, consumer goods, food products and retail companies through its Merchandising Services Division, and also provides premium incentive services through its Incentive Marketing Division.

The Company currently operates in all 50 states and Canada serving some of the nation's leading companies. The Company believes its full-line capability of developing plans at one centralized headquarters location, executing chain wide, fully integrated national solutions, and implementing rapid, coordinated responses to its clients' needs on a real time basis differentiate the Company from its competitors. The Company also believes its 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 competitive advantage over local, regional or retailer specific 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 sales services primarily on behalf of consumer product manufacturers at mass merchandiser, drug and retail grocery stores. The Company currently provides three principal types of merchandising and sales services: shared services, dedicated services and project services.

Shared Services

Shared services consist of regularly scheduled, routed merchandising services provided at the store level for manufacturers. The Company's shared services are performed for multiple manufacturers, including, in some cases, manufacturers whose products are in the same product category. Shared services may include activities such as:

- o Reordering, replenishment of product
- o Ensuring that the client's products authorized for distribution are in stock and on the shelf
- o Adding in new products that are approved for distribution but not present on the shelf
- o Designing store schematics

- o Setting category shelves in accordance with approved store schematics
- o Ensuring that shelf tags are in place
- o Checking for overall salability of the client's products
- o Placing new product and promotional items

Dedicated Services

Dedicated services consist of merchandising services, generally as described above, that are performed for a specific retailer or manufacturer by a dedicated organization, including a management team, working exclusively for that retailer or manufacturer, primarily in the drug store industry. These services are primarily based on agreed-upon hourly 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 product launches, special seasonal or promotional merchandising, focused product support and product recalls. These services are used typically for large-scale implementations requiring over 30 days. The Company also performs other project services, such as new store sets and existing store resets, re-merchandising, remodels and category implementations, under shared service contracts or stand-alone project contracts.

Other Merchandising and Marketing Services

Other merchandising and 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 to check on distribution or display of a brand and to evaluate products.

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

Data Collection - Gathering information systematically for analysis and interpretation.

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

Information Technology Services

The Company has developed Internet-based information tracking system applications that improve productivity of field merchandisers. The Company's merchandising specialists use Interactive Voice Response (IVR) and hand-held computers to upload (through the Internet) the status of each store they service immediately upon completion. This information is analyzed and displayed on graphical execution maps, which can be accessed by both the Company and its customers via the Internet, that visually depict the status of every merchandising project in real time. In addition, this technology allows the Company to schedule its field operations more efficiently, quantify the benefits of its services to customers more quickly, respond to customers' needs and implement programs more rapidly. The Company believes that its technological efficiencies provide it with a competitive advantage in the marketplace.

The Company has also developed an automated labor tracking system. Company associates 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. This provides the Company with daily, detailed tracking of work completion.

Incentive Marketing Division

SPGI provides a wide variety of consulting, creative, program administration, and travel and merchandise fulfillment services to companies seeking to retain and motivate employees, salespeople, dealers, distributors, retailers, and consumers toward certain actions or objectives. SPGI's strategy is to allow companies to outsource the entire design, implementation and fulfillment of incentive programs in a one-stop, "umbrella" shopping approach. SPGI consults with a client to design the most effective plan to achieve the client's goals. SPGI then provides the services necessary to implement the program, generates detailed efficiency progress reports and calculates the return on investment upon completion of the program.

The SPGI process typically begins when a client desires assistance in developing a performance improvement program. SPGI's senior consultants work with the client to develop programs that improve productivity by delivering positive reinforcement in ways that are meaningful to employees and supportive of the client's business strategy. A wide range of reward options is available, including cash, travel, and merchandise. Most formal compensation programs deliver cash to plan participants, while premium incentives tend to make greater use of non-financial rewards. SPGI has experience in all forms of incentives and therefore can provide its clients with the most appropriate program design. SPGI is capable of assisting its clients in the writing, designing and printing of the program elements. Teams of creative directors, copywriters, graphic designers and print specialists develop campaigns for incentive programs, meetings, trade shows and consumer promotions.

In addition, SPGI provides its clients with travel or merchandise fulfillment alternatives as well as a series of innovative product specific alternatives. While the majority of SPGI's product fulfillment is in the travel area, SPGI provides a wide variety of catalog merchandise awards. Through an informal arrangement with some of the country's largest mass merchandise retailers, SPGI can provide its clients with programs that offer the flexibility of in-home reward ordering. SPGI also provides its clients with custom merchandise, special catalogs, retail certificates and a Local Purchase Option ("LPO"). The LPO allows winning participants to select and redeem merchandise from a series of participating merchants.

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 efforts are principally guided through the Company's sales workforce, located nationwide, who primarily work from 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 also responded to this emerging trend and currently has retailer teams in place at several discount and drug stores.

The Company's business development process encompasses a due diligence period to determine the objectives of the prospective client, the work to be performed to satisfy those objectives and the market value of the 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 quotation approval form that is presented to the Company's proposal committee for approval. 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 by the proposal committee, a detailed proposal is presented to the prospective client. Following agreement regarding the elements of service and corresponding rates, a contract is prepared and executed.

For the year ended December 31, 1999, net revenues from Merchandising Services and Incentive Marketing Services accounted for 68.3% and 31.7% respectively of total net revenues. Prior to that period Merchandising Services comprised 100% of total net revenues.

Incentive Marketing Division

The Company's Incentive Division sales effort is organized on a regional basis to serve national clients. Today SPGI has seven regional sales operations, each with a senior sales person working from their home office. All selling is done on a local market basis, while all program design and execution is completed at the Dallas headquarters.

As in the Merchandising Services Division, the Incentive Division's business development process encompasses a due diligence period to determine the objectives of the prospective client, the work to be performed to satisfy those objectives and the market value of the 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 quotation approval form that is presented to the Company's proposal committee for approval. 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 by the proposal committee, a detailed proposal is presented to the prospective client. Following agreement regarding the elements of service and corresponding rates, a contract is prepared and executed.

CUSTOMERS

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

- o Mass Merchandisers
- o Chain and deep-discount drug stores
- o Other retail trade groups
- o Retail grocery

The Company also provides database, research and other marketing services to major automotive manufacturers.

In addition, the Company currently provides services to various clients in its Incentive Marketing Division. These clients are principally large corporate clients that encompass a broad range of industries including the food, drug, communications, and automotive manufacturing industry.

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 merchandise and chain drug channels of trade, as well as a leading provider of in-store services to the video 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 of its proprietary Internet software, other technological efficiencies and various cost controls, the Company will remain competitive in its pricing and services.

The incentive marketing industry is populated by large national players, each of which has significantly greater financial and marketing resources than the Company, and hundreds of small regional and local companies. By establishing a network of merchandise, travel, and database operations, and then consolidating regional sales companies, the Company believes it would fill a substantial market by providing clients with an alternative to the national competitors that offers the same integrated program service at substantially lower cost.

TRADEMARKS

SPAR(R) and PIA(R) are registered trademarks of the Company. In addition, the Company has recently commenced the process of registering the service mark for the terms Precision Merchandising and SPARinc.com. 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."

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

See Note 14 to the Financial Statements included in this Annual Report on Form 10-K.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREA

Revenues generated by PIA Merchandising Ltd., a Canadian subsidiary acquired in July 1999, accounted for less than 1% of the total revenues for the fiscal year ended December 31, 1999. All other revenues were derived from business within United States.

EMPLOYEES

As of December 31, 1999, the Company's Merchandising Services Division employed approximately 5,400 people, approximately 400 full-time employees, approximately 3,500 part-time employees and 1,500 independent contractors, of which approximately 200 full-time employees were engaged in operations and 11 were engaged in sales. As of December 31, 1999, the Company's Incentive Marketing Division employed approximately 71 full-time employees, of which approximately 16 employees were engaged in operations and approximately 9 were engaged in sales. Approximately 182 of the Company's employees are covered by contracts with labor unions. The Company considers its relations with its employees and its employees' unions to be good.

ITEM 2. PROPERTIES.

The Company maintains its corporate headquarters in approximately 12,000 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 and Administration
Auburn Hills, MI	Regional Office and Teleservices Center
Eden Prairie, MN	Regional Office
Mahwah, NJ	Regional Office
Cincinnati, OH	Regional Office
Tampa, FL	Regional Office
Irvine, CA	Regional Office
Carrollton, TX	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 September 23, 1999, Information Leasing Corporation ("ILC") filed a complaint for breach of contracts, claim and delivery, and conversion against the Company in Orange County Superior Court, Santa Ana, California, Case No. 814820, with respect to certain equipment leased to the PIA Companies by ILC, which complaint sought judgment to recover the principal sum of \$1,535,869.68, plus taxes, fees, liens, and late charges, immediate possession of the leased equipment, compensation for the reasonable value thereof, and costs and attorneys' fees. The Company is currently attempting to negotiate a settlement.

Pursuant to that certain Asset Purchase Agreement dated as of December 22, 1998, among BIMA Group, Inc. (f/k/a MCI Performance Group, Inc.) ("BIMA"), John H. Wile, SPAR Performance Group, Inc.(f/k/a SPAR MCI Performance Group, Inc.) ("SPGI"), and a company formerly known as SPAR Group, Inc., as amended by the First Amendment thereto dated as of January 15, 1999, Second Amendment dated as of September 22, 1999 (the "Second Amendment"), and Third Amendment dated as of October 1, 1999 (the "Third Amendment"), SPGI would be obligated to pay "Earn-Out Consideration" to BIMA if the business met certain financial performance criteria as set forth therein. SPGI has fully paid the amount outstanding under the Promissory Note pursuant to the Asset Purchase Agreement with respect to the original purchase price, as adjusted by the Second Amendment. Based upon the unaudited balance sheet of BIMA as of January 15, 1999, SPGI estimates that no "Earn-Out Consideration" is due to BIMA. BIMA has asserted that it is owed approximately \$5,000,000 in Earn Out Consideration, but such Earn Out Consideration calculation has not been agreed to by SPGI. If the parties cannot agree upon such amount, BIMA has threatened that legal proceedings may ensue with respect to this matter. If sued, SPGI would vigorously contest such matter. SPGI and BIMA intend to continue negotiations, and have orally agreed to use arbitrators (assuming mutually acceptable procedures can be adopted), in order to resolve such "Earn Out Consideration" dispute.

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

None.

PART II

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

PRICE RANGE OF COMMON STOCK

The following table sets forth the reported high and low sales prices of the Common Stock for the quarters indicated as reported on the Nasdaq National Market. Prior to July 9, 1999, the Company's stock was traded on the Nasdaq National Market under the symbol "PIAM".

	1997		1998		1999	
	High	Low	High	Low	High	Low
First Quarter	\$11.000	\$5.125	\$6.500	\$5.000	\$5.630	\$2.750
Second Quarter	7.125	5.375	8.156	3.688	5.000	1.880
Third Quarter	8.250	5.125	6.844	4.125	-	-
Fourth Quarter	9.000	4.875	4.875	2.000	-	-

Subsequent to July 9, 1999, the Company's stock was traded on the Nasdaq National Market under the symbol "SGRP" until November 15, 1999, when it moved to the Nasdaq Small Cap Market.

	1997		1998		1999	
	High	Low	High	Low	High	Low
First Quarter	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Second Quarter	-	-	-	-	-	-
Third Quarter	-	-	-	-	5.810	3.000
Fourth Quarter	-	-	-	-	5.130	2.500

As of December 31, 1999, there were approximately 150 holders of record of the SPAR Group's Common Stock.

The SPAR Group 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 SPAR Group 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 consolidated or combined financial data sets forth, for the periods and the dates indicated, summary financial data of the Company and its subsidiaries. Below are the statements of operations with respect to the year ending December 31, 1999, the nine-month period ending December 31, 1998, and the year ending March 31, 1998, and the balance sheet data as of December 31, 1999 and December 31, 1998. This data was derived from the financial statements included in this Form 10-K and should be read in conjunction with the financial statements and the related notes thereto as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations", also included in this Form 10-K.

	YEAR ENDED	NINE MONTHS ENDED	YEARS ENDED		
	DEC 31,	DEC 31,	MAR 31,	MAR 31,	MAR 31,
	1999	1998	1998	1997	1996
	====	====	====	====	====
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Net revenues	\$116,525	\$ 32,601	\$ 36,804	\$ 35,574	\$ 14,425
Cost of revenues	81,288	16,217	19,417	21,754	7,679
Gross profit	35,237	16,384	17,387	13,820	6,746
Selling, general and administrative expenses	28,830	9,978	12,087	13,250	6,839
Depreciation and amortization	2,182	142	161	227	191
Operating income (loss)	4,225	6,264	5,139	343	(284)
Other income (expense)	(1,572)	(155)	(390)	(766)	(99)
Income (loss) before provision (benefit) for income taxes	2,653	6,109	4,749	(423)	(383)
Income tax provision (benefit)	3,148	-	-	-	-
Net income (loss)	\$ (495)	\$ 6,109	\$ 4,749	\$ (423)	\$ (383)
	=====	=====	=====	=====	=====
Unaudited pro forma information (1):					
Net income (loss) before income tax provision	\$ 2,653	\$ 6,109	\$ 4,749	\$ (423)	\$ (383)
Pro forma income tax provision (benefit)	1,411	2,253	1,751	(156)	(141)
Pro forma net income (loss)	\$ 1,242	\$ 3,856	\$ 2,998	\$ (267)	\$ (242)
	=====	=====	=====	=====	=====
Pro forma net income (loss) per share - basic (2)	\$ 0.08	\$ 0.30	\$ 0.24	\$ (0.02)	\$ (0.02)
	=====	=====	=====	=====	=====
Pro forma weighted average shares - basic (2)	15,361	12,659	12,659	12,659	12,659
	=====	=====	=====	=====	=====
Pro forma net income (loss) per share - diluted (2)	\$ 0.08	\$ 0.30	\$ 0.24	\$ (0.02)	\$ (0.02)
	=====	=====	=====	=====	=====
Pro forma weighted average shares - diluted (2)	15,367	12,659	12,659	12,659	12,659
	=====	=====	=====	=====	=====
	DEC 31,	DEC 31,	MAR 31,	MAR 31,	MAR 31,
	1999	1998	1998	1997	1996
	====	====	====	====	====
	(in thousands)				
BALANCE SHEET DATA:					
Working capital	\$ (639)	\$ (2,214)	\$ 3,412	\$ 1,319	\$ 1,665
Total assets	63,087	14,865	10,896	8,868	10,129
Current portion of long-term debt	1,147	685	675	656	975
Long-term debt, net of current portion	16,009	311	828	937	1,389
Total stockholders' equity	10,886	(1,405)	3,142	935	1,017

(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) Net income (loss) per share is presented for all applicable periods in accordance with the adoption of SFAS No. 128 Earnings per share.

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

The Company provides merchandising services to manufacturers and retailers principally in mass merchandiser, chain, discount drug and grocery stores through its Merchandising Services Division. In addition, the SPAR Group's Incentive Marketing Division designs and implements premium incentives, manages meetings and group travel for principally corporate clients. In March 2000, the Company established its Internet Division to separately market its applications, software products and services. Although such products and services were in part available through the Company's other divisions prior to the establishment of the Internet Division, the historical revenues and expenses related to such software products and services generally were not maintained separately and have been included below in the discussion of the condition and results of the Merchandising Services Division and Incentive Marketing Division.

According to Generally Accepted Accounting Principles, upon an acquisition, the acquired company's results of operations are not included in the acquirer's results of operations prior to the date of acquisition. The SPAR companies acquired substantially all of the assets of BIMA on January 16, 1999 (the "MCI Acquisition"). (See Notes 2 and 3 to the Financial Statements.) Under GAAP, the SPAR/PIA merger completed on July 9, 1999 was deemed to be an acquisition of PIA by SPAR. (See Notes 2 and 3 to the Financial Statements). Therefore, the following discussions include only the results of SPGI subsequent to January 15, 1999 and the results of PIA subsequent to July 8, 1999.

During the third quarter of 1999, the SPAR Group restructured its operations by integrating the SPAR Marketing Companies and the PIA Companies' field organizations and consolidating administrative functions where possible to achieve beneficial synergies and cost savings. Although significant cost savings were achieved during the third and fourth quarters of 1999, not all synergistic programs had been implemented, and further cost savings are expected to be achieved in the first and second quarters of 2000.

RESULTS OF OPERATIONS

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

	YEAR ENDED DECEMBER 31, 1999		NINE MONTHS ENDED DECEMBER 31, 1998		YEAR ENDED MARCH 31, 1998	
Net revenues	\$ 116.5	100.0%	\$ 32.6	100.0%	\$ 36.8	100.0%
Cost of revenues	81.3	69.8	16.2	49.7	19.4	52.7
Selling, general & administrative expenses	28.8	24.7	10.0	30.7	12.1	32.9
Depreciation & amortization	2.2	1.9	0.1	0.3	0.2	0.5
Other expenses	1.6	1.4	0.2	0.6	0.4	1.1
Income before income tax provision	2.6	2.2	6.1	18.7	4.7	12.8
Provision for income taxes	3.1	2.7	-	-	-	-
Net income (loss)	\$ (0.5)	(0.4%)	\$ 6.1	18.7%	\$ 4.7	12.8%
=====						
Unaudited pro forma information:						
Income before income tax provision	\$ 2.6	2.2%	\$ 6.1	18.7%	\$ 4.7	12.8%
Pro forma provision for income taxes	1.4	1.2	2.3	7.1	1.7	4.6
Net income	\$ 1.2	1.0%	\$ 3.8	11.6%	\$ 3.0	8.2%
=====						

TWELVE MONTHS ENDED DECEMBER 31, 1999 COMPARED TO NINE MONTHS ENDED DECEMBER 31, 1998

NET REVENUES

Net revenues for the twelve months ended December 31, 1999, increased by \$83.9 million or 257.4% from the nine months ended December 31, 1998, due principally to the merger with the PIA Companies and the MCI Acquisition as well as the inclusion of 12 months of SPAR's revenues in 1999. All of the net revenues derived from the acquisition of the PIA Companies and the MCI Acquisition since their respective dates of acquisition were included in the twelve months ended December 31, 1999, with no comparable revenues in the nine months ended December 31, 1998.

The following table sets forth net revenues by division in dollars and as a percentage of total net revenues for the periods indicated:

(amounts in millions)	Year Ended December 31, 1999		Nine Months Ended December 31, 1998		Change %
	Amount	%	Amount	%	
Merchandising Services	\$ 79.6	68.3%	\$ 32.6	100.0%	144.2%
Incentive Marketing	36.9	31.7	-	-	-
Net revenues	\$ 116.5	100.0%	\$ 32.6	100.0%	257.4%

Merchandising Services net revenues for the twelve months ended December 31, 1999, were \$79.6 million, compared to \$32.6 million for the nine months ended December 31, 1998, a 144.2% increase. The increase in net revenues is primarily attributed to the inclusion of \$38.0 million of net revenues of the PIA Companies' merchandising operations since their acquisition, as well as the inclusion of 12 months of SPAR's revenues in 1999. Subsequent to the PIA merger, the Company determined certain PIA merchandising programs were expensive to manage, required high fixed costs and did not provide maximum value to the respective customers. Attempts to reduce the costs of these programs and satisfy the customer were unsuccessful. Consequently, these programs will no longer continue in the year 2000. These programs represented approximately 29% of 1999 Merchandising Services' net revenues.

Incentive Marketing net revenues for the twelve months ended December 31, 1999, were \$36.9 million, with no comparable net revenues for the nine months ended December 31, 1998. The increase in net revenues is attributable entirely to the inclusion of net revenues of SPGI since the MCI Acquisition.

COST OF REVENUES

Cost of revenues in the Merchandising Services segment consist of in-store labor (including travel expenses) and field management. Cost of revenues in the Company's Incentive Marketing segment consists of direct labor, independent contractor expenses, food, beverage, entertainment and travel costs. Cost of revenues for the twelve months ended December 31, 1999, were \$81.3 million or 69.8% of net revenues, compared to \$16.2 million or 49.7% of net revenues for the nine months ended December 31, 1998,.

The following table sets forth cost of revenues by segment in dollars and as a percentage of segment net revenues for the periods indicated:

(amounts in millions)	Year Ended December 31, 1999		Nine Months Ended December 31, 1998		Change %
	Amount	%	Amount	%	
Merchandising Services	\$ 50.5	63.4%	\$ 16.2	49.7%	211.7%
Incentive Marketing	30.8	83.5	-	-	-
Total cost of revenues	\$ 81.3	69.8%	\$ 16.2	49.7%	401.9%

Merchandising Services cost of revenues as a percentage of net revenues increased 211.7% to 63.4% for the twelve months ended December 31, 1999, compared to 49.7% for the nine months ended December 31, 1998. This increase is principally attributable to the higher labor cost structure of the PIA Companies' field organization. The SPAR Group has taken steps to control and improve gross profits and has implemented synergy plans to control direct costs (see Restructuring and Other Charges, Note 14, to the Financial Statements included in this Form 10-K).

Incentive Marketing cost of revenues as a percentage of net revenues was 83.5 % for the twelve months ended December 31, 1999, with no comparable cost of revenues for the nine months ended December 31, 1998.

OPERATING EXPENSES

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

(amounts in millions)	Year Ended December 31, 1999		Nine Months Ended December 31, 1998		Change %
	Amount	%	Amount	%	
Selling, general & administrative	\$ 28.8	24.7%	\$ 10.0	30.7%	188.0%
Depreciation and amortization	2.2	1.9	0.1	0.3	2100.0%
Total operating expenses	\$ 31.0	26.6%	\$ 10.1	31.0%	206.9%

Selling, general and administrative expenses increased by 188.0% for the twelve months ended December 31, 1999, to \$28.8 million compared to \$10.0 million for the nine months ended December 31, 1998. As a percentage of net revenues, selling, general and administrative expenses decreased to 24.7% for the twelve months ended December 31, 1999, from 30.7% for the nine months ended December 31, 1998. This increase in dollars was due primarily to the inclusion of both SPGI and the PIA Companies' higher overhead structure during 1999, a non recurring expense of \$.8 million resulting from the grant of options and issuance of stock to a consultant, the result of approximately \$.6 million of non recurring merger related selling, general and administrative expenses, as well as the inclusion of 12 months of SPAR's selling, general and administrative expenses in 1999. The decrease in selling, general and administrative expenses as percentage of net revenue reflects the results of the partial implementation of the Company's restructuring plan during 1999, and the increase in revenue resulting from the acquisitions of the PIA and SPGI businesses. Through December 1999, operating initiatives have reduced selling, general and administrative expenses by approximately \$.9 million per month. The Company expects that the continued implementation of its restructuring plan during 2000 will further reduce selling, general and administrative expenses in the future.

Depreciation and amortization increased by \$2.1 million for the twelve months ended December 31, 1999, due primarily to the amortization of goodwill recognized by the purchases of the PIA Companies and the business and assets of MCI, as well as from depreciation and amortization of customized internal software costs capitalized (under SOP 98-1) in previous periods.

OTHER EXPENSES

Other expenses increased \$1.4 million for the twelve months ended December 31, 1999, over the nine month period ended December 31, 1998, due to increased interest expenses resulting from increased borrowings on the bank revolving line of credit and term loan and MCI seller financing.

INCOME TAXES

Income taxes increased to \$3.1 million for the twelve months ended December 31, 1999, from zero for the nine months ended December 31, 1998. The increase was a result of the termination of the subchapter S status of certain of the SPAR companies for federal and state tax purposes.

PRO FORMA INCOME TAXES

The pro forma income tax provisions for the twelve months ended December 31, 1999, and nine months ended December 31, 1998, have been computed using a combined federal and state income tax rate of 36.9% after adjusting for the effects of non-tax deductible items.

PRO FORMA NET INCOME

The SPAR Group had pro forma net income of approximately \$1.2 million for the twelve months ended December 31, 1999, or \$0.08 per pro forma basic and diluted share compared to pro forma net income of \$3.8 million or \$0.30 per pro forma basic and diluted share for the nine months ended December 31, 1998. The decrease in pro forma net income is primarily the result of the inclusion of approximately \$1.9 million in losses generated by the PIA Companies and Incentive Marketing Division for the six and eleven and one half months, respectively, ended December 31, 1999. The Company is currently consolidating and restructuring the operations of the PIA Companies to reduce labor and administrative costs (see Restructuring and Other Charges, Note 14, to the Financial Statements included in this Form 10-K).

NINE MONTHS ENDED DECEMBER 31, 1998, COMPARED TO TWELVE MONTHS ENDED MARCH 31, 1998

NET REVENUES

Net revenues for the nine months ended December 31, 1998, were \$32.6 million, as compared to net revenues for the twelve months ended March 31, 1998, of \$36.8 million. On an annualized basis, net revenues for the nine-month period ended December 31, 1998, would have been \$43.5 million, an 18.2% increase over the prior twelve-month period. The increase was primarily due to increased sales of in-store merchandising, predominantly in the home video sector.

COST OF REVENUES

Cost of revenues consists of in-store labor (including travel expenses) and field management. Cost of revenues for the nine months ended December 31, 1998, and the twelve months ended March 31, 1998 were \$16.2 million and \$19.4 million, respectively. As a percentage of net revenues, cost of revenues for the nine months ended December 31, 1998, decreased slightly to 49.7% of net revenues, compared to 52.7% for the twelve months ended March 31, 1998.

OPERATING EXPENSES

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

Selling, general and administrative expenses were \$10.0 million for the nine months ended December 31, 1998, versus \$12.1 million for the twelve months ended March 31, 1998. As a percentage of net revenues, selling, general and administrative expenses were 30.7% for the nine months ended December 31, 1998, compared to 32.9% for the twelve months ended March 31, 1998. This decrease is primarily the result of higher net revenues and continued cost controls implemented by the Company during the nine months ended December 31, 1998.

Depreciation and amortization decreased approximately \$19,000 for the nine months ended December 31, 1998, compared to the twelve months ended March 31, 1998. However, on an annualized basis, depreciation and amortization for the nine month period ended December 31, 1998, would have been approximately \$189,000, an increase of approximately \$28,000, an amount consistent with the increase in fixed assets during the nine month period ended December 31, 1998.

OTHER EXPENSES

Other expenses decreased to approximately \$155,000 for the nine months ended December 31, 1998 from approximately \$390,000 for the twelve months ended March 31, 1998. As a percentage of net revenue, other expenses decreased to 0.6% for the nine months ended December 31, 1998, from 1.1% for the twelve months ended March 31, 1998.

PRO FORMA INCOME TAXES

The pro forma income tax provisions for the nine months ended December 31, 1998, and twelve months ended March 31, 1998, have been computed using a combined federal and state income tax rate of 36.9% after adjusting for the effects of non-tax deductible items.

PRO FORMA NET INCOME

As a result of the factors discussed above, pro forma net income increased to \$3.8 million or \$0.30 per pro forma basic and diluted share for the nine months ended December 31, 1998, from \$3.0 million or \$0.24 per pro forma basic and diluted share for the twelve months ended March 31, 1998. On an annualized basis, pro forma net income for the nine months ended December 31, 1998, would have been \$5.1 million, a 70% increase over the twelve months ended March 31, 1998. As a percentage of net revenues, pro forma net income increased to 11.7% for the nine months ended December 31, 1998, from 8.2% for the twelve months ended March 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

In the twelve months ended December 31, 1999, the SPAR Group had pre-tax income of \$2.6 million and experienced a negative operating cash flow of \$5.0 million. As previously noted, the Merger with PIA was consummated on July 8, 1999, and is expected to reduce fixed costs and create synergies directly impacting the SPAR Group's profitability and cash flow.

The SPAR Group experienced a net increase in cash and cash equivalents of \$1.2 million for the twelve months ended December 31, 1999. With the existing revolving line of credit, subject to availability, timely collection of receivables, and the SPAR Group's current working capital position, management believes the funding of operations over the next twelve months will be sufficient to maintain on-going operations.

DEBT

Prior to the Merger, SMF had a loan facility comprised of a term loan of \$3.0 million and an asset based revolving credit facility under which it was able to borrow up to a maximum of \$6.0 million depending upon its borrowing base availability (See Note 5 to the Financial Statements), which has been superseded by (and continued as part of) the current facility described below.

In 1999, IBJ Whitehall and the members of the SPAR Group (other than PIA Canada) (collectively, the "Borrowers") entered into a Revolving Credit, Term Loan and Security Agreement (the "Bank Loan Agreement"), pursuant to which the Borrowers are permitted to borrow up to a maximum of \$14 million on a revolving credit basis, and \$2.5 million on a term basis (the "Term Loan"). The revolving loans bear interest at IBJ Whitehall's "Alternate Base Rate I" plus one-half of one percent (0.50%) (a total of 9.5% per annum at December 31, 1999), and the Term Loan bears interest at such "Alternate Based Rate II" plus three-quarters of one percent (0.75%) (a total of 10.0% per annum at December 31, 1999). The Bank Loan Agreement's revolving credit loans of \$1.5 million and \$12.5 million are scheduled to mature on June 30, 2000, and September 21, 2002, respectively. The Term Loan amortizes in equal monthly installments of \$83,334 each. In addition, the Borrowers are required to make mandatory prepayments in an amount equal to 25% of Excess Cash Flow, as defined in the Bank Loan Agreement, for each fiscal year, to be applied first to the Term Loan and then to the revolving credit loans (subject to the Borrowers'

ability to re-borrow revolving advances in accordance with the terms of the Bank Loan Agreement). The facility is secured with the assets of the SPAR Group.

The Bank Loan Agreement contains an option for the Bank 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 ten consecutive trading day period exceeds \$15.00 per share. This option expires September 22, 2002.

The Bank Loan Agreement contains certain financial covenants that must be met by the Borrowers on a consolidated basis, among which are a minimum "Net Worth," a "Fixed Charge Coverage Ratio", a minimum ratio of Debt to EBITDA, and a minimum EBITDA, as such terms are defined in the Bank Loan Agreement.

The balance outstanding on the revolving line of credit was \$13.3 million and \$4.1 million at December 31, 1999, and 1998, respectively. As of December 31, 1999, the SPAR Group had unused availability under the line of credit to borrow up to an additional \$700,000.

CASH AND CASH EQUIVALENTS

Net cash used in operating activities for the twelve months ended December 31, 1999, was \$5.0 million, compared with net cash provided of \$5.3 million for the nine months ended December 31, 1998. This use of cash for operating activities in 1999 resulted from an increase in accounts receivable consistent with the increase in revenues subsequent to the PIA and MCI acquisitions, as well as decreases in accounts payable and deferred revenue (net of the PIA and MCI acquisitions).

Net cash provided from investing activities for the twelve months ended December 31, 1999, was \$5.0 million, compared with net cash used of \$731,000 for the nine months ended December 31, 1998. The increase in net cash provided from investing activities resulted primarily from the purchases of PIA and MCI during 1999, net of cash acquired.

Net cash provided by financing activities for the twelve months ended December 31, 1999, was \$1.1 million, compared with net cash used by financing activities of \$910,000 for the nine months ended December 31, 1998. The increase in net cash provided from financing activities was primarily due to borrowings made during 1999 on the Company's line of credit.

The above activity resulted in a net increase in cash and cash equivalents of \$1.2 million for the twelve months ended December 31, 1999, compared to a net decrease of \$1.0 million for the nine months ended December 31, 1998.

Cash and cash equivalents totaled \$2.1 million at December 31, 1999, compared with \$910,000 at December 31, 1998. At December 31, 1999, the Company had negative working capital of \$639,000 as compared to negative working capital at December 31, 1998 of \$2.2 million, and current ratios of 1.0 and 0.9 as of December 31, 1999, and 1998, respectively.

Cash and cash equivalents and the timely collection of its receivables provide the SPAR Group's current liquidity. However, the potential of delays in collection of receivables due from any of the SPAR Group's major clients, or a significant reduction in business from such clients, or the inability to acquire new clients, would have a material adverse effect on the SPAR Group's cash resources and its ongoing ability to fund operations.

The SPAR Group is obligated, under certain circumstances, to pay severance compensation to its employees and other costs in connection with the Merger of approximately \$5.4 million. In addition, the Company incurred substantial cost in connection with the transaction, including legal, accounting and investment banking fees estimated to be an aggregate unpaid obligation of approximately \$1.3 million. The SPAR Group has also accrued approximately \$2.4 million for expenses incurred by PIA prior to the Merger, which have not been paid. Management believes the current bank credit facilities are sufficient to fund operations, and working capital, including the current maturities of debt obligations, but may not be sufficient to reduce obligations of the Merger with PIA. The Company is currently negotiating with its bank for an increase in its credit facility to meet the non-operational credit needs and is also working to secure additional long-term capital. However, there can be no assurances that the Company will be successful in these negotiations.

The transfer of the Company's securities to the Nasdaq SmallCap Market also could affect its ability to raise equity capital.

Certain former principal stockholders of the SPAR Companies each made loans to certain SPAR Companies in the aggregate amount of \$4.3 million to facilitate the acquisition of the PIA Companies and the assets of Old MCI. These stockholders also were owed \$1.9 million in unpaid distributions relating to the former status of certain of the operating SPAR Companies as Subchapter S Corporations (See Note 13 to the Financial Statements). Those amounts were converted into promissory notes issued to these certain stockholders severally by SMF, SINC and SPGI prior to the Merger, which aggregated \$6.2 million. As of December 31, 1999, a total of \$5.8 million remained outstanding under these notes.

YEAR 2000 SOFTWARE COSTS

As of the filing date of this Annual Report on Form 10-K, the Company has not experienced any Year 2000 issues arising from its systems or those of its material vendors and suppliers. If there are ongoing Year 2000 issues that might arise at a later date, the Company has contingency plans in place to address these issues. The Company continues to maintain contact with third parties with whom it has material relationships, such as vendors, suppliers and financial institutions, with respect to the third parties' Year 2000 compliance and any ongoing Year 2000 issues that might arise at a later date. The Company has incurred costs of approximately \$500,000 in connection with identifying, assessing, remediating and testing Year 2000 issues and does not expect to incur material costs in the future. These costs have consisted primarily of personnel expense for employees who have had only a portion of their time dedicated to the Year 2000 remediation effort. It has been the Company's policy to expense these costs as incurred. These costs were expensed prior to December 31, 1999, and have been funded through operating cash flows. In light of the Company's efforts, the Year 2000 issue has had no material adverse effect to date on the business or results of operations of the Company, and is not expected to have a material impact on the Company's financial condition. However, there can be no assurance that the Company or any third parties will not have ongoing Year 2000 issues that may have a material adverse effect on the Company's business, operating results and financial condition in the future.

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

The SPAR Group is exposed to market risk related to the variable interest rate on the line of credit and term note and the variable yield on its cash and cash equivalents. The SPAR Group's accounting policies for financial instruments and disclosures relating to financial instruments require that the SPAR Group's consolidated balance sheets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and long term debt. The SPAR Group 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 amounts of long-term debt approximate fair value because the obligation bears interest at a floating rate. The SPAR Group monitors the risks associated with interest rates and financial instrument positions. The SPAR Group's investment policy

objectives require the preservation and safety of the principal, and the maximization of the return on investment based upon the safety and liquidity objectives.

The SPAR Group's revenue derived from international operations is not material and, therefore, the risk related to foreign currency exchange rates is not material.

INVESTMENT PORTFOLIO

The SPAR Group has no derivative financial instruments or derivative commodity instruments in its cash and cash equivalents and investments. The SPAR Group invests its cash and cash equivalents in investments in high-quality and highly liquid investments consisting of taxable money market instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See Item 14 of this Annual Report on Form 10-K.

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

None.

PART III

ITEMS 10, 11, 12 AND 13.

The information required in these items 10,11,12 and 13 of this Form 10-K is incorporated by reference to those portions of the Company's 2000 Proxy Statement, which contains such information.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

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

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Consolidated and Combined Statements of Operations for the year ended December 31, 1999, for the nine month period ended December 31, 1998, and the year ended March 31, 1998	F-3
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2. FINANCIAL STATEMENT SCHEDULES.

Schedule II - Valuation and Qualifying Accounts for the years ended December 31, 1999 the nine month period ended December 31, 1998, and the year ended March 31, 1998	F-39
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3. EXHIBITS.

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Certificate of Incorporation of SPAR Group, Inc., 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 on December 14, 1995 (the "Form S-1") and to Exhibit 3.1 to the Company's Form 10-Q for the 3rd Quarter ended September 30, 1999).
3.2	By-laws of PIA (incorporated by reference to the 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	1990 Stock Option Plan (incorporated by reference to the Form S-1).
10.2	Amended and Restated 1995 Stock Option Plan (incorporated by reference of Exhibit 10.2 to the Company's Form 10-Q for the 2nd Quarter ended July 3, 1998).
10.3	1995 Stock Option Plan for Non-employee Directors (incorporated by reference to the Form S-1).

- 10.4+* Employment Agreement dated as of June 25, 1997 between PIA and Terry R. Peets (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the 2nd Quarter ended June 30, 1997)
- 10.5+* Severance Agreement dated as of February 20, 1998 between PIA and Cathy L. Wood (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the 1st Quarter ended April 30, 1998)
- 10.6* Severance Agreement dated as of August 10, 1998 between PIA and Clinton E. Owens (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the 3rd Quarter ended October 2, 1998)
- 10.7+* Amendment No. 1 to Employment Agreement dated as of October 1, 1998 between PIA and Terry R. Peets.
- 10.8+* Amended and Restated Severance Compensation Agreement dated as of October 1, 1998 between PIA and Cathy L. Wood.
- 10.9+ Loan and Security Agreement dated December 7, 1998 among Mellon Bank, N.A., PIA Merchandising Co., Inc., Pacific Indoor Display Co. and PIA.
- 10.10+ Agreement and Plan of Merger dated as of February 28, 1999 among PIA, SG Acquisition, Inc., PIA Merchandising Co., Inc., SPAR Acquisition, Inc., SPAR Marketing, Inc., SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR MCI Performance Group, Inc. and SPAR Trademarks, Inc.
- 10.11+ Voting Agreement dated as of February 28, 1999 among PIA, Clinton E. Owens, RVM/PIA, California limited partnership, Robert G. Brown and William H. Bartels.
- 10.12* Amendment No. 2 to Employment Agreement dated as of February 11, 1999 between PIA and Terry R. Peets (incorporated by reference to Exhibit 10.12 to the Company's Form 10-Q for the 2nd Quarter ended April 2, 1999).
- 10.13 Special Purpose Stock Option Plan (incorporated by reference to Exhibit 10.13 of the Company's Form 10-Q for the 2nd Quarter ended July 2, 1999).
- 10.14 Amendment No. 1 to Severance Agreement dated as of May 18, 1999 between the Company and Cathy L. Wood (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the 3rd Quarter ended September 30, 1999).
- 10.15+
+ Second Amended and Restated Revolving Credit, Term Loan and Security Agreement by and among IBJ Whitehall Business Credit Corporation with SPAR Marketing Force, Inc., SPAR Group, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR MCI Performance Group, Inc., SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., PIA Merchandising, Co., Inc., Pacific Indoor Display Co., Inc., and Pivotal Sales Company dated as of September 22, 1999.
- 10.16+
+ Waiver and Amendment No. 1 to Second Amended and Restated Revolving Credit, Term Loan and Security Agreement by and between SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Performance Group, Inc. (f/k/a SPAR MCI Performance Group, Inc.), SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co., Inc. and Pivotal Sales Company (each a "Borrower" and collectively, the "Borrowers") and IBJ Whitehall Business Credit Corporation ("Lender") dated as of December 8, 1999.

21.1+	Subsidiaries of the Company
+	
23.1+	Consent of Ernst & Young LLP
+	
27.1+	Financial Data Schedule
+	
+	Previously filed with initial Form 10-K for the
+	fiscal year ended January 1, 1999.
+	Filed herewith.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

(B) REPORTS ON FORM 8-K.

Form 8-K dated July 8, 1999 and filed with the Commission on July 23, 1999. Form 8-K/A dated July 8, 1999 and filed with the Commission on September 20, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1943, 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: April 12, 2000

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

SIGNATURE TITLE

/s/ Robert G. Brown ----- Robert G. Brown	President, Chief Executive Officer and Chairman of the Board	April 12, 2000
/s/ William H. Bartels ----- William H. Bartels	Vice Chairman, Senior Vice President, Treasurer and Director	April 12, 2000
/s/ Charles Cimitile ----- Charles Cimitile	Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	April 12, 2000
/s/ Robert O. Aders ----- Robert O. Aders	Director	April 12, 2000
/s/ J. Christopher Lewis ----- J. Christopher Lewis	Director	April 12, 2000

Report of Ernst & Young LLP, Independent Auditors

To the Board of Directors and Stockholders of SPAR Group, Inc.

We have audited the consolidated balance sheet of SPAR Group, Inc. as of December 31, 1999, the combined balance sheet of SPAR Group, Inc. as of December 31, 1998, and the related consolidated or combined statements of operations, stockholders' equity and cash flows for the year ended December 31, 1999, the nine months ended December 31, 1998 and the year ended March 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(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 and combined financial statements referred to above present fairly, in all material respects, the financial position of SPAR Group, Inc. at December 31, 1999 and 1998, and the results of its operations and its cash flows for the year ended December 31, 1999, the nine months ended December 31, 1998 and the year ended March 31, 1998, 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 and combined financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

*Minneapolis, Minnesota
March 3, 2000*

SPAR Group, Inc.

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

	December 31	
	1999	1998
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,074	\$ 910
Accounts receivable, net	28,858	10,627
Prepaid expenses and other current assets	1,134	708
Prepaid program costs	2,777	-
Investment in affiliate	710	-
Due from certain stockholders	-	1,500
Total current assets	35,553	13,745
Property and equipment, net	3,459	827
Goodwill and other intangibles, net	23,767	-
Other assets	308	293
Total assets	\$63,087	\$14,865
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Line of credit and notes payable	\$ 857	\$ 4,150
Accounts payable	7,419	1,534
Accrued expenses and other current liabilities	9,954	2,808
Deferred revenue	6,341	-
Restructuring and other charges	5,404	-
Due to affiliates	178	205
Due to certain stockholders	3,847	6,577
Note payable to MCI	1,045	-
Current portion of long-term debt	1,147	685
Total current liabilities	36,192	15,959
Line of credit and long-term liabilities, net of current portion	14,009	311
Long-term debt due to certain stockholders	2,000	-
Commitments and contingencies		
Stockholders' equity (deficit):		
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 - 18,154,666 as of December 31, 1999	182	-
Additional paid-in capital (deficit)	10,095	-
Retained earnings	609	-
Total stockholders' equity (deficit)	10,886	(1,405)
Total liabilities and stockholders' equity (deficit)	\$63,087	\$14,865

See accompanying notes.

SPAR Group, Inc.

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

	Year ended December 31, 1999	Nine Months ended December 31, 1998	Year ended March 31, 1998
Net revenues	\$116,525	\$32,601	\$36,804
Cost of revenues	81,288	16,217	19,417
Gross profit	35,237	16,384	17,387
Selling, general and administrative expenses	28,830	9,978	12,087
Depreciation and amortization	2,182	142	161
Operating income	4,225	6,264	5,139
Other income (expense)	90	149	(36)
Interest expense	(1,662)	(304)	(354)
Income before provision for income taxes	2,653	6,109	4,749
Provision for income taxes:			
Nonrecurring charge for termination of Subchapter S election	3,100	-	-
Income taxes	48	-	-
Net income (loss)	\$ (495)	\$ 6,109	\$ 4,749
Unaudited pro forma information:			
Income before income tax provision	\$ 2,653	\$ 6,109	\$ 4,749
Pro forma income tax provision	1,411	2,253	1,751
Pro forma net income	\$ 1,242	\$ 3,856	\$ 2,998
Pro forma basic earnings per share	\$0.08	\$0.30	\$0.24
Pro forma basic weighted average common shares	15,361	12,659	12,659
Pro forma diluted earnings per share	\$0.08	\$0.30	\$0.24
Pro forma diluted weighted average common shares	15,367	12,659	12,659

See accompanying notes.

SPAR Group, Inc.

Consolidated and Combined Statement of Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balance at March 31, 1997					\$ 935
Net income					4,749
Net distributions to stockholders					(2,542)
<hr/>					3,142
Balance at March 31, 1998					3,142
Net income					6,109
Net distributions to stockholders					(10,656)
<hr/>					(1,405)
Balance at December 31, 1998					(1,405)
Net income through July 8, 1999					1,996
Net distributions to stockholders					(332)
Stock option compensation					752
Deferred tax provision - termination of Subchapter S election					(3,100)
<hr/>					\$ (2,089)
<hr/>					\$ (2,089)
Balance at July 8, 1999					\$ (2,089)
<hr/>					\$ (2,089)
Reorganization prior to reverse merger with PIA	12,659	\$127	\$ (2,216)	\$ -	\$ (2,089)
Reverse merger with PIA	5,494	55	12,307	-	12,362
Issuance of common stock	2	-	4	-	4
Net income July 9, 1999 to December 31, 1999	-	-	-	609	609
<hr/>					\$10,886
Balance at December 31, 1999	18,155	\$182	\$10,095	\$609	\$10,886
<hr/>					\$10,886

See accompanying notes.

SPAR Group, Inc.

Consolidated and Combined Statements of Cash Flows
(In thousands)

	Year ended December 31, 1999	Nine Months ended December 31, 1998	Year ended March 31, 1998
OPERATING ACTIVITIES			
Net income (loss)	\$ (495)	\$6,109	\$4,749
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation	881	131	152
Amortization	1,301	11	9
Provision for doubtful accounts and others, net	845	-	-
Equity in earnings of affiliate	(91)	-	-
Taxes on termination of Subchapter S corporation election	3,100	-	-
Stock related compensation	752	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(5,342)	(2,578)	(484)
Prepaid expenses and other current assets	36	(371)	(217)
Due from affiliates	-	60	72
Accounts payable and other liabilities	(3,294)	1,957	(815)
Due to affiliates	-	(57)	(356)
Deferred revenue	(2,666)	-	(467)
Net cash (used in) provided by operating activities	(4,973)	5,262	2,643
INVESTING ACTIVITIES			
Purchases of property and equipment	(2,105)	(731)	(160)
Purchase of businesses, net of cash acquired	7,109	-	-
Net cash provided by (used in) investing activities	5,004	(731)	(160)
FINANCING ACTIVITIES			
Net proceeds from line of credit	9,207	1,748	346
Proceeds from term loan	3,000	-	-
Net (payments of) proceeds from long-term debt due to Spar Marketing Services, Inc.	(685)	(281)	409
Due to (from) certain stockholders	3,500	(1,500)	(1,297)
Payments of note payable, MCI	(9,577)	-	-
Payment of other long-term debt	(1,254)	(225)	(500)
Distributions to certain stockholders	(3,062)	(5,282)	(42)
Proceeds from issuance of common stock	4	-	-
Net cash provided by (used in) financing activities	1,133	(5,540)	(1,084)
Net increase (decrease) in cash	1,164	(1,009)	1,399
Cash at beginning of period	910	1,919	520
Cash at end of period	\$2,074	\$ 910	\$1,919
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	\$ 892	\$ 300	\$ 353
Non-cash transactions:			
Distributions payable to certain stockholders	\$1,332	\$6,577	\$2,500
Equipment purchased with capital leases	\$ 518	\$ -	\$ -

See accompanying notes.

SPAR Group, Inc.

Notes to Financial Statements
December 31, 1999

1. BUSINESS AND ORGANIZATION

The SPAR Group, Inc., a Delaware corporation formerly known as PIA Merchandising Services, Inc. ("SPAR Group" or the "Company") is a supplier of in-store merchandising and marketing services, and premium incentive marketing services throughout the United States and Canada. The Company also provides database marketing, teleservices, marketing research and Internet-based software. The Company's operations are divided into three divisions: the Merchandising Services Division, the Incentive Marketing Division, and the Internet Division. The Merchandising Services Division provides merchandising services, database marketing, teleservices, and marketing research to manufacturers and retailers primarily in the mass merchandiser, video, chain, discount drug store and grocery industries. The Incentive Marketing Division designs and implements premium incentives, manages meetings, group travel and training programs principally for corporate clients. In March 2000, the Company announced the formation of an Internet Division for the purpose of marketing its proprietary internet-based computer software.

MERCHANDISING SERVICES DIVISION

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., a Nevada corporation ("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. (collective, "PIA" or the "PIA Companies"). The SPAR Marketing Companies, the original predecessor of which was founded in 1967, provide nationwide retail merchandising and marketing services to home video, consumer goods and food products companies. The PIA Companies, through a predecessor of the Company first organized in 1943, also are suppliers of in-store merchandising and sales services throughout the United States and Canada, and were "acquired" by the SPAR Companies for accounting purposes pursuant to the Merger on July 8, 1999 (See Note 3, Business Combinations - PIA Reverse Merger, below). The PIA Companies provide these services primarily on behalf of consumer product manufacturers and retailers at mass merchandisers, drug stores and retail grocery stores. The Company currently operates in all 50 states and provides a broad range of in-store merchandising and other marketing services to many of the nation's leading companies.

SPAR Group, Inc.

Notes to Financial Statements (continued)

1. BUSINESS AND ORGANIZATION (CONTINUED)

Merchandising services generally consist of special projects or regularly scheduled routed services provided at the stores for a specific retailer or multiple manufacturers primarily under multiple year contracts. Services also include stand-alone large-scale implementations. These services may include 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 selling new and promotional items. Specific in-store services can be initiated by retailers and manufacturers, such as new product launches, special seasonal or promotional merchandising, focused product support and product recalls. These services are used typically for large-scale implementations requiring over 30 days to complete. The Company also provides database marketing, tel services and research services.

INCENTIVE MARKETING DIVISION

The Company's Incentive Marketing Division was created in January, 1999 through the Company's purchase of the business and substantially all of the assets of BIMA Group, Inc., a Texas corporation ("BIMA" or "MCI") originally founded in 1987 and formerly known as MCI Performance Group, Inc. (see Note 3) The purchase was made by the Company's indirect subsidiary, SPAR Performance Group, Inc., formerly known as SPAR MCI Performance Group, Inc. ("SPGI"). SPGI provides a wide variety of consulting, creative, program administration, travel and merchandise fulfillment, and training services to companies seeking to retain and motivate employees, salespeople, dealers, distributors, retailers, and consumers toward certain actions or objectives. SPGI's strategy enables companies to outsource the entire design, implementation and fulfillment of incentive programs in a one-stop, "umbrella" shopping approach. SPGI typically consults with a client to design the most effective plan to achieve the client's goals. SPGI then provides services necessary to implement the program, generates detailed efficiency progress reports, and reports on the return on investment upon completion of the program.

SPAR Group, Inc.

Notes to Financial Statements (continued)

1. BUSINESS AND ORGANIZATION (CONTINUED)

INTERNET DIVISION

In March 2000, the Company established its Internet Division to separately market its application software products and services. The Company has developed and is utilizing several Internet-based software products. The Internet Division was established to market these applications to businesses with multiple locations and large workforces desiring to improve day-to-day efficiency and overall productivity.

See Note 13 for further descriptions of the Company's services and operating segments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CHANGE OF FISCAL YEAR END

Effective April 1, 1998, the SPAR Group, Inc. changed its year end for financial statement purposes to a calendar year.

BASIS OF PRESENTATION

CONSOLIDATION/COMBINATION

Through July 8, 1999, the combined financial statements include operating companies owned by the same two stockholders (the "SPAR Companies"). On July 8, 1999, the SPAR Companies reorganized and completed a "reverse" merger with the PIA Companies (see Note 3). From July 8, 1999, the consolidated financial statements include the accounts of the 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.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Company's services are provided under contracts, which consist primarily of fixed fee and commission-based arrangements. Revenues under fixed fee arrangements are recognized based on a fixed monthly fee for a service period of typically one year.

The Company's commission-based contracts provide for commissions to be earned based on a percentage of the client's net sales of products to designated retail chains. The Company receives monthly draws, which are recognized as commissions earned. These monthly draws approximate estimated minimum revenue to be earned on each contract for a service period of typically one year. The Company recognizes adjustments on commission-based sales in the period such amounts become determinable. Commissions are usually owed to the Company in excess of draws received.

The Company also performs services on a specific project basis over a specified period ranging from one to twelve months. Revenues related to these projects are recognized on a percentage of completion method as services are performed or costs are incurred. Provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are determinable.

The Company also performs project based services, and the resultant revenues are recognized upon the completion of the project.

UNBILLED ACCOUNTS RECEIVABLE

Unbilled accounts receivable represent merchandising services performed that are pending billing until the requisite documents have been processed or projects have been completed.

SPAR Group, Inc.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AGENCY FUNDS

Cash balances available for the administration of a customer's bonus program are deposited in accounts with financial institutions in which the Company acts as agent for a client pending payment settlement. Balances will fluctuate based upon the receipt of funds from the client. These funds are considered neither an asset nor liability of the Company. The balance of funds held in agency accounts totaled approximately \$11,000 and \$35 million as of December 31, 1999 and 1998, 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.

OTHER ASSETS

Other assets consist primarily of refundable deposits.

DEFERRED REVENUE

Client payments received in advance of merchandising services performed are classified as deferred revenue.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the recoverability of long-lived assets, 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, in accordance with criteria established by Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets." A loss is recognized for the difference between the carrying amount and the estimated fair value of the asset. The Company made no adjustment to the carrying values of the assets during the year ended December 31, 1999, the nine months ended December 31, 1998 and the year ended March 31, 1998.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's 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 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 amounts of long-term debt approximates fair value because the obligation bears interest at a variable rate. The carrying amount of notes payable approximates fair value since the current effective rates reflect the market rate for debt with similar terms and remaining maturities.

CONCENTRATION OF CREDIT RISK AND OTHER RISKS

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company places its cash with high credit quality financial institutions and investment grade short-term investments, which limit the amount of credit exposure.

SPAR Group, Inc.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

No single customer accounted for more than 10% of net revenues for the year ended December 31, 1999. Three customers approximated 50% of net revenues for the nine months ended December 31, 1998 and 51% of net revenues for the year ended March 31, 1998, respectively. Additionally, one customer approximated 18% of accounts receivable at December 31, 1999, while three customers approximated 50% and 49% of accounts receivable at December 31, 1998 and March 31, 1998, respectively.

INCOME TAXES

From commencement through July 8, 1999, certain of the SPAR Companies had elected, by the consent of their stockholders, to be taxed under the provisions of subchapter S of the Internal Revenue Code (the "Code") with the exception of SPAR/Burgoyne Retail Services, Inc., SPAR Acquisition, Inc., SPAR Incentive Marketing, Inc. and SPAR Marketing, Inc., which were taxed as C corporations. Under the provisions of the Code, the stockholders of the subchapter S companies included the applicable SPAR Company's corporate income in their personal income tax returns. Accordingly, these subchapter S companies were not subject to federal corporate income tax during the period for which they were S corporations. Certain states in which these subchapter S companies did business do not accept certain provisions under subchapter S of the Code and, as a result, income taxes in these states were a direct responsibility of the Company.

The unaudited pro forma income tax information included in the statements of operations 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.

In connection with the Company's July 1999 reorganization, the subchapter S status of each applicable SPAR Company was terminated. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 11 to the consolidated financial statements pro forma diluted net income (loss) and net income (loss) per share as if the Company had applied the fair value method of accounting.

PRO FORMA EARNINGS PER SHARE

Pro forma basic earnings per share amounts are based upon the weighted average number of common shares outstanding. Pro forma diluted earnings per share amounts are based upon the weighted average number of common and potential common shares for each period represented. Potential common shares include stock options, using the treasury stock method. The pro forma basic and pro forma diluted earnings per share amounts for periods prior to July 8, 1999 are based upon 12,659,000 shares, although these shares were issued on July 9, 1999, as required to comply with SFAS No. 128 and the Securities and Exchange Commission Staff Accounting Bulletin 98 (SAB 98).

SPAR Group, Inc.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of the consolidated and combined financial statements in conformity with generally accepted accounting principles 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.

INTERNAL USE SOFTWARE DEVELOPMENT COSTS

Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, SOP 98-1. The SPAR Group has adopted SOP 98-1 as of January 1, 1999, which requires the capitalization of certain costs incurred in connection with developing or obtaining internal use software. Prior to the adoption of SOP 98-1, the Company expensed all internal use software related costs as incurred. The effect of adopting the SOP was to increase pro forma net income for the year ended December 31, 1999 by approximately \$980,000 and \$0.06 per pro forma basic and diluted earnings per share.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which the Company is required to adopt effective in its fiscal year 2000. SFAS No. 133 will require the Company to record all derivatives on the balance sheet at fair value. The Company does not currently engage in hedging activities and will continue to evaluate the effect of adopting SFAS No. 133. The Company is expected to adopt SFAS No. 133 in its fiscal year 2000.

RECLASSIFICATIONS

Certain amounts presented for fiscal 1998 have been reclassified to conform to the 1999 presentations.

Notes to Financial Statements (continued)

3. BUSINESS COMBINATIONS

MCI ACQUISITION

On January 15, 1999, SPGI acquired substantially all the business and assets (the "MCI Acquisition") of BIMA Group, Inc., a Texas corporation formerly known as MCI Performance Group, Inc. ("MCI"), pursuant to their Asset Purchase Agreement dated as of December 23, 1998, as amended (the "MCI Purchase Agreement"). The transaction was accounted for as a purchase and consisted of consideration of \$1.8 million cash, an \$8.8 million note (as amended) payable to MCI (the "MCI Note") and the assumption of certain agreed-upon liabilities (the "MCI Purchase Price").

The MCI Purchase Price was allocated to the assets acquired by SPGI as agreed upon in a schedule to the MCI Purchase Agreement, which generally used their respective carrying values, as these carrying values were deemed to represent fair market values of those assets and liabilities.

The total purchase consideration does not reflect contingent consideration related to earn-out arrangements included in the MCI Purchase Agreement. The MCI Purchase Agreement provides for a post-closing adjustment whereby additional contingent consideration will be payable to MCI in the event that earnings before taxes for the year ended March 31, 1999 (as defined in the MCI Purchase Agreement) exceed \$3.5 million. The Company has determined that there is no additional earn-out consideration to be paid.

The excess purchase price paid by SPGI for the business and assets of MCI over the fair value of those assets was \$13 million, subject to change from the contingent earn-out arrangement, and is being amortized using the straight-line method over 15 years.

PIA REVERSE MERGER

On July 8, 1999, SG Acquisition, Inc., a Nevada corporation ("PIA Acquisition"), a wholly-owned subsidiary of PIA Merchandising Services, Inc., a Delaware corporation ("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 (i) PIA Delaware, PIA Merchandising Co., Inc., a California corporation

SPAR Group, Inc.

Notes to Financial Statements (continued)

3. BUSINESS COMBINATIONS (CONTINUED)

("PIA California"), and PIA Acquisition (collectively, the "PIA Parties"), and (ii) SAI, SPAR Marketing, Inc., a Delaware corporation ("SMI"), SPAR Marketing Force, Inc., a Nevada corporation, ("SMF") SPAR Marketing, Inc., a Nevada corporation ("SMNEV"), SPAR, Inc., a Nevada corporation ("SINC"), SPAR/Burgoyne Retail Services, Inc., an Ohio corporation ("SBRS"), SPAR Incentive Marketing, Inc., a Delaware corporation ("SIM"), SPAR Performance Group, Inc., a Delaware corporation ("SPGI") and SPAR Trademarks, Inc., a Nevada corporation ("STM") (each a "SPAR Company" and collectively, the "SPAR Companies").

PIA Delaware (pre-Merger only), PIA California and each of the PIA California's direct and indirect subsidiaries (i.e., Pacific Indoor Display Co., Inc., a California corporation ("Pacific")), Pivotal Sales Company, a California corporation ("Pivotal") and PIA Merchandising Limited, a corporation organized under the laws of Nova Scotia ("PIA Canada"), may be referred to individually as a "PIA Company" and collectively as the "PIA Companies."

In connection with the Merger, PIA Delaware changed its name to SPAR Group, Inc. (which will be referred to post-Merger individually as "SGI" or the "Company"). Although the SPAR Companies became subsidiaries of PIA Delaware (now SGI) as a result of this "reverse" Merger, the transaction has been accounted for as required under generally accepted accounting principles as a purchase by the SPAR Companies of the PIA Companies, with the books and records of SGI being adjusted to reflect the historical operating results of the SPAR Companies.

In the transaction, the former shareholders and optionholders of SAI received approximately 12.7 million shares of common stock and 134,114 common stock options, respectively. The purchase price of approximately \$12.3 million has been allocated based on the estimated fair value of the assets of the PIA Companies deemed for accounting purposes to have been acquired by the SPAR Companies.

SPAR Group, Inc.

Notes to Financial Statements (continued)

3. BUSINESS COMBINATIONS (CONTINUED)

The goodwill that resulted from the Merger was calculated after giving effect to the merger costs of the PIA Companies totaling \$2.4 million and the anticipated restructuring costs that are directly related to the Merger totaling \$7.4 million (see Note 14, below). The excess purchase price deemed paid by the SPAR Companies for the assets of the PIA Companies over the fair value of those assets was \$11.7 million and is being amortized using the straight-line method over 15 years.

BUSINESS COMBINATIONS - PRO FORMA RESULTS

In accordance with generally accepted accounting principles, the operating results of SPGI and the PIA Companies have been included in the condensed consolidated statements of operations from the dates of the respective acquisitions (see Note 1). The pro forma unaudited results below assume the acquisitions occurred at the beginning of each of the periods ended December 31, 1999 and 1998 (in thousands, except per share amounts):

	Year ended December 31, 1999	Nine Months ended December 31, 1998
Net revenues	\$ 161,123	\$ 147,189
Operating (loss) income	\$ (4,854)	\$ 912
Pro forma net (loss) income	\$ (4,490)	\$ 19
Pro forma basic (loss) earnings per share	\$ (0.25)	\$ 0.00
Pro forma diluted (loss) earnings per share	\$ (0.25)	\$ 0.00
Basic weighted average common shares	18,155	18,155
Diluted weighted average common shares	18,161	18,161

SPAR Group, Inc.

Notes to Financial Statements (continued)

3. BUSINESS COMBINATIONS (CONTINUED)

The pro forma statements of operations reflect incremental amortization of goodwill, interest expense, increases in bonuses to new SPGI management and provisions for federal and state income taxes.

The pro forma statements of operations for the year ended December 31, 1999 and the nine months ended December 31, 1998, include \$3.5 million and \$800,000 of non-recurring charges by PIA Companies, respectively. These charges include

\$3.0 million in merger and acquisition transaction costs, \$500,000 in banking cancellation fees for the year ended December 31, 1999 and \$800,000 of purchased consulting services related to the PIA Companies redirection of its technology strategy incurred in the nine months ended December 31, 1998.

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had been completed as of the beginning of each of the periods presented, nor are they necessarily indicative of future consolidated results.

4. SUPPLEMENTAL BALANCE SHEET INFORMATION

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

	December 31	
	1999	1998
Trade	\$20,057	\$ 7,087
Unbilled	9,796	4,145
Non-trade	915	-
	30,768	11,232
Less: Allowance for doubtful accounts and other	1,910	605
	\$28,858	\$10,627

SPAR Group, Inc.

Notes to Financial Statements (continued)

4. SUPPLEMENTAL BALANCE SHEET INFORMATION (CONTINUED)

Goodwill and other intangibles, net, consists of the following (in thousands):

	December 31	
	1999	1998
Goodwill and other intangibles	\$25,068	\$ -
Less accumulated amortization	1,301	-
	\$23,767	\$ -
	=====	

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

	December 31	
	1999	1998
Equipment	\$2,058	\$1,059
Furniture and fixtures	1,313	55
Leasehold improvements	150	74
Capitalized software development costs	1,159	-
	4,680	1,188
Less accumulated depreciation and amortization	1,221	361
	\$3,459	\$ 827
	=====	

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

	December 31	
	1999	1998
Accrued salaries and other related costs	\$2,359	\$1,559
Accrued medical and compensation insurance	1,765	-
Amounts held on behalf of third parties	1,108	-
Accrued merger related costs	2,693	-
Other	2,029	1,249
	\$9,954	\$2,808
	=====	

SPAR Group, Inc.

Notes to Financial Statements (continued)

5. LINE OF CREDIT AND LONG-TERM LIABILITIES

Prior to the PIA Merger (see Note 3), SMF was party to a Revolving Credit and Security Agreement dated March 4, 1996 with IBJ Whitehall Business Credit Corporation (as successor to IBJ Schroder Bank and Trust Company) ("IBJ Whitehall") consisting of an asset based revolving credit facility under which it was able to borrow up to a maximum of \$6.0 million depending upon its borrowing base availability. This agreement was amended and restated as of March 11, 1999 adding SBRS and SINC under a single loan facility with IBJ Whitehall consisting of a term loan of \$3.0 million and an asset based revolving credit facility under which it was able to borrow up to a maximum of \$6.0 million depending upon its borrowing base availability. This facility has been superseded by (and continued as part of) the facility described below.

In 1999, IBJ Whitehall and the members of the SPAR Group (other than PIA Canada) (collectively, the "Borrowers") entered into a Revolving Credit, Term Loan and Security Agreements (the "Bank Loan Agreement"), pursuant to which the Borrowers are permitted to borrow up to a maximum of \$14 million on a revolving credit basis, and \$3.0 million on a term basis (the "Term Loan"). The revolving loans bear interest at IBJ Whitehall's "Alternate Base Rate I" plus one-half of one percent (0.50%) (a total of 9.5% per annum at December 31, 1999), and the Term Loan bears interest at such "Alternate Base Rate II" plus three-quarters of one percent (0.75%) (a total of 10.0% per annum at December 31, 1999). The Bank Loan Agreement's revolving credit loans of \$1.5 million and \$12.5 million are scheduled to mature on June 30, 2000 and September 22, 2002, respectively. The Term Loan amortizes in equal monthly installments of \$83,334 each beginning in March 1999. In addition, the Borrowers are required to make mandatory prepayments in an amount equal to 25% of Excess Cash Flow, as defined in the Bank Loan Agreements, for each fiscal year, to be applied first to the Term Loan and then to the revolving credit loans (subject to the Borrowers' ability to re-borrow revolving advances in accordance with the terms of the Bank Loan Agreement). The facility is secured with the assets of the SPAR Group.

The Bank Loan Agreement contains an option for the Bank 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 September 22, 2002.

SPAR Group, Inc.

Notes to Financial Statements (continued)

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

The Bank Loan Agreement contains 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 minimum ratio of Debt to EBITDA, and a minimum EBITDA, as such terms are defined in the Bank Loan Agreement.

The balances outstanding on this line of credit was \$13.3 million and \$4.1 million at December 31, 1999 and 1998, respectively. As of December 31, 1999, the SPAR Group had unused availability under the line of credit to borrow up to an additional \$700,000.

On December 31, 1998, the Company had outstanding \$685,000 due to SPAR Marketing Service, Inc. ("SMS"). The Company agreed to repay the amounts borrowed using the same terms contained within the loan agreement between the bank and SMS. This loan was repaid in its entirety by the Company in 1999.

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

	1999	1998
Revolving line of credit, maturing September 2002	\$12,500	\$ -
Term loan	2,250	-
Long-term debt due to affiliate	-	686
Other long-term liabilities	406	310
	-----	-----
	15,156	996
Current maturities of long-term liabilities	1,147	685
	-----	-----
	\$14,009	\$311
	=====	=====

Maturities of long-term debt at December 31, 1999 are as follows:

Year ending December 31:	
2000	\$ 1,147
2001	1,259
2002	12,750

	\$15,156
	=====

SPAR Group, Inc.

Notes to Financial Statements (continued)

6. INCOME TAXES

As a result of the July 8, 1999 PIA Merger (see Note 3), the subchapter S status of each applicable SPAR Company was terminated for federal and state tax purposes, and the SPAR Group recorded a deferred tax charge against income of \$3.1 million for the cumulative differences between the financial reporting and income tax basis of certain assets and liabilities existing at that date. Additionally, each such SPAR Company was required to change its method of accounting from the cash basis to the accrual basis for income tax reporting purposes.

The SPAR Group expects to be able to offset the deferred tax liability by utilizing a deferred tax asset from the benefit of the PIA Companies' net operating loss carryforwards. The individuals who were the stockholders of the applicable SPAR Companies at that time are obligated to pay the 1999 income taxes relating to taxable income during the period up to the Merger date.

The provision for income taxes for the year ended December 31, 1999 was \$48,000.

The provision for income taxes 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, 1999
Provision for income taxes at federal statutory rate	\$902
Tax attributable to subchapter S earnings	(695)
State income taxes, net of federal benefit	35
Other permanent differences	170
Change in valuation allowance	(404)
Other	40
Provision for income taxes	\$ 48

SPAR Group, Inc.

Notes to Financial Statements (continued)

6. INCOME TAXES (CONTINUED)

Deferred taxes consist of the following (in thousands):

	December 31, 1999
Net operating loss carryforwards	\$4,625
Restructuring	2,093
Nonrecurring charge for termination of Subchapter S election	(2,790)
Accrued compensation, vacation and pension	590
Accrued insurance	581
Allowance for doubtful accounts and other receivable	967
Other, net	423

Deferred tax assets	6,489
Valuation allowance	(6,489)

Net deferred taxes	\$ -
	=====

At December 31, 1999, the Company has net operating loss carryforwards (NOLs) of approximately \$12 million available to reduce future federal taxable income. The Company's net operating loss carryforwards begin to expire in the year 2012. The Company has established a full valuation allowance for the deferred tax assets due to the uncertainty of its net taxable position.

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 has occurred in connection with the PIA Merger, thereby restricting the NOLs available to the Company to approximately \$12.5 million over 19 years.

The pro forma disclosures on the statement of operations reflect adjustments to record provisions for income taxes as if the applicable SPAR Company had not been S corporations. The pro forma provisions for income taxes for the year ended December 31, 1999, the nine months ended December 31, 1998 and the year ended March 31, 1998, of \$1.4 million, \$2.2 million and \$1.8 million, respectively, are computed using a combined federal and state tax rate of 37% of taxable income.

SPAR Group, Inc.

Notes to Financial Statements (continued)

6. INCOME TAXES (CONTINUED)

The recording of a one-time, non-cash stock related compensation expense in the year ended December 31, 1999 of approximately \$752,000 is not tax deductible by the SPAR Group for federal and state income tax purposes. In addition, the amortization of purchased goodwill generated by the reverse Merger is not tax deductible. The pro forma tax provision for the year ended December 31, 1999 has been adjusted for the effects of these non-tax deductible items.

7. COMMON STOCK

Common stock of the companies included in the SPAR Companies at December 31, 1998 is as follows:

	Shares Authorized	Shares Issued and Outstanding	Par Value
Spar Inc.	2,500	72	None
Spar/Burgoyne Retail Services, Inc.	2,500	72	None
Spar Marketing Force, Inc.	2,500	72	None
Spar Marketing, Inc. (Nevada)	100	72	None
Spar Acquisition, Inc.	50,000,000	72	\$.01
Spar MCI Performance Group, Inc.	2,500	72	None
Spar Marketing, Inc. (Delaware)	1,000	72	\$.01

Prior to the July 8, 1999 Merger, the subchapter S status of each applicable SPAR Company was terminated for federal and state tax purposes. As of July 8, 1999, undistributed earnings of the SPAR Group were reclassified to Additional Paid-In Capital.

SPAR Group, Inc.

Notes to Financial Statements (continued)

8. 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 \$2.8 million for the year ended December 31, 1999, \$754,000 for the nine months ended December 31, 1998 and \$871,000 for the year ended March 31, 1998. At December 31, 1999, future minimum commitments under all noncancelable operating lease arrangements are as follows (in thousands):

2000	\$2,050
2001	1,810
2002	1,540
2003	1,053
2004	577

	\$7,030
	=====

LEGAL MATTERS

On September 23, 1999, Information Leasing Corporation ("IFC") filed a complaint for breach of contracts, claim and delivery, and conversion against the Company in Orange County Superior Court, Santa Ana, California, Case no. 814820, with respect to certain equipment leased to the PIA Companies by IFC, which complaint sought judgment to recover the principal sum of \$1,535,869.68, plus taxes, fees, liens and late charges, immediate possession of the leased equipment, compensation for the reasonable value thereof, and costs and attorneys' fees. The Company is currently attempting to negotiate a settlement.

SPAR Group, Inc.

Notes to Financial Statements (continued)

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Pursuant to that certain Asset Purchase Agreement dated as of December 22, 1998, among BIMA Group, Inc. (f/k/a MCI Performance Group, Inc.) ("BIMA"), John H. Wile, SPAR Performance Group, Inc. (f/k/a SPAR MCI Performance Group, Inc.) ("SPGI"), and a company formerly known as SPAR Group, Inc., as amended by the First Amendment thereto dated as of January 15, 1999, Second Amendment dated as of September 22, 1999 (the "Second Amendment"), and Third Amendment dated as of October 1, 1999 (the "Third Amendment"), SPGI would be obligated to pay "Earn-Out Consideration" to BIMA if the business met certain financial performance criteria as set forth therein. SPGI has fully paid the amount outstanding under the Promissory Note pursuant to the Asset Purchase Agreement with respect to the original purchase price, as adjusted by the Second Amendment. Based upon the unaudited balance sheet of BIMA as of January 15, 1999, SPGI estimates that no "Earn-Out Consideration" is due to BIMA. BIMA has asserted that it is owed approximately \$5,000,000 in Earn-Out Consideration, but such Earn-Out Consideration calculation has not been agreed to by SPGI. If the parties cannot agree upon such amount, BIMA has threatened that legal proceeding may ensue with respect to this matter. If sued, SPGI would vigorously contest such matter. SPGI and BIMA intend to continue negotiations, and have orally agreed to use arbitrators (assuming mutually acceptable procedures can be adopted), in order to resolve such "Earn-Out Consideration" dispute.

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

Notes to Financial Statements (continued)

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONTINGENCY

SMS, a related party, has been audited by the Internal Revenue Service with respect to whether certain field representatives should be classified as independent contractors or employees for federal employment tax purposes for the tax years ended December 31, 1991 and 1992. The dispute has worked its way through the Internal Revenue Service appeals process and SMS intends to file a petition with the Federal District Court. If it is found that the field representatives should be classified as employees, SMS could be liable for employment taxes and related penalties and interest. The outcome of this dispute and the amount of the contingent liability are not determinable at this time. If a liability is assessed and SMS is unable to pay, the IRS may seek to collect all or a portion of the tax liability from the Company due to its common control and business relationship with SMS. The Company is not currently a party to this lawsuit. However, an unfavorable outcome could impact the costs of future operations. The Company believes an adequate provision for the contingent liability has been made in the accompanying financial statements as of December 31, 1999 and 1998, respectively. Similar claims have been filed against SMS by certain states. However, SMS is confident defending its position against these state claims because of prior success in several states, and SMS will continue to vigorously defend its position against any future state claims that may arise. For example, SMS prevailed on a similar claim by the State of California, which had instituted administrative proceedings against SMS. The administrative law judge agreed with SMS's classification of field representatives as independent contractors. The State of California has declined to file a further appeal and has refunded payments made by SMS under protest during the appeal process.

9. EMPLOYEE BENEFITS

PENSION PLANS

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 \$30,000 for the year ended December 31, 1999.

SPAR Group, Inc.

Notes to Financial Statements (continued)

9. EMPLOYEE BENEFITS (CONTINUED)

RETIREMENT PLANS

The Company has a 401(k) Profit Sharing Plan covering substantially all eligible employees. Employer contributions of approximately \$63,000 for the year ended December 31, 1999, \$14,400 for the nine months ended December 31, 1998 and \$37,000 were made to the plan during the year ended March 31, 1998.

The Company has an Employee Stock Purchase Plan ("ESP Plan"). The ESP Plan allows employees of the Company to purchase common stock at a discount, without having to pay any commissions on the purchases. The discount is the greater of 15% of the fair market value ("FMV") at the end of the reportable period or the difference between the FMV at the beginning and end of the reportable period. The maximum amount that any employee can contribute to the ES Plan per quarter is \$6,250, and the total number of shares reserved by the Company for purchase under the ESP Plan is 180,576. During 1999, the Company issued 7,568 shares of common stock, at a weighted average price of \$2.71 per share.

10. RELATED PARTY TRANSACTIONS

The SPAR Companies are affiliated through common ownership with SPAR Marketing Services, Inc., SPAR Retail Services, Inc., (f/k/a SPAR/Burgoyne, Inc.), SPAR Group, Inc., IDS SPAR Pty, Ltd. (Aust.), SPAR Ltd., (U.K.), Garden Island, Inc., SPAR Marketing Pty Ltd. (Aust.), WR Services, Inc., SR Services Inc., Infinity Insurance Ltd. and SPAR Infotech, Inc.

The Company purchases field management services and the use of independent contractor services from SPAR Marketing Services, Inc.

The Company also purchased internet consulting services from SPAR Infotech, Inc.

SPAR Group, Inc.

Notes to Financial Statements (continued)

10. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Year ended December 31, 1999	Nine Months ended December 31, 1988	Year ended March 31 1998
Services provided by affiliates:			
Independent contractor services	\$4,111	\$2,763	\$3,233
Field management services	\$4,344	\$2,049	\$2,964
Internet consulting services	\$ 608	\$ -	\$ -
Services provided to affiliates:			
Management services	\$ 665	\$ 417	\$ 576

Through the services of Infinity Insurance, Ltd., the Company purchased insurance coverage for its casualty and property insurance risk, for approximately \$959,000 for the year ended December 31, 1999, \$375,000 for the nine months ended December 31, 1998 and \$318,000 during the year ended March 31, 1998 (in thousands).

	December 31	
	1999	1998
Balance due to affiliates:		
Spar Marketing Services, Inc.	\$ 29	\$205
Spar/Infotech, Inc.	196	-
	\$225	\$205

The Company has an investment in an affiliate, which provides telemarketing and related services. The Company paid approximately \$386,000 during the year ended December 31, 1999. Approximately \$580,000 was payable to the affiliate at December 31, 1999.

Notes to Financial Statements (continued)

11. STOCK OPTIONS

In 1999, the Company recorded a non-cash, non-tax deductible charge of approximately \$752,000 resulting from the grant of 134,114 options at \$0.01 per share and the issuance of 200,000 shares to a consultant prior to the reverse merger.

As a result of the reverse merger with PIA, the Company has three stock option plans: the 1990 Stock Option Plan ("1990 Plan"), the 1995 Stock Option Plan ("1995 Plan") and the 1995 Director's Plan ("Director's Plan").

The 1990 Plan is a nonqualified option plan providing for the issuance of up to 683,109 shares of common stock to officers, directors and key employees. The options have a term of ten years and one week and are either fully vested or will vest ratably no later than five years from the grant date. Since 1995, PIA has no longer granted options under this plan.

The 1995 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 3,500,000 shares of the Company's common stock. The options have a term of ten years, except in the case of incentive stock options granted to greater than 10% stockholders of the Company, for which 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; 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, 1999, options to purchase 500,256 shares were available for grant under this plan.

The Director's Plan is a stock option plan for nonemployee directors and provides for the purchase of up to 100,000 shares of the Company's common stock. An option to purchase 1,500 shares of the Company's common stock shall be granted automatically each year to each director, following the Company's annual stockholders' meeting. The exercise price of options issued under this plan shall be not less than the fair market value of the Company's common stock on the date of grant. Each option under this plan shall vest and become exercisable in full on the first anniversary of its grant date, provided the optionee

SPAR Group, Inc.

Notes to Financial Statements (continued)

11. STOCK OPTIONS (CONTINUED)

is reelected as a director of the Company. The maximum term of options granted under the plan is ten years and one day, subject to earlier termination following an optionee's cessation of service with the Company. At December 31, 1999, options to purchase 86,500 shares were available for grant under this plan.

The following table summarizes activity under the Company's 1990 Plan, 1995 Plan and Director's Plan:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at July 8, 1999, date of reverse merger	1,438,285	\$5.91
Options granted	2,294,858	4.82
Options exercised	(10,811)	2.78
Options canceled or expired	(416,810)	5.51
Options outstanding, December 31, 1999	3,305,522	\$5.22
Option price range at end of year		\$0.01 to \$14.00
Option price range for exercised shares		\$2.78
Weighted average fair value of options granted during the year		\$4.94

SPAR Group, Inc.

Notes to Financial Statements (continued)

11. STOCK OPTIONS (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 1999	Weighted Average Exercise Price
Less than \$4.00	149,114	9.50 years	\$ 0.21	141,614	\$ 0.12
\$4.01 - \$5.00	1,627,262	9.46 years	4.98	78,000	4.62
\$5.01 to \$6.25	1,357,482	8.57 years	5.58	697,875	5.63
Greater than 6.25	171,664	4.67 years	9.01	171,664	9.01
Total	3,305,522	8.85 years	\$ 5.22	1,089,153	\$ 5.37

Outstanding warrants are summarized below:

	Shares Subject to Warrants	Exercise Price Per Share
Balance, March 31, 1998	-	\$ -
Balance, December 31, 1998	-	-
Balance, December 31, 1999	96,395	\$2.78 - \$8.51

The above warrants expire at various dates from 2002 through 2004.

SPAR Group, Inc.

Notes to Financial Statements (continued)

11. STOCK OPTIONS (CONTINUED)

The Company has adopted the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation. 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 for awards in 1999 consistent with the provisions of SFAS No. 123, the Company's pro forma net income (loss) and net income (loss) per share would have been reduced to the adjusted amounts indicated below (in thousands, except per share data):

	Year ended December 31, 1999

Pro forma net income, as reported	\$1,242
Pro forma net loss, as adjusted	(1,011)
Pro forma basic net income per share, as reported	0.08
Pro forma basic net loss per share, as adjusted	(0.07)
Pro forma diluted net income per share, as reported	0.08
Pro forma diluted net loss per share, as adjusted	(0.07)

The fair value of each option grant is estimated based on the date of grant

using the Black-Scholes option-pricing model, using the return on a ten-year treasury bill, with the following weighted average assumptions used for grants in 1999: dividend yield of 0%; expected volatility of 186.38%; risk-free interest rate of 5.65%; and expected lives of six years.

12. NOTES PAYABLE TO CERTAIN STOCKHOLDERS

Former principal stockholders of the SPAR Companies each made loans to certain SPAR Companies in the aggregate amount of \$4.3 million to facilitate the acquisition of the PIA Companies and the acquisition of the assets of MCI. These stockholders also were owed \$1.9 million in unpaid distributions relating to the former status of most of the operating SPAR Companies as subchapter S corporations. Those amounts were converted into promissory notes issued to these certain stockholders severally by SMF, SINC and SPGI prior to the Merger, which aggregated \$6.2 million.

Notes to Financial Statements (continued)

12. NOTES PAYABLE TO CERTAIN STOCKHOLDERS (CONTINUED)

Notes payable to certain stockholders total \$5.9 million as of December 31, 1999 and bear an interest rate of 8%, due on demand. The current bank agreements contain certain restrictions on the repayment of stockholder debt. The Company has classified \$2 million of these notes payable as long-term debt.

13. SEGMENTS

Utilizing the management approach, the SPAR Group has broken down its business based upon the nature of services provided (i.e., merchandising services and incentive marketing services). The Merchandising Services Division consists of SMI (an intermediate holding company), SMF, SMNEV, SBRS and SINC (collectively, the "SPAR Marketing Companies") and the PIA Companies (see Note 1). The Incentive Marketing Division consists of each of SIM (an intermediate holding company) and SPGI (see Note 1). Merchandising services generally consist of regularly scheduled, routed services provided at the stores for a specific retailer or multiple manufacturers primarily under multiple year contracts. Services also include stand-alone large scale implementations. These services may include activities such as ensuring that clients' products authorized for distribution are in stock and on the shelf, adding in new products that are approved for distribution but not present 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 clients' products, selling new product and promotional items. Specific in-store services can be initiated by retailers and manufacturers, such as new product launches, special seasonal or promotional merchandising, focused product support and product recalls. These services are used typically for large-scale implementations over 30 days. The Merchandising Services Division of the SPAR Group also performs other project services, such as new store sets and existing store resets, re-merchandising, remodels and category implementations, multi-year shared service contracts or stand-alone project contracts.

SPAR Group, Inc.

Notes to Financial Statements (continued)

13. SEGMENTS (CONTINUED)

The Incentive Marketing Division generally consists of designing and implementing premium incentives, managing meetings and group travel for clients throughout the United States. These services may include providing a variety of consulting, creative, program administrative, travel and merchandise fulfillment services to companies seeking to motivate employees, salespeople, dealers, distributors, retailers and consumers toward certain action or objectives. The following table presents segment information (in thousands):

	Merchandising Services		Incentive Marketing		Total	
	Year ended December 31, 1999	Nine Months ended December 31, 1998	Year ended December 31, 1999	Nine Months ended December 31, 1998	Year ended December 31, 1999	Nine Months ended December 31, 1998
Net revenues	\$79,612	\$32,601	\$36,912	\$ -	\$116,524	\$32,601
Cost of revenues	50,499	16,217	30,789	-	81,288	16,217
Gross profit	29,113	16,384	6,123	-	35,236	16,384
SG&A	23,213	9,978	5,617	-	28,830	9,978
EBITDA	\$ 5,900	\$ 6,406	\$ 506	\$ -	\$ 6,406	\$ 6,406
Net income (loss)	\$ 663	\$ 6,109	\$ (1,158)	\$ -	\$ (495)	\$ 6,109
Total Assets	\$48,761	\$14,865	\$14,326	\$ -	\$ 63,087	\$14,865

14. RESTRUCTURING AND OTHER CHARGES

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

The SPAR Group will recognize termination costs in accordance with EITF 95-3, Recognition of Liabilities in Connection with a Business Combination.

SPAR Group, Inc.

Notes to Financial Statements (continued)

14. RESTRUCTURING AND OTHER CHARGES (CONTINUED)

The following table displays a rollforward of the liabilities for restructuring and other charges from July 8, 1999 Merger to December 31, 1999 (in thousands):

	Initial Restructuring and Other Charges	Period ended December 31, 1999 Deductions	December 31, 1999 Balance
Type of cost:			
Employee separation	\$1,606	\$ 491	\$1,115
Equipment lease settlements	3,073	326	2,747
Office lease settlements	1,794	252	1,542
Redundant assets	957	957	-
	-----	-----	-----
	\$7,430	\$2,026	\$5,404
	=====	=====	=====

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

In addition, to the above restructuring costs, the Company incurred substantial costs in connection with the PIA transaction, including legal, accounting and investment banking fees estimated to be an aggregate unpaid obligation of approximately \$1.3 million. The SPAR Group has also accrued approximately \$2.4 million for expenses incurred by PIA prior to the Merger, which have not been paid. Management believes the current bank credit facilities are sufficient to fund operations and working capital, including the current maturities of debt obligations, but may not be sufficient to reduce obligations of the Merger with PIA. The Company is currently negotiating with its bank for an increase in its credit facility to meet the non-operational credit needs and is also working to secure additional long-term capital. However, there can be no assurances that the Company will be successful in these negotiations.

SPAR Group, Inc.

Notes to Financial Statements (continued)

15. EARNINGS PER SHARE

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

	Year ended December 31, 1999	Nine Months ended December 31, 1998	Year ended March 31, 1998

Numerator:			
Pro forma net income	\$ 1,242	\$ 3,856	\$ 2,998
=====			
Denominator:			
Shares used in pro forma basic earnings per share calculation ¹	15,361	12,659	12,659
Effect of diluted securities:			
Employee stock options	6	-	-
Warrants	-	-	-

Shares used in pro forma diluted earnings per share calculations ¹	15,367	12,659	12,659
=====			
Pro forma basic earnings per share ¹	\$ 0.08	\$ 0.30	\$ 0.24
=====			
Pro forma diluted earnings per share ¹	\$ 0.08	\$ 0.30	\$ 0.24
=====			

¹ The pro forma basic and pro forma diluted earnings per share amounts are based upon 12,659,000 shares on January 1, 1998, although these shares were issued on July 9, 1999, as required to comply with SFAS No. 128 and the Securities and Exchange Commission Staff Accounting Bulletin 98 (SAB 98).

SPAR Group, Inc.

Notes to Financial Statements (continued)

16. TRANSITION PERIOD - CHANGE OF FISCAL YEAR END

Effective April 1, 1998, the Spar Group, Inc. changed its year end for financial statement purposes to a calendar year. The unaudited results below are presented for comparative purposes.

	Nine Months Ended December 31	
	1998	1997
		(unaudited)
Net revenues	\$32,601	\$27,202
Gross profit	\$16,384	\$12,623
Unaudited pro forma information:		
Pro forma provision for income taxes	\$ 2,253	\$ 1,114
Pro forma net income	\$ 3,856	\$ 1,904
Pro forma basic earnings per share	\$ 0.30	\$ 0.15
Pro forma basic weighted average common shares	12,659	12,659
Pro forma diluted earnings per share	\$ 0.30	\$ 0.15
Pro forma diluted weighted average common shares	12,659	12,659

SPAR Group, Inc.

Schedule II - Valuation and Qualifying Accounts

(In Thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year ended December 31, 1999:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$605	\$1,202	\$1,057 (2)	\$954 (3)	\$1,910
Nine months ended December 31, 1998:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$568	\$ 299	\$ -	\$262 (3)	\$ 605
Year ended March 31, 1998:					
Deducted from asset accounts:					
Allowance for doubtful accounts	\$321	\$ 477	\$ -	\$230 (1)	\$ 568

1) Includes Accounts Receivable determined to be uncollectible which were written off.

2) \$1,057 charged to Other Accounts represents the amounts acquired through the SPG and PIA acquisitions.

3) Uncollectible accounts written off, net of recoveries.

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Certificate of Incorporation of SPAR Group, Inc., 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 on December 14, 1995 (the "Form S-1") and to Exhibit 3.1 to the Company's Form 10-Q for the 3rd Quarter ended September 30, 1999).
3.2	By-laws of PIA (incorporated by reference to the 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	1990 Stock Option Plan (incorporated by reference to the Form S-1).
10.2	Amended and Restated 1995 Stock Option Plan (incorporated by reference of Exhibit 10.2 to the Company's Form 10-Q for the 2nd Quarter ended July 3, 1998).
10.3	1995 Stock Option Plan for Non-employee Directors (incorporated by reference to the Form S-1).
10.4+*	Employment Agreement dated as of June 25, 1997 between PIA and Terry R. Peets

(incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the 2nd Quarter ended June 30, 1997)

- 10.5+* Severance Agreement dated as of February 20, 1998 between PIA and Cathy L. Wood (incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the 1st Quarter ended April 30, 1998)
- 10.6* Severance Agreement dated as of August 10, 1998 between PIA and Clinton E. Owens (incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the 3rd Quarter ended October 2, 1998)
- 10.7+* Amendment No. 1 to Employment Agreement dated as of October 1, 1998 between PIA and Terry R. Peets.
- 10.8+* Amended and Restated Severance Compensation Agreement dated as of October 1, 1998 between PIA and Cathy L. Wood.
- 10.9+ Loan and Security Agreement dated December 7, 1998 among Mellon Bank, N.A., PIA Merchandising Co., Inc., Pacific Indoor Display Co. and PIA.
- 10.10+ Agreement and Plan of Merger dated as of February 28, 1999 among PIA, SG Acquisition, Inc., PIA Merchandising Co., Inc., SPAR Acquisition, Inc., SPAR Marketing, Inc., SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR MCI Performance Group, Inc. and SPAR Trademarks, Inc.
- 10.11+ Voting Agreement dated as of February 28, 1999 among PIA, Clinton E. Owens, RVM/PIA, California limited partnership, Robert G. Brown and William H. Bartels.
- 10.12* Amendment No. 2 to Employment Agreement dated as of February 11, 1999 between PIA and Terry R. Peets (incorporated by reference to Exhibit 10.12 to the Company's Form 10-Q for the 2nd Quarter ended April 2, 1999).
- 10.13 Special Purpose Stock Option Plan (incorporated by reference to Exhibit 10.13 of the Company's Form 10-Q for the 2nd Quarter ended July 2, 1999.
- 10.14 Amendment No. 1 to Severance Agreement dated as of May 18, 1999 between the Company and Cathy L. Wood (incorporated by reference to Exhibit 10.14 of the Company's Form 10-Q for the 3rd Quarter ended September 30, 1999).
- 10.15+
+ Second Amended and Restated Revolving Credit, Term Loan and Security Agreement by and among IBJ Whitehall Business Credit Corporation with SPAR Marketing Force, Inc., SPAR Group, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR MCI Performance Group, Inc., SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., PIA Merchandising, Co., Inc., Pacific Indoor Display Co., Inc., and Pivotal Sales Company dated as of September 22, 1999.
- 10.16+
+ Waiver and Amendment No. 1 to Second Amended and Restated Revolving Credit, Term Loan and Security Agreement by and between SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Performance Group, Inc. (f/k/a SPAR MCI Performance Group, Inc.), SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co., Inc. and Pivotal Sales Company (each a "Borrower" and collectively, the "Borrowers") and IBJ Whitehall Business Credit Corporation ("Lender") dated as of December 8, 1999.
- 21.1+ Subsidiaries of the Company

+
23.1+ Consent of Ernst & Young LLP
+
27.1+ Financial Data Schedule
+
+ Previously filed with initial Form 10-K for the
+ fiscal year ended January 1, 1999.
+ Filed herewith.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

SECOND AMENDED AND RESTATED REVOLVING CREDIT, TERM LOAN

AND

SECURITY AGREEMENT

IBJ 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 MCI PERFORMANCE GROUP, INC.
SPAR MARKETING, INC. (DE)
SPAR MARKETING, INC. (NV)
SPAR ACQUISITION, INC.
PIA MERCHANDISING CO., INC.
PACIFIC INDOOR DISPLAY CO., INC.
AND**

PIVOTAL SALES COMPANY

(BORROWERS)

September 22, 1999

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**SECOND AMENDED AND RESTATED REVOLVING CREDIT,
TERM LOAN AND SECURITY AGREEMENT**

Second Amended and Restated Revolving Credit, Term Loan and Security Agreement ("Agreement") dated September 22, 1999 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 ("SBR") (SMF, SPAR and SBR, each an "Existing Borrower" and collectively, "Existing Borrowers"), 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 MCI PERFORMANCE GROUP, INC., a corporation organized under the laws of the State of Delaware ("SMCI"), 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"), PIA MERCHANDISING CO., INC., a corporation organized under the laws of the State of California ("PIA"), PACIFIC INDOOR DISPLAY CO., INC., 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") (SGI, SIM, STM, SMCI, SMIDE, SMINV, SAI, PIA, Pacific and Pivotal, each a "New Borrower" and collectively "New Borrowers" and each Existing Borrower and each New Borrower shall hereafter each be a "Borrower" and collectively, "Borrowers"), and IBJ 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 and IBJ Schroder Business Credit Corporation) dated March 4, 1996 (as same may have been amended, modified or supplemented, the "Original Loan Agreement"). Thereafter, Existing Borrowers and Lender entered into an 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 "Existing Loan Agreement"). By execution of this Agreement, Existing Borrowers and Lender wish to add certain other Persons as Borrowers hereunder and to amend and restate the Existing Loan Agreement on the terms and conditions herein set forth.

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 Original Loan Agreement and the Existing Loan Agreement shall be deemed amended and restated in their entirety as follows and the Existing 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 Original Loan Agreement and the Existing Loan Agreement, except as otherwise herein provided.

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

"Acquisition Agreement" shall mean the Asset Purchase and Sale Agreement between Sellers and SMF (as buyer) dated as of March 1, 1996, including all exhibits and schedules thereto.

"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 5% 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 IBJ Whitehall Bank & Trust Company 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 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% 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 September 22, 1999 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 Subsidiary Stock;

(f) 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, instruments, documents, chattel paper, warehouse receipts, deposit accounts, money, securities and investment property; (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) 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;

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

(h) all proceeds and products of (a), (b), (c), (d),

(e), (f) and (g) 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 or 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.

"Contract Rate" shall mean, as applicable, the Revolving Interest Rate or the Term Loan Rate.

"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 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 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, (d) all accruals for federal or other taxes measured by income payable within a twelve (12) month period and (e) all Revolving Advances.

"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.

"Debt" of any Borrower at a particular date shall mean all amounts which would, in conformity with GAAP, be included under liabilities on a balance sheet of such Borrower at such date.

"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 Contract 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.

"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), 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 actually paid.

"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 plus (iv) any non-recurring expenses incurred by Borrowers in connection with the Merger Transaction.

"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, 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 an Affiliate of any Borrower or to a Person controlled by an Affiliate of any Borrower;
- (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, 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;
- (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, 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;

(l) the Receivable is subject to any offset, deduction, defense, dispute, or counterclaim, the Customer is also a creditor or supplier of a Borrower or the Receivable is contingent in any respect or for any reason;

(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.

"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 non-financed capital expenditures made by Borrowers on a consolidated basis during such fiscal period minus taxes actually paid by Borrowers on a consolidated basis during such fiscal period plus decreases in working capital of Borrowers on a consolidated basis for such fiscal period minus increases in working capital of Borrowers on a consolidated basis during such fiscal period.

"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) EBITDA of Borrowers on a consolidated basis minus capital expenditures made during such period to (b) all principal and interest payments made on the Loans hereunder plus all dividends and other payments or distributions made or paid with respect to any indebtedness for money borrowed during such period.

"Formula Amount" shall mean, collectively, the SPAR Borrowers Formula Amount and the PIA Borrowers Formula Amount.

"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 choses in action, 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, franchises, customer lists, tax refunds, tax refund claims, computer programs, 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 Robert G. Brown, William H. Bartels, PIA Merchandising Limited, and any other Person who may hereafter guarantee payment or

performance of the whole or any part of the Obligations and "Guarantors" means collectively all such Persons.

"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.

"Increase Event" shall have the meaning set forth in Section 2(m) hereof.

"Individual Maximum Revolving Advance Amount" shall mean (i) with respect to the SPAR Borrowers, \$12,500,000 and (ii) with respect to the PIA Borrowers, (x) initially, \$6,000,000 and (y) following the Increase Event, \$10,000,000.

"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.

"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 (x) initially, \$50,000 and (y) at such time as Lender has received Landlord's Waivers in form and substance satisfactory to Lender for Borrowers' leased premises at each of (i) 14 Industrial Avenue, Mahwah, New Jersey, (ii) 30 West Third Street, Cincinnati, Ohio and (iii) 303 South Broadway, Tarrytown, New York, \$0.

"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).

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

"Maximum Loan Amount" means \$15,000,000 less repayments of the Term Loan.

"Maximum Revolving Amount" means \$12,500,000.

"Merger Transaction" shall mean the transactions contemplated under or in connection with the SPAR Merger Agreement and the SPAR Reorganization Agreement.

"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.

"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 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 SMCI; 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 \$10,000 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 (other than foreign indebtedness); (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 I(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, trust or unincorporated organization, or a government or agency or political subdivision thereof.

"PIA Borrowers" shall mean individually and collectively, PIA, Pacific and Pivotal.

"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.

"Receivables" shall mean and include as to each Borrower all of such Borrower's accounts, contract rights, instruments (including those evidencing indebtedness owed to Borrowers by their Affiliates), documents, chattel paper, 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 the amount of Revolving Advances against Eligible Receivables Lender may from time to time during the term of this Agreement make available to Borrowers up to 85% ("Receivables Advance Rate") of the net face amount of Borrowers' Eligible Receivables.

"Revolving Advances" shall mean Loans made other than Letters of Credit and the Term Loan.

"Revolving Credit Note" shall mean the \$12,500,000 Amended and Restated Revolving Credit Note substantially in the form of Exhibit 1(a) dated the Closing Date executed by Borrowers in favor of Lender.

"Revolving Interest Rate" shall mean an interest rate per annum equal to (i) the Alternate Base Rate plus (ii) one-half of one percent (.50%).

"Seller" and "Sellers" shall respectively mean any and all of Marketing Force, Inc., a Delaware corporation, ADVO Investment Company, Inc., a Delaware corporation, and ADVO, Inc., a Delaware corporation.

"Shareholder Notes" shall mean _____.

"SPAR Borrowers" shall mean, individually and collectively,
SGI, SMF, SPAR, SBRS, SIM, STM, SMCI, SMIDE, SMINV and SAI.

"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".)

"SPAR Reorganization Agreement" shall mean that certain Agreement, 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 the SPAR Parties pursuant which the "SPAR Reorganization Transactions" (as defined therein) are to be effectuated.

"Subordinated Note" shall mean the Subordinated Promissory Note issued by SMF in favor of Sellers dated as of March 1, 1996, in the original principal amount of \$12,000,000 subject to adjustment in accordance with its terms as in effect on the Original Closing Date.

"Subordinated Debt Documentation" shall mean the Subordinated Note, the Subordinated Security Agreement, the various other assignments, instruments and other

documents creating or evidencing the creation or perfection of the security interests in the collateral under (and as defined in) the Subordinated Security Agreement, the Subordination Agreement, and all other agreements and documents executed and delivered in connection therewith.

"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.

"Subordinated Security Agreement" shall mean the Security Agreement between SMF and Sellers dated as of March 1, 1996, together with all schedules and exhibits thereto.

"Subordination Agreement" shall mean the Subordination and Intercreditor Agreement dated March 4, 1996 among Lender, SMF and Sellers.

"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) SIM of SMCI (the pledge of which shall be delivered within five (5) Business Days following the payment in full of the Wile Note), (4) SMIDE of SMF, SMINV, SPAR and SBRS and (5) SGI of PIA and SAI.

"Term" shall mean the Closing Date through September 21, 2002 subject to acceleration upon the occurrence of an Event of Default hereunder or other termination hereunder.

"Term Loan" shall have the meaning set forth in paragraph 2(i).

"Term Loan Rate" means an interest rate per annum equal to (i) the Alternate Base Rate plus (ii) three-quarters of one percent (.75%).

"Term Note" shall have the meaning set forth in paragraph 2(i).

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

"Unbilled Receivables Availability" means the amount of Revolving Advances against Eligible Unbilled Receivables Lender may from time to time during the term of this Agreement make available to Borrowers up to 60% ("Unbilled Receivables Advance Rate") of the net face amount of Borrowers' Eligible Unbilled Receivables.

"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 sum of (i) the outstanding amount of Loans (other than the Term Loan) plus (ii) all amounts due and owing to Borrowers' trade creditors which are outstanding beyond sixty (60) days from due date other than those items specifically listed on Schedule 13 hereto.

"Wile Note" shall mean the promissory note dated as of January 15, 1999 issued by MCI to BIMA Group, Inc. f/k/a MCI Performance Group, Inc. in the adjusted original principal amount of \$8,822,189.00, as amended by a second amendment to the purchase agreement relating thereto dated as of the Closing Date, as same may be amended, modified or restated 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, Term Note 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.

(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, the Acquisition Agreement and the Subordinated Debt Documentation, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

2. Revolving Advances.

(a) (A) SPAR Borrowers 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 SPAR Borrowers from time to time during the Term which, in the aggregate at any time outstanding, will not exceed the lesser of (x) the lesser of (i) SPAR Borrowers' Individual Maximum Revolving Amount or (ii) the Maximum Revolving Advance Amount less the outstanding Revolving Advances made to or for the benefit of the PIA Borrowers, in each case less the aggregate amount of outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) Receivables Availability of the SPAR Borrowers , plus

(ii) Unbilled Receivables Availability of the SPAR Borrowers, minus

(iii) the aggregate amount of outstanding Letters of Credit made to or for the benefit of the SPAR Borrowers, minus

(iv) 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)(A)(i) plus (ii) minus (iii) shall be referred to as the "SPAR Borrowers Formula Amount".

(a) (B) PIA Borrowers 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 PIA Borrowers from time to time during the Term which, in the aggregate at any time outstanding, will not exceed the lesser of (x) the lesser of (i) the PIA Borrowers' Individual Maximum Revolving Amount or (ii) the Maximum Revolving Advance Amount less the outstanding Revolving Advances made to or for the benefit of the SPAR Borrowers, in each case less the aggregate amount of outstanding Letters of Credit or (y) an amount equal to the sum of:

(i) Receivables Availability of the PIA Borrowers , plus

(ii) Unbilled Receivables Availability of the PIA Borrowers, minus

(iii) the aggregate amount of outstanding Letters of Credit made to or for the benefit of the PIA Borrowers.

The sum of 2(a)(B)(i) plus (ii) minus (iii) shall be referred to as the "PIA Borrowers 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 may result during the Term in one or more increases or decreases in the Advance Rates and Borrowers hereby consent to any such increases or decreases 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; provided, however, that failure by Lender to give any such notice shall not give rise to any cause of action by Borrowers against Lender.

(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 (i) the Revolving Loans to provide for their working capital needs and to finance capital expenditures, to make the distributions permitted under Section 12(n)(ii) hereof, to pay off existing Indebtedness to Mellon Bank, to repay the Wile Note in the amounts of \$2,000,000 on September 24, 1999, \$2,350,000 on October 1, 1999, and thereafter to the extent permitted by Section 12(n) hereof and (ii) the Term Loan to reduce the outstanding amount of Revolving Loans.

(i) On March 10, 1999, Lender made a term loan to Existing Borrowers in the sum of \$3,000,000 ("Term Loan"). The Term Loan is payable with respect to principal, subject to acceleration upon the occurrence of an Event of Default hereunder or termination of this Agreement, in equal monthly installments of \$83,334 payable on the first day of each month commencing with April 1, 1999. The Term Loan shall be evidenced by a secured promissory note in the original principal amount of \$2,499,996 in substantially the form of the note attached hereto as Exhibit 2(i) ("Term Note").

(j) In addition to the payments required by Section 2(i) above, Borrowers shall prepay the outstanding amount of the Loans in an amount equal to 25% of Excess Cash Flow for each fiscal year commencing with the fiscal year ending December 31, 1999, payable upon delivery of the financial statements to Lender referred to in and required by Section 11(a) for such fiscal year but in any event not later than June 30th of each year, which amount shall be applied (x) first, to the outstanding principal installments of the Term Loan in the inverse order of the maturities thereof and (y) second, to the remaining Loans in such order as Lender may determine subject to Borrowers' ability to reborrow Revolving Advances in accordance with the terms hereof; provided, however, in no event shall Borrowers be obligated to make a payment in

excess of \$250,000 per annum. In the event that the financial statements are not so delivered, then a calculation based upon estimated amounts shall be made by Lender upon which calculation Borrowers shall make the prepayment required by this Section 2(j), subject to adjustment when the financial statements are delivered to Lender as required hereby. The calculation made by Lender shall not be deemed a waiver of any rights Lender may have as a result of the failure by Borrowers to deliver such financial statement.

(k) 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, and the aggregate balance of Loans outstanding shall not exceed the Maximum Loan Amount.

(l) Each New Borrower hereby adopts the Existing Loan Agreement and each of the Ancillary Agreements and assumes in full, and acknowledges that it is jointly and severally liable for, the payment, discharge, satisfaction and performance of all Obligations under the Existing Loan Agreement and the Ancillary Agreements.

(m) The "Increase Events" shall have been deemed to have occurred at any time that all of the following conditions shall be satisfied: (1) no Default or Event of Default has occurred, (2) Lender shall have completed a field examination of all of the assets, properties and business operations of each Borrower and the results thereof shall be satisfactory to Lender in all respects, (3) Lender shall have received (x) balance sheets of (i) each Borrower and (ii) Borrowers on a consolidated basis, as at the end of August, 1999 and (y) the related statements of income, retained earnings and cash flow (i) each Borrower and (ii) Borrowers on a consolidated basis for such month which shall be in all respects satisfactory to Lender, (4) Lender shall have received a written report of all Borrowers' properties and assets prepared by a Person acceptable to Lender which report shall include an evaluation and assessment of cost cutting measures instituted by Borrowers which assessment shall be satisfactory to Lender in all respects and (5) Borrowers shall have Undrawn Availability of at least \$1,000,000 after giving effect to such increase.

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 or (B) (i) the outstanding Revolving Advances to the SPAR Borrowers or the PIA Borrowers, respectively plus (ii) the outstanding Letters of Credit issued or caused to be issued on behalf of the SPAR Borrowers or the PIA Borrowers, respectively to exceed the lesser of (x) the SPAR Borrowers' or the PIA Borrowers', respectively, Individual Maximum Revolving Advance Amount or (y) the SPAR Borrowers' or the PIA Borrowers', respectively, Individual Formula Amount. The maximum amount of outstanding Letters of Credit shall not exceed \$750,000 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 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.

(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.

(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 (x) Borrowers hereunder is in excess of the lesser of the Maximum Revolving Amount or the Formula Amount or
(y) to the SPAR Borrowers or the PIA Borrowers is in excess of the lesser of the Individual Maximum Revolving Amount or Individual Formula Amount of the SPAR Borrowers or PIA Borrowers, as the case may be, in each case in an amount equal to such excess, and (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. The Term Loan shall be due and payable as provided in paragraph 2(i) hereof and in the Term Note.

(b) Each Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Lender on the date received. In consideration of Lender's agreement to conditionally credit Borrowers' account as of the Business Day on which Lender receives those items of payment, 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 via wire transfer or electronic depository check from either the Blocked Account bank or Depository Account bank. Lender is not, however, required to credit Borrowers' account for the amount of any item of payment which is unsatisfactory to Lender and Lender may charge Borrowers' account for the amount of any item of payment which is returned to Lender unpaid.

4. Procedure for Revolving Advances. In accordance with Section 25 hereof, Borrowing Agent may notify Lender prior to 11:00 A.M 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.

5. Interest and Fees.

(a) Interest.

(i) Interest on Loans shall be payable in arrears on the first day of each month. Interest charges shall be computed on the actual principal amount of Loans outstanding during the month at a rate per annum equal to (i) with respect to Revolving Advances, the Revolving Interest Rate and (ii) with respect to the Term Loan, the Term Loan Rate (as applicable, the "Contract Rate"). Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Contract Rate 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.

(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.

(i) Closing Fee. Upon the execution of this Agreement, Borrowers shall pay to Lender a closing fee in an amount equal to \$300,000 which shall be fully earned, nonrefundable and due on the Closing Date. The closing fee may be charged to Borrowers' account. The unused portion, if any, of the deposit fee of \$100,000 previously paid by Borrowers to Lender shall be credited by Lender to the Closing Fee.

(ii) **Unused Line Fee.** In the event the average closing daily unpaid balances of all Revolving Advances 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 three-eighths of one percent (.375%) 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 \$2,500 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 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 \$700 per day, per person, for each person employed to perform such monitoring together with all 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 four (4) field examinations in any calendar year unless an Event of Default shall have occurred.

(v) Letter of Credit Fees.

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"). 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.

Lender shall be permitted to purchase 16,667 shares of the common stock of 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") during the term of this Agreement 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 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.

(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 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. 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.

(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) 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. The protection of this Section shall be available to Lender regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition.

(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.

6. Security Interest.

(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 Existing Loan Agreement, and to the extent not otherwise granted thereunder, each Borrower hereby assigns, pledges and grants to Lender a continuing security interest in and to 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 disclosing Lender's security interest in the Collateral 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.

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 \$25,000 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) place notations upon its books of account and 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 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;

(f) not extend the payment terms of any Receivable without prompt notice thereof to Lender; and

(g) 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 at Lender's sole discretion, of Lender's security interest in Receivables, collect them directly and charge the collection costs and expenses to Borrowers' account, but, unless and until Lender does so or gives any Borrower other instructions, each Borrower shall collect all Receivables for Lender, receive all payments thereon for Lender's benefit in trust as Lender's trustee and immediately deliver them to Lender in their original form with all necessary endorsements or, as directed by Lender, deposit such payments as directed by Lender pursuant to Section 23 hereof. On a weekly basis, or more frequently if requested by Lender, 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 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 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 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.

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 satisfactory to Lender and shall be accompanied by an unqualified audit report issued by such independent certified public accountants; (b) as soon as available, drafts of a balance sheet for each Borrower individually and Borrowers on a consolidated basis as at the end of each of Borrowers' fiscal years and the related statements of income, retained earnings and changes in cash flow for each Borrower individually and Borrowers on a consolidated basis for such fiscal year, which have been internally prepared by Borrowers; (c) as soon as available, but in any event within thirty (30) days after the close of each month and quarter, the balance sheet for each Borrower individually and Borrowers on a consolidated basis as at the end of such month and quarter and the related statements of income, retained earnings and changes in cash flow for each Borrower individually and Borrowers on a consolidated basis for such month and quarter, which have been internally prepared by Borrowers. All financial statements required under (a), (b) and (c) above shall be prepared in accordance with GAAP, subject to year-end adjustments in the case of monthly and quarterly statements. 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 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 1999, 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), 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) such Borrower will establish and maintain a system to assure and monitor continued compliance with all applicable environmental laws, which system shall include periodic reviews of such compliance.

(iii) 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 (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 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 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.

(iv) 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. 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 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.

(v) 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.

(vi) 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) such Borrower is solvent, able to pay its debts as they mature, has capital sufficient to carry on its business and all businesses in which it is about to engage and the fair saleable value of its assets (calculated on a going concern basis) is in excess of the amount of its liabilities;

(i) there is no pending or threatened litigation, actions or proceeding 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 Schedule 12(i);

(j) all balance sheets and income statements which have been delivered to Lender 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;

(k) (x) such Borrower possesses all of the 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, 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;

(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; and (xi) any material return of goods;

(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 and indebtedness incurred or assumed under the Acquisition Agreement, except for (A) purchase money indebtedness not exceeding \$250,000 in the aggregate for all Borrowers for the period following the Closing Date through December 31, 1999 and in each fiscal year thereafter incurred in the purchase of Equipment in the ordinary course of business so long as each is secured only by the Equipment purchased and (B) obligations constituting indebtedness under GAAP arising under capitalized leases not exceeding \$250,000 in the aggregate for all Borrowers in any fiscal year entered into in the ordinary course of business; (ii) declare, pay or

make any dividend or distribution on any shares of its common stock or preferred stock other than as permitted in Section 12(x) hereof, or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock; (iii) directly or indirectly, prepay any indebtedness (other than to Lender or any other Borrower as permitted in this section) or make any payment or prepayment on the Wile Note unless the Borrowers shall have Undrawn Availability of at least \$1,000,000 after giving effect to any such payment or prepayment, make any payment on the Shareholder Notes or repurchase, redeem, retire or otherwise acquire any indebtedness of Borrowers in advance of the maturity thereof; (iv) 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 \$50,000 in the aggregate during any fiscal year and (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; (v) 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 an Affiliate of any Borrower if such Borrower could have incurred such obligation directly under this Agreement, or (C) any guaranty of any loan to an employee of any Borrower if such Borrower could have made such loan directly under this Section; (vi) enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a portion of the assets or stock of any Person or permit any other Person to consolidate with or merge with it; (vii) form any Subsidiary or enter into any partnership, joint venture or similar arrangement; (viii) materially change the nature of the business in which it is presently engaged;

(ix) 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; (x) enter into any transaction with any Affiliate, except in ordinary course on arms-length terms; (xi) bill Receivables under any name except the present name of such Borrower; (xii) directly or indirectly, redeem, repurchase, retire or otherwise acquire or make any payment or distribution with respect to the Subordinated Note as in effect on the Original Closing Date, except to the extent permitted by the Subordination Agreement or (xiii) enter into any amendment to the Subordinated Debt Documentation without the prior written consent of Lender;

(o) it shall cause to be maintained for Borrowers on a consolidated basis at the end of the fiscal quarter ending September 30, 1999 Net Worth of at least \$12,000,000 and it shall increase such Net Worth at the end of each fiscal quarter thereafter by at least an additional \$100,000 for each fiscal quarter;

(p) commencing with the fiscal quarter ending September 30, 1999, 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 1.1 to 1.0;

(q) it will not make capital expenditures in any fiscal year in an aggregate amount in excess of \$2,000,000 for all Borrowers;

(r) (i) it shall cause to be maintained at all times a ratio of Debt to EBITDA for Borrowers on a consolidated basis of not less than (x) 7.0 to 1.0 on September 30, 1999, (y) 5.0 to 1.0 on December 31, 1999, March 31, 2000, June 30, 2000 and September 30 2000 and (z) 4.0 to 1.0 on December 31, 2000 at the end of each fiscal quarter thereafter; and

(ii) the PIA Borrowers shall maintain EBITDA not less than the amounts set forth below as at the end of the corresponding month below:

Month Ended	EBITDA
August 31, 1999	(\$700,000)
September 30, 1999	(\$600,000)
October 31, 1999	(\$500,000)
November 30, 1999	(\$400,000)
December 31, 1999	(\$300,000)
January 31, 2000	(\$200,000)
February 29, 2000	(\$100,000)
March 31, 2000	\$0

(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 its 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) it has reviewed the areas within its business and operations which could be adversely affected by, and have developed or are developing a program to address on a timely basis, the risk that certain computer applications used by such Borrower (or any of their respective material suppliers, customers or vendors) may be unable to recognize and perform properly date-sensitive functions involving dates prior to and after December 31, 1999 (the "Year 2000 Problem"). The Year 2000 Problem will not have a material adverse effect on such Borrower;

(w) Lender has received complete copies of the Acquisition 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. Borrower will enforce all of its rights under the Acquisition 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;

(x) So long as (a) no Event of Default or Default shall be continuing prior to the payment of such dividend and no Event of Default or Default shall exist after giving effect to the payment of such dividend, and (b) the purpose for such dividend shall be as set forth in writing to Lender at least ten (10) days prior to such dividend and such dividend shall in fact be used for such purpose, each Borrower shall be permitted to pay dividends with respect to those years when such Borrower was a subchapter S corporation, to its stockholders in an aggregate amount equal to the "Increased Tax Burden" (as hereinafter defined) of its stockholders. Payments to stockholders shall be made so as to be available when the tax is due, including in respect of estimated tax payments. In the event (x) the actual dividend to stockholders pursuant

to this Section exceeds the actual income tax liability of any stockholder due to such Borrower's status as a subchapter S corporation, or (y) such Borrower would be entitled to a refund of income taxes previously paid as a result of a tax loss during a year in which such Borrower is a subchapter S corporation, then the stockholders shall repay such Borrower the amount of such excess or refund, as the case may be, no later than the date the annual tax return must be filed by such Borrower (without giving effect to any filing extensions). In the event such amounts are not repaid in a timely manner by any stockholder, then such Borrower shall not pay or make any dividend or distribution with respect to, or purchase, redeem or retire, any stock of such Borrower held or controlled by, directly or indirectly, such stockholder until such payment has been made. "Increased Tax Burden" with respect to any Borrower shall mean the additional federal, state or local taxes payable by a shareholder as a result of such Borrower's status as a subchapter S corporation assuming all stockholders are taxed at the highest marginal rate; provided, however, at Lender's request such Borrower shall provide Lender with proof of the accuracy of the foregoing assumption including, without limitation, the tax returns filed by (a) such Borrower as a subchapter S corporation and (b) by such stockholders;

(y) SMF will not reduce any payment obligation to Sellers (i) under the Subordinated Note or (ii) as an offset against any payment obligations under Section 2.11 of the Acquisition Agreement owed by Sellers to SMF, in each case without Lender's prior written consent; and

(z) within thirty (30) days of the Closing Date, deliver to Lender a security agreement executed by PIA Merchandising Limited ("PML") pursuant to which PML secures its Guaranty by granting a security interest to Lender in all of its assets as collateral for the Obligations.

(aa) 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 and the Term 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) Corporate Proceedings of Guarantors. Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of each corporate Guarantor authorizing the execution, delivery and performance of its Guaranty certified by the Secretary or an Assistant Secretary of such Guarantor 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;

(vi) Incumbency Certificates of Guarantors. Agent shall have received a certificate of the Secretary or an Assistant Secretary of each corporate Guarantor, dated the Closing Date, as to the incumbency and signature of the officers of such Guarantor 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;

(vii) Certificates. Lender shall have received a copy of the Articles or Certificate of Incorporation of each Borrower and each corporate Guarantor, 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 each corporate Guarantor and all agreements of each Borrower's and each corporate Guarantor's shareholders certified as accurate and complete by the Secretary of such Borrower and such corporate Guarantor;

(viii) Good Standing Certificates. Lender shall have received good standing certificates for each Borrower and each corporate Guarantor, issued by the Secretary of State or other appropriate official of each Borrower's and each corporate Guarantor's jurisdiction of incorporation and each jurisdiction where the conduct of each Borrower's and each corporate Guarantor's business activities or the ownership of its properties necessitates qualification;

(ix) Legal Opinion. Lender shall have received the executed legal opinions of Parker Chapin Flattau & Klimpl LLP and/or Riordan & McKinzie in form and substance satisfactory to Lender which shall cover such matters incident to the transactions contemplated by this Agreement, the Notes, the Guaranty, 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;

(x) 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;

(xi) Financial Condition Certificate. Lender shall have received an executed Officers Certificate substantially in the form of Exhibit 13.1(ix) attached hereto.

(xii) 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;

(xiii) Fees. Lender shall have received all fees payable to Lender on or prior to the Closing Date pursuant to Section 5(b) hereof;

(xiv) Guaranties; Ancillary Agreements. Lender shall have received executed copies of the Guaranties, 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;

(xv) 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;

(xvi) 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;

(xvii) 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;

(xviii) 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;

(xix) No Adverse Material Change. (i) Since December 31, 1998, 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;

(xx) Undrawn Availability. After giving effect to the initial Revolving Advances hereunder and any outstanding Revolving Advances under the Existing Loan Agreement, Borrowers shall have aggregate Undrawn Availability of at least \$4,000,000.

(xxi) Contract Review. Lender shall have reviewed all material contracts of Borrowers including, without limitation, leases, union contracts, labor contracts, vendor supply contracts, license agreements and distributorship agreements and such contracts and agreements shall be satisfactory in all respects to Lender;

(xxii) 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;

(xxiii) Balance Sheet. Lender shall have received the balance sheet of Borrowers on a consolidated basis dated as of the Closing Date and certified by the Chief Financial Officer of Borrowers;

(xxiv) Debt. Lender shall have reviewed the terms and conditions of all of Borrowers' Debt which terms and conditions shall be satisfactory to Lender;

(xxv) Compliance with Laws. Each Borrower is in compliance with all relevant federal, state and local regulations; and

(xxvi) 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 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:

(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 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 Letters of Credit shall not exceed the maximum amount of Revolving Advances permitted under Section 2 hereof.

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) on or after the occurrence and continuation of an Event of Default, 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.

15. Expenses. Borrowers shall pay all of Lender's 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.

(i) This Agreement shall be binding upon and inure to the benefit of Borrowers, Lender, all future holders of the Revolving Credit Note and Term 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 Loan Amount. For the purposes hereof, Required Percentage shall mean (a) 2% from the Closing Date to and including the date immediately preceding the first anniversary of the Closing Date, (b) 1% from the first anniversary of the Closing Date to and including the date immediately preceding the second anniversary of the Closing Date, and (c) 1/2 of 1% from the second anniversary of the Closing Date to and including the date immediately preceding the third anniversary of the Closing Date.

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 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 \$100,000 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 \$100,000 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;

(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 thirty (30) 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 thirty (30) 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 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 original principal amount in excess of \$100,000;

(xvi) an event of default has occurred and been declared under the Subordinated Debt Documentation which default shall not have been cured or waived within any applicable grace period;

(xvii) any Change of Ownership;

(xviii) a failure by any stockholder of any Borrower to comply with the requirements of Section 12(x) hereof; or

(xix) termination or breach of any Guarantor or similar 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 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 (and if said premises be the property of any Borrower, such Borrower agrees not to charge Lender for storage thereof for a period up to at least sixty (60) days after sale or disposition of said Collateral). 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 (a) when personally delivered to any officer of the party to whom it is addressed, (b) on the earlier of actual receipt thereof or five (5) days following posting thereof by certified or registered mail, postage prepaid, or (c) upon actual receipt thereof when sent by a recognized overnight delivery service or (d) 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: IBJ Whitehall Business Credit Corporation
One State Street
New York, New York 10004
Attention: Robert Wallace
Telephone: (212) 858-2985
Telecopier: (212) 858-2151

with a copy to: Hahn & Hessen LLP
350 Fifth Avenue
New York, New York 10118
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: Robert G. Brown, Chairman
Telephone: (914) 332-4100
Telecopier: (914) 332-0741

with a copy to: Parker Chapin Flattau & Klimpl, LLP
1211 Avenue of the Americas
New York, New York 10036
Attention: Lawrence David Swift, Esq.
Telephone: (212) 704-6000
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 CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO SUCH BORROWER AT SUCH BORROWER'S ADDRESS APPEARING ON LENDER'S RECORDS, AND SERVICE SO MADE SHALL BE DEEMED COMPLETED TWO (2) DAYS AFTER THE SAME SHALL HAVE BEEN SO MAILED. 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 bad faith or gross (not mere) negligence.

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. Each Borrower hereby authorizes Lender to 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 Lender 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.

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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

WITNESS:

SPAR MARKETING FORCE, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR/BURGOYNE RETAIL SERVICES, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR INCENTIVE MARKETING, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR TRADEMARKS, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR MCI PERFORMANCE GROUP, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR MARKETING, INC. (DE)

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR MARKETING, INC. (NV)

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

SPAR ACQUISITION, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Chief Financial Officer

WITNESS:

PIA MERCHANDISING CO., INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Treasurer

WITNESS:

PACIFIC INDOOR DISPLAY CO., INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Treasurer

WITNESS:

PIVOTAL SALES COMPANY

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Treasurer

WITNESS:

SPAR GROUP, INC.

/s/ Leslie W. Chervokas

By: /s/ James H. Ross

Name: James H. Ross
Title: Treasurer

**IBJ WHITEHALL BUSINESS CREDIT
CORPORATION**

/s/ Leslie W. Chervokas

By: /s/ Edward A. Jesser

Name: Edward A. Jesser
Title: Senior Vice President

EXHIBITS

Exhibit 1(a)	Revolving Credit Note
Exhibit 2(i)	Term Note
Exhibit 13.1(xi)	Financial Condition Certificate

SCHEDULES

Schedule 1(a)	Permitted Liens
Schedule 12(a)	State of Incorporation and Qualification
Schedule 12(b)	Subsidiaries
Schedule 12(e)	Books and Records
Schedule 12(g)	Plans
Schedule 12(i)	Litigation
Schedule 12(k)	Licenses, Patents, Trademarks and Copyrights
Schedule 12(l)	Federal Tax Identification Number
Schedule 12(m)	Inventory Locations
Schedule 13	Excluded Trade Creditors

WAIVER AND AMENDMENT NO. 1

TO

SECOND AMENDED AND RESTATED

REVOLVING CREDIT, TERM LOAN AND SECURITY AGREEMENT

THIS WAIVER AND AMENDMENT NO. 1 ("Amendment") is entered into as of December 8, 1999, by and between SPAR Marketing Force, Inc., SPAR, Inc., SPAR/Burgoyne Retail Services, Inc., SPAR Group, Inc., SPAR Incentive Marketing, Inc., SPAR Trademarks, Inc., SPAR Performance Group, Inc. (f/k/a SPAR MCI Performance Group, Inc.), SPAR Marketing, Inc. (DE), SPAR Marketing, Inc. (NV), SPAR Acquisition, Inc., PIA Merchandising Co., Inc., Pacific Indoor Display Co., Inc. and Pivotal Sales Company (each a "Borrower" and collectively, the "Borrowers") and IJB Whitehall Business Credit Corporation ("Lender").

BACKGROUND

Borrowers and Lender are parties to a Second Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of September 22, 1999 (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Lender provides Borrowers with certain financial accommodations.

Borrowers have requested that Lender waive certain violations and amend certain provisions of the Loan Agreement and Lender is willing to do so on the terms and conditions hereafter set forth.

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

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.
2. Amendment to Loan Agreement. Subject to satisfaction of the conditions precedent set forth in Section 4 below, the Loan Agreement is hereby amended as follows:
 - (a) Section 1.2 of the Loan Agreement is amended as follows:
 - (i) the following defined terms are added in their appropriate alphabetical order:

"First Amendment" shall mean this Waiver and Amendment No. 1 to Second Amended and Restated Revolving Credit, Term Loan and Security Agreement dated as of the First Amendment Effective Date (as hereinafter defined).

"First Amendment Effective Date" shall mean the date on which all conditions precedent set forth in the First Amendment shall be satisfied.

(ii) the following defined term is amended in its entirety to provide as follows:

"Maximum Revolving Amount" shall mean (a) \$14,000,000 from the First Amendment Effective Date through June 30, 2000 and (b) \$12,500,000 from and after July 1, 2000.

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

(b) Section 12(n)(iii) of the Loan Agreement is amended in its entirety to provide as follows:

"(iii) directly or indirectly, prepay any indebtedness (other than to Lender or any other Borrowers permitted in this section) or make any payment in excess of \$3,000,000 on the Wile Note until the Increase Event shall have occurred, make any payment in excess of \$1,400,000 (or such greater amount to which Lender shall consent) on the Shareholder Notes or repurchase, redeem, retire or otherwise acquire any indebtedness of Borrowers in advance of the maturity thereof;"

(c) Section 12(o) of the Loan Agreement is amended in its entirety to provide as follows:

"(o) it shall cause to be maintained for Borrowers on a consolidated basis at December 31, 1999, Net Worth of at least \$10,500,000 and Borrowers' consolidated Net Worth shall increase at the end of each fiscal quarter thereafter by at least an additional \$100,000;"

3. Waiver. Subject to satisfaction of the conditions precedent set forth in Section 4 below, Lender hereby waives the Events of Default which have occurred as a result of Borrower's non-compliance with Section 12(o) of the Loan Agreement on or prior to September 30, 1999.

4. Conditions of Effectiveness. This Amendment shall become effective upon satisfaction of the following conditions precedent: (a) Lender shall have received four (4) copies of this Amendment executed by Borrower and consented and agreed to by the Guarantors and (b) such other certificates, instruments, documents and agreements as may be required by Lender or its counsel, each of which shall be in form and substance satisfactory to Lender and its counsel.

5. Representations and Warranties. Each Borrower hereby represents and warrants as follows:

(a) This Amendment and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of such Borrower and are enforceable against such Borrower in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment, such Borrower hereby reaffirms all continuing covenants, representations and warranties made in the Loan Agreement to the extent

the same are not amended hereby and agree that all such continuing covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment, excluding, however, those events subject to an express written waiver or consent from us.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Amendment, excluding, however, those events subject to an express written waiver or consent from us.

(d) As of the date hereof, Borrower has no defense, counterclaim or offset with respect to the Loan Agreement.

6. Effect on the Loan Agreement.

(a) Upon the effectiveness of this Amendment hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

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

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

7. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

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

9. Counterparts. This Amendment may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement.

[END OF PAGE]

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

**SPAR MARKETING FORCE, INC.
SPAR, INC.
SPAR/BURGOYNE RETAIL SERVICES, INC.
SPAR INENTIVE MARKETING, INC.
SPAR TRADENAMES, INC.
SPAR MCI PERFORMANCE GROUP, INC.
SPAR MARKETING, INC. (DE)
SPAR MARKETING, INC. (NV)
SPAR ACQUISITION, INC.
PIA MERCHANDISING CO., INC.
PACIFIC INDOOR DISPLAY CO., INC.
PIVOTAL SALES COMPANY
SPAR GROUP, INC., as Borrowers**

By: /s/ James H. Ross

*Name: James H. Ross
Title: Treasurer of each of the
foregoing corporations*

IBJ WHITEHALL BUSINESS CREDIT CORPORATION

By: /s/ Robert R. Wallace

*Name: Robert R. Wallace
Title: Vice President*

[SIGNATURES CONTINUED ON NEXT PAGE]

CONSENTED AND AGREED TO:

/s/ Robert G. Brown

Robert G. Brown, a Guarantor

/s/ William H. Bartels

William H. Bartels, a Guarantor

**PIA MERCHANDISING LIMITED,
a Guarantor**

By: /s/ James H. Ross

Name: James H. Ross
Title: Treasurer

EXHIBIT A

DATE	PRINCIPAL AMOUNT	MAKER	HOLDER
6/29/99	\$ 1,196,556	SPAR MCI Performance Group, Inc.	Robert G. Brown
6/29/99	\$ 86,778	SPAR MCI Performance Group, Inc.	Robert G. Brown
6/29/99	\$ 977,778	SPAR, Inc.	Robert G. Brown
6/30/99	\$ 611,111	SPAR Marketing Force, Inc.	Robert G. Brown
8/2/99	\$ 611,111	SPAR Marketing Force, Inc.	Robert G. Brown
8/2/99	\$ 305,556	SPAR MCI Performance Group, Inc.	Robert G. Brown
6/29/99	\$ 55,222	SPAR MCI Performance Group, Inc.	William H. Bartels
6/29/99	\$ 761,444	SPAR MCI Performance Group, Inc.	William H. Bartels
6/29/99	\$ 622,222	SPAR, Inc.	William H. Bartels
6/30/99	\$ 388,889	SPAR Marketing Force, Inc.	William H. Bartels
8/2/99	\$ 194,444	SPAR MCI Performance Group, Inc.	William H. Bartels
8/2/99	\$ 388,889	SPAR Marketing Force, Inc.	William H. Bartels

Exhibit 21 - List of Subsidiaries

SUBSIDIARY	INCORPORATION
PIA Merchandising Co., Inc.	California
Pacific Indoor Display Co.	California
Pivotal Sales Company	California
SPAR Acquisition, Inc.	Nevada
SPAR Incentive Marketing, Inc.	Delaware
SPAR Trademarks, Inc.	Nevada
SPAR Marketing, Inc. (f/k/a SPAR Acquisition, Inc.)	Delaware
SPAR Performance Group, Inc.	Delaware
SPAR Marketing Force, Inc.	Nevada
SPAR Marketing, Inc.	Nevada
SPAR, Inc. (f/k/a SPAR/Burgoyne Information Services, Inc.)	Nevada
SPAR/Burgoyne Retail Services, Inc. (f/k/a SPAR Retail Information, Inc.)	Ohio
SPAR/PIA Retail Services, Inc.	Nevada
Retail Resources, Inc.	Nevada
Pivotal Field Services, Inc.	Nevada

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in Registration Statement No. 333-07377 of SPAR Group, Inc. on Form S-8 of our report dated March 3, 2000 appearing in this Annual Report on Form 10-K of SPAR Group, Inc. for the year ended December 31, 1999.

/s/ Ernst & Young LLP

Minneapolis, Minnesota

April 12, 2000

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	2,074
SECURITIES	0
RECEIVABLES	30,768
ALLOWANCES	1,910
INVENTORY	0
CURRENT ASSETS	35,553
PP&E	4,680
DEPRECIATION	1,221
TOTAL ASSETS	63,087
CURRENT LIABILITIES	36,192
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	0
OTHER SE	11
TOTAL LIABILITY AND EQUITY	63,087
SALES	0
TOTAL REVENUES	116,525
CGS	0
TOTAL COSTS	81,288
OTHER EXPENSES	31,012
LOSS PROVISION	0
INTEREST EXPENSE	1,662
INCOME PRETAX	2,653
INCOME TAX	3,148
INCOME CONTINUING	2,605
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(495)
EPS BASIC	.08
EPS DILUTED	.08

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