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

Form 10-Q

(Mark One)

 X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
--- EXCHANGE ACT OF 1934 for the third quarterly period ended September 30, 2004

OR

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

Commission file number: 0-27824

SPAR Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	33-0684451
State of Incorporation	IRS Employer Identification No.

580 White Plains Road, Tarrytown, New York, 10591
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (914) 332-4100

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

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

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

SPAR Group, Inc.

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PART I:.FINANCIAL INFORMATION

Item 1: Financial Statements

SPAR Group, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2004 (Unaudited)	December 31, 2003 (Note)
Assets		
Current assets:		
Cash and cash equivalents	$ 236	$ -
Accounts receivable, net	7,966	13,942
Prepaid expenses and other current assets	1,267	659
Deferred income taxes	-	1,305
Total current assets	9,469	15,906

Property and equipment, net	1,686	2,099
Goodwill	798	8,749
Deferred income taxes	-	434
Other assets	431	926
Total assets	$ 12,384	$ 28,114
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,593	$ 1,350
Accrued expenses and other current liabilities	1,194	4,081
Accrued expenses, due to affiliates	1,889	1,091
Restructuring charges, current	162	685
Customer deposits	915	530
Line of credit, short-term	2,809	4,084
Total current liabilities	8,562	11,821
Other long-term liabilities	476	270
Restructuring charges, long-term	117	-
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value:		
Authorized shares - 3,000,000		
Issued and outstanding shares - none	-	-
Common stock, $.01 par value:		
Authorized shares - 47,000,000		
Issued and outstanding shares -		
18,858,972 - September 30, 2004		
18,858,972 - December 31, 2003	189	189
Treasury stock	(176)	(384)
Accumulated other comprehensive loss	(56)	(7)
Additional paid-in capital	11,051	11,249
Accumulated (deficit) retained earnings	(7,779)	4,976
Total stockholders' equity	3,229	16,023
Total liabilities and stockholders' equity	$ 12,384	$ 28,114

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

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Net revenues	$ 10,683	$ 16,615	$ 35,418	$ 52,704
Cost of revenues	6,963	11,380	24,474	33,777
Gross profit	3,720	5,235	10,944	18,927
Selling, general and administrative expenses	4,028	5,334	14,471	15,044
Impairment charges	-	-	8,141	-
Depreciation and amortization	275	385	1,005	1,162
Operating (loss) income	(583)	(484)	(12,673)	2,721
Interest expense	29	69	127	209
Other income (expense)	773	-	764	(28)

Income (loss) before provision for income taxes	161	(553)	(12,036)	2,484
Provision (benefit) for income taxes	15	(208)	783	943
Net income (loss) before minority interest	146	(345)	(12,819)	1,541
Minority interest	64	-	64	-
Net income (loss)	$ 210	$ (345)	$(12,755)	$ 1,541
Basic/diluted net income (loss) per common share:				
Net income (loss) - basic/diluted	$ 0.01	$ (0.02)	$ (0.68)	$ 0.08
Weighted average common shares - basic	18,859	18,859	18,859	18,853
Weighted average common shares - diluted	19,206	18,859	18,859	19,508

See accompanying notes.

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

	Nine Months Ended	
	September 30, 2004	September 30, 2003
Operating activities		
Net (loss) income before minority interest	$(12,819)	$ 1,541
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Impairment charges	8,141	-
Minority interest earnings in subsidiaries	64	-
Deferred tax asset adjustments	709	254
Depreciation	1,005	1,162
Changes in operating assets and liabilities:		
Accounts receivable	5,976	1,456
Prepaid expenses and other assets	(181)	(816)
Accounts payable, accrued expenses, other current liabilities and customer deposits	(1,216)	(1,642)
Accrued expenses due to affiliates	798	670
Restructuring charges	280	(817)
Net cash provided by operating activities	2,757	1,808
Investing activities		
Purchases of property and equipment	(1,014)	(1,356)
Acquisition of businesses	(399)	(299)
Net cash used in investing activities	(1,413)	(1,655)
Financing activities		
Net (payments) borrowings on line of credit	(1,275)	4,524
Other long-term liabilities	206	-
Proceeds from employee stock purchase plan and exercised options	10	198
Payments to certain stockholders	-	(3,951)
Purchase of treasury stock	-	(924)
Net cash used in financing activities	(1,059)	(153)
Translation loss	(49)	-
Net change in cash	236	-
Cash at beginning of period	-	-
Cash at end of period	$ 236	$ -

Supplemental disclosure of cash flow information		
Interest paid	$ 124	$ 174

See accompanying notes.

1. Basis of Presentation

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

2. Impairment Charges

Goodwill:

In April 2004, the Company's largest customer announced that they signed definitive agreements for the sale of its business to two purchasers. The sale was completed on August 2, 2004. This customer accounted for 30.2% and 31.1% of the Company's net revenues for the nine months ended September 30, 2004, and 2003, respectively. This customer was the last remaining profitable business that resulted from the PIA acquisition on July 9, 1999.

At March 31, 2004, the Company had $7.6 million of goodwill related to the acquisition of PIA. As a result of the loss of this major client, the Company has recorded an impairment of the PIA related goodwill resulting in a non-cash charge of $7.6 million to the results of operations for the nine months ending September 30, 2004. Also, in connection with the PIA acquisition, certain deferred tax assets related to PIA net operating loss carry forward benefits were recognized as an adjustment to goodwill. The Company also recorded as an impairment charge, a $709,000 valuation allowance on these deferred tax assets.

At March 31, 2004, the Company had approximately $2.1 million accrued for restructure costs and PIA merger related costs. As a result of the PIA business impairment, the Company evaluated these accruals and determined that only $0.4 million is required. The Company applied the $1.7 million ($1.4 million net of the tax effect) reduction in PIA related acquisition liabilities against the related goodwill thereby reducing the impairment charges recognized during the nine months ended September 30, 2004.

In June 2003, the Company acquired its Canadian operations. In connection with the acquisition, the Company recorded goodwill of $712,000. At the time of acquisition, it was expected that the Canadian subsidiary would be profitable. However, the Canadian subsidiary has operated at a loss since its acquisition. It is also expected that the Canadian subsidiary will incur a loss for the year

ending December 31, 2004. As a result of the continued losses and the failure to attract new customers the Company has recorded an impairment of the related goodwill resulting in a non-cash charge of $712,000 for the nine months ending September 30, 2004.

Capitalized Internal Use Software Development Costs:

Historically, the Company has capitalized costs of computer software developed for internal use. Some of the costs capitalized were associated with certain clients to whom the Company no longer provides merchandising services. As a result of the loss of these clients, the Company recorded an impairment charge for the net book value of internally developed software costs of approximately $442,000 for the nine months ended September 30, 2004.

Other Assets:

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

3. Management's Plans Concerning Cash Flow

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

4. Restructuring Charges

In 1999, in connection with the PIA merger, the Company's Board of Directors approved a plan to restructure the operations of the PIA Companies. Restructuring costs were composed of committed costs required to integrate the SPAR Companies' and the PIA Companies' field organizations and the consolidation of administrative functions to achieve beneficial synergies and costs savings. (For the specific definitions of those terms, see Item 1 - Business - GENERAL - Continuing Operations - Merchandising Services Division in the Company's Annual Report for 2003 on Form 10-K.) At June 30, 2004, the Company evaluated its restructuring reserves and determined that the restructuring reserves were no longer necessary (See Note 2 - Impairment Charges).

In July 2004, as a result of the loss of several significant customers and the pending sale of the Company's largest customer, the Company entered into a plan to restructure and reduce its field force, as well as, its selling, general and administrative cost structure to reflect its lower revenue base. These reductions consist of personnel reductions and related expenses and office closings. In July 2004, the Company implemented several of the savings initiatives and will continue to implement certain others over the next several months. As a result of the July restructuring, the Company expensed approximately $480,000 in the quarter ending September 30, 2004, approximately $230,000 for severance benefits and approximately $250,000 for office leases that the Company ceased using. At September 30, 2004, the Company had approximately $280,000 reserved for future restructure payments. The Company will continue to evaluate cost saving opportunities and expects to incur additional restructuring costs in the future.

5. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003

Numerator:				
Net income (loss)	$ 210	$ (345)	$ (12,755)	$ 1,541
Denominator:				
Shares used in basic earnings (loss) per share calculation	18,859	18,859	18,859	18,853
Effect of diluted securities:				
Employee stock options	167	-	-	655
Shares used in diluted earnings (loss) per share calculation	19,026	18,859	18,859	19,508
Basic and diluted earnings (loss) per common share:				
Net income (loss) - basic and diluted	$ 0.01	$ (0.02)	$ (0.68)	$ 0.08

The computation of dilutive loss per share excluded anti-dilutive stock options to purchase approximately 726,000 shares for three months September 30, 2003 and approximately 591,000 shares for the nine months ending September 30, 2004.

6. Line of Credit

In January 2003, the Company and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provided a $15.0 million revolving credit facility that matures on January 23, 2006. The Credit Facility allowed the Company to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). On May 17, 2004, the Credit Facility was amended to among other things, reduce the revolving credit facility from $15.0 million to $10.0 million, change the interest rate and increase certain reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, taxes, depreciation and amortization. At September 30, 2004, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 5.25% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its subsidiaries. In connection with the May 17, 2004, amendment, Mr. Robert Brown, a Director, the Chairman, President, Chief Executive Officer and a major stockholder of the Company and Mr. William Bartels, a Director, the Vice Chairman and a major stockholder of the Company, provided personal guarantees totaling $1.0 million to Webster. On August 20, 2004, the Credit Facility was further amended in connection with the waiver of certain covenant violations (see below). The amendment, among other things, reduced the revolving credit facility from $10.0 million to $7.0 million, changed the covenant compliance testing for certain covenants from quarterly to monthly and reduced certain advance rates. The amendment did not change the future covenant levels.

The Credit Facility contains certain financial covenants that must be met by the Company on a consolidated basis, including, a minimum monthly and cumulative "EBITDA", minimum "Net Worth", a minimum "Fixed Charge Coverage Ratio", as such terms are defined in the Credit Facility. The Credit Facility also limits certain expenditures including but not limited to capital expenditures and other investments. The Company was in violation of certain quarterly covenants at September 30, 2004, and expects to be in violation at future measurement dates. Webster issued a waiver for the September 30, 2004 covenant violations, however, there can be no assurances that Webster will issue such waivers in the future.

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

The revolving loan balances outstanding under the Credit Facility were

$2.8 million and $4.1 million at September 30, 2004, and December 31, 2003, respectively. There were letters of credit outstanding under the Credit Facility of $0.7 million at each of September 30, 2004, and December 31, 2003. As of September 30, 2004, the SPAR Group had unused availability under the Credit Facility of $0.2 million out of the remaining maximum $3.5 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

7. Related-Party Transactions

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

SMS provided approximately 99% of the Company's field representatives in the United States (through its independent contractor field force), and SMSI provided approximately 92% of the Company's field management in the United States at September 30, 2004. Pursuant to the Amended and Restated Field Service Agreement dated as of January 1, 2004 (the "Field Service Agreement"), SMS provides the services of approximately 6,300 field representatives to the Company at its request from time to time, for which the Company has agreed to reimburse SMS for all of its costs of providing those services and to pay SMS a premium equal to 4% of such costs. Pursuant to the terms of the Amended and Restated Field Management Agreement dated as of January 1, 2004 (the "Field Management Agreement"), SMSI provides approximately 50 full-time national, regional and district managers to the Company at its request, from time to time, for which the Company has agreed to reimburse SMSI for all of its costs of providing those services and to pay SMSI a premium equal to 4% of such costs, except that for 2004 SMSI agreed to concessions that reduced the Company's costs by approximately $230,000 and $470,000 for the three and nine month periods ended September 30, 2004, respectively. The SMS Principals are not paid any salaries as officers of SMS or SMSI so there were no salary reimbursements for them included in such costs or premium. However, since SMS and SMSI are "Subchapter S" corporations, the SMS Principals benefit from any income of such companies allocated to them.

SIT provided substantially all of the Internet computer programming services to the Company for the three and nine month periods ended September 30, 2004. Pursuant to the Amended and Restated Programming and Support Agreement dated as of January 1, 2004 (the "Programming and Support Agreement"), SIT continues to provide programming services to the Company at its request, from time to time, for which the Company has agreed to pay SIT competitive hourly wage rates for time spent on Company matters and to reimburse the related out-of-pocket expenses of SIT and its personnel. No hourly charges or business expenses for the SMS Principals were charged to the Company for the three and nine month periods ended September 30, 2004. However, since SIT is a "Subchapter S" corporation, the SMS Principals benefit from any income of such company allocated to them.

Through arrangements with the Company, SMS, SMSI and SIT participate in various benefit plans, insurance policies and similar group purchases by the Company, for which the Company charges them their allocable shares of the costs of those group items and the actual costs of all items paid specifically for them.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Services provided by affiliates:				
SMS: Independent contractor field services	$ 4,183	$ 7,970	$15,941	$22,926
SMSI: Field management services	$ 946	$ 1,939	$ 3,561	$ 5,701
SIT: Internet and computer programming services	$ 218	$ 359	$ 897	$ 1,215
Reimbursed costs from affiliates:	$ 24	$ 61	$ 87	$ 169

Accrued expenses due to affiliates (in thousands):	September 30, 2004	December 31, 2003
SMS	$ 1,200	$ 397
SMSI	343	517
SIT	346	177
	$ 1,889	$ 1,091

8. Stock Options

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

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

	Nine Months Ended	
	September 30, 2004	September 30, 2003
Net (loss) income, as reported	$(12,755)	$ 1,541
Stock based employee compensation expense under the fair market value method	$ 367	$ 1,188

Adjusted pro forma net (loss) income	$(13,122)	$ 353
Basic and diluted net (loss) income per share, as reported	$ (0.68)	$ 0.08
Basic and diluted adjusted pro forma net (loss) income per share, after adjustment for stock based employee compensation expense under the fair market value method	$ (0.70)	$ 0.02

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

For the nine months ended September 30, 2004, under the provision of SFAS No. 123 dealing with non-employee stock option grants awarded to the employees of the Company's affiliates, there was a recovery of amounts previously expensed of approximately $114,000 as a result of the declining market price of the Company's stock from December 31, 2003 to September 30, 2004. The Company determines the fair value of the options granted to non-employees using the Black-Scholes valuation model and recovers amounts previously expensed or expenses that value over the service period. Until an option is vested, the fair value of the option continues to be updated through the vesting date. The options granted have a ten (10) year life and vest over four-year periods at a rate of 25% per year, beginning on the first anniversary of the date of grant.

9. Treasury Stock

The Company utilized 40,648 of repurchased shares to issue stock for the exercise of stock options during the nine months ended September 30, 2004. As of September 30, 2004, the Company has 35,408 shares of treasury stock, which it acquired at a cost of approximately $176,000. Currently, the Company has no stock repurchase program in place.

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

In connection with the sale of SPAR Performance Group, Inc. ("SPGI"), on June 30, 2002, the Company sold all of the stock of its subsidiary, SPGI. In connection with the sale, SPGI entered into a term loan agreement with the Company under which SPGI borrowed $6.0 million in term loans (the "Term Loans"), which due to their speculative nature were fully reserved.

Also in connection with the sale, the Company agreed to provide a discretionary revolving line of credit to SPGI not to exceed $2.0 million (the "SPGI Revolver") through September 30, 2005. The SPGI Revolver was secured by a pledge of all the assets of SPGI and was guarantied by SPGI's parent, Performance Holdings, Inc. The SPGI Revolver provided for advances in excess of the borrowing base through September 30, 2003. As of October 1, 2003, the SPGI Revolver was adjusted, as per the agreement, to include a borrowing base calculation (principally 85% of "eligible" accounts receivable). In September 2003, SPGI requested and the Company agreed to provide advances of up to $1.0 million in excess of the borrowing base through September 30, 2004. In December of 2003, SPGI changed its name to STIMULYS, Inc. On April 30, 2004, as a result of various defaults by STIMULYS, the Company amended the discretionary line of credit by eliminating advances in excess of STIMULYS' borrowing base and reducing the maximum amount of the revolving line to the greater of $1.0 million or the borrowing base. Under the SPGI Revolver terms, STIMULYS was required to deposit all of its cash receipts to the Company's lock box.

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

associated with the Promissory Note, the Company has established a reserve for the remaining amount due, totaling approximately $344,000. The STIMULYS note receivable is recorded in Other Current Assets.

As a result of the termination of the SPGI Revolver, the reserve for collection of advances and accrued interest under the SPGI Revolver previously established by the Company totaling approximately $984,000 is no longer required. The release of this reserve net of the new reserve required for the Promissory Note resulted in Other Income totaling approximately $640,000 for the three months ending September 30, 2004.

11. Income Taxes

During the three months ended June 30, 2004, as a result of the loss of several significant clients, current year losses and the lack of certainty of a return to profitability in the next twelve months, the Company recorded a full valuation allowance against its net deferred tax assets resulting in a charge totaling approximately $709,000. The valuation allowance was reduced by approximately $75,000 representing income taxes in excess of minimum taxes for the three months ending September 30, 2004. The income tax provision for the three months ending September 30, 2004 represents minimum state tax liabilities.

12. Customer Deposits

In June 2004, the Company received a non-refundable deposit of approximately $900,000 from a customer. The deposit is to be applied to future invoices for services that will be provided by the Company under a master service agreement through December 31, 2006. Each invoice will be reduced by 20% until the deposit is depleted. As of September 30, 2004, there have been no reductions of the deposit.

13. Contingencies

Joint Venture Guarantee

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

The Company has recorded approximately $0.2 million in long-term liabilities for its share of the cumulative losses associated with this joint venture.

Legal Matters

On October 24, 2001, Safeway Inc., a former customer of the PIA Merchandising Co., Inc. and Pivotal Sales Company, filed a complaint alleging damages of approximately $3.6 million plus interest and costs and alleged punitive damages in an unspecified amount against the Company in Alameda County Superior Court, California, Case No. 2001028498 with respect to (among other things) alleged breach of contract. In December 2002, the Court approved the filing of Safeway Inc.'s Second Amended Complaint, which alleges causes of action for (among other things) breach of contract against the Company, PIA Merchandising Co., Inc. and Pivotal Sales Company. The Second Amended

Complaint was filed with the Court on January 13, 2003, and does not specify the amount of monetary damages sought. No punitive or exemplary damages are sought in Safeway Inc.'s Second Amended Complaint. This case is currently scheduled for trial in March 2005 and is being vigorously contested by the Company.

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

14. Geographic Data

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

	Three Months Ending September 30, 2004	Nine Months Ending September 30, 2004
Net revenue:		
United States	$ 9,236	$ 32,467
International	$ 1,447	$ 2,951
Operating loss:		
United States	$ (349)	$(10,910)
International	$ (234)	$ (1,763)
Long lived asset as of September 30, 2004:		
United States		$ 2,616
International		$ 299

With the exception of the joint venture in South Africa, no one international geographic market is greater than 10% of consolidated net revenue. South Africa accounted for 11% of total consolidated net revenue for the three months ended September 30, 2004.

15. Supplemental Balance Sheet Information

Prepaid expenses and other current assets	September 30, 2004	December 31, 2003
STIMULYS Promissory Note, net of reserve (see Note 10)	$ 422	$ -
Prepaid insurance	344	245
Tax refund due	317	244
Prepaid rents	49	70
Other	135	100
	$ 1,267	$ 659

Other assets, long-term	September 30, 2004	December 31, 2003
Deposit on domestic acquisition	$ -	$ 350
Prepaid insurance, long-term	189	289
Refundable deposits	118	129
Other	124	158

	$ 431	$ 926

Accrued expenses and other current liabilities	September 30, 2004	December 31, 2003
Merger related payables	$ 450	$ 1,495
STIMULYS cash deposits	-	794
SPGI Revolver	-	740
Accrued medical expenses	294	100
State taxes payable	169	139
Accrued accounting and legal expenses	109	219
Accrued salary payable	78	241
Other	94	353
	$ 1,194	$ 4,081

16. Reclassification

Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

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

Forward-Looking Statements

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

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

Overview

The Company's operations are divided into two divisions: the Merchandising Services Division and the International Division. The Merchandising Services Division provides merchandising services, product

demonstrations, product sampling, database marketing, teleservices and marketing research to manufacturers and retailers with product distribution primarily in mass merchandisers, drug chains, convenience stores and grocery stores in the United States. The International Division, established in July 2000, currently provides merchandising services in Japan, Canada, Turkey, South Africa and India.

Merchandising Services Division

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

International Division

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

Critical Accounting Policies

The Company's critical accounting policies have been consistently applied in all material respects and address such matters as revenue recognition, depreciation methods, asset impairment recognition, business combination accounting, and discontinued business accounting. While the estimates and judgments associated with the application of these policies may be affected by different assumptions or conditions, the Company believes the estimates and judgments associated with the reported amounts are

appropriate in the circumstances. Three critical accounting policies are revenue recognition, allowance for doubtful accounts and sales allowance, and capitalized internal use software development costs:

Revenue Recognition

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

Allowance for Doubtful Accounts and Sales Allowance

The Company continually monitors the collectability of its accounts receivable based upon current customer credit information and other information available. Utilizing this information, the Company has established an allowance for doubtful accounts of $577,000 and $444,000 at September 30, 2004, and December 31, 2003, respectively.

Internal Use Software Development Costs

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

The Company capitalized $298,000 and $802,000 of costs related to software developed for internal use in the nine months ended September 30, 2004, and 2003, respectively.

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

Results of Operations

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

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

	Three Months Ended				
	September 30, 2004		September 30, 2003		(Decrease)
	Amount	%	Amount	%	Increase %
Net revenues	$ 10,683	100.0%	$ 16,615	100.0%	(35.7)%
Cost of revenues	6,963	65.2	11,380	68.5	(38.8)
Selling, general and administrative expense	4,028	37.7	5,334	32.1	(24.5)
Depreciation and amortization	275	2.6	385	2.3	(28.7)
Interest expense	29	0.2	69	0.4	(57.7)
Other income	773	7.2	-	-	-
Income (loss) before provision for income taxes	161	1.5	(553)	(3.3)	(129.1)
Provision (benefit) for income tax	15	0.1	(208)	(1.3)	(107.3)
Net income (loss) before minority interest	146	1.4	(345)	(2.0)	(142.3)
Minority interest	64	0.6	-	-	-
Net income (loss)	$ 210	2.0%	$ (345)	(2.0)%	(160.8)%

Net revenues for the three months ended September 30, 2004, were $10.7 million, compared to $16.6 million for the three months ended September 30, 2003, a decrease of 35.7%. The decrease in net revenues was due to lower domestic sales as a result of reduced business from the Company's largest customer, which was sold during the third quarter, as well as, the loss of two other large clients offset by increases in international sales totaling $1.4 million.

One customer, a division of a major retailer, accounted for 16.9% and 27.7% of the Company's net revenues for the three months ended September 30, 2004, and 2003, respectively. This customer also accounted for approximately 14.6% and 32.6% of accounts receivable at September 30, 2004, and 2003, respectively. This customer was sold by its parent on August 2, 2004. During the third quarter of 2004, the Company experienced a decline in net revenue from this retailer, a trend which is expected to continue into 2005. The loss of this business will have a material adverse effect on the Company's business, results of operations and financial condition.

A second customer accounted for 13.9% and 9.7% of the Company's net revenue for the three months ended September 30, 2004, and 2003, respectively. This customer also accounted for approximately 21.7% and 8.9% of accounts receivable at September 30, 2004, and 2003, respectively.

In addition, approximately 17.2% and 13.8% of the Company's net revenues for the three months ended September 30, 2004, and 2003, respectively, resulted from merchandising services performed for manufacturers and others at Kmart. Kmart emerged from bankruptcy in May 2003. During its time in bankruptcy, Kmart closed a number of stores in the United States. While the Company's customers and the resultant contractual relationships or agreements are with various manufacturers and not Kmart, a significant reduction of this retailer's stores or cessation of this retailer's business would negatively impact the Company.

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

Cost of revenues from operations consists of in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues as a percentage of net revenues was 65.2% for the three months ended September 30, 2004, compared to 68.5% for the three months ended September 30, 2003. The decrease is primarily a result of the Company reducing its domestic field structure to reflect its reduction of business.

Approximately 73.7% and 87.1% of the Company's cost of revenue in the three months ended September 30, 2004, and 2003, respectively, resulted from in-store independent contractor and field management services purchased from the Company's affiliates, SPAR Marketing Services, Inc. ("SMS"), and SPAR Management Services, Inc. ("SMSI"), respectively (see Note 7 to the Financial Statements in this Quarterly Report).

Operating expenses include selling, general and administrative expenses, impairment charges and depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resource expenses, legal and accounting expenses.

The decrease in selling, general and administrative expenses of $1.3 million consists of reductions in domestic operations' selling, general and administrative cost structure to reflect its reduction of business totaling $2.1 million offset by increases in international selling, general and administrative expense primarily as a result of joint venture startups totaling $0.3 million and restructure expenses totaling $0.5 million.

Other Income

Other income of approximately $0.8 million for the three months ended September 30, 2004, primarily represents the release of the STIMULYS reserve (see Note 10 to the Financial Statements in this Quarterly Report).

Income Taxes

The Company recorded an income tax provision of $15,000 for the three months ended September 30, 2004. The provision was primarily for state taxes. For the three months ended September 30, 2003, the income tax benefit represents a combined federal and state income tax rate of 38% (see Note 11 to the Financial Statements in this Quarterly Report).

Net Income

The Company had a net income of $0.2 million for the three months ended September 30, 2004, or $0.01 per diluted share, compared to a net loss of $0.3 million, or $0.02 per diluted share, for the corresponding period last year.

Results of Operations

Nine months ended September 30, 2004, compared to nine months ended September 30, 2003

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

	Nine Months Ended				
	September 30, 2004		September 30, 2003		% Incr.
	Amount	%	Amount	%	(Decr.)
Net revenues	$ 35,418	100.0%	$ 52,704	100.0%	(32.8)%
Cost of revenues	24,474	69.1	33,777	64.1	(27.5)
Selling, general, and administrative expense	14,471	40.9	15,044	28.5	(3.8)
Impairment charges	8,141	23.0	-	-	-
Depreciation and amortization	1,005	2.8	1,162	2.2	(13.6)
Interest expense	127	0.4	209	0.4	(39.2)
Other income (expense)	764	2.2	(28)	(0.1)	(2828.6)
(Loss) income before provision for income taxes	(12,036)	(34.0)	2,484	4.7	(584.4)
Provision for income taxes	783	2.2	943	1.8	(16.9)
Net (loss) income before minority interest	(12,819)	(36.2)	1,541	2.9	(931.9)
Minority interest	64	0.2	-	-	-
Net (loss) income	$ (12,755)	(36.0)%	$ 1,541	2.9%	(927.8)%

Net revenues from operations for the nine months ended September 30, 2004, were $35.4 million, compared to $52.7 million for the nine months ended September 30, 2003, a decrease of 32.8%. The decrease in net revenues was due to lower domestic sales resulting primarily from reduced business from the Company's largest customer, which was sold during the third quarter, decreased project revenue

from another client and the loss of two other large clients offset by increases in international sales totaling $3.0 million.

One customer, a division of a major retailer, accounted for 30.2% and 31.1% of the Company's net revenues for the nine months ended September 30, 2004, and 2003, respectively. This customer also accounted for approximately 14.6% and 32.6% of accounts receivable at September 30, 2004, and 2003, respectively. The customer was sold by its parent on August 2, 2004. During the third quarter of 2004, the Company experienced a decline in net revenue from this retailer, a trend which is expected to continue into 2005. The loss of this business will have a material adverse effect on the Company's business, results of operations and financial condition.

A second customer accounted for 10.1% and 7.5% of the Company's net revenue for the nine months ended September 30, 2004, and 2003, respectively. This customer also accounted for approximately 21.7% and 8.9% of accounts receivable at September 30, 2004, and 2003, respectively.

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

Cost of revenues consists of field in-store labor and field management wages, related benefits, travel and other direct labor-related expenses. Cost of revenues as a percentage of net revenues was 69.1% for the nine months ended September 30, 2004, compared to 64.1% for the nine months ended September 30, 2003. The increase is primarily a result of additional costs associated with its per unit fee revenue programs and reduced pricing to a large customer that occurred in the first six months of 2004, offset by the reduction of the Company's field structure to reflect the reduction in business.

Approximately 79.7% and 84.8% of the Company's costs of revenue in the nine months ended September 30, 2004, and 2003, respectively, resulted from field in-store independent contractor and field management services purchased from the Company's affiliates, SMS, and SMSI, respectively (see Note 7 to the Financial Statements in this Quarterly Report).

Operating expenses include selling, general and administrative expenses, impairment charges and depreciation and amortization. Selling, general and administrative expenses include corporate overhead, project management, information technology, executive compensation, human resources expenses, legal and accounting expenses.

The decrease in selling, general and administrative expenses of $0.6 million consists of reductions in domestic operations' selling, general and administrative cost structure to reflect its reduction of business totaling $1.7 million offset by increases in international selling, general and administrative expenses primarily as a result of joint venture startups totaling $0.6 million, and restructuring expenses totaling $0.5 million.

Impairment charges were $8.1 million for the nine months ended September 30, 2004. Impairment charges consisted of $9.0 million of goodwill impairment, offset by reductions to the other liabilities for PIA merger related costs of $1.0 million and PIA restructuring charges of $0.7 million, net

of a $0.3 million tax effect, $0.4 million of net impairment of software development costs previously capitalized and $0.1 million for impairment of other assets.

Other Income

Other income of approximately $0.8 million for the nine months ended September 30, 2004, primarily represents the release of the STIMULYS reserve (see Note 10 to the Financial Statements in this Quarterly Report).

Income Taxes

The Company recorded an income tax provision of $0.8 million for the nine months ended September 30, 2004. The provision represents estimated minimum taxes due as well as the establishment of a valuation reserve for net deferred tax assets previously recorded by the Company (see Note 11 to the Financial Statements in this Quarterly Report). For the nine months ended September 30, 2003 the income tax provision represents a combined federal and state income tax rate of 38%.

Net Loss/Income

The Company had a net loss of $12.8 million for the nine months ended September 30, 2004, or $0.68 per diluted share compared to net income of $1.5 million or $0.08 per diluted share for the corresponding period last year.

Liquidity and Capital Resources

In the nine months ended September 30, 2004, the Company had a net loss of $12.8 million. Included in the net loss were non-cash charges of $8.1 million for impairment, $0.7 million for deferred tax asset valuation adjustments, $1.0 million for depreciation and $0.1 million for minority interest earnings in subsidiaries.

Net cash provided by operating activities for the nine months ended September 30, 2004, was $2.8 million, comparable to net cash provided by operating activities of $1.8 million for the nine months ended September 30, 2003. The increase of $1.0 million in cash provided by operating activities is due to lower accounts receivable levels, higher accruals for restructuring charges and accrued expenses due affiliates, lower reductions in accounts payable, accrued expenses and other current liabilities, lower increases in prepaid expenses offset by net operating losses.

Net cash used in investing activities for the nine months ended September 30, 2004, was $1.4 million comparable to net cash used in investing activities of $1.7 million for the nine months ended September 30, 2003. The decrease in net cash used in investing activities resulted from lower purchases of property and equipment in the current year.

Net cash used in financing activities for the nine months ended September 30, 2004, was $1.1 million, compared with net cash used in financing activities of $0.2 million for the nine months ended September 30, 2003. The increase of net cash used in financing activities was primarily a result of higher net payments on the line of credit.

The above activity resulted in a change in cash and cash equivalents for the nine months ended September 30, 2004 of $0.2 million.

At September 30, 2004, the Company had positive working capital of $0.9 million, as compared to a positive working capital of $4.1 million on December 31, 2003. The decrease in working capital is due primarily to decreases in sales levels and the related impact on accounts receivable and deferred income taxes. The Company's current ratio was 1.11 at September 30, 2004, and 1.35 at December 31, 2003.

In January 2003, the Company and Webster Business Credit Corporation, then known as Whitehall Business Credit Corporation ("Webster"), entered into the Third Amended and Restated Revolving Credit and Security Agreement (as amended, collectively, the "Credit Facility"). The Credit Facility provided a $15.0 million revolving credit facility that matures on January 23, 2006. The Credit Facility allowed the Company to borrow up to $15.0 million based upon a borrowing base formula as defined in the agreement (principally 85% of "eligible" accounts receivable). On May 17, 2004, the Credit Facility was amended to among other things, reduce the revolving credit facility from $15.0 million to $10.0 million, change the interest rate and increase the reserves against collateral. The amendment provides for interest to be charged at a rate based in part upon the earnings before interest, taxes, depreciation and amortization. At September 30, 2004, the Credit Facility bears interest at Webster's "Alternative Base Rate" plus 0.75% (a total of 5.25% per annum), or LIBOR plus 3.25%. The Credit Facility is secured by all of the assets of the Company and its subsidiaries. In connection with the May 17, 2004, amendment,

Mr. Robert Brown, a Director, the Chairman, President and Chief Executive Officer and a major stockholder of the Company and Mr. William Bartels, a Director, the Vice Chairman and a major stockholder of the Company, provided personal guarantees totaling $1.0 million to Webster. On August 20, 2004, the Credit Facility was further amended in connection with the waiver of certain covenant violations (see below). The amendment, among other things, reduced the revolving credit facility from $10.0 million to $7.0 million, changed the covenant compliance testing for certain covenants from quarterly to monthly and reduced certain advance rates. The amendment does not change the future covenant levels.

The Credit Facility contains certain financial covenants that must be met by the Company on a consolidated basis, including, a minimum monthly and cumulative "EBITDA", minimum "Net Worth", a minimum "Fixed Charge Coverage Ratio", as such terms are defined in the Credit Facility. The Credit Facility also limits certain expenditures including, but not limited to, capital expenditures and other investments. The Company was in violation of certain quarterly covenants at September 30, 2004, and expects to be in violation at future measurement dates. Webster issued a waiver for the September 30, 2004 covenant violations, however, there can be no assurances that Webster will issue such waivers in the future.

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

The revolving loan balances outstanding under the Credit Facility were $2.8 million and $4.1 million at September 30, 2004, and December 31, 2003, respectively. There were letters of credit

outstanding under the Credit Facility of $0.7 million at September 30, 2004, and December 31, 2003. As of September 30, 2004, the SPAR Group had unused availability under the Credit Facility of $0.2 million out of the remaining maximum $3.5 million unused revolving line of credit after reducing the borrowing base by outstanding loans and letters of credit.

Management believes that based upon the Company's cost saving initiatives and the existing credit facilities, sources of cash availability will be sufficient to support ongoing operations over the next twelve months. However, delays in collection of receivables due from any of the Company's major clients, or a significant further reduction in business from such clients, or the inability to acquire new clients, or the Company's inability to return to profitability, or the inability to obtain bank waivers for future covenant violations could have a material adverse effect on the Company's cash resources and its ongoing ability to fund operations.

On September 10, 2004, in consideration for a new Promissory Note totaling $764,271, which represented the amount outstanding under the SPGI Revolver at that time, and in the event of a change in control of STIMULYS, a share in the net proceeds resulting from such change in control the Company terminated the SPGI Revolver and the Term Loans. SPAR also released its security interest in any collateral previously pledged by STIMULYS. The first payment due under the Promissory Note was received on October 29, 2004. Due to the collection risk associated with the Promissory Note, the Company has established a reserve for the remaining amount due, totaling approximately $344,000. The STIMULYS note receivable is recorded in Other Assets.

As a result of the termination of the SPGI Revolver, the reserve for collection of advances and accrued interest under the SPGI Revolver previously established by the Company totaling approximately $984,000 is no longer required. The release of this reserve net of the reserve required for the Promissory Note resulted in Other Income totaling approximately $640,000 for the three months ending September 30, 2004.

Certain Contractual Obligations

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

Contractual Obligations	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	$2,809	$2,809	$ -	$ -	$ -
Operating Lease Obligations	1,673	816	800	57	-
Total	$4,482	$3,625	$ 800	$ 57	$ -

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

In May 2001, the Company and Paltac, Inc. ("Paltac"), a large Japanese distributor, entered into a joint venture to create a Japanese company, SPAR FM. SPAR FM entered into a 300 million Yen

Revolving Credit Agreement with a Japanese bank. The bank required Paltac to guarantee the outstanding balance on the revolving credit facility. As part of the joint venture agreement, should Paltac be required to make a payment on its guarantee to the bank, the Company has agreed to remit to Paltac 50% of any such payment up to a maximum of 150 million Yen or approximately $1.4 million. As of September 30, 2004, SPAR FM has borrowed 100 million Yen under its Revolving Credit Agreement. Therefore, the Company's current exposure to Paltac respecting outstanding loans to SPAR FM at September 30, 2004, would be 50 million Yen or approximately $0.5 million.

The Company has recorded approximately $0.2 million in long-term liabilities for its share of the cumulative losses associated with this joint venture.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer

evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of the end of the period covering this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. There were no material changes in the Company's internal control over financial reporting during the third quarter of 2004.

PART II: OTHER INFORMATION

Item1. Legal Proceedings

No change.

Item 2: Changes in Securities and Use of Proceeds

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not applicable

Item 3: Defaults upon Senior Securities

Item 3(a): Defaults under Indebtedness: None.
Item 3(b): Defaults under Preferred Stock: Not applicable.

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

The Company held its Annual Meeting of Stockholders on August 12, 2004. The meeting was held (1) to elect the Board of Directors and (2) to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2004.

The number of votes cast for each proposal are set both below:

Name:	For:	Abstention:
Robert G. Brown	17,236,722	19,182
William H. Bartels	17,228,422	27,482
Robert O. Aders	17,235,752	20,152
Jerry B. Gilbert	17,237,452	18,452
Jack W. Partridge	17,238,422	17,482
Lorrence T. Kellar	17,237,452	18,452

Each of the nominees was elected to the Board of Directors.

Proposal Number 2 - Ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2004:

For:	Against:	Abstention:
17,252,770	1,387	1,747

Item 5: Other Information

Not applicable.

Item 6: Exhibits

Exhibits.

10.1 Waiver and Amendment No. 6 to Third Amended and Restated Revolving Credit and Security Agreement among Webster Business Credit Corporation, SPAR Group, Inc., and certain of its subsidiaries dated as of November 12, 2004, as filed herewith.

10.2 Change in Control Severance Agreement between Kori Belzer and SPAR Group, Inc., dated as of August 12, 2004, as filed herewith.

10.3 Change in Control Severance Agreement between Patricia Franco and SPAR Group, Inc., dated as of August 12, 2004, as filed herewith.

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

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

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

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

SPAR Group, Inc.

SIGNATURES

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

Date: November 15, 2004 SPAR Group, Inc., Registrant

By: /s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer, Secretary
and duly authorized signatory

Exhibit 10.1

WAIVER AND AMENDMENT NO. 6
TO THIRD AMENDED AND RESTATED
REVOLVING CREDIT AND SECURITY AGREEMENT

THIS WAIVER AND AMENDMENT NO. 6 (this "Agreement") is entered into as of November 15, 2004, by and among SPAR MARKETING FORCE, INC. ("SMF"), SPAR, INC. ("SPAR"), SPAR/BURGOYNE RETAIL SERVICES, INC ("SBRS"), SPAR GROUP, INC. ("SGI"), SPAR INCENTIVE MARKETING, INC. ("SIM"), SPAR TRADEMARKS, INC. ("STM"), SPAR MARKETING, INC. (DE) ("SMIDE"), SPAR MARKETING, INC. (NV) ("SMINV"), SPAR ACQUISITION, INC. ("SAI"), SPAR TECHNOLOGY GROUP, INC. ("STG"), SPAR/PIA RETAIL SERVICES, INC. ("Pia Retail"), RETAIL RESOURCES, INC. ("Retail"), PIVOTAL FIELD SERVICES, INC. ("Pivotal Field"), PIA MERCHANDISING CO., INC. ("PIA"), PACIFIC INDOOR DISPLAY CO. ("Pacific"), PIVOTAL SALES COMPANY ("Pivotal"), SPAR ALL STORE MARKETING SERVICES, INC., ("SAS") and SPAR BERT FIFE, INC. ("SBFI") (each a "Borrower" and collectively "Borrowers") and WEBSTER BUSINESS CREDIT CORPORATION (formerly known as Whitehall Business Credit Corporation) ("Lender").

BACKGROUND

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

The Borrowers have violated certain covenants and have requested Lender waive the resulting Events of Default and Lender is willing to do so in connection with making certain amendments to the Loan Agreement.

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

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

2. Waivers. Subject to the satisfaction of Section 4 below, Lender hereby waives the Event of Default which has occurred as a result Borrowers' non-compliance with (i) Section 12(o) with respect to the fiscal quarter ended September 30, 2004 due to Borrowers' failure to maintain its required Net Worth at the end of such fiscal quarter, (ii) Section 12(p) with respect to the fiscal quarter ending September 30, 2004 due to Borrowers' failure to maintain the requisite Fixed Charge Coverage Ratio level for the four fiscal quarters then ended and (iii) Section 12(x) due to Borrowers' failure to deliver a copy of a consultant's report to Lender by September 30, 2004. Notwithstanding the foregoing, the waivers of the Events of Default set forth above do not establish a course of conduct between Borrowers and Lender and Borrowers hereby agree that Lender is not obligated to waive any future Events of Default under the Loan Agreement.

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

(a) Sections 12(o) and 12(p) are hereby amended by deleting any required Net Worth and Fixed Charge Coverage Ratio levels for the applicable fiscal periods ending December 31, 2004.

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

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

Lender shall have received a copy of such report on or before November 30, 2004.

4. Conditions of Effectiveness. This Agreement shall become effective as of the date hereof, provided that the following conditions shall have been satisfied: Lender shall have received (i) four (4) copies of this Agreement executed by the Borrowers and the limited guarantors (each a "Limited Guarantor") and the guarantor ("Guarantor") listed on the signature page hereto, and (ii) a covenant compliance certificate for the month and quarter ending September 30, 2004 showing compliance with Section 12(r) of the Loan Agreement.

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

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

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

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

6. Effect on the Loan Agreement.

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

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

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

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

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

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

[Remainder of page intentionally left blank]

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

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

By: /s/ Charles Cimitile

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

WEBSTER BUSINESS CREDIT CORPORATION

By: /s/ Joseph Zautra

Name: Joseph Zautra
Its: Vice President

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

CONSENTED AND AGREED TO BY:

/s/ WILLIAM H. BARTELS

WILLIAM H. BARTELS, Limited Guarantor

/s/ ROBERT G. BROWN

ROBERT G. BROWN, Limited Guarantor

PIA Merchandising Limited, Guarantor

By: /s/ Robert G. Brown

Name: Robert G. Brown
Its: Chief Executive Officer

Exhibit 31.1

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

I, Robert G. Brown, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2004

/s/ Robert G. Brown

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

SPAR Group, Inc.

Exhibit 31.2

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

I, Charles Cimitile, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2004

/s/ Charles Cimitile

Charles Cimitile, Chief Financial Officer, Treasurer and Secretary

EXHIBIT 32.1

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

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

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

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

/s/ Robert G. Brown

Robert G. Brown
Chairman, President and Chief Executive Officer

November 15, 2004

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

SPAR Group, Inc.

EXHIBIT 32.2

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

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

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

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

/s/ Charles Cimitile

Charles Cimitile
Chief Financial Officer, Treasurer and Secretary

November 15, 2004

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