SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the second quarterly period ended June 30, 2001

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 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: [X] Yes

On August 3, 2001 there were 18,272,330 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 per share data)

	JUNE 30, 2001 (unaudited)	DECEMBER 31, 2000 (note)
ASSETS		
Current assets:		
Cash and cash equivalents	$ --	$ --
Accounts receivable, net	19,239	23,207
Prepaid expenses and other current assets	1,306	880
Prepaid program costs	2,196	3,542
Deferred Income Taxes	1,718	1,718
Total current assets	24,459	29,347
Property and equipment, net	3,588	3,561
Goodwill and other intangibles, net	20,370	21,485
Deferred Income Taxes	1,082	1,082
Other assets	223	143
Total assets	$ 49,722	$ 55,618
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,972	$ 5,849
Accrued expenses and other current liabilities	10,044	10,178
Deferred revenue	4,839	8,581
Restructuring and other charges, current	1,579	2,205
Due to certain stockholders, current	3,133	3,505
Current portion of long-term debt	928	1,211
Total current liabilities	24,495	31,529
Line of credit & long-term liabilities, net of current portion	8,549	8,093
Long-term debt due to certain stockholders	2,230	2,160
Restructuring and other charges, long-term	1,212	1,596
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 - 18,272,330 as of June 30, 2001 and December 31, 2000	182	182
Additional paid-in capital	10,127	10,127
Retained earnings	2,927	1,931
Total stockholders' equity	13,236	12,240
Total liabilities and stockholders' equity	49,722	55,618

Note: The Balance Sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include any of the information and footnotes required by Generally Accepted Accounting Principles for complete financial statements

SEE ACCOMPANYING NOTES.

SPAR GROUP, INC.

Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2001	JUNE 30, 2001	JUNE 30, 2001
Net revenues	23,509	28,290	51,187	60,737
Cost of revenues	15,990	19,177	34,816	42,142
Gross profit	7,519	9,113	16,371	18,595
Selling, general and administrative expenses	5,690	7,567	12,066	15,843
Depreciation and amortization	969	838	1,888	1,638
Operating income	860	708	2,417	1,114
Interest expense	332	494	719	951
Other (income) expense	--	5	--	(785)
Income before provision for income taxes	528	209	1,698	948
Provision for income taxes	209	96	702	419
Net income	319	113	996	529
Basic earnings per share	0.02	0.01	0.05	0.03
Basic weighted average common shares	18,272	18,176	18,272	18,165
Diluted earnings per share	0.02	0.01	0.05	0.03
Diluted weighted average common shares	18,336	18,299	18,329	18,289

SEE ACCOMPANYING NOTES.

SPAR Group, Inc.

Consolidated Statements of Cash Flows

(unaudited)

(In thousands)

	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000
OPERATING ACTIVITIES		
Net income	$ 996	$ 529
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,073	819
Amortization	815	819
Gain on sale of affiliate	--	(790)
Changes in operating assets and liabilities:		
Accounts receivable	3,968	3,608
Prepaid expenses and other assets	840	(166)
Due from affiliates	--	(178)
Accounts payable, accrued expenses and other current liabilities	(1,711)	(4,726)
Restructuring charges	(1,010)	(986)
Deferred revenue	(3,742)	3,049
Net cash provided by operating activities	1,229	1,978
INVESTING ACTIVITIES		
Purchases of property and equipment	(1,100)	(1,016)
Purchases of businesses, net of cash acquired	--	(62)
Sale of investment in affiliate	--	1,500
Net cash (used in) provided by investing activities	(1,100)	422
FINANCING ACTIVITIES		
Net proceeds from (payments on) line of credit	779	(1,710)
Net interest payments to shareholders	(302)	(189)
Proceeds from exercise of options	--	30
Payments of note payable MCI	--	(1,045)
Net payments of other long-term debt	(606)	(512)
Net cash used in financing activities	(129)	(3,426)
Net decrease in cash	--	(1,026)
Cash at beginning of period	--	2,074
Cash at end of period	--	1,048
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 997	$ 724

NON-CASH TRANSACTIONS:
Reduction of accrued liabilities related to

the purchase of the business	$ 300	$ --
	===========	========

SEE ACCOMPANYING NOTES

SPAR GROUP, INC.

Notes to Financial Statements

(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated and combined financial statements of the Company and its subsidiaries (collectively, the "SPAR Group") have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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. This financial information should be read in conjunction with the combined financial statements and notes thereto for the Company as contained in Form 10-K and Form 10 K/A (Amendment No. 1) for the year ended December 31, 2000, as filed with the Securities Exchange Commission on April 11, 2001 and April 20, 2001, respectively. The results of operations for the interim periods are not necessarily indicative of the operating results for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION/COMBINATION

The consolidated financial statements include the accounts of the SPAR Group, Inc. and its wholly owned subsidiaries.

3. SEGMENTS

Utilizing the management approach, the SPAR Group has broken down its business based upon the nature of services provided (i.e., merchandising services, incentive marketing services and Internet-based software). The Merchandising Services Division consists of SMI (an intermediate holding company), SMF, SMNEV, SBRS and SINC (collectively, the "SPAR Marketing Companies"), the PIA Companies and the International Division (SPAR Group International, Inc.). The Incentive Marketing Division consists of each of SIM (an intermediate holding company) and SPGI. The Internet Division consists of SPARinc.com, Inc.

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. Examples of these services are 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, new product launches, special seasonal or promotional merchandising, focused product support and product recalls. Specific in-store services can be initiated by retailers and/or manufacturers.

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. In November 2000, the Company established its (unaudited) (continued) International Division to expand its merchandise services business offshore. There were no revenues for the International Division in year-to- date 2001 or 2000.

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.

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 prior to 2000.

	MERCHANDISING SERVICES THREE MONTHS ENDED		INCENTIVE MARKETING THREE MONTHS ENDED		INTERNET BASED THREE MONTHS ENDED	TOTAL THREE MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2000	JUNE 30, 2001	JUNE 30, 2000	JUNE 30, 2001	JUNE 30, 2001	JUNE 30, 2000
Net revenues	$ 16,091	$21,866	$ 6,369	$ 6,424	$1,049	$23,509	$28,290
Cost of revenues	9,860	13,680	5,209	5,497	921	15,990	19,177
Gross profit	6,231	8,186	1,160	927	128	7,519	9,113
SG&A	3,964	6,214	1,480	1,353	246	5,690	7,567
EBITDA	$ 2,267	$ 1,972	$ (320)	$ (426)	$ (118)	$ 1,829	$ 1,546
Net income (loss)	765	931	(420)	(818)	(26)	319	113
Total Assets	$ 32,120	$37,887	$17,466	$19,462	$ 136	$49,722	$57,349

	MERCHANDISING SERVICES SIX MONTHS ENDED		INCENTIVE MARKETING SIX MONTHS ENDED		INTERNET BASED SIX MONTHS ENDED	TOTAL SIX MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2000	JUNE 30, 2001	JUNE 30, 2000	JUNE 30, 2001	JUNE 30, 2001	JUNE 30, 2000
Net revenues	$ 31,032	$46,548	$18,881	$14,189	$1,274	$51,187	$60,737
Cost of revenues	18,608	30,202	15,091	11,940	1,117	34,816	42,142
Gross profit	12,424	16,346	3,790	2,249	157	16,371	18,595
SG&A	8,443	13,085	3,084	2,758	539	12,066	15,843
EBITDA	$ 3,982	$ 3,261	$ 706	$ (509)	$ (382)	$ 4,306	$ 2,752
Net income (loss)	1,209	1,774	82	(1,245)	(296)	996	529
Total Assets	$ 32,120	$37,887	$17,466	$19,462	$ 136	$49,722	$57,349

4. 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 recognized termination costs in accordance with EITF 95-3, RECOGNITION OF LIABILITIES IN CONNECTION WITH A BUSINESS COMBINATION.

The following table displays a roll-forward of the liabilities for restructuring and other charges from December 31, 2000 to June 30, 2001 (in thousands):

	DECEMBER 31, 2000 RESTRUCTURING AND OTHER CHARGES	SIX MONTHS ENDED JUNE 30, 2001 DEDUCTIONS	JUNE 30, 2001 RESTRUCTURING AND OTHER CHARGES
Type of cost:			
Employee separation	$ 487	$ 243	$ 244
Equipment lease settlements	2,770	669	2,101
Office lease settlements	544	98	446
	$ 3,801$	$ 1,010	$ 2,791

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

5. EARNINGS PER SHARE

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

	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000
Numerator:				
Net income	$ 319	$ 113	$ 996	$ 529
Denominator:				
Shares used in basic earnings per share calculation	18,272	18,176	18,272	18,165
Effect of diluted securities:				
Employee stock options	64	123	57	123
Shares used in diluted earnings per share calculations	18,336	18,299	18,329	18,289
Basic earnings per share	$ 0.02	$ 0.01	$ 0.05	$ 0.03
Diluted earnings per share	$ 0.02	$ 0.01	$ 0.05	$ 0.03

6. OTHER INCOME

In January 2000, the Company sold its investment in an affiliate for approximately $1.5 million. The sale resulted in a gain of approximately $790,000, which is included in other income.

7. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, and No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an increase in net income of approximately $1.4 million ($0.8 per share based on current outstanding shares) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 "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. Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q are set forth in this Quarterly Report on Form 10-Q. All forward-looking statements attributable to the SPAR Group or persons acting on its behalf are expressly qualified by the cautionary statements contained in this Quarterly Report on Form 10-Q.

The SPAR Group does not undertake any obligation to update or revise any forward-looking statement or risk factor or to publicly announce any revisions to any of them to reflect future events, developments or circumstances.

OVERVIEW

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 group meetings and group travel principally for corporate clients. In March 2000, the Company established its Internet Division to separately market its software applications, 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. For 2000, the revenues for the Internet Division were not significant and have been included below in the discussion of the condition and results of the Incentive Marketing Division. In November 2000, the Company established its International Division to expand its merchandise services business offshore. There were no revenues for the International Division in year-to-date 2001 or 2000.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

NET REVENUES

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

	Quarter Ended				
	June 30, 2001		June 30,2000 (amounts in millions)		Increase(decr.)
	Amount	%	Amount	%	%
Merchandising Services	$ 16.1	68.4%	$21.9	77.3%	(26.4)%
Incentive Marketing	6.4	27.1	6.4	22.7	(0.1)
Internet-Based Software	1.0	4.5	0.0	0.0	
Net Revenue	$ 23.5	100.0%	$28.3	100.0%	(16.9)%

Net revenues for the three months ended June 30, 2001 decreased by $4.8 million or 16.9% from the three months ended June 30, 2000 due principally to discontinued PIA merchandising programs, partially offset by Internet-Based Software revenue.

Merchandising Services net revenues for the three months ended June 30, 2001, were $16.1 million, compared to $21.9 million for the three months ended June 30, 2000. The decrease in net revenues is primarily attributed to discontinued in-store merchandising programs previously contracted with the former PIA Companies.

Incentive Marketing net revenues for the three months ended June 30, 2001 were $6.4 million, compared to $6.4 million for the three months ended June 30, 2000.

COST OF REVENUES

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

	Quarter Ended				
	June 30, 2001		June 30,2000 (amounts in millions)		Change
	Amount	%	Amount	%	%
Merchandising Services	$ 9.9	61.3%	$13.7	62.6%	(1.3)%
Incentive Marketing	5.2	81.8	5.5	85.6	(3.8)
Internet-Based Software	.9	87.8	0.0	0.0	
Total cost of Revenue	$ 16.0	68.0%	$19.2	67.8%	0.2%

Cost of revenues in the Merchandising Services segment consists of in-store labor (including travel expenses) and field management. Cost of revenues in the Company's Incentive Marketing and Internal-Based Software segments consists of direct labor, independent contractor expenses, food, beverage, entertainment and travel costs. Cost of revenues for the three months ended June 30, 2001, were $16.0 million or 68.0% of net revenues, compared to $19.2 million or 67.8% of net revenues for the three months ended June 30, 2000.

Merchandising Services cost of revenues as a percentage of net revenues decreased 1.3% to 61.3% for the three months ended June 30, 2001, compared to 62.6% for the three months ended June 30, 2000. This decrease is principally attributable to reduced labor costs resulting from continued efficiencies realized in 2001.

Incentive Marketing cost of revenues, as a percentage of net revenues, decreased 3.8% to 81.8% for the three months ended June 30, 2001, compared to 85.6% for the three months ended June 30, 2000, primarily due to a more favorable product mix in 2001.

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

	Quarter Ended				
	June 30, 2001		June 30,2000		Increase(decr.)
	(amounts in millions)				
	Amount	%	Amount	%	%
Selling, general & administrative expenses	$ 5.7	24.2%	$7.6	26.7%	(24.8)%
Depreciation & amortization	1.0	4.1	0.8	3.0	15.6
Total Operating Expenses	$ 6.7	28.3%	$8.4	29.7%	(20.8)%

Selling, general and administrative expenses decreased by $1.9 million, or 24.8%, for the three months ended June 30, 2001, to $5.7 million compared to $7.6 million for the three months ended June 30, 2000. This decrease was primarily due to efficiencies resulting from the merger of the PIA Companies' with the SPAR Operating Companies offset by approximately $400,000 of SG&A expenses related to the Internet and International Divisions.

Depreciation and amortization increased by $0.2 million for the three months ended June 30, 2001, due primarily to an increase in depreciation and amortization of customized internal software costs capitalized (under SOP 98-1).

INTEREST EXPENSE

Interest expense decreased $0.2 million to $0.3 million for the three months ended June 30, 2001, from $0.5 million for the three months ended June 30, 2000, due to decreased debt levels, as well as decreased interest rates in 2001.

INCOME TAXES

The income tax provision in the second quarter of 2001 represents a combined federal and state income tax rate of 39.6% compared to 45.9% for the second quarter of 2000.

NET INCOME

The SPAR Group had net income of $0.3 million in the second quarter of 2001 or $0.02 per basic and diluted share compared to a net income of $0.1 million or $0.01 per basic and diluted share in the corresponding period in 2000.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

NET REVENUES

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

	Six Months Ended				
	June 30, 2001		June 30,2000		Increase(decr.)
	(amounts in millions)				
	Amount	%	Amount	%	%
Merchandising Services	$ 31.0	60.6%	$46.5	76.6%	(33.3)%
Incentive Marketing	18.9	36.9	14.2	23.4	33.1
Internet-Based Software	1.3	2.5	0.0	0.0	
Net Revenue	$ 51.2	100.0%	$60.7	100.0%	(15.7)%

Net revenues for the six months ended June 30, 2001 decreased by $9.5 million or 15.7% from the six-months ended June 30, 2000 due principally to discontinued PIA merchandising programs, offset by an increase in incentive project revenue and Internet-Based Software revenue.

Merchandising Services net revenues for the six months ended June 30, 2001 were $31.0 million, compared to $46.5 million in the six months ended June 30, 2000, a 33.3% decrease. The decrease in net revenues is primarily attributed to discontinued in-store merchandising programs previously contracted with former PIA Companies.

Incentive Marketing net revenues for the six months ended June 30, 2001 were $18.9 million, compared to $14.2 million for the six months ended June 30, 2000, an increase of 33.1%. The increase

in net revenues is primarily due to an increase in project revenue principally from new clients. The timing of Incentive Marketing revenue depends upon the client placement of programs. Therefore, revenue for any given quarter may not be indicative of total revenue for the year.

COST OF REVENUES

The following table sets forth cost of revenues by division as a percentage of net revenues for the periods indicated:

	Six Months Ended				
	June 30, 2001		June 30,2000		Change
	(amounts in millions)				
	Amount	%	Amount	%	%
Merchandising Services	$ 18.6	60.0%	$30.2	64.9%	(4.9)%
Incentive Marketing	15.1	80.0	11.9	84.2	(4.2)
Internet-Based Software	1.1	87.7	0.0	0.0	
Total cost of Revenue	$ 34.8	68.0%	$42.1	69.4%	(1.4)%

Cost of revenues for the six months ended June 30, 2001 were $34.8 million or 68.0% of net revenues compared to $42.1 million or 69.4% of net revenues for the six months ended June 30, 2000.

Merchandising Services cost of revenues as a percentage of net revenues decreased 4.9% to 60.0% for the six months ended June 30, 2001 compared to 64.9% for the six months ended June 30, 2000. This decrease is principally attributable to reduced labor costs resulting from continued efficiencies realized in 2001.

Incentive Marketing cost of revenues as a percentage of net revenues decreased 4.2% to 80.0% for the six months ended June 30, 2001 compared to 84.2% for the six months ended June 30, 2000, primarily due to a more favorable product mix in 2001.

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

	Six Months Ended				
	June 30, 2001		June 30,2000		Increase(decr.)
	(amounts in millions)				
	Amount	%	Amount	%	%
Selling, general & administrative expenses	$ 12.1	23.6%	$ 15.8	26.1%	(23.8)%
Depreciation & amortization	1.9	3.7	1.6	2.6	15.3
Total Operating Expenses	$ 14.0	27.3%	$ 17.4	28.7%	(20.2)%

Selling, general and administrative expenses decreased by $3.7 million or 23.8% in the six months ended June 30, 2001 to $12.1 million from $15.8 million for the six months ended June 30, 2000. This decrease was due primarily to efficiencies resulting from the merger of the PIA Companies' with the SPAR Operating Companies offset by approximately $800,000 of SG&A expenses related to the Internet and International Divisions.

Depreciation and amortization increased by $0.3 million to $1.9 million in the six months ended June 30, 2001 from $1.6 million in the six months ended June 30, 2000 due primarily to the amortization of customized internal software costs capitalized (under SOP 98-1).

INTEREST EXPENSES

Interest expense decreased $0.2 million for the six months ended June 30, 2001 due to decreased debt levels, as well as decreased interest rates in 2001.

OTHER INCOME

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

INCOME TAXES

The income tax provision represents a combined federal and state income tax rate of 41.3% and 44.2% for the six months ended June 30, 2001 and the six months ended June 30, 2000, respectively.

NET INCOME

The SPAR Group had net income of $1.0 million for the six months ended June 30, 2001 or $0.05 per basic and diluted share compared to net income of $0.5 million or $0.03 per basic and diluted share for the six months ended June 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

In the six months ended June 30, 2001, the SPAR Group had pre-tax income of $1.7 million and experienced positive operating cash flow of $1.2 million.

Management believes that based upon SPAR Group's current working capital position and the existing credit facilities, funding will be sufficient to support ongoing operations over the next twelve months.

DEBT

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 as amended (the "Bank Loan Agreement"). The Bank Loan Agreement provided the Borrowers with a $15 million Revolving Credit facility and a $2.5 million term loan. The Revolving Credit facility allows the

Borrowers to borrow up to $15 million based upon a borrowing base formula as defined in the Agreement (principally 85% of "eligible" accounts receivable). The Bank Loan Agreement's revolving credit loans of $15.0 million are scheduled to mature on September 21, 2002. The Term Loan amortizes in equal monthly installments of $83,334. The revolving loans bear interest at IBJ Whitehall's "Alternate Base Rate" plus one-half of one percent (0.50%) (a total of 7.25% per annum at June 30, 2001), and the Term Loan bears interest at such "Alternate Based Rate" plus three-quarters of one percent (0.75%) (a total of 7.50% per annum at June 30, 2001). 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 SPAR Group, Inc. and its subsidiaries.

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 2, 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 $8.5 million and $7.8 million at June 30, 2001, and December 31, 2000, respectively. As of June 30, 2001, based upon the borrowing base formula, the SPAR Group had availability of $1.6 million of the $6.5 million unused revolving line of credit.

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 totaling $6.2 million were converted into promissory notes issued to these certain stockholders severally by SMF, SINC and SPGI prior to the Merger.

As of June 30, 2001, notes payable to certain stockholders total $5.4 million with an interest rate of 8% and are due on demand.

CASH AND CASH EQUIVALENTS

Net cash provided by operating activities for the six months ended June 30, 2001, was $1.2 million, compared with net cash provided of $2.0 million for the six months ended June 30, 2000. Cash provided by operating activities in 2001 was primarily a result of operating profits, decreases in accounts receivable, and prepaid expenses, offset by decreases in restructuring charges, accounts payable and deferred revenue.

Net cash used in investing activities for the six months ended June 30, 2001, was $1.1 million, compared with net cash provided of $0.4 for the six months ended June 30, 2000. The net cash used in investing activities in 2001 resulted from the purchases of property and equipment.

Net cash used by financing activities for the six months ended June 30, 2001, was $0.1 million, compared with net cash used by financing activities of $3.4 million for the six months ended June 30, 2000.

The above activity resulted in no change in cash and cash equivalents for the six months ended June 30, 2001, compared to a net decrease of $1.0 million for the six months ended June 30, 2000.

At June 30, 2001, the Company had negative working capital of $36 thousand as compared to negative working capital of $2.2 million at December 31, 2000, availability under its revolving credit facility was $1.6 million at June 30, 2001, compared to $4.2 million at December 31, 2000 and a current ratio of 1.00 and 0.93 as of June 30, 2001 and December 31, 2000 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.

As of June 30, 2001, the SPAR Group is obligated, under certain circumstances, to pay severance compensation to its employees and other costs in connection with the Merger (restructure charges) of approximately $2.8 million. In addition, the Company incurred substantial cost in connection with the transaction, including legal and investment banking fees estimated to be an aggregate unpaid obligation as of June 30, 2001 of approximately $1.4 million. The SPAR Group has also accrued approximately $1.9 million for expenses incurred by PIA prior to the Merger, which have not been paid as of June 30, 2001. Management believes the current bank credit facility is 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 working to secure additional long-term capital to meet the non-operational credit needs. However, there can be no assurances that the Company will be successful in these negotiations.

As of June 30, 2001, a total of $5.4 million of amounts due to certain stockholders remained outstanding, which have an interest rate of 8% and are due on demand.

ITEM 3. 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.

Currently, 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. Excess cash is normally used to pay down the revolving line of credit.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

No change.

ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

Item 2(a): Not applicable

Item 2(b): Not applicable

Item 2(c): Not Applicable

Item 2(d): Use of Past Proceeds

Not applicable.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5: OTHER INFORMATION

Not applicable.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K.

EXHIBITS.

NONE.

REPORTS ON FORM 8-K.

NONE.

SIGNATURES

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

Date: August 14, 2001 SPAR Group, Inc., Registrant

By: --------------------------------
Charles Cimitile
Chief Financial Officer and Secretary