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 first quarterly period ended March 31, 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 May 2, 2001 there were 18,272,330 shares of Common Stock outstanding.

SPAR GROUP, INC.

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PART I: FINANCIAL INFORMATION

PART II: OTHER INFORMATION





PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

SPAR GROUP INC.
Consolidated Balance Sheets
(unaudited)
(In thousands, except share data)

| | MARCH 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| ASSETS | (Unaudited) | (Note) |
| Current assets: | | |
| Cash and cash equivalents | $ - | $ - |
| Accounts receivable, net | 22,141 | 23,207 |
| Prepaid expenses and other current assets | 1,089 | 880 |
| Prepaid program costs | 4,703 | 3,542 |
| Deferred income taxes | 1,718 | 1,718 |
| Total current assets | 29,651 | 29,347 |
| Property and equipment, net | 3,345 | 3,561 |
| Goodwill and other intangibles, net | 21,077 | 21,485 |
| Deferred income taxes | 1,082 | 1,082 |
| Other assets | 143 | 143 |
| Total assets | $ 55,298 | $ 55,618 |
| LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: | | |
| Accounts payable | $ 7,766 | $ 5,849 |
| Accrued expenses and other current liabilities | 8,914 | 10,178 |
| Deferred revenue | 7,570 | 8,581 |
| Restructuring and other charges, current | 2,016 | 2,205 |
| Due to certain stockholders | 3,255 | 3,505 |
| Current portion of long-term debt | 1,195 | 1,211 |

| | | |
|---|---|---|
| Total current liabilities | 30,716 | 31,529 |
| Line of credit and long-term liabilities, net of current portion | 8,326 | 8,093 |
| Long-term debt due to certain stockholders | 2,203 | 2,160 |
| Restructure and other charges, long-term | 1,136 | 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 - 18,272,300 | 182 | 182 |
| Additional paid-in capital | 10,127 | 10,127 |
| Retained earnings | 2,608 | 1,931 |
| Total stockholders' equity | 12,917 | 12,240 |
| Total liabilities and stockholders' equity | $ 55,298 | $ 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 MARCH 31, 2001 | THREE MONTHS ENDED MARCH 31, 2000 |
|---|---|---|
| Net revenues | $ 27,678 | $ 32,447 |
| Cost of revenues | 18,826 | 22,967 |
| Gross profit | 8,852 | 9,480 |
| Selling, general and administrative expenses | 6,375 | 8,274 |
| Depreciation and amortization | 920 | 801 |
| Operating income | 1,557 | 405 |
| Interest expense | 387 | 456 |
| Other (income) expense | - | (790) |
| Income before provision for income taxes | 1,170 | 739 |
| Provision for income taxes | 493 | 323 |
| Net income | $ 677 | $ 416 |
| Basic earnings per share | $ 0.04 | $ 0.02 |
| Basic weighted average common shares | 18,272 | 18,165 |
| Diluted earnings per share | $ 0.04 | $ 0.02 |
| Diluted weighted average common shares | 18,322 | 18,294 |

SEE ACCOMPANYING NOTES.



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

| | THREE MONTHS ENDED MARCH 31, 2001 | THREE MONTHS ENDED MARCH 31, 2000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income | $ 677 | $ 416 |

| | | |
|---|---|---|
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation | 512 | 392 |
| Amortization | 408 | 409 |
| Gain on sale of affiliate | - | (790) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,066 | 414 |
| Prepaid expenses and other current assets and prepaid program costs | (1,370) | (336) |
| Due from affiliates | - | (178) |
| Accounts payable, accrued expenses and other current liabilities | 653 | (7) |
| Restructuring charges | (649) | (547) |
| Deferred revenue | (1,011) | (461) |
| Net cash provided by (used in) operating activities | 286 | (688) |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (296) | (461) |
| Goodwill | - | (61) |
| Sale of investment in affiliate | - | 1,500 |
| Net cash (used in) provided by investing activities | (296) | 978 |
| FINANCING ACTIVITIES | | |
| Net proceeds from line of credit | 467 | 368 |
| Payments of note payable MCI | - | (1,045) |
| Net payment of other long-term debt | (250) | (287) |
| Net payments to certain shareholders | (207) | (86) |
| Net cash provided by (used in) financing activities | 10 | (1,050) |
| Net decrease in cash | - | (760) |
| Cash at beginning of period | - | 2,074 |
| Cash at end of period | $ - | $ 1,314 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | $ 324 | $ 342 |

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 for the year ended December 31, 2000. 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 is 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. These services may include activities such as ensuring that clients' products authorized for distribution are in stock and on the shelf, adding in new products that are approved for distribution but not present on the shelf, setting category shelves in accordance with approved store schematics, ensuring that shelf tags are in place, checking for the overall salability of clients' products, selling new product and promotional items. Specific in-store services can be initiated by retailers and manufacturers, such as new product launches, special seasonal or promotional merchandising, focused product support and product recalls.





These services are used typically for large-scale implementations over 30 days. The Merchandising Services Division of the SPAR Group also performs other project services, such as new store sets and existing store resets, re-merchandising, remodels and category implementations, multi-year shared service contracts or stand-alone project contracts.

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 | |
|---|---|---|---|---|---|---|---|
| | MARCH 31 2001 | MARCH 31 2000 | MARCH 31 2001 | MARCH 31 2000 | MARCH 31 2001 | MARCH 31 2001 | MARCH 31 2000 |
| Net revenues | $ 14,941 | $ 24,682 | $ 12,512 | $ 7,765 | $ 225 | $ 27,678 | $ 32,447 |
| Cost of revenues | 8,748 | 16,523 | 9,882 | 6,444 | 196 | 18,826 | 22,967 |
| Gross profit | 6,193 | 8,159 | 2,630 | 1,321 | 29 | 8,852 | 9,480 |
| SG&A | 4,477 | 6,869 | 1,605 | 1,405 | 293 | 6,375 | 8,274 |
| EBITDA | $ 1,716 | $ 1,290 | $ 1,025 | $ (84) | $ (264) | $ 2,477 | $ 1,206 |
| Net income (loss) | $ 444 | $ 844 | $ 503 | $ (428) | $ (270) | $ 677 | $ 416 |
| Total Assets | $ 33,753 | $ 40,912 | $ 21,408 | $ 20,348 | $ 140 | $ 55,298 | $ 61,260 |





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 March 31, 2001 (in thousands):

| | DECEMBER 31, 2000 RESTRUCTURING AND OTHER CHARGES | QUARTER ENDED MARCH 31, 2001 DEDUCTIONS | MARCH 31, 2001 RESTRUCTURING AND OTHER CHARGES |
|---|---|---|---|
| Type of cost: | | | |
| Employee separation | $ 487 | $ 123 | $ 364 |
| Equipment lease settlements | 2,770 | 462 | 2,308 |
| Office lease settlements | 544 | 64 | 480 |
| | $ 3,801 | $ 649 | $ 3,152 |

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 MARCH 31, 2001 | THREE MONTHS ENDED MARCH 31, 2000 |
|---|---|---|
| Numerator: | | |
| Net income | $ 677 | $ 416 |
| Denominator: | | |
| Shares used in basic earnings per share calculation | 18,272 | 18,165 |
| Effect of diluted securities: | | |
| Employee stock options | 50 | 129 |
| Warrants | - | - |
| Shares used in diluted earnings per share calculation | 18,322 | 18,294 |
| Basic earnings per share | $ 0.04 | $ 0.02 |
| Diluted earnings per share | $ 0.04 | $ 0.02 |

## 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.

## 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 2000.





### RESULTS OF OPERATIONS

### THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

NET REVENUES

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2001 | | March 31, 2000 | | Incr. (Decr.) |
| | Amount | % | Amount | % | % |
| | (amounts in millions) | | | | |
| Merchandising Services | $ 15.0 | 54.0% | $ 24.7 | 76.2% | (39.5)% |
| Incentive Marketing | 12.5 | 45.2 | 7.7 | 23.8 | 64.0 |
| Internet-Based Software | 0.2 | 0.8 | 0.0 | 0.0 | 100.0 |
| Net Revenue | $ 27.7 | 100% | $ 32.4 | 100% | (14.7)% |

Net revenues for the three months ended March 31, 2001 decreased by $4.7 million or 14.7% from the three months ended March 31, 2000 due principally to discontinued PIA programs, partially offset by an increase in project revenue.

Merchandising Services net revenues for the three months ended March 31, 2001, were $15.0 million, compared to $24.7 million for the three months ended March 31, 2000. The decrease in net revenues is primarily attributed to discontinued in-store merchandising programs previously contracted with programs from former PIA Companies.

Incentive Marketing net revenues for the three months ended March 31, 2001 were $12.5 million, compared to $7.7 million for the three months ended March 31, 2000, a 64.0% increase. The increase in net revenues is primarily due to an increase in program 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 in dollars and as a percentage of net revenues by division for the periods indicated:

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2001 | | March 31, 2000 | | Change In |
| | Amount | % | Amount | % | % |
| | (amounts in millions) | | | | |
| Merchandising Services | $ 8.7 | 58.6% | $ 16.5 | 66.9% | (8.3)% |
| Incentive Marketing | 9.9 | 79.0 | 6.5 | 83.0 | (4.0) |
| Internet-Based Software | 0.2 | 87.2 | 0.0 | 0.0 | - |
| Net Revenue | $ 18.8 | 68.0% | $ 23.0 | 70.8% | (2.8)% |

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 March 31, 2001, were $18.8 million or 68.0% of net revenues, compared to $23.0 million or 70.8% of net revenues for the three months ended March 31, 2000.

Merchandising Services cost of revenues as a percentage of net revenues decreased 8.3% to 58.6% for the three months ended March 31, 2001, compared to 66.9% for the three months ended March 31, 2000. This decrease is principally attributable to reduced labor costs due to continued efficiencies realized in 2001.

Incentive Marketing cost of revenues, as a percentage of net revenues decreased 4.0% to 79.0% for the three months ended March 31, 2001, compared to 83.0% for the three months ended March 31, 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 systems, executive compensation, human resources expenses, legal and accounting expenses. The following table sets forth the operating expenses as a percentage of net revenues for the time periods indicated:

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2001 | | March 31, 2000 | | Incr. (Decr.) |
| | Amount | % | Amount | % | % |
| | (amounts in millions) | | | | |
| Selling, general & administrative | $ 6.4 | 23.0% | $ 8.3 | 25.5% | (23.0)% |
| Depreciation and amortization | 0.9 | 3.3 | 0.8 | 2.5 | 14.7 |
| Total Operating Expenses | $ 7.3 | 26.3% | $ 9.1 | 28.0% | (19.6)% |

Selling, general and administrative expenses decreased by $1.9 million, or 23.0%, for the three months ended March 31, 2001, to $6.4 million compared to $8.3 million for the three months ended March 31, 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 $0.1 million for the three months ended March 31, 2001, due primarily to an increase in depreciation and amortization of customized internal software costs capitalized (under SOP 98-1).

OTHER INCOME

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

INTEREST EXPENSE

Interest expense decreased $0.1 million for the three months ended March 31, 2001, over the three months ended March 31, 2000, due to decreased debt levels, as well as, decreased interest rates in 2001.





INCOME TAXES

The income tax provision in the first quarter of 2001 represents a combined federal and state income tax rate of 42% compared to 44% for the first quarter of 2000.

NET INCOME

The SPAR Group had net income of $0.7 million in the first quarter of 2001 or $0.04 per basic and diluted share compared to net income of $0.4 million or $0.02 per basic and diluted share in the corresponding period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

In the three months ended March 31, 2001, the SPAR Group had pre-tax income of $1.2 million and experienced positive operating cash flow of $0.3 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 provides 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 8.50% per annum at March 31, 2001), and the Term Loan bears interest at such "Alternate Based Rate" plus three-quarters of one percent (0.75%) (a total of 8.75% per annum at March 31, 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 the SPAR Group.

The Bank Loan Agreement contains an option for the Bank to purchase 16,667 shares of common stock of the Company for $0.01 per share in the event that the Company's average closing share price over ten consecutive trading day period exceeds $15.00 per share. This option expires September 22, 2002.





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

The balance outstanding on the revolving line of credit was $8.3 million and $7.8 million at March 31, 2001, and December 31, 2000, respectively. As of March 31, 2001, based upon the borrowing base formula, the SPAR Group had availability of $4.0 million of the $6.7 million unused revolving line of credit.

CASH AND CASH EQUIVALENTS

Net cash provided by operating activities for the three months ended March 31, 2001, was $0.3 million, compared with net cash used of $0.7 million for the three months ended March 31, 2000. Cash provided by operating activities in 2001 was primarily a result of operating profits, a decrease in accounts receivable, and increased accounts payable, offset by a decrease in restructuring charges, an increase in prepaid expenses and a decrease in deferred revenue.

Net cash used in investing activities for the three months ended March 31, 2001, was $0.3 million, compared with net cash provided of $1.0 for the three months ended March 31, 2000. The net cash used in investing activities resulted from the purchases of property and equipment.

Net cash provided by financing activities for the three months ended March 31, 2001, was $10 thousand, compared with net cash used by financing activities of $1.1 million for the three months ended March 31, 2000.

The above activity resulted in no change in cash and cash equivalents for the three months ended March 31, 2001, compared to a net decrease of $0.8 million for the three months ended March 31, 2000.

At March 31, 2001, the Company had negative working capital of $1.1 million as compared to negative working capital of $2.2 million at December 31, 2000, availability under its revolving credit facility was $4.0 million at March 31, 2001, compared to $4.2 million at December 31, 2000 and a current ratio of 0.97 and 0.93 as of March 31, 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 March 31, 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 $3.2 million. In addition, the Company incurred substantial cost in connection with the transaction, including legal, accounting and investment banking fees estimated to be an aggregate unpaid obligation as of March 31, 2001 of approximately $1.4 million. The SPAR Group has also accrued approximately $2.2 million for expenses incurred by PIA prior to the Merger, which have not been paid as of March 31, 2001. Management believes the current bank credit facilities are sufficient to fund operations and working capital, including the current maturities of debt obligations, but may not be sufficient to reduce obligations of the Merger with PIA. The Company is currently 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 March 31, 2001, a total of $5.5 million of amounts due to certain stockholders remained outstanding, of which approximately $3.3 million have an interest rate of 8% and are due on demand. The long-term portion totaling $2.2 million have a fluctuating interest rate equal to the sum of the prime rate (as reported in The Wall Street Journal from time to time) plus 1%. The current bank agreements contain certain restrictions on the repayment of stockholder debt.

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. The SPAR Group invests its cash and cash equivalents in investments in high-quality and highly liquid investments consisting of taxable money market instruments.





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.



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: May 15, 2001 SPAR Group, Inc., Registrant

By: /s/ Charles Cimitile
Charles Cimitile
Chief Financial Officer and Secretary