

SECURITY AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10 - QSB

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

For the quarter ended December 31, 2000 Commission File No: 0-2661

Harrell Hospitality Group, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware

13-1946181

(State of jurisdiction of incorporation)

(I.R.S. Employer identification No.)

16475 North Dallas Parkway, Suite 410, Addison, Texas 75001

(Address of Principal executive offices)

(972) 380-0273

(issuer's telephone number)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares outstanding of the registrant's Class A, \$.002 par value common stock as of December 31, 2000, was 7,932,900. The number of shares outstanding of the registrant's \$1.00 par value preferred stock as of December 31, 2000 was 243,331.

The number of shares shown above reflect the 5 for 1 split of common stock declared by the Board of Directors on September 1, 2000.

Transitional Small Business Disclosure Format

Yes No X

HARRELL HOSPITALITY GROUP, INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors
Harrell Hospitality Group, Inc. and subsidiaries

We have reviewed the accompanying consolidated balance sheets of Harrell Hospitality Group, Inc. and subsidiaries as of December 31, 2000, and the related consolidated statement of operations and the statement of cash flows for the three months then ended. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of analytical procedures applied to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Harrell Hospitality Group, Inc. and subsidiaries as of September 30, 2000, and the related statements of operations and cash flows for the year then ended (not presented separately herein), and in our report dated November 29, 2000, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of September 30, 2000 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Jackson & Rhodes P.C.

Dallas, Texas
February 9, 2001

Part I - FINANCIAL INFORMATION Item 1 FINANCIAL STATEMENTS

HARRELL HOSPITALITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2000 and September 30, 2000

	December 31, 2000 (Unaudited)	September 30, 2000 (Audited)
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash	\$ 458,633	\$ 461,717
Accounts Receivable	103,517	101,072
Marketable Securities	600,443	603,859
Other Current Assets	35,649	27,891
Total Current Assets	1,198,242	1,194,539
Investment in Joint Ventures	1,850	1,850
Furniture & Equipment (Net)	12,416	6,100
Total Assets	\$ 1,212,508	\$ 1,202,489
<u>LIABILITIES & STOCKHOLDERS' EQUITY</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Liabilities	\$ 73,181	\$ 63,006
Dividends Payable	0	24,331
Accrued Salaries and Payroll Taxes	0	0
Total Current Liabilities	73,181	87,337
Total Liabilities	73,181	87,337
<u>Stockholders' Equity:</u>		
Preferred Stock	243,331	243,331
Common Stock:		
Class A \$.002 par value, 100,000,000 shares authorized, 7,932,900 and 7,307,900 issued and outstanding	15,866	14,616
Additional Paid-in Capital	2,846,187	2,722,437
Accumulated Equity	(1,969,695)	(1,856,336)
Cumulative translation adjustment	3,638	(8,896)
Total Stockholders' Deficit	1,139,327	1,115,152
Total Liabilities & Stockholders' Equity	\$ 1,212,508	\$ 1,202,489

HARRELL HOSPITALITY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

For the Three Months Ended December 31

	<u>2000</u>	<u>1999</u>
<u>Revenues:</u>		
Management Fees	\$ 123,044	\$ 115,236
Hotel expense reimbursements	1,616,175	1,513,072
Other Income	8,827	12,318
Total Revenues	<u>\$ 1,748,046</u>	<u>\$ 1,640,625</u>
<u>Expenses:</u>		
Employee Compensation & Related	\$ 1,734,178	\$ 1,623,283
General & Administrative Expenses	127,229	33,465
Total Expenses	<u>\$ 1,861,407</u>	<u>\$ 1,656,748</u>
Loss before Income Taxes	<u>\$ (113,361)</u>	<u>\$ (16,122)</u>
Provision for Income Taxes	0	0
Net Loss	<u><u>\$ (113,361)</u></u>	<u><u>\$ (16,122)</u></u>
Net Loss per common share	(0.01)	(0.00)
Weighted average number of shares outstanding	7,749,476	5,487,295

HARRELL HOSPITALITY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Three Months Ended December 31

<u>Cash Flows from Operating Activities:</u>	<u>2000</u>	<u>1999</u>
Net Loss	\$ (113,361)	\$ (16,122)
<u>Adjustments to reconcile the Net Loss to Net Cash Used for Operating Activities:</u>		
Depreciation Expense	830	1,224
<u>Changes in Assets and Liabilities:</u>		
Accounts Receivable	(2,445)	15,155
Other Current Assets	(7,758)	(1,650)
Accounts Payable & Accrued Liabilities	(14,154)	(29,925)
Accrued Salaries and Related	0	(6,632)
Net Cash Used by Operations	<u>(136,888)</u>	<u>(37,950)</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Furniture and Equipment	<u>(7,146)</u>	<u>(540)</u>
<u>Cash Flows from Financing Activities:</u>		
Sale of Marketable Securities	\$ 15,950	\$
Sale of Common Stock	125,000	250,000
Net Cash from Financing Activities	<u>140,950</u>	<u>250,000</u>
Net Increase in Cash	\$ <u>(3,084)</u>	\$ <u>211,510</u>
Cash at Beginning of Period	\$ 461,717	\$ 263,694
Cash at End of Period	458,633	475,204
Net Increase in Cash	\$ <u>(3,084)</u>	\$ <u>211,510</u>

HARRELL HOSPITALITY GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF DISCLOSURE

The balance sheet as of December 31, 2000, and the related statements of income and cash flows for the three month periods ended December 31, 2000 and 1999, are consolidated with the company's wholly-owned subsidiary (Hotel Management Group, Inc.), and its wholly owned subsidiaries Harrell Hospitality Group (California), a/k/a Hotel Management Group California, Inc., Hotel Management Group (Tennessee), Hotel Management Group (Oklahoma) Hotel Management Group (Virginia), H M Group (Alabama), and Hotel Management Group (Mississippi), and are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements for the year ended September 30, 2000 included in the Company's Annual report on form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended December 31, 2000 are not necessarily indicative of the results that may be expected for the year ending September 30, 2001.

2. STOCK ACQUISITION AND OPTION AGREEMENT

On November 23, 1999, the Company entered into a Stock Acquisition and Option Agreement (the "Stock Agreement") with Merchant Capital Holdings, Ltd. ("MCH"), a British Virgin Islands Company, whereby MCH agreed to buy 1,000,000 shares of the Company's Class A \$0.01 Par Value Common Stock for US\$1.00 per share, together with certain options to purchase additional shares. As part of the Stock Agreement, two advisors of MCH, Geoffrey Dart ("Dart") and Gerard Thompson ("Thompson") were appointed to the Board of Directors of the Company, with Dart appointed as Chairman of the Board. In connection with the transactions contemplated under the Stock Agreement, the Company, MCH, Norman L. Marks (and his family affiliates) and Paul L. Barham (and his family affiliates) entered into a Shareholders Agreement, providing for certain transfer restrictions and voting agreements, on the Class A Common Stock held by certain of the parties. Also, MCH required, as part of the Stock Agreement, that two Employment Agreements be entered into between the Company and Norman Marks and Paul Barham.

On July 19, 2000, the Board approved an extension of time of 90 days each for the second and third installments of the stock purchase by MCH in the amounts of \$250,000 and \$500,000, respectively. As of September 30, 2000, half of the second installment had been received. Subsequent to September 30, 2000, the remaining half of the second installment was received.

On April 1, 2000, the Company changed its name to Harrell Hospitality Group, Inc. The name of the Company was changed to reflect the focus of the Company on hotel related services and business. Management believes Harrell Hospitality Group, Inc. more accurately indicates the nature of the Company's business and believes that this will aid the marketing efforts of the Company.

On September 1, 2000 the Board declared a five-for-one split of the Company's Class A Common Stock. By amendment of the articles dated October 23, 2000, the par value of the Class A Common Stock was changed to \$0.002 per share, and the number of authorized shares of Class A Common Stock was increased to 100,000,000.

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

1. Hotel Management Group, Inc. (HMG)

The Company's wholly owned subsidiary (HMG) has the following wholly owned subsidiaries:

Harrell Hospitality Group - California, Inc. (HHG(CA)) (also known as Hotel Management Group - California, Inc.)
Hotel Management Group - Mississippi, Inc. (HMG(MS))
Hotel Management Group - Tennessee, Inc. (HMG(TN))
Hotel Management Group - Oklahoma, Inc. (HMG(OK))
Hotel Management Group - Virginia, Inc. (HMG(VA))
H M Group - Alabama, Inc. (HMG(AL))

The following reflects a summary of the results of operations for the three months ended December 31, 2000, and is fully consolidated with HMG, HHG(CA) HMG(TN), HMG(OK), HMG(VA), and HMG(AL).

Three Months

Total Revenues	\$ 1,748,046
Total Expenses	\$ 1,861,407
Net Loss	\$ (113,361)

Revenues

Revenues for the three months ended December 31, 2000 were approximately 6.5% higher than the same quarter of the prior year . Revenues for the quarter are not indicative of revenues for the year because of the seasonal nature of the management fee income earned from the management of the Rancho Santa Barbara Marriott.

Expenses

During the quarter the Company incurred extraordinary expenses associated with its office move, the stock reorganization and split, and an employee related issue, totaling approximately \$15,000.

Additionally, the Company incurred approximately \$10,000 in the development of and the opportunity for the investment in and management of the three Hilton Garden Inns.

Other expenses, totaling approximately \$41,000, were incurred by the Company in furtherance of the goals of the Company to develop management and investment opportunities in the United States and the United Kingdom. These expenditures were consciously committed for the future growth of the Company.

During the quarter, the management contracts for the Biltmore Hotel and Suites and the Rancho Santa Barbara Marriott were renewed, each for a further two year period.

2. On December 1, 1998, HMG(AL) entered into a management agreement to manage the Governors House Hotel and Conference Center in Montgomery, Alabama. Under the agreement, HMG(AL) received a management fee of \$5,000 per month for the first year and \$4,500 per month for the second year, with additional incentive fees based on achieving performance goals. The contract was terminated by mutual agreement on September 6, 2000.
3. On February 9, 2000 the Athena Gardens Apartments were sold. As a result of that transaction, the contract to manage the property was terminated.
4. At the end of the quarter HMG managed two hotels. The license agreements for the three Hilton Garden Inn development projects have been signed between the developer and Hilton Hotels. The partnership and management agreements are being finalized. Construction is expected to commence on at least two of the three hotels, and possibly all three, in the second quarter of 2001.

A substantial amount of time and effort was given by the executives of the Company to the location of additional management contracts. The Company has retained the services of two consulting companies to assist in the search for equity and additional management opportunities.

5. Harrell International, Inc. changed its name to Harrell Hospitality Group, Inc., effective April 1, 2000. Hotel Management Group California, Inc., added an assumed name of to Harrell Hospitality Group California, Inc., on the same date.
6. Except for the historical information contained herein, this quarterly report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Act of 1934, as amended. Such forward-looking statements include, but are not limited to: whether the Company will be successful in achieving revenues from the proposed Hilton Garden Inns. Investors are cautioned that forward-looking statements are inherently uncertain. Actual performance and results of operations may differ materially from those projected or suggested in the forward-looking statements due to certain risks and uncertainties, including but not limited to whether the management agreements for the Hilton Garden Inns are executed and whether construction begins on the hotels. The forward looking-statements contained herein represent the Company's judgment as of the date of this report, and the Company cautions the reader not to place undue reliance on such matters.

Part II. OTHER INFORMATION

Item 1. Legal.

There were no material legal proceedings, either on-going, instituted by or against, or otherwise involving the Registrant during the quarter ended December 31, 2000.

Item 2. Change in Securities.

625,000 shares of the Company's Class A Common Stock were issued on October 27, 2000 to Gerard Thompson in a private transaction, exempt under Section 4(2) of the 1933 Securities Act. The shares were issued in exchange for \$125,000 purchase price. No commissions were paid.

Item 3. Defaults Upon Senior Securities.

The Registrant does not have any outstanding debt or securities of this nature.

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

No items were submitted to a vote of the security holders during this quarter.

Item 5. Other Information.

The Company changed its name from Harrell International, Inc. to Harrell Hospitality Group, Inc., effective April 1, 2000. The Board of Directors adopted new bylaws for the Company at a board meeting held July 19, 2000.

Item 6. Exhibits and Reports on Form 8-K.

(a) No report on Form 8-K was filed by the Registrant for the quarter ended December 31, 2000.

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 fully authorized.

HARRELL HOSPITALITY GROUP, INC.

Date: _____

// Paul L. Barham //

Paul L. Barham
Chief Executive Officer and Director