UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC. 20549

FORM 10 - QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

or the quarterly period ended December 31, 2005

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________ to ____________

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)	(IRS Employer identification No.)

16475 North Dallas Parkway, Suite 410, Addison, Texas 75001
(Address of principal executive offices)

(972) 380-0273
(Issuer's telephone number)

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

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 after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of February 10, 2006, the issuer had outstanding 12,564,907 shares of Class A common stock, $.002 par value per share.

Transitional Small Business Disclosure Format (Check One): Yes [   ] No [X]

HARRELL HOSPITALITY GROUP, INC. and SUBSIDIARIES

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Part I - FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

HARRELL HOSPITALITY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2005 (Unaudited)	September 30, 2005 (Audited)
Current assets:		
Cash and cash equivalents	$ 49,005	$ 47,975
Accounts receivable	33,582	59,788
Other assets	602	602
Total current assets	83,189	108,365
Property & equipment, net	1,769	2,135
Deposits	1,848	1,848
Total assets	$ 86,806	$ 112,348
LIABILITIES & STOCKHOLDERS' DEFICIT		
Current liabilities:		
Notes payable	$ 20,000	$ -
Accounts payable and accrued liabilities	127,248	105,250
Accrued liabilities - related parties	265,410	273,548
Total current liabilities	412,658	378,798
Stockholders' deficit:		
Preferred stock:		
Class A, $1.00 par, 1,000,000 shares authorized, 243,331 shares issued and outstanding, $1.00 per share involuntary liquidation preference	243,331	243,331
Common stock:		
Class A $.002 par value, 100,000,000 shares authorized, 12,564,907 outstanding	25,130	25,130
Additional paid-in capital	4,023,267	4,023,267
Accumulated deficit	(4,617,580)	(4,558,178)
Total stockholders' deficit	(325,852)	(266,450)
Total liabilities & stockholders' deficit	$ 86,806	$ 112,348

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended December 31, 2005	2004
Revenues:		
Hotel human capital reimbursements	$ 1,243,597	$ 1,193,203
Management fees	43,787	29,600
Total revenues	1,287,384	1,222,803
Expenses:		
Employee compensation related expenses	1,315,028	1,264,658
General and administrative	31,710	46,926
Total Expenses	1,346,738	1,311,584
Operating loss	(59,354)	(88,781)
Other income (expense):		
Interest expense	(48)	-
Other income	-	26
Total other income (expense)	(48)	26
Net loss from continuing operations	(59,402)	(88,755)
Discontinued operations		
Discontinued operations	-	(79,589)
Net loss	$ (59,402)	$ (168,344)
Basic and diluted loss per common share		
Continuing operations	$ 0.00	$ (0.01)
Discontinued operations	0.00	(0.01)
Net loss	$ 0.00	$ (0.01)

Weighted average number of common shares outstanding	12,564,907	13,064,907

Comprehensive loss for the three months ended December 31, 2005 and 2004, was $59,402 and $174,113, respectively. This includes the net loss in 2005 and the change in available-for-sale securities, foreign currency translation gains (losses) and net losses in 2004.

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

	For the Three Months Ended December 31, 2005	2004
Operating activities:		
Net loss from continuing operations	$ (59,402)	$ (88,755)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	366	506
Changes in assets and liabilities:		
Accounts receivable	26,206	15,973
Other assets	-	(9,532)
Deposits	-	(1,848)
Accounts payable and accrued liabilities	21,998	188,221
Accrued liabilities - related parties	(8,138)	55,417
Net cash provided by (used in) operating activities	(18,970)	159,982
Financing activities:		
Proceeds from notes payable - related parties	20,000	27,508
Net cash provided by financing activities:	20,000	27,508
Discontinued operations:		
Operating activities	-	(203,445)
Investing activities	-	-
Financing activities	-	-
Net cash used in discontinued operations	-	(203,445)
Net increase (decrease) in cash and cash equivalents	1,030	(15,955)
Cash and cash equivalents at beginning of period	47,975	20,629
Cash and cash equivalents at end of period	$ 49,005	$ 4,674
Supplemental Cash Flow Information:		
Cash paid during the period for interest	$ -	$ -
Cash paid during the period for income taxes	$ -	$ -

See accompanying notes to consolidated financial statements.

HARRELL HOSPITALITY GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ORGANIZATION

Harrell Hospitality Group, Inc. (the "Company" or "HHG") is a Delaware corporation, originally incorporated in 1959 in the state of Massachusetts under the name of Formula 409, Inc. The Company is primarily involved in the management and development of hotels, mainly in the states of California and Texas, and the United Kingdom. The Company's corporate offices are located in Addison, Texas.

In February 2003, the Company began operations in the United Kingdom with the formation of Harrell Hotels Europe, Ltd. ("HHE"), a wholly-owned subsidiary of the Company. The Company's United Kingdom offices were located in London, England. The Company sold HHE on March 31, 2005, as described in Discontinued Operations below.

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 consolidated financial statements for the year ended September 30, 2005, included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited consolidated 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, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2006.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has continued to incur net operating losses which have resulted in a significant accumulated deficit and stockholders' deficit at December 31, 2005. The Company had a net loss of $59,402 and $168,344 for the three months ended December 31, 2005 and 2004, respectively. At December 31, 2005, current liabilities exceeded current assets by $329,469 and the accumulated deficit was $4,617,580.

The ability of the Company to continue as a going concern is dependent on the successful implementation of its business plan, obtaining additional capital, and generating sufficient revenues and cash flows. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The time required for the Company to become profitable is highly uncertain, and we cannot be assured that it will achieve or sustain profitability or generate sufficient cash flow from operations to meet planned capital expenditures and working capital needs. At present the Company has one short-term borrowing of $20,000 from a related party, and if additional working capital is needed and must be borrowed, the ability to obtain additional financing from other sources depends on many factors beyond the control of the Company, including the state of the capital markets and the prospects for business growth. The necessary additional financing may not be available or may be available only on terms that would result in further dilution to the current owners of the Company’s common stock. The consolidated financial statements do not include any adjustments to reflect the possible effects on recoverability and classification of assets or the amounts and classification of liabilities which may result from the inability of the Company to continue as a going concern.

However, the Company believes that its existing cash, the improving US economy, continued UK activity through consulting opportunities with HHE, possible negotiated private sales of the Company's Class A common stock, together with anticipated cash flows from operations and possible borrowings, if necessary, will be sufficient to meet its cash requirements during the next 12 months. The foregoing statement regarding the Company’s expectations for continued liquidity is a forward-looking statement, and actual results may differ materially depending on a variety of factors, including variable operating results, difficulty borrowing or selling securities or presently unexpected uses of cash, such as for acquisitions, or to fund operating losses.

STOCK OPTIONS

The Company accounts for its stock options under the recognition and measurement principles of Accounting Principles Board (“APB”) opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, *Accounting for Stock Based Compensation,* to stock-based employee compensation:

	For the three months ended December 31,	
	2005	2004
Net loss as reported	$ (59,402)	$ (168,344)
Add: stock-based employee compensation included in reported net loss	-	-
Less: total stock-based employee compensation expense determined under the fair value based method for all awards	(7,295)	(8,554)
Pro forma net loss	$ (66,697)	$ (176,898)
Earnings (loss) per share:		
Basic and diluted - as reported	$ 0.00	$ (0.01)
Basic and diluted - pro forma	$ (0.01)	$ (0.01)

NOTES PAYABLE - RELATED PARTIES

In December 2005, Clive Russell made a short-term loan to the Company in the amounts of $20,000, to be used for operating expenses. The loan bears interest at 8% per annum, and is due on April 30, 2006.

In December 2004, Geoffrey Dart, Clive Russell and Paul Barham made short term loans to the Company in the amounts of £5,000, $9,000 and $9,000 respectively, to be used for payments to current creditors of the Company. The loans bore interest at 5%. All three loans were repaid by April 30, 2005.

DISCONTINUED OPERATIONS

On March 31, 2005, the Company completed the sale of one of its subsidiaries, HHE, to Red Leopard Holdings ("RLH"), for £461,840 (approximately $868,000) in cash, and up to 56,250,000 shares of stock in RLH. Out of the cash portion of the sale, £90,000 (approximately $171,000) was retained by RLH to be used to pay off an estimated £72,000 (approximately $137,000) in HHE liabilities with £211,840 (approximately $398,000) retained by RLH to settle amounts due from the Company to HHE prior to disposition, and £160,000 (approximately $298,000) remitted to the Company at closing. The funds remaining from the approximate $171,000 retained by RLH to pay HHE liabilities at May 31, 2005 were approximately $51,000, which was remitted by RLH to the Company in July 2005. The Company used the approximate $349,000 received in March and July to pay off the Company's existing liabilities and for ongoing working capital.

In addition, the Company received 30,769,230 shares, of the above mentioned 56,250,000 shares, of RLH, valued at £1,000,000 (approximately$1,879,000 at March 31, 2005). Such shares received will not be tradable until March 31, 2006. The additional 25,480,770 shares that may be earned, up to a total of 56,250,000 shares, are contingent upon certain accomplishments in an on-going relationship with RLH. In connection with the sale, the Company recorded a gain of $469,695 as a result of the cash received. The gain related to the shares received will be deferred until such shares are tradable. Accordingly, the value of the shares received from RLH as purchase consideration on March 31, 2006, will be recognized as a gain on sale of discontinued operations on the statement of operations and the same value recorded as marketable securities on the balance sheet. If the shares were tradable and valued at the AIM quoted price, the 30,769,230 shares of RLH at December 31, 2005 would have a value of $1,378,000. The subsidiary's operations have been accounted for as discontinued operations under accounting principles generally accepted in the United States of America and therefore, the subsidiary's results of operations and cash flows have been reflected separately from the Company's consolidated results of continuing operations and cash flows for all periods presented in the accompanying financial statements.

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

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. 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 the risks of market fluctuations in any securities held by the Company. 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.

1. OPERATIONS

A. Revenues

Revenues for the quarter ended December 31, 2005 were $1,287,384, an increase of $64,581 over the same quarter of the prior year. Fee revenues for the three month period ending December 31, 2005 from California hotels showed an improvement over the same quarter in the prior year because of improvements in the hotel market in the Silicon Valley and better operating results achieved.

A substantial amount of time and effort was given by the executives of the Company searching for additional management contracts and potential acquisitions of hotels. The problems of the hospitality industry are creating needs for professional management companies that can turn around the performance of financially distressed hotels. The Company believes it has the management skill to help in such turn-around efforts, and this difficult business environment may actually boost the Company’s opportunities to assume the management, and in some cases acquire ownership, of additional hotels.

B. Expenses

Expenses were $1,346,738 for the three months ended December 31, 2005, an increase of $44,482 from 2004, because of increased payroll costs at the managed hotel locations.

C. Discontinued operations

On March 31, 2005, the Company completed the sale of one of its subsidiaries, HHE, to Red Leopard Holdings ("RLH"), for £461,840 (approximately $868,000) in cash, and up to 56,250,000 shares of stock in RLH. Out of the cash portion of the sale, £90,000 (approximately $171,000) was retained by RLH to be used to pay off an estimated £72,000 (approximately $137,000) in HHE liabilities with £211,840 (approximately $398,000) retained by RLH to settle amounts due from the Company to HHE prior to disposition, and £160,000 (approximately $298,000) remitted to the Company at closing. The funds remaining from the approximate $171,000 retained by RLH to pay HHE liabilities at May 31, 2005 were approximately $51,000, which was remitted by RLH to the Company in July 2005. The Company used the approximate $349,000 received in March and July to pay off the Company's existing liabilities and for ongoing working capital.

In addition, the Company received 30,769,230 shares, of the above mentioned 56,250,000 shares, of RLH, valued at £1,000,000 (approximately$1,879,000 at March 31, 2005). Such shares received will not be tradable until March 31, 2006. The additional 25,480,770 shares that may be earned, up to a total of 56,250,000 shares, are contingent upon certain accomplishments in an on-going relationship with RLH. In connection with the sale, the Company recorded a gain of $469,695 as a result of the cash received. The gain related to the shares received will be deferred until such shares are tradable. Accordingly, the value of the shares received from RLH as purchase consideration on March 31, 2006, will be recognized as a gain on sale of discontinued operations on the statement of operations and the same value recorded as marketable securities on the balance sheet. If the shares were tradable and valued at the AIM quoted price, the 30,769,230 shares of RLH at December 31, 2005 would have a value of $1,378,000. The subsidiary's operations have been accounted for as discontinued operations under accounting principles generally accepted in the United States of America and therefore, the subsidiary's results of operations and cash flows have been reflected separately from the Company's consolidated results of continuing operations and cash flows for all periods presented in the accompanying financial statements.

2. BUSINESS DEVELOPMENT

A. HARRELL HOTELS (EUROPE) LTD - UNITED KINGDOM / EUROPE

In anticipation of potential hotel acquisitions in the United Kingdom ("UK"), in February 2002, HHG formed a UK subsidiary named Red Lion Hotels and Suites Limited. On February 20, 2003, the name was changed to Harrell Hotels (Europe) Ltd. ("HHE"). HHE's operations are based in London, and pursued the acquisition of hotel properties with others and providing property management, asset management and consulting services to hospitality clients in the UK and Europe.

On January 25, 2004, HHE signed a Letter of Intent with Marriott Hotels International B.V., in which HHE agreed to develop ten Courtyard Hotels in the UK between 2005 and 2007. HHE had identified a number of potential sites in the UK for Marriott Courtyard Hotels and was working with architects to develop a prototype Courtyard for the UK market. Plans called for the Company to manage the hotel properties and participate in ownership.

In the fall of 2004, in light of the Company's need for additional working capital and to pursue the UK Courtyard development program, the Company sought to sell HHE. The Company received a letter of intent from RLH, a private UK Company that may be deemed an affiliate of Geoffrey Dart. On December 13, 2004, Geoffrey Dart resigned from the board of directors of the Company and of HHE in order to reduce the potential for any conflict of interest in the possible disposition of HHE.

On March 31, 2005, the Company completed the sale of one of its subsidiaries, HHE, to Red Leopard Holdings ("RLH"), for £461,840 (approximately $868,000) in cash, and up to 56,250,000 shares of stock in RLH. Out of the cash portion of the sale, £90,000 (approximately $171,000) was retained by RLH to be used to pay off an estimated £72,000 (approximately $137,000) in HHE liabilities with £211,840 (approximately $398,000) retained by RLH to settle amounts due from the Company to HHE prior to disposition, and £160,000 (approximately $298,000) remitted to the Company at closing. The funds remaining from the approximate $171,000 retained by RLH to pay HHE liabilities at May 31, 2005 were approximately $51,000, which was remitted by RLH to the Company in July 2005. The Company used the approximate $349,000 received in March and July to pay off the Company's existing liabilities and for ongoing working capital.

In addition, the Company received 30,769,230 shares, of the above mentioned 56,250,000 shares, of RLH, valued at £1,000,000 (approximately$1,879,000 at March 31, 2005). Such shares received will not be tradable until March 31, 2006. The additional 25,480,770 shares that may be earned, up to a total of 56,250,000 shares, are contingent upon certain accomplishments in an on-going relationship with RLH. In connection with the sale, the Company recorded a gain of $469,695 as a result of the cash received. The gain related to the shares received will be deferred until such shares are tradable. Accordingly, the value of the shares received from RLH as purchase consideration on March 31, 2006, will be recognized as a gain on sale of discontinued operations on the statement of operations and the same value recorded as marketable securities on the balance sheet. If the shares were tradable and valued at the AIM quoted price, the 30,769,230 shares of RLH at December 31, 2005 would have a value of $1,378,000. The subsidiary's operations have been accounted for as discontinued operations under accounting principles generally accepted in the United States of America and therefore, the subsidiary's results of operations and cash flows have been reflected separately from the Company's consolidated results of continuing operations and cash flows for all periods presented in the accompanying financial statements.

Since March 31, 2005, the Company has provided consultancy services to RLH under the terms of the HHE Sale Agreement in regard to the Courtyard Development program in the UK. During the quarter, RLH/HHE advanced the development of a project known as North Brentford

Quarter, in the design and potential costs of the project. TRI, a UK based market feasibility firm, conducted its feasibility of the project and the market in which it sits, and issued a supportive report. The master plan developer, Barratts, continued to advance the planning permission process, with final permission now expected in May 2006. In the meantime RLH/HHE is consulting with the architects, project managers, and administrators of Marriott International on the final UK specifications for the Courtyard product.

RLH/HHE, with support from the Company, are also pursuing additional sites in the UK, with the anticipation that one or two more will be secured in the short term.

B. UNITED STATES OF AMERICA

Effective August 1, 2004, the Company entered into a technical services agreement with the owners of the Belmont Hotel, a 77-room boutique hotel south of downtown Dallas. The technical services fee was $4,000 per month until the opening of the hotel. In September 2005 the owners of the Belmont hotel advised the Company that they had decided to manage the hotel themselves and that the services of the Company would no longer be needed effective October 31, 2005.

3. LIQUIDITY AND CAPITAL RESOURCES

As previously discussed, on March 31, 2005, the Company completed the sale of HHE to RLH. The cash proceeds from the sale were used to pay off the Company's existing liabilities and for ongoing working capital. The 30,769,230 shares of RLH received by the Company cannot be traded until after March 31, 2006. As of December 31, 2005 those shares would have been worth approximately $1,378,000 in the aggregate had they been tradable at that time. The Company anticipates that a portion or all of these shares could be sold after March 31, 2006 to provide operating capital and liquidity for the Company if necessary. At present the Company has one short-term borrowing of $20,000 from Clive Russell, a director of the Company. This loan is due in April 2006.

At the time of filing this report, the two hotels that the Company operates are generating insufficient cash to meet the Company's monthly operating and development expenses because (i) the softness of the United States economy, (ii) the Biltmore Hotel has been negatively impacted by the downturn in the Silicon Valley economy, and (iii) the hospitality industry in general continues to suffer lower revenues in the wake of the slow recovery of the US economy.

However, the Company believes that its existing cash, the improving US economy, continued UK activity through consulting opportunities with HHE, negotiated private sales of the Company's Class A common stock, together with anticipated cash flows from operations and further borrowings, will be sufficient to meet its cash requirements during the next 12 months. The foregoing statement regarding the Company's expectations for continued liquidity is a forward-looking statement, and actual results may differ materially depending on a variety of factors, including variable operating results, difficulty borrowing or selling securities or presently unexpected uses of cash, such as for acquisitions, or to fund losses.

Item 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

As of the last day of the period covered by this report, our management, including the Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the disclosure controls of the Company and found such controls to be effective. Disclosure controls are procedures that are designed with an objective of ensuring that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. For a small company such as ours, the information filings and regulatory compliance is a significant expense, and the available manpower within the Company is limited. Such compliance is becoming increasingly more difficult as regulations and rules have been changing over the past several years.

(b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date of their evaluation.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

NONE

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

NONE

Item 3. Defaults Upon Senior Securities.

NONE

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

NONE

Item 5. Other Information

NONE

Item 6. Exhibits

31.1 Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1 Certification of Chief Executive officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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
Chief Executive Officer and Director