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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 April 3, 1998.

PIA MERCHANDISING SERVICES, INC.

19900 MacArthur Blvd., Suite 900, Irvine, CA 92612

Registrant's telephone number: (714) 476-2200

Commission file number 0-27824

I.R.S. Employer Identification No.: 33-0684451

State of Incorporation: Delaware

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 8, 1998, there were 5,396,219 shares of Common Stock outstanding.

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PIA Merchandising Services, Inc.

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PART I: FINANCIAL INFORMATION
Item 1: Financial Statements

PIA MERCHANDISING SERVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	December 31, 1997	April 3, 1998
ASSETS		(Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,987	$ 8,304
Accounts receivable, net of allowance for doubtful accounts and sales allowance of $1,451 and $1,515 for 1997 and 1998, respectively	16,053	19,469
Federal income tax refund receivable	2,905	--
Prepaid expenses and other current assets	816	949
TOTAL CURRENT ASSETS	32,761	28,722
PROPERTY AND EQUIPMENT, NET (NOTE 4)	2,416	2,322
INVESTMENTS AND OTHER ASSETS:		
Investment in affiliate	418	438

Other assets	872	849
TOTAL OTHER ASSETS	1,290	1,287
TOTAL ASSETS	$ 36,467	$ 32,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,442	$ 914
Other current liabilities	13,334	13,291
Income taxes payable	47	73
TOTAL CURRENT LIABILITIES	16,823	14,278
LONG-TERM LIABILITIES	966	384
TOTAL LIABILITIES	17,789	14,662
STOCKHOLDERS' EQUITY:		
Common stock and additional paid-in-capital	33,488	33,503
Retained earnings (accumulated deficit)	(11,806)	(12,830)
Less: Treasury stock	(3,004)	(3,004)
TOTAL STOCKHOLDERS' EQUITY	18,678	17,669
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 36,467	$ 32,331

See accompanying notes.

PIA MERCHANDISING SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE QUARTER ENDED MARCH 31, 1997, AND APRIL 3, 1998

(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Quarter Ended	
	March 31, 1997	April 3, 1998
Net Revenues	$ 29,356	$ 34,739
Operating Expenses:		
Field service costs	26,369	29,789
Selling expenses	2,554	2,279
General and administrative expenses	2,449	3,548
Depreciation and amortization	197	282
Total operating expenses	31,569	35,898
Operating Loss	(2,213)	(1,159)
Other Income:		
Interest income, net	231	128
Equity in earnings of affiliate	24	20
Total other income	255	148

Loss Before Benefit (Provision) For Income Taxes	(1,958)	(1,011)
Benefit (Provision) For Income Taxes	790	(12)
Net Loss	$ (1,168)	$ (1,023)
Basic and Diluted Earnings per share	$ (0.20)	$ (0.19)
Basic and Diluted Weighted Average Common Shares	5,897	5,393

See accompanying notes.

PIA MERCHANDISING SERVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTER ENDED MARCH 31, 1997, AND APRIL 3, 1998

(UNAUDITED) (IN THOUSANDS)

	Quarter Ended	
	March 31, 1997	April 3, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,168)	$ (1,023)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	197	282
Provision for doubtful receivables & sales allowances, net	330	694
Equity in earnings of affiliate	(24)	(20)
Changes in operating assets and liabilities:		
Accounts receivable	3,386	(3,416)
Federal income tax refund receivable	--	2,801
Prepaid expenses and other	(1,116)	(110)
Accounts payable and other liabilities	806	(3,744)
Income taxes payable	(111)	26
Net cash provided by (used in) operating activities	2,300	(4,510)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(91)	(188)
Net cash used in investing activities	(91)	(188)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	63	15
Net cash provided by financing activities	63	15
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,272	(4,683)
CASH AND CASH EQUIVALENTS, Beginning of period	19,519	12,987

End of period	$ 21,791	$ 8,304
	========	========
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 86	$ 10
	========	========

See accompanying notes.

PIA MERCHANDISING SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements 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 consolidated financial statements and notes thereto for the year ended December 31, 1997, included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997. The results of operations for the interim periods are not necessarily indicative of the operating results for the year.

Certain amounts have been reclassified in the prior years' consolidated financial statements in order to conform with the current year's presentation.

2. Change in Accounting Periods

Effective January 1, 1998, the Company changed its accounting period for financial statement purposes from a calendar year to a 52/53 week fiscal year. Beginning with fiscal year 1998, the Company's fiscal year will end on the Friday closest to December 31. Interim fiscal quarters will end on the Friday closest to the Calendar quarter end.

The Company does not believe that this change will have a material impact on the financial statements.

3. Restructure and Other Charges

During 1997, the Company experienced declining gross margins, and resultant operating losses, due to service performance issues and the loss of several shared client service accounts. These resulting margins were insufficient to cover the field overhead structure. In the quarter ended September 30, 1997, the Company addressed these conditions by restructuring its operations, focusing on a more disciplined and functional operational structure, and redirecting its technology strategies, resulting in a $5.4 million charge for restructure and other charges. This $5.4 million charge included $3.3 million for restructure charges and $2.1 million for other charges. The restructure charge consisted of $1.3 million of severance and lease costs in various management and administrative functions, and $2.0 million in writedowns and accruals associated with the redirection of the Company's technology strategies.

Other charges consisted primarily of $1.3 million of reserves and write-offs related to unprofitable contracts and $0.6 million of costs associated with changes in the Company's service delivery model.

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31, 1997	April 3, 1998
Equipment	$ 3,680	$ 3,831
Furniture and fixtures	662	697
Leasehold improvements	160	160
Capitalized software development costs	902	902
	5,404	5,590
Less: Accumulated depreciation and amortization	(2,988)	(3,268)
	$ 2,416	$ 2,322

5. Recent Accounting Pronouncements

Earnings Per Share - The Company has adopted SFAS No. 128, Earnings per Share, which replaces the presentation of "Primary" earnings per share with "Basic" earnings per share and the presentation of "Fully Diluted" earnings per share with "Diluted" earnings per share. Prior periods have been restated to reflect the change in presentation.

Basic earnings per share amounts are based upon the weighted-average number of common shares outstanding. Diluted earnings per share amounts are based upon the weighted-average number of common and potential common shares for each period presented. Potential common shares include stock options, using the treasury stock method.

New Accounting Pronouncements -In the first quarter ended April 3, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income. Any difference between comprehensive income (loss) and net income (loss) for the quarter ended April 3, 1998 was considered immaterial. For the fiscal year ending January 1, 1999, the Company will adopt SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information and SFAS No. 132, Employers' Disclosures About Pensions and Other Postretirement Benefits.

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

OVERVIEW

PIA Merchandising Services, Inc. (the "Company" or "PIA") provides merchandising services to manufacturers and retailers principally in grocery, mass merchandiser, chain, and discount drug stores. For the quarter ended April 3, 1998, compared to quarter ended March 31, 1997, the Company generated approximately 64% and 90% of its net revenues from manufacturer clients and 36% and 10% from retailer clients, respectively.

The Company's profitability has continued to be adversely affected by the loss of shared client service accounts (for which PIA provides syndicated and project-type services). The shared client service business has historically required a significant fixed management and personnel infrastructure. Due in part to performance issues, industry consolidation and increased competition, the Company lost a number of shared client service accounts in the last half of 1996 and continuing in 1997. PIA has not gained any sizable new shared client accounts for on-going services to offset this loss. The Company believes that net revenues in 1998 from shared client service accounts will continue to decline as a result of the wind-down of the lost business.

The Company continues to experience an increase in the demand for dedicated client services, and has significantly increased business with two major customers. The net revenues associated with dedicated clients increased, as a percentage of overall net revenues, from 26.5% in the first quarter of 1997 to 29.6% in the first quarter of 1998. In the dedicated services business, PIA provides each manufacturer or retailer client with an organization, including a management team, which works exclusively for that client.

PIA's quarterly results of operations are subject to certain variability related to the timing of retailer-mandated activity and the receipt of commissions. Retailer-mandated activity is typically higher in the second and third quarters of the year due to retailer scheduling of activity in off-peak shopping periods. In addition, new product introductions increase during such periods which require the reset of categories as the new products gain distribution.

The amount of commissions earned by PIA under its commission-based contracts, typically averaging 14% to 17% of total net revenues, varies seasonally, and generally corresponds to the peak selling seasons of the clients that have entered into these types of contracts. Historically, the Company has recognized greater commission income in the first and fourth quarters. See "Risk Factors -- Uncertainty of Commission Income."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS

QUARTER ENDED APRIL 3, 1998 COMPARED TO QUARTER ENDED MARCH 31, 1997

NET REVENUES

Net revenues for the quarter ended April 3, 1998 increased from the comparable period of 1997 due to an increase in shared client service account and project net revenues and dedicated client net revenues. For the first quarter of 1998, net revenues were $34.7 million compared to $29.4 million in the first quarter of 1997, an 18% increase.

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

	Quarter Ended				
	March 31, 1997		April 3, 1998		Change
(amounts in millions)	Amount	%	Amount	%	%
Shared service and Project client net revenues	$ 21.6	73.5%	$ 24.4	70.4%	13.0%
Dedicated Client Net Revenues	7.8	26.5	10.3	29.6	32.1
Net revenues	$ 29.4	100.0%	$ 34.7	100.0%	18.0%

The Company's dedicated client net revenues have grown from $7.8 million in the first quarter of 1997 to $10.3 million in the first quarter of 1998, a 32.1% increase. This increase in dedicated client net revenues resulted from two major new clients. The increase in dedicated client net revenues for the first quarter of 1998 compared to 1997 resulted from an increase in revenue from new clients of $4.7 million, offset by a decrease in revenue from existing dedicated clients of $2.2 million.

Shared client service account and project net revenues have increased from $21.6 million in the first quarter of 1997 to $24.4 million in the first quarter of 1998, a 13.0% increase. However, shared client service accounts and project revenues as a percentage of net revenues decreased as dedicated client net revenues continue to grow at a faster rate.

The increase in shared client service accounts and project revenues for the first quarter of 1998 compared to 1997 resulted from an increase in revenue from new clients of $2.4 million, an increase in revenue from existing shared client accounts of $4.0 million, offset by a decrease in revenue of $3.6 million from clients no longer with the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

OPERATING EXPENSES

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

	Quarter Ended				
(amounts in millions)	March 31, 1997		April 3, 1998		Change
	Amount	%	Amount	%	%
Field service costs	$ 26.4	89.8%	$ 29.8	85.7%	12.9%
Selling expenses	2.6	8.7	2.3	6.6	(11.5)
General and administrative expenses	2.4	8.3	3.5	10.2	45.8
Depreciation and Amortization	0.2	0.7	0.3	0.8	50.0
Total Operating Expenses	$ 31.6	107.5%	$ 35.9	103.3%	13.6%

For the first quarter of 1998, field service costs increased $3.4 million, or 12.9%, to $29.8 million, as compared to $26.4 million in the first quarter of 1997. Field service costs are comprised principally of field labor and related costs and overhead expenses required to provide services to both shared and dedicated service clients and related technology costs.

The increase in field service costs in the first quarter of 1998 is due primarily to costs required to provide the management and supervision necessary to support the increased business level of dedicated clients. As a percentage of net revenues, field service costs in the first quarter of 1998 decreased to 85.7% from 89.8% in the same period last year. This decrease resulted from the reduction of non-payroll related costs due to a restructuring of the Company's operations, improvement of labor productivity, initial implementation of labor scheduling systems, reorganization of field divisions and customer rationalization.

For the quarter ended April 3, 1998, selling expenses decreased $0.3 million, or 11.5%, to $2.3 million compared to $2.6 million in the same period last year. As a percentage of net revenues, selling expenses decreased to 6.6% in the first quarter of 1998, compared to 8.7% in the first quarter of 1997. This decrease in costs, both in absolute amount and as a percentage of net revenues, is a result of lower staffing and travel costs.

General and administrative expenses increased 45.8% in the first quarter of 1998 to $3.5 million, compared to $2.4 million in the same period of 1997. The increase in general and administrative costs was due primarily to additional consulting and improvements to management information systems that were required to support the increased dedicated client base, and due to salary

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

and benefit increases in the ordinary course of business.

Depreciation and amortization expenses increased for the quarter ended April 3, 1998, as compared to the same period of 1997, as a result of additional depreciation from completed software development in the third quarter ended September 30, 1997.

OTHER INCOME

Interest income decreased in the first quarter of 1998, as compared to the first quarter of 1997, due to lower cash balances available for investment in 1998.

Equity in earnings of affiliate represents the Company's share of the earnings of Ameritel, Inc., a full service telemarketing company.

BENEFIT FROM INCOME TAXES

The income tax benefit of $0.8 million in the first quarter of 1997 represents an effective tax rate of 40.3%. There was no material income tax impact for the first quarter of 1998.

NET LOSS

The Company incurred a net loss of approximately $1.0 million in the first quarter of 1998, or $0.19 per basic and diluted share, compared to a net loss of approximately $1.2 million, or $0.20 per basic and diluted share, in the first quarter of 1997. The loss incurred in the current year is primarily a result of previous pricing decisions for some client contracts that were unprofitable in the first quarter. These contracts are currently being renegotiated. However, there is no certainty that these negotiations will result in better pricing.

NEW FINANCIAL MODEL

The Company has developed a new financial model to assist in the understanding of the operating results and impact of various cost functions within the organization. This model follows more standard metrics and allows the Company to analyze and manage at the business unit level. The following table illustrates this financial model for the quarters ended March 31, 1997 and April 3, 1998.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

	Quarter Ended			
(amounts in millions)	March 31, 1997		April 3, 1998	
	Amount	%	Amount	%
Net revenues	$ 29.4	100.0%	$ 34.7	100.0%
Direct business unit field expense	20.8	70.7	25.6	73.8
Gross margin	8.6	29.3	9.1	26.2
Overhead and allocated field expense	7.0	23.8	6.0	17.3
Business unit margin	1.6	5.4	3.1	8.9
Selling, general and administrative expenses	3.6	12.2	4.0	11.5

Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA)	$ (2.0)	(6.8%)	$ (0.9)	(2.6%)

Management expects to continue to review the business results on the basis of the comparable financial statement format contained in this Form 10-Q until the first quarter ending April 2, 1999, when comparisons can be made utilizing the new financial model.

LIQUIDITY AND CAPITAL RESOURCES

On March 1, 1996, the Company completed an initial public offering of its Common Stock, raising $26.5 million. Prior to this offering, the Company's primary sources of financing were senior borrowings from a bank under a revolving line of credit and subordinated borrowings from two stockholders.

In March 1997, the Company's Board of Directors approved a stock repurchase program under which the Company was authorized to repurchase up to 1,000,000 shares of Common Stock from time to time in the open market, depending on market conditions. This program was funded by proceeds from the initial public offering. As of July 14, 1997, the Company repurchased an aggregate of 507,000 shares of Common Stock for an aggregate price of approximately $3.0 million. No further repurchases are currently planned.

Cash and cash equivalents totaled $13.0 million at December 31, 1997 compared with $8.3 million at April 3, 1998. At December 31, 1997 and April 3, 1998 the Company had working capital of $15.9 million and $14.4 million, respectively, and current ratios of 1.9 and 2.0 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Net cash used in operating activities for the quarter ended April 3, 1998 was $4.5 million, compared to cash provided by operating activities of $2.3 million for the comparable period in 1997. This use of cash for operating activities in 1998 resulted primarily from an increase in accounts receivables, a decrease in accounts payable and other liabilities, and a net operating loss offset by a decrease in Federal income tax refund receivable. The increase in accounts receivable, during the first quarter ended April 3, 1998 was the result of an increase in net revenues. Net cash used in investing activities for the quarter ended April 3, 1998 was $0.2 million, compared to $0.1 million for the comparable period in 1997. Net cash generated by financing activities for the quarter ended March 31, 1997 was $0.1 million, and was immaterial for the first quarter ended April 3, 1998.

The above activity resulted in a net decrease in cash and cash equivalents of $4.7 million for the quarter ended April 3, 1998, compared to a net increase of $2.3 million for the comparable period in 1997.

The Company's current liquidity is provided by cash and cash equivalents and the timely collection of its receivables. The Company currently has no committed credit facility available for working capital needs. Management believes that cash and cash equivalents and the timely collection of its receivables will be sufficient to provide for ongoing working capital needs and generally fund the ongoing operations of the business over the next twelve months.

YEAR 2000 SOFTWARE COSTS

The Company has conducted a review of its computer systems to identify those areas that could be affected by the "Year 2000" issues and is developing an implementation plan to resolve these issues. The Company presently believes, with modifications to existing software and conversions to new software, the Year 2000 problem will not pose significant operational problems and is not anticipated to be material to the Company's financial position or results of operations in any given year.

FORWARD-LOOKING STATEMENTS

This quarterly report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. In addition, the Company may from time to time make oral forward-looking statements. Actual results are uncertain and may be impacted by various factors. In particular, certain risks and uncertainties that may impact the accuracy of the forward-looking statements include the Company's history of losses, loss of business, concentrated client base and uncertainty of commission income. As a result, the actual results may differ materially from those projected in the forward-looking statements.

RISK FACTORS

It is recommended that this Form 10-Q be read in conjunction with the Company's 1997 Annual Report on Form 10-K. The following risk factors should also be carefully reviewed in addition to the other information contained in this Form 10-Q.

HISTORY OF LOSSES

During the years ended December 31, 1992, 1993, 1997, and the first quarter of 1998, the Company incurred significant losses and experienced substantial negative cash flow. The Company had net losses of $3.2 million, $2.6 million and $15.1 million for the years ended December 31, 1992, 1993 and 1997, respectively and a net loss of $1.0 million for the first quarter of 1998. In 1992 and 1993, these losses resulted primarily from additional field service costs to provide shared service coverage in grocery stores for relatively few clients in newly opened regions during the Company's continuing national expansion in 1992 and 1993, and from the write-off of $1.7 million in goodwill in 1992.

In 1997, these losses resulted primarily from margin reductions due to the loss of shared client service accounts, and start up expenses on dedicated client services, inefficiencies in field labor execution, poor pricing decisions for some client contracts, and higher business unit overhead costs and the recognition of restructure charges and other charges. In addition, the Company incurred a net loss of $1.0 million for the first quarter of 1998, compared to a net loss of $1.2 million in the first quarter of 1997, and generated negative cash flow of $4.7 million in the first quarter of 1998. There can be no assurance that the Company will not sustain further losses.

LOSS OF BUSINESS

PIA's business mix has changed during 1997 and the first quarter of 1998. This change is due in part to performance issues, industry consolidation and increased competition. The Company has lost a substantial amount of shared service business over the last 15 months, and new revenue added has been at lower margins than the margins of the lost business. The Company has not engaged any sizable new shared business to offset this loss. The Company has historically required a significant fixed management and personnel infrastructure for shared services. Accordingly, the loss of shared service business, without offsetting gains or cost reductions, has a material adverse effect on the Company's results of operations.

INDUSTRY CONSOLIDATION; CONCENTRATED CLIENT BASE

The retail and manufacturing industries are undergoing a consolidation process that is resulting in fewer large retailers and suppliers. The Company's success is dependent in part upon its ability to maintain its existing clients and to obtain new clients. As a result of industry consolidation, the Company has lost certain clients, and this trend could continue to have a negative effect on the Company's client base and results of operations. The Company's ten largest clients generated approximately 74% and 76% of the Company's net revenues for the quarter ended March 31, 1997 and April 3, 1998, respectively. During the first quarter ended

April 3, 1998, none of the Company's manufacturer or retailer clients accounted for greater than 10% of net revenues, other than Eckerd Drug Stores, CVS Pharmacy Incorporated, and Buena Vista Home Video, which accounted for 13%, 13% and 11% of net revenues, respectively. The majority of the Company's contracts with its clients for shared services have multi-year terms. PIA believes that the uncollectibility of amounts due from any of its large clients, a significant reduction in business from such clients, or the inability to attract new clients, could have a material adverse effect on the Company's results of operations.

UNCERTAINTY OF COMMISSION INCOME

Approximately 17% of the Company's net revenues for the quarter ended April 3, 1998 was earned under commission-based contracts. These contracts provide for commissions based on a percentage of the client's net sales of certain of its products to designated retailers. Commissions paid to PIA under these contracts have had a significant effect on the Company's profitability in certain quarters. Under these contracts, the Company generally receives a draw on a monthly or quarterly basis, which is then applied against commissions earned. Adjustments are made on a monthly or quarterly basis upon receipt of reconciliations between commissions earned from the client and the draws previously received. The reconciliations typically result in commissions owed to the Company in excess of previous draws; however, the Company cannot predict with accuracy the level of its clients' commission-based sales. Accordingly, the amount of commissions in excess of or less than the draws previously received will fluctuate and can significantly affect the Company's operating results in any quarter. The Company has historically experienced consistent positive commission reconciliation income.

In addition, the amount of commissions earned by the Company under these contracts varies seasonally, and generally corresponds to the peak selling seasons of the clients who have entered into these types of contracts. Historically, the Company has recognized greater commission income in its first and fourth quarters due to the timing of such clients' sales.

PART II: OTHER INFORMATION

Item 1: Legal Proceedings

On February 25, 1998, the Company and its Canadian subsidiary were served with two Statements of Claim in the Ontario Court (General Division) of the Province of Ontario, Canada, filed by Merchandising Consultants Associates ("MCA") asserting claims for alleged breach of Confidentiality Agreements dated October 19, 1996 and July 17, 1997. Both of these lawsuits assert that the Company and its subsidiary improperly used confidential information provided by MCA as part of the Company's due diligence concerning its proposed acquisition of MCA, including alleged clientele, contracts, financial statements and business opportunities of MCA. In addition, MCA contends that the Company breached and allegedly reneged upon the terms for acquisition of MCA contained in a Letter of Intent between the parties dated July 17, 1997, which by its express terms was non-binding. The Statements of Claim seek damages totaling $10.2 million. The Company denies all wrongdoing and intends to aggressively defend itself in this action. It is not possible to predict the outcome of this action at this time.

Item 2: Changes in Securities and Use of Proceeds

Use of Proceeds - The Company received $26.5 million in net proceeds from its initial public offering in March 1996. The Company, as originally outlined in "Use of Proceeds" in its prospectus, has used approximately $16.0 million through the period ended April 3, 1998 for debt repayment, capital spending and working capital requirements. In addition, $3.0 million has been used to repurchase the Company's Common Stock.

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 and Reports on Form 8-K

(a) EXHIBITS.

EXHIBIT NUMBER	DESCRIPTION
3.1	Certificate of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, No. 33-80429).
3.2	By-laws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1, No. 33-80429).
4.1	Registration Rights Agreement entered into as of January 21, 1992 by and between RVM Holding Corporation, RVM/PIA, a California Limited Partnership, The Riordan Foundation and Creditanstalt-Bankverein (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1, No. 33-80429).
10.1	1990 Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1, No. 33-80429).
10.2	1995 Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, No. 33-80429).
10.3	1995 Stock Option Plan for Nonemployee Directors (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1, No. 33-80429).
10.4	Employment Agreement dated as of June 25, 1997 between the Company and Terry R. Peets (incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-Q for the 2nd Quarter ended June 30, 1997).
10.5	Employment Agreement dated as of February 20, 1998 between the Company and Cathy L. Wood.
27.1	Financial Data Schedule

(b) REPORTS ON FORM 8-K.

Current Report on Form 8K, filed with the Securities Exchange Commission (SEC) concurrently herewith, which relates to the change in the Company's fiscal year.

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.

PIA MERCHANDISING SERVICES, INC.
(Registrant)

By: /s/ Cathy L. Wood

Cathy L. Wood
Executive Vice President and
Chief Financial Officer

By: /s/ David J. Faulds

David J. Faulds
Vice President
Corporate Controller

Dated: May 12, 1998

EXHIBIT 10.5

SEVERANCE COMPENSATION AGREEMENT

This Severance Compensation Agreement (this "Agreement") has been entered into as of the 20th day of February, 1998 by and between PIA Merchandising Services, Inc., a Delaware corporation ("PIA"), and Cathy L. Wood ("Executive"). It is made in the light of the following circumstances:

PIA's Board of Directors considers the establishment and maintenance of a sound and vital management team to be essential to protecting and enhancing the best interests of PIA and its stockholders. PIA recognizes that the possibility of a Change of Control (as defined in this Agreement), and the uncertainty and questions which that possibility may raise among members of the management team, may result in the departure or distraction of management personnel to the detriment of PIA and its stockholders. The Board of Directors has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of PIA's management team, including Executive, to their assigned duties.

Accordingly, the Board of Directors has proposed to enter into this Agreement with Executive which sets forth the severance compensation which PIA agrees it will pay to Executive if Executive's employment with PIA should terminate under the circumstances described below following a Change of Control of PIA.

In the light of the foregoing the parties have agreed as follows:

1. Basic Agreement.

In order to protect Executive against certain possible consequences of a Change in Control of PIA, and thereby to induce Executive to continue to serve as a key employee of PIA, PIA agrees that if there is a Change of Control of PIA, and if Executive's employment by PIA is subsequently terminated, after, but within two years following, such Change of Control, Executive shall be entitled to the severance compensation specified in Section 3 hereof unless such termination is (a) a result of Executive's death or Retirement (as defined in this Agreement); (b) by PIA for Cause (as defined in this Agreement); or (c) by Executive other than for Good Reason (as defined in this Agreement).

As partial consideration for this Agreement, Executive agrees that she will not voluntarily leave the employ of PIA and will continue to perform her existing duties, or such other comparable duties as may be assigned by PIA, for a period of at least one (1) year following any Change of Control, subject to her right to resign for Good Reason (as provided herein). Notwithstanding the foregoing, PIA may terminate Executive's employment at any time, with or without cause, subject to providing the benefits hereinafter specified in accordance with the terms hereof if such termination occurs after a Change of Control.

2. Term of Agreement.

This Agreement shall initially continue until the earlier to occur of (A) the termination of Executive's employment with PIA for any reason whatsoever, whether by action of Executive or of PIA; or (B) a Change of Control. In the former event, all rights of Executive hereunder shall terminate at the time of such termination of employment. In the latter case, this Agreement shall remain effective for a full term of two (2) years from the date of such Change of Control, and shall not thereafter be terminated until the expiration of such period.

3. Severance Compensation.

If, during the two (2) year period following a Change of Control, PIA shall terminate Executive's employment other than by reason of Disability (Section 5.1), Retirement (Section 5.2) or for Cause (Section 5.3), or if Executive shall terminate her employment for Good Reason (Section 5.4), then PIA shall pay to Executive, as severance pay, in a lump sum, in cash, on the 5th day following the Payment Date (as defined in Section 5.6 of this Agreement), an amount equal to (a) one year's base compensation at the rate at which Executive was being compensated immediately prior to such termination (except that if the termination is based on a reduction in compensation, it shall be the rate of compensation immediately prior to such reduction); plus (b) the annual bonus target for the full fiscal year of PIA during which such termination occurred.

In addition to the foregoing, PIA shall, subject to the following sentence, under the circumstances set forth above, provide continuing coverage of Executive under all employee benefit plans affording protection against medical costs, including any medical, excess medical, hospitalization or similar insurance or reimbursement plan. Such coverage shall be provided at PIA's cost for a period of one year from the Payment Date or until Executive obtains other employment if that shall occur before one year from the Payment Date; provided, however, that PIA shall have no obligation to provide any such coverage if a dispute exists pursuant to clause (2) or (3) in Section 5.6(a).

Notwithstanding the foregoing provisions of this Section 3, if the severance compensation provided in this Section 3, either alone or together with other payments which Executive would have the right to receive from PIA, would constitute a "parachute payment," as defined in Section 280G of the Internal Revenue Code of 1986 (the "Code"), as in effect at the time of payment, such payment shall be reduced to the largest amount as will result in no portion being subject to the excise tax imposed by Section 4999 of the Code or the disallowance of a deduction by PIA pursuant to Section 280G(a) of the Code. The determination of the amount of any reduction pursuant to this paragraph, and the payments or other compensation to which such reductions shall apply, shall be made in good faith by PIA, and such determination shall be binding on Executive.

4. Change of Control.

No benefits shall be payable hereunder unless there shall have been a Change of Control of PIA, as defined in this Section 4 and Executive's employment by PIA shall thereafter have been terminated as described in Section 5 below.

4.1 For purposes of this Agreement, "Change of Control" shall mean the happening of any of the following:

(i) The acquisition by any Holder, at any time after the date hereof, of Beneficial Ownership of securities of PIA representing 50% or more of the combined voting power of the then outstanding securities of PIA.

(ii) The occurrence of a transaction requiring approval by the stockholders of PIA for the acquisition of PIA through the purchase of all or substantially all of PIA's securities or assets, or by merger, or otherwise.

(iii) The election, during any period of 24 months or less, of a majority of the members of the Board of Directors of PIA without the approval of the nominations of such members by a majority of the Board members who were serving as such at the beginning of such period.

4.2 "Beneficial Ownership" or "Beneficially Owned" shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

4.3 "Group" shall mean persons who act in concert as described in Sections 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, and the regulations thereunder. The formation of a Group, or any change in the membership of a Group, shall be deemed to be an acquisition by the Group of the aggregate number of PIA securities Beneficially Owned by each member thereof.

4.4 "Holder" shall mean any entity, person or Group other than the Corporation, or an employee benefit plan maintained by the Corporation.

5. Termination Following Change of Control.

If there shall have been a Change of Control as defined in Section 4 above, Executive shall be entitled to the severance compensation provided in Section 3 hereof in the event that Executive's employment by PIA is terminated within two (2) years thereafter; unless such termination is (a) because of Executive's death or Retirement; (b) by PIA for Cause or Disability; or (c) by Executive other than for Good Reason. For these purposes, the following definitions shall apply:

5.1 "Disability" shall mean absence from full time performance of Executive's duties with PIA for one hundred thirty (130) consecutive business days, as a result of Executive's incapacity due to physical or mental illness, unless within thirty (30) days after Notice of Termination (as hereinafter defined) is given following such absence Executive shall have returned to the full time performance of Executive's duties.

5.2 "Retirement" shall mean a termination of employment in accordance with the retirement policy generally applicable to all salaried employees at the time of the Change of Control.

5.3 "Cause" shall mean:

(a) the deliberate and intentional failure by Executive to devote substantially her entire business time and efforts to the performance of her duties (other than any such failure resulting from Executive's incapacity due to physical or mental illness or disability);

(b) engaging by Executive in gross misconduct materially and demonstrably injurious to PIA;

(c) Executive's commission of any crime (other than minor traffic offenses and similar infractions); or

(d) Executive's willful failure to comply with instructions of the Board of Directors of PIA.

5.4 "Good Reason" shall mean the occurrence of:

(a) without Executive's express written consent, the assignment to Executive of any position, duties or responsibilities materially and substantially less favorable than her positions, duties and responsibilities with PIA immediately prior to the Change in Control, or a material adverse change in her reporting responsibilities, status, titles or offices as in effect immediately prior to a Change in Control;

(b) a reduction by PIA in Executive's base salary as in effect at the time of the Change in Control;

(c) a failure by PIA to continue to provide incentive compensation comparable to that provided by PIA immediately prior to any Change in Control;

(d) the failure by PIA after a Change in Control to continue in effect any benefit or compensation plan, stock option plan, pension plan, health and accident plan or disability plan in which Executive is participating immediately prior thereto (provided, however, that there shall not be deemed to be any such failure if PIA substitutes for the discontinued plan, a plan providing Executive with substantially similar benefits) or the taking of any action by PIA which would adversely affect Executive's participation in or materially reduce

Executive's benefits under any of such plans or deprive Executive of any material fringe benefit enjoyed by Executive immediately prior to a Change in Control (provided, however, that any act or failure to act by PIA that is on a plan-wide basis, i.e., it similarly affects all employees of PIA or all employees eligible to participate in any such plan, as the case may be, shall not constitute Good Reason); or

(e) the failure of PIA to obtain the assumption of this Agreement by any successor as contemplated in Section 7.1 hereof.

5.5 Notice of Termination. Any termination by PIA pursuant to Sections 5.1 or 5.3 above shall be communicated by a Notice of Termination. The term "Notice of Termination" shall mean a written notice indicating those specific termination provisions in this Agreement relied upon and setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated and which otherwise complies with Sections 5.1 or 5.3, as applicable. No termination by PIA shall be effective for purposes of Sections 5.1 or 5.3 above without such Notice of Termination.

5.6 Payment Date.

(a) The term "Payment Date" shall mean (1) if Executive's employment is terminated by PIA without allegation that such termination is by reason of Disability (Section 5.1), Retirement (Section 5.2) or for Cause (Section 5.3), the actual effective date of such termination as specified by PIA in its notice of such termination given to Executive; (2) if Executive's employment is terminated by PIA purportedly for Cause and if (i) within 30 days after PIA's giving of the Notice of Termination prescribed by Section 5.5, Executive notifies PIA that a dispute exists concerning whether or not the termination is legitimately for Cause, and (ii) it is finally determined, whether by mutual agreement by the parties or upon final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected), that such termination is not legitimately for Cause, the Payment Date shall be the date the dispute is so finally determined; and (3) if Executive's employment is terminated by Executive purportedly for Good Reason, 30 days after Executive so notifies PIA, which notice shall fully describe the basis which the Executive alleges to constitute Good Reason; provided, however, that if, within such 30-day period, PIA notifies Executive that a dispute exists concerning whether or not the termination is legitimately for Good Reason, the Payment Date shall be the date that it is finally determined (but only if so determined), whether by mutual agreement by the parties or upon final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected), that such termination by Executive is legitimately for Good Reason.

(b) Notwithstanding the foregoing, the definition of "Payment Date" shall not entitle Executive to any compensation with respect to any period during which Executive's employment has actually ceased. Rather, such definition shall be used solely to determine the date, if applicable, upon which severance pay becomes payable to Executive pursuant to Section 3 of this Agreement.

6. No Obligation to Mitigate.

6.1 Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by any other person after the termination of employment with PIA, or otherwise, except as provided in Section 3.

6.2 The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish Executive's existing rights, or rights which would accrue solely as a result of the passage of time, under any benefit plan, incentive plan or securities plan, employment agreement or other contract, plan or arrangement.

7. Binding on Successors.

7.1 This Agreement shall be binding on and inure to the benefit of any successor to PIA. PIA agrees to require any successor or assign to all or substantially all of its business and/or assets, by written agreement, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that PIA would be required to perform it if no such transaction had taken place, except where such assignment occurs as a matter of law (e.g., in the case of a merger or consolidation), in which case no such formal assumption shall be required. Any failure of PIA to obtain such agreement prior to the effectiveness of any such transaction shall be a material breach of this Agreement and shall entitle Executive to terminate her employment for Good Reason, but shall not otherwise affect the rights of PIA or such successor or assign under any such agreement between them, nor invalidate any such agreement. As used in this Agreement, "PIA" shall mean PIA as presently constituted and any successor or assign to its business and/or assets which executes and delivers the agreement provided for in this Section 7.1 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

7.2 This Agreement shall inure to the benefit of and be enforceable by Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devotees and legatees. If Executive should die while any amounts are still payable to her hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's estate.

8. Notices.

8.1 Method of Giving Notice. Any notice (which term includes payments and communications of any sort whatsoever) required or permitted to be delivered under this Agreement shall be in writing and shall be delivered to the party to whom addressed in person, or by certified mail, return receipt requested, addressed as follows:

If to Company:	PIA Merchandising Services, Inc. 19900 MacArthur Boulevard Suite 900 Irvine, California 92718
If to Executive:	At her address as shown on the records of PIA.

8.2 Change of Address. Any person whose address is specified herein may change such address by giving notice to the other in the manner herein provided.

8.3 Effectiveness of Notice. All notices given in accordance with this Agreement shall, if mailed, be deemed to have been given or delivered two (2) days after the date they are placed in the United States mail, postage prepaid, properly addressed as herein required. If delivered personally or by courier, they shall be deemed given when actually received.

9. Choice of Law.

This Agreement shall be governed by and interpreted in accordance with the laws of the State of California.

10. Severability.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

11. Legal Fees and Expenses.

In the event of any dispute under this Agreement, the prevailing party shall be entitled to recover all legal fees and expenses which it may incur in resolving such dispute.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

PIA MERCHANDISING SERVICES, INC.	EXECUTIVE:
By: /s/ Terry R. Peets	/s/ Cathy L. Wood
Terry R. Peets, Chief Executive Officer and President	CATHY L. WOOD

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