FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1997-11-13** | Period of Report: **1997-09-29**
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AMERICAN RESTAURANT GROUP HOLDINGS INC

CIK:**917540**| IRS No.: **330592148** | State of Incorp.:**DE** | Fiscal Year End: **1228**
Type: **10-Q** | Act: **34** | File No.: **033-74012** | Film No.: **97716328**
SIC: **5812** Eating places

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

American Restaurant Group Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	33-74012	33-0592148
(State or other jurisdiction of incorporation or organization)	(Commission File File Number)	(I.R.S. employer identification no.)

450 Newport Center Drive
Newport Beach, CA 92660
(714) 721-8000

(Address and telephone number of principal executive offices)

Former name, former address and former fiscal year if changed since last report.

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.

Yes X No

The number of outstanding shares of the Company's Common Stock (one cent par value) as of November 3, 1997 was 504,505.

AMERICAN RESTAURANT GROUP HOLDINGS, INC.

INDEX

<TABLE>
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</TABLE>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS:

AMERICAN RESTAURANT GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

DECEMBER 30, 1996 AND SEPTEMBER 29, 1997

<TABLE>
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<S>	December 30, 1996 <C>	September 29, 1997 (unaudited) <C>
ASSETS		
CURRENT ASSETS:		
Cash	$ 7,493,000	$ 6,189,000
Accounts receivable, net of reserve of $1,041,000 and $1,076,000 at December 30, 1996 and September 29, 1997, respectively	7,465,000	6,165,000
Inventories	6,818,000	5,632,000
Prepaid expenses	4,485,000	2,906,000
Total current assets	26,261,000	20,892,000
PROPERTY AND EQUIPMENT:		
Land and land improvements	6,158,000	5,655,000
Buildings and leasehold improvements	110,071,000	112,782,000
Fixtures and equipment	84,162,000	87,326,000
Property held under capital leases	12,375,000	12,375,000
Construction in progress	6,487,000	1,849,000
	219,253,000	219,987,000
Less-- Accumulated depreciation	118,084,000	124,758,000
	101,169,000	95,229,000
OTHER ASSETS-- NET	49,775,000	46,651,000
Total Assets	$177,205,000	$162,772,000

</TABLE>

The accompanying notes are an integral part of these consolidated condensed statements.

(consolidated condensed balance sheets continued on the following page)

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	December 30, 1996	September 29, 1997 (unaudited)
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LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 33,394,000	$ 32,967,000
Accrued liabilities	14,435,000	14,040,000
Accrued insurance	15,848,000	11,810,000
Accrued interest	921,000	6,231,000
Accrued payroll costs	11,059,000	10,069,000
Current portion of obligations under capital leases	902,000	926,000
Current portion of long-term debt	41,324,000	171,655,000
Total current liabilities	117,883,000	247,698,000
LONG-TERM LIABILITIES, net of current portion:		
Obligations under capital leases	8,443,000	7,746,000
Long-term debt	207,897,000	86,242,000
Total long-term liabilities	216,340,000	93,988,000
DEFERRED GAIN	5,806,000	5,436,000
COMMITMENTS AND CONTINGENCIES		
PREFERRED STOCK, $0.01 par value; 10,000 shares authorized, no shares issued or outstanding at December 30, 1996 or September 29, 1997	--	--
COMMON STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value; 1,000,000 shares authorized; 504,505 shares issued and outstanding at December 30, 1996 and September 29, 1997	2,000	2,000
Treasury stock	(50,000)	(50,000)
Paid-in capital	17,539,000	17,539,000
Accumulated deficit	(180,315,000)	(201,841,000)
Total common stockholders' deficit	(162,824,000)	(184,350,000)
Total liabilities and common stockholders' equity	$ 177,205,000	$ 162,772,000

</TABLE>

The accompanying notes are an integral part of these consolidated condensed statements.

AMERICAN RESTAURANT GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THIRTEEN WEEKS ENDED SEPTEMBER 23, 1996 AND SEPTEMBER 29, 1997

AND THE THIRTY-NINE WEEKS ENDED SEPTEMBER 23, 1996 AND SEPTEMBER 29, 1997

(UNAUDITED)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 23, 1996	September 29, 1997	September 23, 1996	September 29, 1997
REVENUES	$107,319,000	$106,253,000	$332,988,000	$333,198,000
RESTAURANT COSTS:				
Food and beverage	33,802,000	33,448,000	105,473,000	105,406,000
Payroll	33,428,000	33,440,000	100,936,000	101,038,000
Direct operating	28,756,000	27,582,000	83,922,000	84,883,000
Depreciation and amortization	5,179,000	5,100,000	15,486,000	15,182,000
GENERAL AND ADMINISTRATIVE EXPENSES	6,755,000	5,616,000	20,021,000	22,110,000
Operating profit (loss)	(601,000)	1,067,000	7,150,000	4,579,000
INTEREST EXPENSE, net	9,645,000	8,812,000	28,433,000	26,045,000
Loss before provision for income taxes and extraordinary loss	(10,246,000)	(7,745,000)	(21,283,000)	(21,466,000)
PROVISION FOR INCOME TAXES	15,000	19,000	75,000	60,000
Loss before extraordinary loss	(10,261,000)	(7,764,000)	(21,358,000)	(21,526,000)
Extraordinary loss on extinguishment of debt	1,095,000	--	1,095,000	--
Net loss	$(11,356,000)	$ (7,764,000)	$(22,453,000)	$(21,526,000)

The accompanying notes are an integral part of these consolidated condensed statements.

AMERICAN RESTAURANT GROUP HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THIRTY-NINE WEEKS ENDED SEPTEMBER 23, 1996 AND SEPTEMBER 29, 1997

(UNAUDITED)

	September 23, 1996	September 29, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 332,995,000	$ 334,295,000
Cash paid to suppliers and employees	(313,070,000)	(317,348,000)
Interest paid, net	(26,390,000)	(12,261,000)
Income taxes paid	(75,000)	(60,000)
Net cash provided by (used in) operating activities	(6,540,000)	4,626,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(8,138,000)	(3,631,000)
Net increase in other assets	(1,858,000)	(959,000)

Proceeds from disposition of assets	49,433,000	609,000
Net cash provided by (used in) investing activities	39,437,000	(3,981,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on indebtedness	(40,186,000)	(978,000)
Borrowings on indebtedness	7,664,000	1,199,000
Net increase in deferred debt costs	(4,063,000)	(1,497,000)
Payments on capital lease obligations	(637,000)	(673,000)
Net cash used in financing activities	(37,222,000)	(1,949,000)
NET DECREASE IN CASH	(4,325,000)	(1,304,000)
CASH, at beginning of period	10,385,000	7,493,000
CASH, at end of period	$ 6,060,000	$ 6,189,000
RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss	$ (22,453,000)	$ (21,526,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Extraordinary loss on extinguishment of debt	1,095,000	--
Depreciation and amortization	15,486,000	15,182,000
Loss on disposition of assets	412,000	4,029,000
Amortization of deferred gain	--	(370,000)
Accretion on indebtedness	7,389,000	8,455,000
(Increase) decrease in current assets:		
Accounts receivable, net	7,000	1,097,000
Inventories	15,000	1,186,000
Prepaid expenses	1,551,000	(72,000)
Increase (decrease) in current liabilities:		
Accounts payable	1,410,000	(427,000)
Accrued liabilities	(7,480,000)	(3,229,000)
Accrued insurance	529,000	(4,038,000)
Accrued interest	(5,346,000)	5,329,000
Accrued payroll	845,000	(990,000)
Net cash provided by (used in) operating activities	$ (6,540,000)	$ 4,626,000

</TABLE>

The accompanying notes are an integral part of these consolidated condensed statements.

AMERICAN RESTAURANT GROUP HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

1. MANAGEMENT OPINION

The Consolidated Condensed Financial Statements included herein have been prepared by the Company, without audit, in accordance with Securities and Exchange Commission Regulation S-X. In the opinion of management of the Company, these Consolidated Condensed Financial Statements contain all adjustments (all of which are of a normal recurring nature) necessary to present fairly the Company's financial position as of December 30, 1996 and September 29, 1997, and the results of its operations and its cash flows for the thirty-nine weeks ended September 23, 1996 and September 29, 1997. The Company's results for an interim period are not necessarily indicative of the results that may be expected for the year.

Although the Company believes that all adjustments necessary for a fair presentation of the interim periods presented are included and that the disclosures are adequate to make the information presented not misleading, it is suggested that these Consolidated Condensed Financial Statements be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's annual report on Form 10-K, File No. 33-74012, for the year ended December 30, 1996 and the Company's current report on Form 8-K, File No. 33-74012, dated September 12, 1997.

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

The following discussion and analysis of American Restaurant Group Holdings, Inc.'s financial condition and results of operations should be read in conjunction with the historical financial information included in the Consolidated Condensed Financial Statements.

RESULTS OF OPERATIONS

Thirteen weeks ended September 23, 1996 and September 29, 1997:

Revenues. Total revenues decreased from $107.3 million in the third quarter of 1996 to $106.3 million in the third quarter of 1997. Comparable restaurant revenues decreased 2.9%. During the twelve months ended September 29, 1997, the Company opened six new restaurants and closed 23 restaurants. There were 249 restaurants operating as of September 23, 1996 and 232 operating as of September 29, 1997.

Black Angus revenues increased 3.6% to $62.0 million in the third quarter of 1997 as compared to the same period in 1996. The increase was due to the addition of six new restaurants, which included expansion into the Salt Lake City, Utah, market (one restaurant). The Company closed one restaurant during the twelve months ended September 29, 1997. Comparable restaurant revenues decreased 3.2% as compared to the prior year.

Grandy's revenues decreased 13.7% to $19.7 million in the third quarter of 1997 as compared to the same period in 1996. Comparable restaurant revenues in the third quarter of 1997 were 8.6% lower than the same period in 1996, due to less use of discounting to stimulate sales and less advertising and promotion. The Company closed 19 poor performing restaurants during the twelve months ended September 29, 1997. Franchise revenues increased in the third quarter of 1997 due to the recognition of deferred franchise fees.

Revenues from other concepts (Spoons, Spectrum and National Sports Grill) remained constant at $24.6 million in the third quarter of 1996 and 1997. The Company closed three poor performing restaurants during the twelve months ended September 29, 1997. Comparable restaurant revenues increased 2.6%.

Food and Beverage Costs. As a percentage of revenues, food and beverage costs remained the same at 31.5% in the third quarter of 1996 and 1997. Higher seafood costs were offset by lower meat and beverage costs.

Payroll Costs. As a percentage of revenues, labor costs increased from 31.1% in the third quarter of 1996 to 31.5% in the third quarter of 1997. The increase was partially due to higher restaurant management payroll.

Direct Operating Costs. Direct operating costs consist of occupancy, advertising and other expenses incurred by individual restaurants. As a percentage of revenues, these costs decreased in the third quarter from 26.8% in 1996 to 26.0% in 1997. The decrease was primarily due to lower advertising costs partially offset by higher occupancy expenses.

Depreciation and Amortization. Depreciation and amortization consists of depreciation of fixed assets used by individual restaurants, divisions and corporate offices, as well as amortization of intangible assets. As a percentage of revenues, depreciation and amortization remained the same at 4.8% in the third quarter of 1996 and 1997. A decrease in depreciation, primarily due to the non-cash reduction of the historical cost of certain long-lived assets in

December 1996, was offset by an increase in deferred debt cost amortization related to the March 1997 increase in principal for senior secured note holders who consented to an amendment.

General and Administrative Expenses. General and administrative expenses decreased from $6.8 million in the third quarter of 1996 to $5.6 million in the third quarter of 1997. The decrease was primarily due to a reduction in administrative payroll. General and administrative expenses as a percentage of revenues decreased from 6.3% to 5.3%.

Operating Profit. Due to the above items, operating profit increased from an operating loss of $0.6 million in the third quarter of 1996 to an operating profit of $1.1 million in the third quarter of 1997. As a percentage of revenues, operating profit increased from -0.6% to 1.0%.

Interest Expense - Net. Interest expense decreased from $9.6 million in the third quarter of 1996 to $8.8 million in the third quarter of 1997. The decrease was primarily due to a lower average debt balance in the third quarter of 1997. The Company's average stated interest rate increased from 12.3% in the third quarter of 1996 to 12.8% in the third quarter of 1997. The weighted average debt balance (excluding capitalized lease obligations) decreased from $292.1 million in the third quarter of 1996 to $255.7 million in the third quarter of 1997.

Thirty-nine weeks ended September 23, 1996 and September 29, 1997:

Revenues. Total revenues increased 0.1% from $333.0 million in the thirty-nine weeks ended September 23, 1996 to $333.2 million in the thirty-nine weeks ended September 29, 1997. Comparable restaurant revenues decreased 3.5%. There were 249 restaurants operating as of September 23, 1996 and 232 operating as of September 29, 1997.

Black Angus revenues increased 4.5% to $199.7 million in 1997 as compared to the same period in 1996. The increase was due to the addition of six new restaurants. Comparable restaurant revenues decreased 4.2%.

Grandy's revenues decreased 12.1% to $60.0 million in 1997 as compared to the same period in 1996. Comparable restaurant revenues were 7.2% lower than the prior year. The Company closed 19 poor performing restaurants during the twelve months ended September 29, 1997. Franchise revenues were $1.9 million and $2.1 million in 1996 and 1997, respectively.

Revenues from other concepts (Spoons, Spectrum and National Sports Grill) remained approximately the same at $73.5 million in 1996 and $73.4 million in 1997. Comparable restaurant revenues increased 1.4%.

Food and Beverage Costs. Food and beverage costs as a percentage of revenues remained approximately the same at 31.7% in 1996 and 31.6% in 1997.

Payroll Costs. As a percentage of revenues, labor costs remained constant at 30.3% in 1996 and 1997.

Direct Operating Costs. As a percentage of revenues, total direct operating costs increased 0.3% from 25.2% in 1996 to 25.5% in 1997. The increase was primarily due to higher occupancy expenses partially offset by lower advertising costs.

Depreciation and Amortization. As a percentage of revenues, depreciation and amortization decreased from 4.7% in 1996 to 4.6% in 1997. The decrease was primarily due to the non-cash reduction of the historical cost of certain long-lived assets in December 1996.

General and Administrative Expenses. General and administrative expenses increased from $20.0 million in 1996 to $22.1 million in 1997. The increase was primarily due to a non-cash charge of $4.1 million for costs associated with closed restaurants. General and administrative expenses as a percentage of revenues were 6.0% and 6.6% (5.4% before the non-cash charge for closed restaurants) for 1996 and 1997, respectively.

Operating Profit. Due to the items mentioned above, operating profit decreased from $7.2 million in 1996 to $4.6 million in 1997. As a percentage of revenues, operating profit decreased from 2.1% to 1.4%. Before the non-cash charge mentioned above there was an operating profit of $8.7 million in 1997.

Interest Expense. Interest expense decreased from $28.4 million in 1996 to $26.0 million in 1997. The Company's average stated interest rate increased from 12.1% in 1996 to 12.8% in 1997. Average borrowings (excluding capitalized lease obligations) decreased from $289.2 million in 1996 to $252.5 million in 1997.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. The Company requires capital principally for the acquisition and construction of new restaurants, the remodeling of existing restaurants and the purchase of new equipment and leasehold improvements.

In general, restaurant businesses do not have significant accounts receivable because sales are made for cash or by credit card vouchers which are ordinarily paid within a few days, and do not maintain substantial inventory as a result of the relatively brief shelf life and frequent turnover of food products. Additionally, restaurants generally are able to obtain trade credit in purchasing food and restaurant supplies. As a result, restaurants are frequently able to operate with working capital deficits, i.e., current liabilities exceed current assets. At September 29, 1997, the Company had a working capital deficit of $226.8 million which included $171.7 million in current portion of long-term debt.

The Company estimates that capital expenditures of $5.0 million to $10.0 million are required annually to maintain and refurbish its existing restaurants. In addition, the Company spends approximately $10.0 million to $13.0 million annually for repairs and maintenance which are expensed as incurred. Other capital expenditures, which are generally discretionary, are primarily for the construction of new restaurants and for expanding, reformatting and extending the capabilities of existing restaurants and for general corporate purposes. Total capital expenditures year to date were $8.1 million in 1996 and $3.6 million in 1997. The decrease was partially due to the construction of six new restaurants in the prior year. The credit agreement of American Restaurant Group, Inc. ("ARG"), a wholly owned subsidiary of the Company, contains limitations on the amount of capital expenditures that ARG may incur.

ARG was three weeks late in paying the quarterly interest of $4.2 million on its senior secured notes which was due September 15, 1997. The credit agreement provides for a 30-day grace period for interest payments.

Because ARG failed to make the $40.9 million payment that was due on September 15, 1997 under the sinking fund provisions of its senior secured notes, ARG was restricted from paying the quarterly interest of $1.2 million on its subordinated debt which was due September 15, 1997. In addition, ARG failed to meet EBITDA covenants under its senior secured notes for the twelve months ended May 31, 1997, for the four quarters ended June 30, 1997 and for the four quarters ended September 29, 1997. Although ARG's lenders have not moved to accelerate the repayment of this debt, the Company has included its senior secured notes and its subordinated debt in the current portion of long-term debt.

Arthur Andersen LLP, independent public accountants, has issued a report which states that the fact that ARG (i) has suffered recurring losses from operations, (ii) has a net capital deficit, (iii) has failed to make the sinking fund payment of $40.9 million

which was due September 15, 1997, and (iv) may be required to renegotiate its senior debt if it cannot meet amended covenants, raises substantial doubt about its ability to continue as a going concern.

Substantially all assets of ARG are pledged to its senior lenders. In addition, the subsidiaries have guaranteed the indebtedness owed by ARG and such guarantee is secured by substantially all of the assets of the subsidiaries. In connection with such indebtedness, contingent and mandatory prepayments may be required under certain specified conditions and events.

ARG's senior credit facilities provide for a letter of credit facility of $11.0 million until December 15, 1997. This letter of credit facility was fully utilized as of November 3, 1997. A quarterly commitment fee of 0.5% per annum is payable on the letter of credit facility and a quarterly fee of 3.75% per annum is payable on outstanding letters of credit. Having repaid the outstanding bank loan in September 1996, ARG does not have a working capital facility.

ARG did not obtain the required consents from its senior secured note holders or from the holders of its subordinated debt to sell its Stuart Anderson's Black Angus and Stuart Anderson's Cattle Company restaurants. Consequently, the Company will not continue to pursue that transaction.

In order to address these liquidity issues, ARG intends to solicit consent from its debt holders to refrain from accelerating the repayment of its debt and has developed a refinancing plan and retained an investment banking company as its financial advisor and sole placement agent. Although the Company believes that this refinancing can be completed by year end 1997 and that it will be in the best interests of its various debt holders, there can be no assurance that it will be completed on the terms and within the time frame expected.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits

<TABLE>
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Exhibit No.	Description
<S>	<C>
4.26	Tenth Amendment to Amended and Restated Credit Agreement, dated June 25, 1997, among ARG, the subsidiaries of ARG parties hereto, Bankers Trust Company, as Agent, and the several banks named thereto. *
4.27	Eleventh Amendment to Amended and Restated Credit Agreement, dated July 28, 1997, among ARG, the subsidiaries of ARG parties hereto, Bankers Trust Company, as Agent, and the several banks named thereto. *
4.28	Twelfth Amendment to Amended and Restated Credit Agreement, dated September 12, 1997, among ARG, the subsidiaries of ARG parties hereto, Bankers Trust Company, as Agent, and the several banks named thereto. *
4.29	Thirteenth Amendment to Amended and Restated Credit Agreement, dated October 13, 1997, among ARG, the subsidiaries of ARG parties hereto, Bankers Trust Company, as Agent, and the several banks named thereto. *

</TABLE>

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EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
27.1	Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for information only.
*	Incorporated by reference to ARG's Quarterly Report on Form 10-Q dated September 29, 1997

filed with the Securities and Exchange Commission on November 13, 1997.

</TABLE>

SIGNATURE

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.

AMERICAN RESTAURANT GROUP HOLDINGS, INC.
(Registrant)

Date: November 13, 1997

By: /s/ WILLIAM J. MCCAFFREY, JR.

William J. McCaffrey, Jr.
Vice President, Chief
Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 29, 1997 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 29, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS ON FORM 10-Q.
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