CHEFS INTERNATIONAL INC
Form 10QSB
September 12, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JULY 29, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE EXCHANGE ACT

For the transition period from _________________ to _______________

Commission file number 0-8513

CHEFS INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	22-2058515
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

62 Broadway, Point Pleasant Beach, NJ 08742
(Address of principal executive offices)

(Registrant's telephone number, including area code) (732) 295-0350

(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 of the past 90 days. Yes _X_ . No___.

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding Shares At August 3 , 2001
Common Stock, $.01 par value	4,230,537

CHEFS INTERNATIONAL, INC.

I N D E X

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PART I - FINANCIAL INFORMATION

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	July 29, 2001 (Unaudited)	January 28, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,741,957	$ 1,159,580
Investments	431,210	385,711
Available-for-sale securities	1,514,892	978,652
Miscellaneous receivables	105,657	109,492
Inventories	1,198,463	1,129,260
Prepaid expenses	203,543	176,187

TOTAL CURRENT ASSETS	5,195,722	3,938,882
PROPERTY, PLANT AND EQUIPMENT, at cost	20,560,677	20,045,070
Less: Accumulated depreciation	8,705,604	8,182,351
PROPERTY, PLANT AND EQUIPMENT, net	11,855,073	11,862,719
OTHER ASSETS:		
Investments	151,000	301,000
Goodwill - net	442,432	454,462
Liquor licenses - net	836,630	851,472
Equity in life insurance policies	545,115	545,115
Other	34,095	72,949
TOTAL OTHER ASSETS	2,009,272	2,224,998
TOTAL ASSETS	$19,060,067	$18,026,599

The accompanying notes are an integral part of these financial statements.

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CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	JULY 29, 2001 (Unaudited)	JANUARY 28, 2001
CURRENT LIABILITIES:		
Notes and mortgages payable	$ 168,345	$ 166,707
Accounts payable	808,151	582,276
Accrued payroll	168,138	186,687
Accrued expenses	736,918	477,825
Income taxes payable	54,386	---
Gift certificates	272,852	416,430
TOTAL CURRENT LIABILITIES	2,208,790	1,829,925
NOTES AND MORTGAGES PAYABLE	810,285	905,675
OTHER LIABILITIES	527,477	534,234

STOCKHOLDERS' EQUITY:		
Capital stock - common $.01 par value, Authorized 15,000,000 shares, Issued 4,232,087 and 4,257,085 respectively	42,321	42,571
Additional paid-in capital	32,116,760	32,138,798
Accumulated deficit	(16,713,335)	(17,466,667)
Accumulated other comprehensive income	69,254	51,043
Treasury stock	(1,485)	(8,980)
TOTAL STOCKHOLDERS' EQUITY	15,513,515	14,756,765
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$19,060,067	$18,026,599

The accompanying notes are an integral part of these financial statements.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	SIX MONTHS ENDED		
	JULY 29, 2001	JULY 30, 2000	JUL
SALES	$ 11,510,381	$ 11,042,488	$
COST OF GOODS SOLD	3,642,714	3,559,678	
GROSS PROFIT	7,867,667	7,482,810	
OPERATING EXPENSES:			
Payroll and related expenses	3,327,039	3,175,562	
Other operating expenses	2,272,685	2,153,852	
Depreciation and amortization	552,277	547,116	
General and administrative expenses	915,768	882,519	
TOTAL OPERATING EXPENSES	7,067,769	6,759,049	
INCOME FROM OPERATIONS	799,898	723,761	
OTHER INCOME (EXPENSE):			
Interest expense	(42,262)	(57,270)	
Interest income	86,696	101,113	

OTHER INCOME (EXPENSE), NET	44,434	43,843	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	844,332	767,604	
PROVISION FOR INCOME TAXES	91,000	83,000	
INCOME FROM CONTINUING OPERATIONS	753,332	684,604	
GAIN ON DISPOSAL OF DISCONTINUED ICE CREAM BUSINESS	---	322,212	
NET INCOME	$ 753,332	$ 1,006,816	$
INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS	$ .18	$ .15	$
BASIC INCOME PER COMMON SHARE	$ .18	$ .23	$
Number of shares outstanding	4,230,537	4,449,273	

The accompanying notes are an integral part of these financial statements.

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CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JULY 29, 2001 AND JULY 30, 2000 (Unaudited)

	2001
OPERATING ACTIVITIES:	
Net income	$ 753,332
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	552,277
Gain on disposal of discontinued business	---
CASH PROVIDED BY OPERATIONS	1,305,609

Increase (decrease) in cash attributable to changes in assets and liabilities:	
Miscellaneous receivables	3,835
Inventories	(69,203)
Prepaid expenses	(27,356)
Accounts payable	225,875
Accrued expenses and other liabilities	90,209
Income taxes payable	54,386
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,583,355
INVESTING ACTIVITIES:	
Capital expenditures	(517,759)
Liquor License Purchase	---
Sale or redemption of investments	132,125
Purchase of investments	(545,653)
Due on sale of discontinued operations - payments	---
Other assets	38,854
NET CASH USED IN INVESTING ACTIVITIES	(892,433)
FINANCING ACTIVITIES:	
Repayment of debt	(93,752)
Purchase of treasury stock	(14,793)
Purchase of common stock	---
NET CASH USED IN FINANCING ACTIVITIES	(108,545)
NET INCREASE IN CASH AND CASH EQUIVALENTS	582,377
CASH AND CASH EQUIVALENTS at beginning	1,159,580
CASH AND CASH EQUIVALENTS at end	$ 1,741,957
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash payment for:	
Interest paid	$ 42,649
Income taxes paid	$ 33,750
Noncash Transactions:	
Increase in fair value of securities available for sale	$ 18,211

The accompanying notes are an integral part of these financial statements.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying financial statements have been prepared by Chefs International, Inc. (the "Company") and are unaudited. In the opinion of the Company's management, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for the periods presented have been made. Certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the consolidated financial statements pursuant to the rules and regulations of the SEC. The consolidated financial statements and notes thereto should be read in conjunction with the Company's audited consolidated financial statements for the year ended January 28, 2001 and notes thereto included in the Company's Annual Report on Form 10-KSB filed with the SEC. The results of operations and the cash flows for the six month period ended July 29, 2001 presented in the consolidated financial statements are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year.

NOTE 2: EARNINGS PER SHARE

Basic earnings per share is computed using the weighted average number of shares of common stock outstanding during the period.

NOTE 3: INVENTORIES

Inventories consist of the following:	JULY 29, 2001	JANUARY 28, 2001
Food	$ 606,917	$ 597,161
Beverages	180,275	127,820
Supplies	411,271	404,279
	$ 1,198,463	$ 1,129,260

NOTE 4: INCOME TAXES

At July 29, 2001, the Company had net deferred tax assets of approximately $2,628,000 arising principally from net operating loss carryforwards. However, due to the uncertainty that the Company will generate sufficient income in the future to fully or partially utilize these carryforwards, an allowance of $2,628,000 has been established to offset these assets.

NOTE 5: DUE ON SALE OF DISCONTINUED OPERATIONS FROM RELATED PARTY

On February 20, 1997 the Company sold 95% of the common stock of Mr. Cookie Face ("MCF"), its ice cream production segment, to a former director for an aggregate purchase price of $1,600,000, consisting of a $500,000 cash payment and three notes totaling $1,100,000. The first note (Note A) for $100,000 was due on or before March 24, 1997 and was paid in full on a timely basis. The second note (Note B) for $500,000 was due in installments through July 1, 2000, and the third note (Note C) for $500,000 was due on or

before February 20, 2004, with mandatory prepayments based on MCF's cash flow.

The notes were secured by a first lien on all of MCF's assets. However, the Company agreed to subordinate the notes to up to $1,750,000 of additional financing for MCF. Based on the estimated present value of the payments, management recorded a valuation allowance of $601,050 against the second and third notes. The 5% of MCF capital stock retained by the Company was valued at $35,000. During fiscal 1999, MCF requested a restructuring of the terms of the second and third notes. During the quarter ended October 31, 1999, the Company's Board of Directors ("Board") was advised by MCF that MCF had achieved a positive cash flow during its second quarter and pursuant to the requirements of Note C, owed the Company approximately $41,800 in interest. The Board agreed to allow MCF to make monthly payments of the said Note C interest amount with the final payment due June 1, 2000. Additionally, the Board agreed to allow MCF to continue making monthly partial payments on Note B. During the quarter ended July 30, 2000, the Note C interest was paid off as per the payment schedule.

At the May 24, 2000 Board of Director's meeting, the Board authorized management to negotiate and execute a settlement and satisfaction of the debt owed by MCF to the Company.

On June 30, 2000, the Company sold both Notes B and C and its 5% holding of MCF capital stock to MCF for a cash payment of $379,836 and the return of 233,334 shares of the Company's common stock owned by the president of MCF. The Company subsequently canceled these shares. The Company recognized a gain from discontinued operations of approximately $322,000 in its financial statements for the quarter ended July 30, 2000. The gain represented partial recoveries of the valuation allowance provided for against Notes B and C when MCF was sold in 1997.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

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

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements regarding future performance in this Quarterly Report on Form 10-QSB constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. No assurance can be given that the future results covered by the forward-looking statements will be achieved. The Company cautions readers that important factors may affect the Company's actual results and could cause those results to differ materially from the forward-looking statements. Such factors include, but are not limited to, changing market conditions, weather, the state of the economy, the impact of competition to the Company's restaurants, pricing and acceptance of the Company's food products.

OVERVIEW

The Company's principal source of revenue is from the operations of its restaurants. The Company's cost of sales includes food and liquor costs. Operating expenses include labor costs, supplies and occupancy costs (rent and utilities), marketing and maintenance costs. General and administrative expenses include costs incurred for corporate support and administration, including the salaries and related expenses of personnel and the costs of operating the corporate office at the Company's headquarters in Point Pleasant Beach, New Jersey.

The Company currently operates nine restaurants on a year-round basis. Seven of the restaurants are free-standing seafood restaurants in New Jersey and Florida and are operated under the names "Lobster Shanty" or "Baker's Wharfside." The Company also operates a Mexican theme restaurant in New Jersey under the name "Garcia's." The Company opened its first seafood restaurant in November 1978 and opened its Garcia's restaurant in April 1996. In February 2000, the Company commenced the operation of its ninth restaurant, Moore's Tavern and Restaurant ("Moore's"), a free standing restaurant in Freehold, New Jersey serving an eclectic American food type menu. Segment information is not presented since all of the Company's revenue is attributable to a single reportable segment.

Generally, the Company's New Jersey seafood restaurants derive a significant portion of their sales from May through September. The Company's Florida seafood restaurants derive a significant portion of their sales from January through April. The Company's Garcia's restaurant derives a significant portion of its sales during the holiday season from Thanksgiving through Christmas. During the first year of operation, Moore's experienced a seasonality factor similar to but not as dramatic as the seasonality factor of the New Jersey seafood restaurants.

The Company operated nine restaurants including Moore's, during the six months ended July 30, 2000.

RESULTS OF OPERATIONS

SALES.

Sales for the six months ended July 29, 2001 ("fiscal 2002") were $11,510,400, an increase of $467,900 or 4.2%, as compared to $11,042,500 for the six months ended July 30, 2000 ("fiscal 2001"). For the second quarter ended July 29, 2001, sales were $6,391,800, an increase of $240,600 or 3.9% , as compared to last year's second quarter. The increases include increases in sales of $179,400 or 12.8% and $79,400 or 16% for the six and three month periods at the Vero Beach, Florida restaurant due to the completion of a municipal park adjacent to the restaurant and sales increases of $258,400 or 30.5% and $79,200 or 15.7% at Moore's compared to the same periods for fiscal 2001. Moore's operated for the entire thirteen weeks of the first quarter this year as compared to ten weeks for last year's first quarter, whereas the comparable second quarter periods each include thirteen weeks of operations. The other seven restaurants combined had increased sales of approximately $30,100 and $82,100 for the six and three month periods versus last year. The number of customers served in the nine restaurants increased by 1.5% for the six months and 1.4% for the second quarter, while the check average paid per customer increased this year by 2.7% and 2.5% for the respective six and three month periods.

GROSS PROFIT; GROSS MARGIN.

Gross profit was $7,867,700 or 68.4% of sales for the six month period and $4,386,600 or 68.6% of sales for the quarter ended July 29, 2001, compared to $7,482,800 or 67.8% and $4,165,600 or 67.7% for the comparable periods of fiscal 2001. The primary reason for the improvement was the reduction in prices paid for high volume seafood items including shrimp, scallops and flounder, which are prominent components of the Company's menus. Management was able to secure favorable pricing on bulk shrimp purchases for the balance of fiscal 2002 which should translate into improved gross profit margins during the third and fourth quarters. Additionally, Moore's gross profit improved versus last year and new menus were inserted in May 2001 into the New Jersey restaurants which included some price increases and featured lower cost menu items.

OPERATING EXPENSES.

Total operating expenses increased by 4.6% from $6,759,000 during the first six months of fiscal 2001 to $7,067,800 during the first six months of fiscal 2002, and by 3.7% from $3,582,200 during the second quarter of fiscal 2001 to $3,715,200 during the second quarter of fiscal 2002. Payroll and related expenses were 28.9% of sales for the six months and 27.6% for the second quarter this year compared to 28.8% and 27.9% respectively for the comparable periods last year. The decrease in payroll expenses as a percent of sales during the second quarter this year is primarily attributable to the company-wide increase in sales and to payroll cost improvements at Moore's. Other operating expenses increased slightly to 19.7% of sales versus 19.5% of sales for the six month comparison and to 18.7% versus 18.6% for the three month comparison primarily because of increases in utility costs, and higher occupancy costs due to higher property insurance premiums and higher rent expenses. Depreciation and amortization expenses were essentially unchanged from last year for both periods. The increase in general and administrative expenses of $33,200 for the six months of fiscal 2002 occurred during the second quarter primarily due to increased worker compensation costs.

OTHER INCOME AND EXPENSE.

Interest expense decreased by $15,000 and $7,400 for the six and three month periods ended July 29, 2001 as compared to the comparable periods last year due to debt reduction. Investment income was lower by $14,400 and $9,100 versus last year primarily because last year's investment income included approximately $44,700 and $23,600 for the respective periods in interest income associated with notes receivable from the February 1997 sale of discontinued operations (see Note 5.)

NET INCOME.

For the six months ended July 29, 2001, net income from continuing operations was $753,300 or $.18 per share compared to net income from continuing operations of $684,600 or $.15 per share and net income of $1,006,800 or $.23 per share for the six months ended July 30, 2000. For the quarter ended July 29, 2001, net income from continuing operations was $624,800 or $.15 per share as compared to net income from continuing operations of $547,600 or $.12 per share and net income or $869,800 or $.20 for last year's second quarter. Last year's net income included a gain of approximately $322,200 from discontinued operations (see note 5).

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily from revenues derived from its restaurants.

The Company's ratio of current assets to current liabilities was 2.35:1 at July 29, 2001 compared to 2.15:1 at the year ended January 28, 2001. Working capital was $2,986,900 at July 29, 2001 versus $2,109,000 at the year-end, an increase of $877,900. During the six months ended July 29, 2001, net cash increased by

$582,400. The primary components of this year's cash flow were net income of $753,300, an increase of $225,900 in accounts payable due to higher sales, capital expenditures of $432,800 for restaurant improvements and Company vehicles and approximately $85,000 in design and construction costs associated with a building adjacent to Moore's ("Building B"), which management expects to open during the fourth quarter this year as a Mexican theme type restaurant, and investment purchases of $545,700 for available-for-sale securities consisting of convertible bonds, mutual funds and equity securities. Additionally, approximately $14,800 was paid by the Company to repurchase 15,916 shares of the Company's outstanding stock pursuant to a Stock Repurchase Plan ("Stock Plan") authorized by the Company's Board of Directors in May, 2000. During the six months ended July 29, 2001, the Company canceled a total of 24,641 of the repurchased shares, including repurchases incurred during fiscal 2001.

During the corresponding six month period in fiscal 2001, working capital increased by $460,800 and net cash increased by $394,500. The primary components of last year's cash flow statement were net income of $1,006,800, (including $322,200 from discontinued operations - see note 5), an increase in inventories of $344,700 resulting from bulk seafood purchases due to favorable market pricing, an increase in accounts payable of $318,800 due to higher sales and inventory purchases, capital expenditures of $1,105,600, including approximately $636,400 for the purchase of a liquor license and furniture, fixtures and equipment for Moore's and debt repayment of $203,100. Additionally, last year's cash flow included $570,300 of payments attributable to the February 1997 sale of MCF (see note 5).

Subsequent to the quarter ended July 29, 2001, the Company completed the repurchase of a

block of an aggregate 262,603 shares of its outstanding common stock from three stockholders and their affiliates at a repurchase price of $2.10 per share for cash. The repurchase was authorized by the Company's Board of Directors. It was the Board's opinion that although the repurchase price was greater than the current market price for the stock, the size of the block and the fact that the per share repurchase was substantially below the per share book value of Chefs' common stock made the repurchase an appropriate investment for the benefit of Chefs' stockholders.

The Company has agreed in principle to lease Building B from Moore's Realty Associates, a New Jersey partnership whose partners are members of a group who are the principal shareholders of the Company. (The Company currently leases the premises on which Moore's operates from Moore's Realty Associates). In September 2001, the Company borrowed $1,200,000 from its primary bank to finance the renovation of Building B. The loan is repayable in monthly installments of principal with interest at an annual rate of 7.57% through September 2011.

Management believes that funds from operations and the Company's $500,000 bank line of credit will be sufficient to meet obligations for the nine restaurants for the balance of fiscal 2002, including planned capital expenses of approximately $238,000 in addition to those incurred during the first six months and any additional common stock repurchases pursuant to the Stock Plan.

INFLATION.

It is not possible for the Company to predict with any accuracy the effect of inflation upon the results of its operations in future years. The price of food is extremely volatile and projections as to its performance in the future vary and are dependent upon a complex set of factors.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

PART II

None

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.

CHEFS INTERNATIONAL, INC.

/s/ ANTHONY C. PAPALIA

ANTHONY C. PAPALIA
Principal Executive and Financial Officer

DATED: September 12, 2001