CHEFS INTERNATIONAL INC
Form 10QSB
June 13, 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 APRIL 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 MAY 18, 2001
Common Stock, $.01 par value	4,245,469

CHEFS INTERNATIONAL, INC.

I N D E X

PART I - FINANCIAL INFORMATION

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	APRIL 29, 2001	JANUARY 28, 2001
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,317,596	$ 1,159,580
Investments	425,839	385,711
Available-for-sale securities	1,201,464	978,652
Miscellaneous receivables	61,591	109,492
Inventories	1,065,913	1,129,260
Prepaid expenses	308,558	176,187
TOTAL CURRENT ASSETS	4,380,961	3,938,882
PROPERTY, PLANT AND EQUIPMENT, at cost	20,327,415	20,045,070
Less: Accumulated depreciation	8,444,924	8,182,351

PROPERTY, PLANT AND EQUIPMENT, net	11,882,491	11,862,719
OTHER ASSETS:		
Investments	151,000	301,000
Goodwill - net	448,447	454,462
Liquor licenses - net	844,051	851,472
Equity in life insurance policies	545,115	545,115
Other	29,096	72,949
TOTAL OTHER ASSETS	2,017,709	2,224,998
	$18,281,161	$18,026,599

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

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	APRIL 29, 2001	JANUARY 28, 2001
	(Unaudited)	
CURRENT LIABILITIES:		
Notes and mortgages payable	$ 167,600	$ 166,707
Accounts payable	769,650	582,276
Accrued payroll	145,593	186,687
Accrued expenses	595,209	477,825
Income taxes payable	13,636	--
Gift certificates	308,810	416,430
TOTAL CURRENT LIABILITIES	2,000,498	1,829,925
NOTES AND MORTGAGES PAYABLE	871,409	905,675
OTHER LIABILITIES	532,861	534,234

STOCKHOLDERS' EQUITY:		
Capital stock - common $.01 par value, Authorized 15,000,000 shares, Issued 4,245,469 and 4,257,085 respectively	42,455	42,571
Additional paid-in capital	32,129,023	32,138,798
Accumulated deficit	(17,338,129)	(17,466,667)
Accumulated other comprehensive income	48,435	51,043
Treasury stock	(5,391)	(8,980)
TOTAL STOCKHOLDERS' EQUITY	14,876,393	14,756,765
	$18,281,161	$18,026,599

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

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED APRIL 29, 2001 AND APRIL 30, 2000 (Unaudited)

	2001	2000
SALES	$ 5,118,623	$ 4,891,354
COST OF GOODS SOLD	1,637,515	1,574,153
GROSS PROFIT	3,481,108	3,317,201
OPERATING EXPENSES:		
Payroll and related expenses	1,563,026	1,457,868
Other operating expenses	1,074,981	1,010,096
Depreciation and amortization	278,161	270,406
General and administrative expenses	436,377	438,484
TOTAL OPERATING EXPENSES	3,352,545	3,176,854
INCOME FROM OPERATIONS	128,563	140,347
OTHER INCOME (EXPENSE):		
Interest expense	(21,980)	(29,631)
Investment income	41,955	47,269

OTHER INCOME, NET	19,975	17,638
INCOME BEFORE INCOME TAXES	148,538	157,985
PROVISION FOR INCOME TAXES	20,000	21,000
NET INCOME	$ 128,538	$ 136,985
BASIC INCOME PER COMMON SHARE	$ .03	$ .03
Number of shares outstanding	4,245,469	4,488,162

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

THREE MONTHS ENDED APRIL 29, 2001 AND APRIL 30, 2000 (Unaudited)

	2001	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 128,538	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	278,161	
CASH PROVIDED BY OPERATIONS	406,699	
Increase (decrease) in cash attributable to changes in assets changes in assets and liabilities:		
Miscellaneous receivables	47,901	
Inventories	63,347	
Prepaid expenses	(132,371)	
Accounts payable	187,374	
Accrued expenses and other liabilities	(32,703)	
Income taxes payable	13,636	
NET CASH PROVIDED BY OPERATING ACTIVITIES	553,883	

CASH FLOWS (USED IN) INVESTING ACTIVITIES:	
Capital expenditures	(284,497)
Liquor license purchase	--
Sale or redemption of investments	121,250
Purchase of investments	(236,798)
Due on sale of discontinued operations - payments	--
Other assets	43,853
NET CASH (USED IN) INVESTING ACTIVITIES	(356,192)
CASH FLOWS (USED IN) FINANCING ACTIVITIES:	
Repayment of debt	(33,373)
Purchase of treasury stock	(6,302)
NET CASH (USED IN) FINANCING ACTIVITIES	(39,675)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	158,016
CASH AND CASH EQUIVALENTS:	
Beginning	1,159,580
Ending	$ 1,317,596
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash payment for:	
Interest	$ 21,954
Income taxes	$ 3,500
Noncash Transactions:	
(Decrease) in fair value of securities available for sale	$ (2,608)

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

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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 three month period ended April 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:	APRIL 29, 2001	JANUARY 28, 2001
Food	$ 509,006	$ 597,161
Beverages	142,422	127,820
Supplies	414,485	404,279
	$ 1,065,913	$ 1,129,260

NOTE 4: INCOME TAXES

At April 29, 2001, the Company had net deferred tax assets of approximately $2,890,000 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 $2,890,000 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

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 three months ended April 30, 2000.

RESULTS OF OPERATIONS

SALES

Sales for the three months ended April 29, 2001 ("fiscal 2002") were $5,118,600, an increase of $227,200 or 4.6 %, as compared to $4,891,400 for the three months ended April 30, 2000 ("fiscal 2001"). The increase includes an increase of $100,000 or 11% in sales at the Vero Beach, Florida restaurant due to the completion of a municipal park adjacent to the restaurant and an increase in sales of $179,200 or 52% at Moore's primarily because Moore's operated for the entire thirteen weeks of the first quarter this year as compared to only ten weeks for last year's first quarter. The other seven restaurants combined had lower sales of approximately $52,000 primarily due to the poor March weather in New Jersey. The number of customers served increased by 1.7% during the first quarter this year, while the average check paid per customer increased by 2.9%.

GROSS PROFIT; GROSS MARGIN

Gross profit was $3,481,100 or 68% of sales for the three months ended April 29, 2001 compared to $3,317,200 or 67.8% of sales for the quarter ended April 30, 2000. This year's improvement was primarily attributable to improvement in the gross profit % at Moore's versus last year. The other eight restaurants combined had a slightly higher gross profit margin percent during this year's first quarter. In an effort to further improve gross margins, new menus were inserted in May 2001 into the New Jersey restaurants which included some price increases and lower cost menu items. Additionally, management secured favorable pricing on bulk shrimp purchases for fiscal 2002 which should improve gross profit margins in the seafood restaurants this summer.

OPERATING EXPENSES

Total operating expenses increased by 5.5% from $3,176,900 for the first quarter of fiscal 2001 to $3,352,500 for the first three months of fiscal 2002. Payroll and related expenses for this year's first quarter were 30.5% of sales versus 29.8% for the corresponding quarter of the previous year. The combination of salary increases due primarily to the tight labor market and higher health insurance costs account for the increase. Other operating expenses were 21% of sales this year versus 20.7% of sales for last year's first quarter. The primary causes of the higher percentage cost this year were increases in utility costs, specifically dramatic increases in natural gas costs, and increased occupancy costs due to higher rent expenses and an increase in property insurance costs related to the tightening of the property insurance market. Depreciation and amortization expenses increased by approximately $7,800 over the corresponding quarter due to the depreciation expenses associated with capital expenditures incurred during fiscal 2001 and the first quarter this year. General and administrative expenses were approximately $2,000 less than last year.

OTHER INCOME AND EXPENSE

Interest expense decreased by $7,700 for the three months ended April 29, 2001 as compared to last year's first quarter due to debt reduction. Investment income was approximately $5,300 less than last year primarily because last year's investment income included approximately $21,000 in interest income associated with notes receivable from the February 1997 sale of discontinued operations (see note 5).

NET INCOME

Net Income was $128,500 or $.03 per share for the first quarter ended April 29, 2001 as compared to $137,000 or $.03 per share for the comparable period last year.

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 2.19:1 at April 29, 2001 compared to 2.15:1 at the year ended January 28, 2001. Working capital was $2,380,500 at the end of the first quarter versus $2,109,000 at the year-end, an increase of $271,500. For the quarter net cash increased by $158,000. The primary components of this year's first quarter cash flow were net income of $148,500, an increase in prepaid expenses of $132,400 due to increased insurance premium costs, an increase of $187,400 in accounts payable due to higher sales, capital expenditures of $284,500 for restaurant improvements and company vehicles and investment purchases of $236,800 for available-for-sale securities consisting of convertible bonds, mutual funds and equity securities. Additionally, approximately $6,300 was paid by the Company to repurchase 6,841 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 first quarter ended April 29, 2001, the Company canceled a total of 11,250 of the repurchased shares, including repurchases incurred during fiscal 2001.

During the corresponding three month period in fiscal 2001, working capital decreased by $348,100 and net cash decreased by $375,600. The primary components of last year's quarterly cash flow were net income of $137,000, capital expenditures of $828,000, including approximately $636,400 for the purchase of a liquor license and furniture, fixtures and equipment for Moore's, and debt repayment of $60,000.

Subsequent to the quarter ended April 29, 2001 through May 30, 2001, the Company purchased an additional 1,475 shares of Chefs' Common Stock pursuant to the Stock Plan.

Management believes that funds from operations and the Company's $500,000 bank line of credit will be sufficient to meet obligations for the balance of fiscal 2002, including planned capital expenditures of approximately $295,000 in addition to those incurred during the first quarter and any additional common stock repurchases.

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. There is a proposal before Congress to raise the minimum wage by $1.00 to $6.15 per hour. However, management believes that the increase would have a minimal impact on payroll costs because the proposed increase would not change the cash wage of the Company's tipped employees and a majority of the non-tipped employees already receive in excess of $6.15 per hour

CHEFS INTERNATIONAL, INC.

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PART II OTHER INFORMATION

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: JUNE 13, 2001

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