CHEFS INTERNATIONAL INC
Form 10QSB
September 10, 2003

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 27, 2003

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 1, 2003
Common Stock, $.01 par value	3,926,045

CHEFS INTERNATIONAL, INC.

I N D E X

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM I - CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

ASSETS

	JULY 27, 2003 (Unaudited)	JANUARY 26, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,760,668	$ 1,069,857
Investments	100,000	151,000
Available-for-sale securities	1,889,970	1,668,531

Receivable - related party	40,000	40,000
Miscellaneous receivables	136,588	62,173
Inventories	1,285,271	1,128,992
Prepaid expenses	181,605	107,988
TOTAL CURRENT ASSETS	5,394,102	4,228,541
PROPERTY, PLANT AND EQUIPMENT, at cost	21,066,104	21,411,079
Less: Accumulated depreciation	9,358,812	9,164,376
PROPERTY, PLANT AND EQUIPMENT, net	11,707,292	12,246,703
OTHER ASSETS:		
Asset held for sale	50,180	--
Intangibles - not subject to amortization	839,733	889,913
Other intangibles	46,292	52,605
Receivable - related party	58,523	77,563
Equity in life insurance policies	602,822	602,822
Deferred income taxes	1,017,000	1,064,000
Other	27,978	34,635
TOTAL OTHER ASSETS	2,642,528	2,721,538
	$19,743,922	$19,196,782

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 27, 2003 (Unaudited)	JANUARY 26, 2003
CURRENT LIABILITIES:		
Notes and mortgages payable, current maturities	$ 264,793	$ 271,490
Accounts payable	1,031,412	702,233
Accrued payroll	148,747	157,637
Accrued expenses	878,343	493,450
Gift certificates	337,057	511,955

TOTAL CURRENT LIABILITIES	2,660,352	2,136,765
NOTES AND MORTGAGES PAYABLE	1,832,297	1,960,438
OTHER LIABILITIES	724,577	747,559
STOCKHOLDERS' EQUITY:		
Capital stock - common $.01 par value, Authorized 15,000,000 shares, Issued 3,926,045	39,260	39,695
Additional paid-in capital	31,488,832	31,549,492
Accumulated deficit	(16,821,123)	(16,854,010)
Accumulated other comprehensive (loss)	(180,273)	(379,272)
Treasury stock	--	(3,885)
TOTAL STOCKHOLDERS' EQUITY	14,526,696	14,352,020
	$19,743,922	$19,196,782

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 27, 2003	JULY 28, 2002
SALES	$12,126,530	$12,584,137
COST OF GOODS SOLD	3,792,601	3,882,377
GROSS PROFIT	8,333,929	8,701,760
OPERATING EXPENSES:		
Payroll and related expenses	3,672,202	3,919,387
Other operating expenses	2,690,147	2,675,666
Depreciation and amortization	574,646	590,933
General and administrative expenses	936,935	986,342
Loss on closing restaurant	410,024	--

TOTAL OPERATING EXPENSES	8,283,954	8,172,328
INCOME FROM OPERATIONS	49,975	529,432
OTHER INCOME (EXPENSE):		
Interest expense	(82,668)	(90,562)
Investment income	75,580	79,333
OTHER INCOME (EXPENSE), NET	(7,088)	(11,229)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	42,887	518,203
PROVISION FOR INCOME TAXES	10,000	184,000
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	32,887	334,203
CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE (Note 2) - GOODWILL ACCOUNTING METHOD	--	(430,403)
NET INCOME (LOSS)	$ 32,887	(96,200)
INCOME PER COMMON SHARE BEFORE CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE	$ .01	$ .08
CUMULATIVE EFFECT OF AN ACCOUNTING CHANGE - GOODWILL ACCOUNTING METHOD	--	(.11)
NET INCOME (LOSS) PER COMMON SHARE	$ .01	$ (.03)
Number of shares outstanding	3,926,045	3,965,975

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 27, 2003 AND JULY 28, 2002 (Unaudited)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 32,887	(96,200)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	574,646	590,933
Cumulative effect of an accounting change	--	430,403
Deferred income taxes	--	151,000
Gain on sale of assets and investments	(5,187)	(5,154)
Loss on closing restaurant	350,024	--
Changes in assets and liabilities:		
Miscellaneous receivables	(55,375)	(114,224)
Inventories	(156,279)	(105,988)
Prepaid expenses	(73,617)	116,936
Accounts payable	329,179	164,934
Accrued expenses and other liabilities	74,105	89,433
Income taxes payable	--	5,557
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,070,383	1,227,630
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(258,946)	(869,122)
Acquisition of restaurant assets	--	(882,681)
Sale or redemption of investments	73,950	409,820
Purchase of investments	(9,185)	(173,520)
Other	6,657	19,311
NET CASH (USED IN) INVESTING ACTIVITIES	(187,524)	(1,496,192)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(134,838)	(179,390)
Proceeds from debt	--	500,000
Purchase of treasury stock	(59,200)	--
Additional paid in capital	1,990	--
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(192,048)	320,610
NET INCREASE IN CASH AND CASH EQUIVALENTS	690,811	52,048
CASH AND CASH EQUIVALENTS:		
Beginning	1,069,857	1,408,062
Ending	$1,760,668	$1,460,110
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payment for:		
Interest paid	$ 82,729	$ 89,593
Income taxes paid	$ 4,000	$ 14,240

Noncash Transactions:

Increase (decrease) in fair value of securities available for sale	$ 230,017	$ (294,154)
Change in fair value of derivatives accounted for as hedges	$ 15,982	$ (76,927)

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 26, 2003 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 and three month periods ended July 27, 2003 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: ACCOUNTING FOR BUSINESS COMBINATIONS

In July 2001, the FASB issued Statements of Financial Accounting Standards ("Statement") No. 141. "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting and requiring companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. Instead, goodwill and intangible assets deemed to have an indefinite useful life will be subject to an annual review for impairment. The new standards were effective for the Company in the first quarter of Fiscal 2003 and for purchase business combinations consummated after June 30, 2001. The Company completed its initial goodwill impairment testing during the first quarter of Fiscal 2003 and determined that there was impairment of goodwill solely because the aggregate market capitalization of the Company was less than its book value (market capitalization at January 28, 2002 was $8,923,406 versus a book value of $15,756,445). Therefore, the Company recorded a one-time, noncash charge of $430,403 to reduce the carrying value of its goodwill. Such charge is reflected as a cumulative effect of an accounting change in the accompanying consolidated statement of operations.

NOTE 3: ACQUISITION

On April 1, 2002, the Company acquired for $882,681 the inventory, furniture, fixtures, equipment, liquor license and franchising rights of a restaurant business located in Florida known as Mr. Manatee's Casual Grille. In connection with the acquisition, the Company entered into a five-year lease, effective April 1, 2002, which requires minimum annual rentals of $96,000. The lease contains three five-year renewal options and includes an option for the Company to purchase the property during the first term of the lease for $1,075,000.

NOTE 4: EARNINGS PER SHARE

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

NOTE 5: INVENTORIES

Inventories consist of the following:	JULY 27, 2003	JANUARY 26, 2003
Food	$ 606,902	$ 512,058
Beverages	192,963	152,269
Supplies	485,406	464,665
	$1,285,271	$1,128,992

NOTE 6: INCOME TAXES

At July 27, 2003, the Company had net deferred tax assets of approximately $2,115,000 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 $1,098,000 has been established to offset these assets. Management has determined that it is more likely than not that future taxable income will be sufficient to partially utilize the net operating loss carryforwards.

NOTE 7: DEPRECIATION AND AMORTIZATION

The Company depreciates its property and equipment using the straight-line method over the estimated useful lives of the assets, ranging from three to forty years.

NOTE 8: RESTAURANT CLOSING

In June 2003 the Company closed one of its Mexican theme restaurants. In connection with the closing, the Company wrote off leasehold improvements and other equipment of $230,024 and entered into a Surrender Agreement with the restaurant's landlord which requires the Company to pay $180,000, of which $60,000 was paid prior to July 27, 2003 with the balance due October 2003. The remaining balance is included in accrued expenses in the accompanying Consolidated Balance Sheet.

The loss of $410,024 is shown as "Loss on closing restaurant" in the accompanying Consolidated Statement of Operations for the three and six months ended July 27, 2003. Additionally, the Company granted the landlord an option, exercisable through October 31, 2003, to purchase the closed restaurant's liquor license. The liquor license is shown in the accompanying July 27, 2003 Consolidated Balance Sheet as "Asset held for sale".

NOTE 9: HEDGING INSTRUMENTS

The Company has interest rate swap agreements relating to a portion of its variable rate debt. The interest rate swap agreements are designated as cash flow hedges and are reflected at fair value in the consolidated balance sheet and the related losses on these contracts are deferred in shareholders' equity as a component of accumulated other comprehensive (loss).

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

ITEM 2 - 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, substantial increases in insurance costs (in addition to those substantial increases which commenced in April 2002), the impact of competition to the Company's restaurants, pricing and acceptance of the Company's food products.

SIGNIFICANT TRANSACTIONS AND NONRECURRING ITEMS

As more fully described herein and in the related footnotes to the accompanying consolidated financial statements, the comparability of Chefs International, Inc.'s operating results has been affected by a significant transaction and nonrecurring item for the three months ended April 28, 2002. During 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting standards No. 142 "Goodwill and Other Intangible Assets"("FAS 142"), which requires that, effective for years beginning on or after January 1, 2002, goodwill, and certain other intangible assets deemed to have an indefinite useful life, cease amortizing. Under the new rules, goodwill and certain intangible assets must be assessed for impairment using fair value measurement techniques. The Company completed its initial goodwill impairment testing during the first quarter of Fiscal 2003, and determined that there was impairment of goodwill solely because the aggregate market capitalization of the Company was exceeded by its book value. Therefore, the Company recorded a $430,403 impairment of goodwill. The charge is reflected as a cumulative effect of an accounting change in the accompanying consolidated financial statements.

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, insurance 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 ten restaurants on a year-round basis. The Company closed its Escondido's Mexican Restaurant in the Monmouth Mall during the second quarter of calendar year 2003. The Company opened its first seafood restaurant in November 1978 and currently has seven free-standing seafood restaurants in New Jersey and Florida operating under the names "Jack Baker's Lobster Shanty" or "Baker's Wharfside." The Company opened its first Mexican theme restaurant, located in New Jersey, in April 1996,

under the name "Garcia's." In February 2000, the Company commenced the operation of the ninth restaurant, Moore's Tavern and Restaurant, ("Moore's"), a free-standing restaurant in Freehold, New Jersey serving an eclectic American food type menu. On January 29, 2002, the Company commenced operation of its tenth restaurant, Escondido's Mexican Restaurant ("Freehold"), a Mexican theme restaurant located in Freehold, New Jersey, adjacent to Moore's. On February 1, 2002, Garcia's began to operate under the trade name Escondido's ("Monmouth"). The Company closed this restaurant during the second quarter of calendar year 2003. On April 1, 2002, the Company acquired the operations of its eleventh restaurant, Mr. Manatee's Casual Grille ("Manatee's"), a casual theme restaurant primarily featuring seafood items, located in Vero Beach, Florida near the Company's Vero Beach, Florida Lobster Shanty.

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. Moore's experiences a seasonality factor similar to but not as dramatic as the seasonality factor of the New Jersey seafood restaurants. The Company's Freehold Escondido's experiences a seasonality factor similar to Moore's. Manatee's follows the seasonality pattern of the other Florida restaurants.

The Company operated ten restaurants in February and March 2002 and eleven restaurants in April, May, June and July 2002.

RESULTS OF OPERATIONS

SALES

Sales for the six months ended July 27, 2003 ("fiscal 2004") were $12,126,500, a decrease of $457,600 or 3.6 %, as compared to $12,584,100 for the six months ended July 28, 2002 ("fiscal 2003"). For the second quarter ended July 27, 2003, sales were $6,447,700, a decrease of $493,300 or 7.1%, as compared to the second quarter of fiscal 2003. The decreases include increased sales of $464,100 and $23,600 for the six and three month periods at Manatee's which opened on April 1, 2002 and therefore, was in operation during one month of last year's first quarter and the entire second quarter as compared to six months of operation this year, and decreased sales of $131,300 and $81,300 at the Monmouth Escondido's which was closed in June 2003. The other nine restaurants combined had decreased sales of $790,400 or 6.9% and $435,600 or 6.9% for the six and three month periods versus last year. The three Florida restaurants that operated during the comparable periods realized decreased sales of $83,900 or 2.3% and $25,300 or 1.8% versus last year primarily due to the continued softness in air travel, including a substantial reduction in foreign visitation and the Columbia Space Shuttle tragedy which negatively impacted the Cocoa Beach location. The six New Jersey restaurants had lower sales of $706,500 or 9.4% and $410,300 or 8.3% for the six and three month periods compared to last year primarily due to the dismal winter weather that included a major snow storm over the Valentine's/Presidents' Day weekend and an extremely rainy summer, whereby beginning with the Memorial Day holiday, it rained ten out of eleven weekends. Additionally, customer traffic at all of the restaurants continues to be negatively impacted by the slow economy, terrorism concerns post 9/11 and the Iraq war. The number of customers served in the nine restaurants which operated during the comparable six and three month periods fell by 7.9% and 7.8% respectively, while the average check paid per customer increased by

1.1% and 1.0% versus last year. The check average at Manatee's is less than at the nine restaurants and is less than it was last year due to the introduction of lower priced dinner specials.

GROSS PROFIT; GROSS MARGIN

Gross profit was $8,333,900 or 68.7% of sales for the six month period and $4,429,500 or 68.7% of sales for the second quarter ended July 27, 2003, compared to $8,701,000 or 69.1% and $4,793,700 or 69.1% for the comparable periods of fiscal 2003. The primary reasons for the decline were the higher cost of lobster and closing of the Monmouth Escondido's restaurant with its lower cost Mexican fare.

OPERATING EXPENSES

Total operating expenses increased by 1.4% from $8,172,300 during the first six months of fiscal 2003 to $8,284,000 during the first six months of fiscal 2004, and by 1.3% from $4,314,700 for the second quarter of fiscal 2003 to $4,372,500 for the second quarter of the current year. Payroll and related expenses were 30.3% of sales for the six months and 29.3% for the second quarter this year compared to 31.1% and 30.1% respectively for the comparable periods last year. The improvement is directly attributable to productivity improvements at the restaurants and lower health and worker's compensation insurance costs. Other operating expenses increased to 22.2% of sales versus 21.3% of sales for the six month comparison and remained unchanged at 20.5% of sales for the second quarter comparisons. The primary reasons for the six month increase were the inclusion of Manatee's for the full thirteen weeks of this year's first quarter versus four weeks last year, higher occupancy costs due to increase in real estate taxes and rent costs and the decrease in sales.

Depreciation and amortization expenses were lower by approximately $16,300 and $19,100 over last year for the six and three month periods ended July 27, 2003 due to the inclusion (for the entire six months) of depreciation expenses associated with the purchase of furniture, fixtures and equipment of Manatee's offset by the expiration of fully depreciated assets at the other restaurants and the closing of Monmouth.

General and administrative expenses were lower by approximately $49,400 and $27,700 versus last year for the six and three month periods due primarily to reductions in salaries and payroll taxes and an approximate $10,000 settlement with an insurance carrier pertaining to a business interruption claim stemming from the closure of the main access road near the Cocoa Beach, Florida restaurant due to security concerns of an Air Force base subsequent to 9/11/01.

As a result of continuing operating losses at its Monmouth Mall Mexican theme restaurant, management decided to close this restaurant. On April 30, 2003, management executed a Surrender Agreement with the mall landlord to terminate the lease prior to its expiration date and agreed to give the landlord an option to purchase the restaurant's liquor license at a specified price until October 31, 2003, after which the liquor license can be sold to any independent purchaser. Management believes that the net proceeds from the sale of the liquor license will exceed the $180,000 paid to the landlord for the early termination of the lease. The restaurant was closed in June 2003 and the Company recorded a loss of approximately $410,000 on the closing which includes the early termination fee of $180,000 and disposal of unusable assets.

OTHER INCOME AND EXPENSE

Interest expense decreased by $7,900 and $6,400 for the six and three month periods ended July 27, 2003 as compared to comparable periods last year due to debt reduction and lower interest rates which reduced the interest expense on the Company's variable debt. Investment income was lower by $3,800 for the six month comparisons due to lower interest rates and higher by $2,800 for the second quarter this year due to a $5,200 gain on the sale of investments.

NET INCOME (LOSS)

The Company realized net income of $32,900 or $.01 per share for the six months ended July 27, 2003 as compared to net income before the $430,400 change for goodwill impairment, of $334,200 or $.08 per share for the six months ended July 28, 2002. For the quarter ended July 27, 2003, net income was $36,500 or $.01 per share as compared to net income of $298,400 or $.08 per share. The primary components of the lower income this year are the reduced sales due to economic, terrorism and weather issues and the $410,000 loss associated with the closing of the Monmouth Mall restaurant.

LIQUIDITY AND CAPITAL RESOURCES

The Company's ratio of current assets to current liabilities was 2.03:1 at July 27, 2003 compared to 1.98:1 at the year ended January 26, 2003. Working capital was $2,733,800 at July 27, 2003 versus $2,091,800 at the year end, an increase of $642,000. During the six months ended July 27, 2003, net cash increased by $690,800. Net cash provided by operating activities was $1,070,400. The primary components were net income after adjustment for depreciation and the loss on closing of the Monmouth Mall restaurant, totalling $957,600, an increase in inventories of $156,300 related to the usual buildup for the New Jersey summer season, and an increase of $329,200 in accounts payable primarily due to the inventory increase.

Investing activities during the first six months of fiscal 2004 resulted in a net cash outflow of $187,500. Capital expenditures were $258,900 used primarily for routine restaurant improvements. Other investing activities included investment purchases of available-for-sale securities totaling $9,200 offset by $74,000 from the sale of investments and the proceeds of a maturing certificate of deposit.

Financing activities for the six months ended July 27, 2003 resulted in a net cash outflow of $192,000 and included debt repayment of $134,800 and $59,200 for the repurchase of 40,000 shares of the Company's Common Stock pursuant to a December 24, 2002 Board of Directors authorization to repurchase up to 100,000 shares of the Company's stock on or before January 29, 2004 at prevailing market prices. During the second quarter ended July 27, 2003, the Company canceled a total of 43,550 of the repurchased shares, including repurchases incurred during fiscal 2002.

During the corresponding six month period ended July 28, 2002, there was a reduction in working capital of $184,500 and net cash increased by $52,000. The primary components of last year's cash flow were net income, after adjustment for depreciation, deferred income taxes and a cumulative effect of an accounting change, of $1,076,100, a decrease in prepaid expenses of $116,900 due to the revised billing policy of the Company's insurance carrier, an increase in accounts payable of

$164,900 related to the summer sales volume, capital expenditures of $1,727,300 including $882,700 for the purchase of Manatee's assets and $452,000 for restaurant improvements, investment purchases totaling $173,500 offset by $409,800 from the sale of investments and proceeds of maturing certificates of deposit, $179,400 in debt repayment and bank loan proceeds of $500,000 to partially finance the purchase of the Manatee's assets.

During the second quarter ended July 27, 2003, the Company's $500,000 bank line of credit was renewed for two years. The interest rate is variable, equal to the monthly LIBOR Market Index Rate plus 2%. The entire $500,000 is currently available for use.

Management anticipates that funds from operations will be sufficient to meet obligations for the restaurants for the balance of fiscal 2004, including planned capital expenditures of approximately $270,000 in addition to those incurred during the first six months.

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. In general, the Company is able to increase menu prices to counteract the majority of the inflationary effects of increasing costs with the exception of the substantial increase in insurance costs that the Company has had to absorb over the last two years.

ITEM 3 - CONTROLS AND PROCEDURES

(a) EXPLANATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company's principal executive and principal financial officer after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c) as of a date within 90 days of the filing date of this quarterly report (the "Evaluation Date")) has concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to him by others within those entities, particularly during the period in which this quarterly report was being prepared.

(b) CHANGES IN INTERNAL CONTROLS. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

31 Certification of Principal Executive and Principal Financial Officer.

32 Certification of Principal Executive and Principal Financial Officer of the Company pursuant to 18 United States Code Section 1350.

(b) REPORTS OF FORM 8-K

No reports on Form 8-K were filed during the quarter ended July 27, 2003.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

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 10, 2003