CHEFS INTERNATIONAL INC
Form 10QSB
December 08, 2004

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 OCTOBER 24, 2004

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 for 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 November 12, 2004
Common Stock, $.01 par value	3,926,105

CHEFS INTERNATIONAL, INC.

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CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

ASSETS

	October 24, 2004 (Unaudited)	January 25, 2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,137,980	$ 1,410,899
Available-for-sale securities	2,521,321	2,435,090
Miscellaneous receivables	100,979	79,076
Receivable - related party	40,000	40,000
Inventories	1,141,878	1,240,054
Deferred income taxes	366,000	654,000
Prepaid expenses and other	103,376	197,976

TOTAL CURRENT ASSETS	6,411,534	6,057,095
PROPERTY AND EQUIPMENT, at cost	19,786,567	20,076,717
Less: Accumulated depreciation	8,793,666	8,714,945
PROPERTY AND EQUIPMENT, net	10,992,901	11,361,772
OTHER ASSETS:		
Asset held for sale	50,181	50,181
Receivable - related party	8,522	38,523
Liquor Licenses	839,732	839,732
Non-Compete agreement	30,511	39,980
Equity in life insurance policies	641,024	641,024
Deferred income taxes	370,000	370,000
Other	279,610	138,656
TOTAL OTHER ASSETS	2,219,580	2,118,096
	$19,624,015	$19,536,963

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

	October 24, 2004	January 25,
	(Unaudited)	
CURRENT LIABILITIES:		
Notes and mortgages payable, current maturities	$ 269,348	$ 266,
Accounts payable	573,940	822,
Accrued payroll	132,939	124,
Accrued expenses	832,756	633,
Gift certificates	318,972	523,
TOTAL CURRENT LIABILITIES	2,127,955	2,370,
NOTES AND MORTGAGES PAYABLE	1,451,255	1,694,

OTHER LIABILITIES:		
Accrued retirement	577,802	589,
Interest rate swap agreements	115,715	149,
OTHER LIABILITIES	693,517	739,
STOCKHOLDERS' EQUITY:		
Capital stock - common $.01 par value, Authorized 15,000,000 shares, Issued and outstanding 3,926,105	39,261	39,
Additional paid-in capital	31,488,831	31,488,
Accumulated deficit	(16,178,871)	(16,815,
Accumulated other comprehensive income	2,067	20,
TOTAL STOCKHOLDERS' EQUITY	15,351,288	14,733,
	$19,624,015	$19,536,

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

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

	Nine Months Ended		
	October 24, 2004	October 26, 2003	Octob
SALES	$ 17,308,614	$ 17,966,680	$
COST OF GOODS SOLD	5,526,836	5,629,933	
GROSS PROFIT	11,781,778	12,336,747	
OPERATING EXPENSES:			
Payroll and related expenses	5,129,678	5,416,202	
Other operating expenses	3,670,480	3,921,573	
Depreciation and amortization	791,704	845,859	
General and administrative expenses	1,314,977	1,396,088	
(Gain) loss on closing restaurant	(415,473)	410,024	
Hurricane property and inventory losses	320,366	---	

TOTAL OPERATING EXPENSES	10,811,732	11,989,746	
INCOME (LOSS) FROM OPERATIONS	970,046	347,001	
OTHER INCOME (EXPENSE):			
Interest expense	(109,303)	(121,248)	
Investment income	114,399	111,146	
OTHER INCOME (EXPENSE), NET	5,096	(10,102)	
INCOME (LOSS) BEFORE INCOME TAXES	975,142	336,899	
PROVISION FOR (BENEFIT FROM) INCOME TAXES	339,000	115,000	
NET INCOME (LOSS)	$ 636,142	$ 221,899	$
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE	$ .16	$ .06	$
Weighted average number of shares outstanding	3,926,105	3,926,112	

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

NINE MONTHS ENDED OCTOBER 24, 2004 AND OCTOBER 26, 2003 (Unaudited)

	2004
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 636,142
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	791,704
Deferred income taxes	288,000
Loss (gain) on sale of investments	9,546
(Gain) loss on closing restaurant	(415,473)
Hurricane property loss	78,623
Changes in assets and liabilities:	
(Increase) decrease in:	

Miscellaneous receivables	8,098
Inventories	98,176
Prepaid expenses	94,600
Increase (decrease) in:	
Accounts payable	(248,650)
Accrued expenses and other liabilities	111,426
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,452,192
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(924,152)
Closing of restaurant	(120,000)
Sale of restaurant	842,192
Sale or redemption of investments	745,491
Purchase of investments	(893,299)
Other	(135,508)
NET CASH (USED IN) INVESTING ACTIVITIES	(485,276)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of debt	(239,835)
Purchase and retirement of treasury stock	---
Additional paid in capital	---
NET CASH (USED IN) FINANCING ACTIVITIES	(239,835)
NET INCREASE IN CASH AND CASH EQUIVALENTS	727,081
CASH AND CASH EQUIVALENTS:	
Beginning	1,410,899
Ending	$ 2,137,980
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash payment for:	
Interest	$ 110,386
Income taxes paid	$ ---
Noncash Transactions:	
(Decrease) increase in fair value of securities available for sale	$ (52,031)
Change in fair value of derivatives accounted for as hedges	$ 33,887

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 25, 2004 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 nine and three month periods ended October 24, 2004 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. There are no common stock equivalents.

NOTE 3: INVENTORIES

Inventories consist of the following:	October 24, 2004	January 25, 2004
Food	$ 566,212	$ 644,547
Beverages	140,692	149,243
Supplies	434,974	446,264
	$ 1,141,878	$ 1,240,054

NOTE 4: INCOME TAXES

At October 24, 2004, the Company had net deferred tax assets of approximately $736,000 arising principally from net operating loss carryforwards. Management has determined that it is more likely than not that future taxable income will be sufficient to utilize the net operating loss carryforwards. Therefore, no allowance has been established to offset these assets.

NOTE 5: 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 6: RESTAURANT CLOSINGS

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 required the Company to pay $180,000, of which $60,000 was paid during the second quarter ended July 27, 2003. The remaining balance of $120,000 was paid during the first quarter ended April 25, 2004. The

Company recorded a loss on closing this restaurant of $410,000 for the six months ended July 27, 2003.

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Additionally, the Company granted the landlord an option to purchase the closed restaurant's liquor license. The landlord declined to exercise the right to purchase the liquor license and subsequent to the quarter ended April 25, 2004, the Company entered into an agreement with an unaffiliated buyer to sell the license for approximately $675,000 pending government approval of the license transfer. During the second quarter ended July 25, 2004, the buyer declined to purchase the license. The license is currently for sale.

Subsequent to the year ended January 25, 2004, the Company entered into a contract to sell the restaurant and property located in Jensen Beach, Florida. Pursuant to the terms of the contract, the restaurant was sold on May 3, 2004 for $900,000 with the Company recognizing a gain of approximately $415,500 which is included in the results of operations for the second quarter ended July 25, 2004.

NOTE 7: HURRICANE PROPERTY AND INVENTORY LOSESS

In September 2004, the Company's three Florida restaurants were damaged as a result of Hurricanes Frances and Jeanne. A $320,366 pretax charge was recorded in the current quarter for costs associated with the incident, including lost inventory, clean-up expenditures and an estimate of the carrying value for the property and equipment destroyed or damaged. In addition, the Company spent approximately $295,000 during the quarter for capital expenditures related to the hurricanes and expects to spend substantial additional amounts in the future to complete the repairs.

Subsequent to the end of the quarter, the Company received interim payments of $600,000 on its insurance claim. The Company is in discussions with its insurers as to additional insurance proceeds that the Company believes it is entitled to. The insurer has not yet determined its obligation for payments of the claims. Additionally, the Company may be eligible for a claim under its business interruption policy. The Company expects to record a non-recurring gain once these claims are finalized.

NOTE 8: 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 stockholders' equity as a component of accumulated other comprehensive (loss).

NOTE 9: OTHER

On November 21, 2003, the Company announced that it had received an offer from the principal shareholders of the Company, who own approximately 61% of the Company's outstanding common stock, to purchase all of the remaining outstanding shares of common stock for a cash purchase price of $1.75 per share, subject to various conditions. The Company's Board of Directors appointed a Special Committee, consisting of the three non-principal shareholder directors, to review and analyze the proposal. The initial purchase price of $1.75 was rejected by the Special Committee which concluded that the offered price did not adequately reflect the Company's value. A subsequent offer of $3.12 per share was deemed acceptable by the Special Committee and accepted by the Board. In view of the fact that the proposal is subject to various conditions, no assurance can be given that the proposed purchase will be completed.

NOTE 10: RESIGNATION OF PRESIDENT, TREASURER, PRINCIPAL EXECUTIVE AND PRINCIPAL FINANCIAL OFFICER

In April 2004, Anthony C. Papalia, the Company's president, treasurer, principal executive and principal financial officer requested of the Board that he be released from his employment contract effective at the close of business on June 28, 2004 "...in order to pursue personal interests ...." The Board agreed to release Mr. Papalia from his employment contract at said date and he agreed to a one year non-competition agreement with the Company. The Board elected Robert M. Lombardi as the new president of the Company. Martin Fletcher, the Company's controller, succeeded Mr. Papalia as the Company's treasurer and principal financial officer.

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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.

RECENT DEVELOPMENTS

On June 1, 2004, the Company announced that a Special Committee of its Board of Directors, appointed to evaluate a proposal made by the Lombardi Restaurant Group (owned by the principal stockholders of the Company) to purchase the interests of the Company's minority stockholders at a cash purchase price of $3.12 per share (increased from an initial offer of $1.75 per share), had determined to recommend that the Board accept the proposal. The Board has accepted the proposal. As the proposal is subject to various conditions, no assurances can be given that the proposed purchase will be completed.

The Company reported in its Annual Report on Form 10-KSB for the year ended January 25, 2004 that the employment of Anthony C. Papalia as the Company's president, principal executive officer, treasurer and principal financial officer, was ending effective at the close of business on June 28, 2004, at Mr. Papalia's request, to enable him "...to pursue personal interests...." Robert M. Lombardi, chairman of the board, succeeded Mr. Papalia as president and principal executive officer. Martin Fletcher, the Company's controller, succeeded Mr. Papalia as treasurer and principal financial officer.

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 nine 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 and sold its Jensen Beach, Florida Lobster Shanty during the second quarter of calendar year 2004. The Company opened its first seafood restaurant in November 1978 and currently has six 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,

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under the name "Garcia'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 fiscal 2004. In February 2000, the Company commenced the operation of 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 Escondido's Mexican Restaurant ("Freehold"), a Mexican theme restaurant located in Freehold, New Jersey, adjacent to Moore's. On April 1, 2002, the Company acquired the operations of 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. The sale of the Jensen Beach restaurant in May 2004 reduced the number of restaurants operated by the Company to nine.

Due to the destruction caused by Hurricanes Frances ("Frances") and Jeanne ("Jeanne"), the Company was forced to close all three Florida restaurants in September 2004. The Vero Beach Lobster Shanty and Manatee's suffered substantial damage and did not reopen until the fourth quarter and were closed for approximately 7 1/2 and 11 weeks respectively. Fortunately, the Cocoa Beach Lobster Shanty ("Cocoa") was not in the direct path of either hurricane and consequently, was closed for only 12 days.

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 during the third quarter of its prior fiscal year.

RESULTS OF OPERATIONS

SALES.

Sales for the nine months ended October 24, 2004 ("fiscal 2005") were $17,308,600, a decrease of $658,100 or 3.7%, as compared to $17,966,700 for the nine months ended October 26, 2003 ("fiscal 2004"). For the third quarter ended October 24, 2004, sales were $5,124,300, a decrease of $715,900 or 12.3%, as compared to the third quarter of fiscal 2004. Last year's sales for the nine months included $311,800 in sales at the Monmouth Escondido's ("Monmouth") which was closed in June 2003 and $906,000 in sales at the Jensen Beach, Florida

Lobster Shanty ("Jensen Beach") which was sold in May 2004, compared to $526,900 for Jensen Beach this year, a decrease of $379,100 at Jensen Beach. Jensen Beach sales of $202,600 were included in last year's third quarter. The three Florida restaurants that operated during the comparable periods realized decreased sales of $338,900 or 6.5% and $585,700 or 46.2% versus last year due to the closure of the restaurants as a result of the devastating September hurricanes. Some weather observers believe that this was the worse storm season ever and it is unclear if Florida will suffer an extended tourism downturn as a result of the storms. The six New Jersey restaurants that operated during the comparable periods realized increased sales of $371,700 or 3.2% for the nine months and $72,400 or 1.7% for the three months versus last year primarily due to a milder winter and despite a lackluster summer tourist season due to a rainy July and August when sales were down by $212,700 or 5.9% versus last summer. Sales in both states continue to be under pressure due to concerns related to terrorism threats, the Iraq war and the cost of gasoline. The number of customers served in the nine restaurants which operated during the comparable nine and three month periods, decreased by 5% and 16.5% respectively while the average check paid per customer increased by 5.4% and 8.9% versus last year.

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GROSS PROFIT; GROSS MARGIN.

Gross profit was $11,781,800 or 68.1% of sales for the nine month period and $3,484,000 or 68.0% of sales for the third quarter ended October 24, 2004, compared to $12,336,700 or 68.7% and $4,002,800 or 68.5% for the comparable periods of fiscal 2004. The primary reasons for the decline were continued increases in commodity costs, particularly poultry, beef, dairy and produce, the addition of fuel surcharges by suppliers, and the closing of the Monmouth restaurant with its lower cost Mexican fare. The Florida storms and Midwest droughts have dramatically impacted commodity costs and will continue to do so for the foreseeable future. Management raised some menu prices and introduced lower cost specials to compensate for the higher costs.

OPERATING EXPENSES.

Total operating expenses decreased by 9.8% from $11,989,700 for the nine months of fiscal 2004 to $10,811,700 for the nine months of fiscal 2005, and by 3.1% from $3,705,800 for the third quarter of fiscal 2004 to $3,589,500 for this year's third quarter. Payroll and related expenses were 29.6% of sales for both the nine and three month periods this year compared to 30.1% and 29.9% respectively for the comparable periods last year. The primary reason for the improvement is the closure of the Monmouth and Jensen Beach restaurants which operated with higher payroll costs. Other operating expenses decreased to 21.2% of sales versus 21.8% of sales for the nine month comparison and increased to 21.5% of sales versus 21.1% of sales for the third quarter comparisons. The nine month decrease is directly attributable to the closing of Monmouth and Jensen Beach while the third quarter increase is primarily due to increased utility costs related to higher fuel costs and the reduced sales in Florida.

Depreciation and amortization expenses were lower by approximately $54,200 and $14,200 over last year for the nine and three month periods ended October 24, 2004 due primarily to the closings of Monmouth and Jensen Beach.

General and administrative expenses were lower by approximately $81,100 and $65,200 versus last year for the nine and three month periods due primarily to reductions in salaries, group health and liability insurance costs, and recruiting costs.

During the second quarter ended July 25, 2004, the Company sold the restaurant and property located in Jensen Beach, Florida for $900,000 in cash to an unrelated third party. The sale resulted in a gain of approximately $415,000. In June 2003, the Company closed the Monmouth Mall Mexican theme restaurant and recorded a loss of approximately $410,000 which included an early lease termination fee of $180,000.

During the third quarter ended October 24, 2004, the Company recorded a loss of $320,400 for costs associated with the hurricanes. The loss includes lost inventory, clean-up expenditures and an estimate for the carrying value for the property and equipment destroyed or damaged.

OTHER INCOME AND EXPENSE

Interest expense decreased by $11,900 and $3,200 for the nine and three months ended October 24, 2004 as compared to the same periods last year due to debt reduction. Interest income was slightly higher for both periods this year which includes a net loss of $9,500 realized on the sales of investments versus last year which included a net gain of $7,300 on the sales of investments.

NET INCOME (LOSS)

The Company realized income of $636,100 or $.16 per share for the nine months ended October 24, 2004 as compared to net income of $221,900 or $.06 per share for the nine months ended October 26, 2003. For the third quarter ended October 24, 2004, the Company realized a loss of $57,700 or $.01 per share as compared to net income of $189,000 or $.05 per share for the prior corresponding quarter. This year's third quarter results included a loss of $320,400 associated with the hurricanes. The primary components of the improvement in income is the gain of $415,000 recognized on the sale of Jensen Beach versus last year's loss of $410,000 associated with the closing of Monmouth.

LIQUIDITY AND CAPITAL RESOURCES

The Company's ratio of current assets to current liabilities was 3.01:1 at October 24, 2004 compared to 2.56:1 at the year ended January 25, 2004. Working capital was $4,283,600 at October 24, 2004 versus $3,686,800 at the year end, an increase of $596,800. During the nine months ended October 24, 2004, net cash increased by $727,100. The primary components were net income after adjustment for depreciation, deferred taxes, hurricane property loss, and the gain on the sale of Jensen Beach, totaling $1,379,000, offset by a decrease in inventories of $98,200 primarily related to unusable product damaged by the hurricanes, a decrease in prepaid expenses of $94,600 as a result of a change in the financing of the Company's annual property and casualty insurance program, and a decrease of $248,600 in accounts payable.

Investing activities during the first nine months of fiscal 2005 resulted in a net cash outflow of $485,300. The primary components were capital expenditures of $924,200 related to the hurricanes, restaurant improvements and renovations, a final payment of $120,000 paid as per the Surrender Agreement associated with the closing of Monmouth (see note 6), $842,200 in net cash realized on the sale of Jensen Beach (note 6), investment purchases of $893,300 for available-for-sale securities offset by $745,500 from the sale of investments and increase in other assets of $135,500 primarily due to a deposit of $80,000 to purchase a liquor license in Edison, New Jersey and $36,200 in costs related to the proposal by the principal shareholders of the Company to purchase all of the remaining outstanding shares of common stock (note 9).

Financing activities for the nine months ended October 24, 2004 resulted in a net cash outflow of $239,800 for debt repayment.

During the corresponding nine month period ended October 26, 2003, working capital increased by $1,077,400 and net cash increased by $816,000. The primary components of last year's cash flow were net income, after adjustment for depreciation, deferred taxes and the loss on closing Monmouth, of $1,562,800, offset by a decrease in accounts payable of $158,000, capital expenditures of $328,700 for restaurant improvements, debt repayment of $245,600 and $59,200 for the repurchase of 40,000 shares of the Company's Common Stock.

Subsequent to the third quarter ended October 24, 2004, the Company reopened its Vero Beach and Mr. Manatee's restaurants. Additionally, the Company's primary bank agreed to increase the Company's bank line of credit ("line") from $500,000 to $1,000,000 with all other terms remaining unchanged including the maturity date of June 30, 2005. The Company intends to use the line to cover short-term cash needs related to the hurricane losses. As of November 12, 2004, the Company had drawn $250,000 on the line.

At the present time the Company is unable to predict the extent to which the losses caused by the hurricanes will be covered by its existing insurances. However, the Company received advances of $600,000 from its insurance carriers in November 2004.

Management anticipates that funds from operations, the bank line of credit, and insurance proceeds will be sufficient to meet obligations for the balance of fiscal 2005, including planned capital expenditures of approximately $229,300 in addition to those incurred during the first nine months and rebuilding costs associated with the Florida losses.

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.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

ITEM 3 - CONTROLS AND PROCEDURES

(a) EXPLANATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company's principal executive and principal financial officers 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")) have 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 them 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.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS

EXHIBITS

31 - Certifications of Principal Executive and Principal Financial Officer

32 - Certifications pursuant to 18 U.S.C. Section 1350 of Principal Executive and Principal Financial Officer

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/ Robert Lombardi

ROBERT LOMBARDI
Principal Executive Officer

/s/ Martin W. Fletcher

MARTIN W. FLETCHER
Principal Financial Officer

DATED: December 8, 2004