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CHEFS INTERNATIONAL INC  
Form 10QSB  
June 07, 2002

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 28, 2002

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 6, 2002 |
|-------------------------------|-----------------------------------|
| Common Stock, \$.01 par value | 3,965,966                         |

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CHEFS INTERNATIONAL, INC.

I N D E X

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PART I - FINANCIAL INFORMATION

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

|  | April 28,<br>2002<br>-----<br>(Unaudited) | January 27,<br>2002<br>----- |
|--|---|------------------------------|
| ASSETS                                 |   |                              |
| CURRENT ASSETS:                        |   |                              |
| Cash and cash equivalents              | \$ 727,842                                | \$ 1,408,062                 |
| Investments                            | 256,825                                   | 355,825                      |
| Available-for-sale securities          | 1,793,959                                 | 1,720,802                    |
| Miscellaneous receivables              | 75,824                                    | 62,468                       |
| Inventories                            | 1,200,926                                 | 1,144,189                    |
| Prepaid expenses                       | 89,768                                    | 181,459                      |
|  | -----                                     | -----                        |
| TOTAL CURRENT ASSETS                   | 4,145,144                                 | 4,872,805                    |
|  | -----                                     | -----                        |
| PROPERTY, PLANT AND EQUIPMENT, at cost | 21,641,333                                | 21,229,149                   |

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|                                    |              |              |
|------------------------------------|--------------|--------------|
| Less: Accumulated depreciation     | 8,849,314    | 8,559,539    |
|                                    | -----        | -----        |
| PROPERTY, PLANT AND EQUIPMENT, net | 12,792,019   | 12,669,610   |
|                                    | -----        | -----        |
| OTHER ASSETS:                      |              |              |
| Investments                        | 100,000      | 151,000      |
| Goodwill - net                     | 1,012,942    | 430,403      |
| Liquor licenses - net              | 884,764      | 821,788      |
| Non-competition agreement - net    | 61,927       | --           |
| Equity in life insurance policies  | 589,862      | 589,862      |
| Deferred income taxes              | 1,158,000    | 1,166,000    |
| Other                              | 58,735       | 61,492       |
|                                    | -----        | -----        |
| TOTAL OTHER ASSETS                 | 3,866,230    | 3,220,545    |
|                                    | -----        | -----        |
|                                    | \$20,803,393 | \$20,762,960 |
|                                    | =====        | =====        |

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

|                             | April 28,<br>2002 | January 27,<br>2002 |
|-----------------------------|-------------------|---------------------|
|                             | -----             | -----               |
|                             | (Unaudited)       |                     |
| CURRENT LIABILITIES:        |                   |                     |
| Notes and mortgages payable | \$ 266,516        | \$ 277,745          |
| Accounts payable            | 717,165           | 1,172,442           |
| Accrued payroll             | 236,141           | 196,675             |
| Accrued expenses            | 550,392           | 462,806             |
| Gift certificates           | 342,427           | 461,610             |
|                             | -----             | -----               |
| TOTAL CURRENT LIABILITIES   | 2,112,641         | 2,571,278           |
|                             | -----             | -----               |
| NOTES AND MORTGAGES PAYABLE | 2,279,893         | 1,816,930           |
|                             | -----             | -----               |
| OTHER LIABILITIES           | 630,576           | 618,307             |
|                             | -----             | -----               |

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### STOCKHOLDERS' EQUITY:

|  |              |              |
|--|--------------|--------------|
| Capital stock - common \$.01 par value,<br>Authorized 15,000,000 shares,<br>Issued 3,969,516 | 39,695       | 39,695       |
| Additional paid-in capital   | 31,549,492   | 31,549,492   |
| Accumulated deficit  | (15,703,814) | (15,739,658) |
| Accumulated other comprehensive (loss)   | (101,205)    | (89,199)     |
| Treasury stock   | (3,885)      | (3,885)      |
|  | -----        | -----        |
| TOTAL STOCKHOLDERS' EQUITY   | 15,780,283   | 15,756,445   |
|  | -----        | -----        |
|  | \$20,803,393 | \$20,762,960 |
|  | =====        | =====        |

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

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### CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED APRIL 28, 2002 AND APRIL 29, 2001 (Unaudited)

|                                     | 2002        | 2001        |
|-------------------------------------|-------------|-------------|
|                                     | -----       | -----       |
| SALES                               | \$5,643,129 | \$5,118,623 |
| COST OF GOODS SOLD                  | 1,735,058   | 1,637,515   |
|                                     | -----       | -----       |
| GROSS PROFIT                        | 3,908,071   | 3,481,108   |
|                                     | -----       | -----       |
| OPERATING EXPENSES:                 |             |             |
| Payroll expenses                    | 1,826,696   | 1,563,026   |
| Other operating expenses            | 1,251,714   | 1,074,981   |
| Depreciation and amortization       | 290,825     | 278,161     |
| General and administrative expenses | 488,428     | 436,377     |
|                                     | -----       | -----       |
| TOTAL OPERATING EXPENSES            | 3,857,663   | 3,352,545   |
|                                     | -----       | -----       |
| INCOME FROM OPERATIONS              | 50,408      | 128,563     |
|                                     | -----       | -----       |
| OTHER INCOME (EXPENSE):             |             |             |
| Interest expense                    | (43,756)    | (21,980)    |
| Investment income                   | 43,192      | 41,955      |
|                                     | -----       | -----       |
| OTHER INCOME, NET                   | (564)       | 19,975      |
|                                     | -----       | -----       |

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|                               |           |            |
|-------------------------------|-----------|------------|
| INCOME BEFORE INCOME TAXES    | 49,844    | 148,538    |
| PROVISION FOR INCOME TAXES    | 14,000    | 20,000     |
|                               | -----     | -----      |
| NET INCOME                    | \$ 35,844 | \$ 128,538 |
|                               | =====     | =====      |
| BASIC INCOME PER COMMON SHARE | \$ .01    | \$ .03     |
|                               | =====     | =====      |
| Number of shares outstanding  | 3,965,966 | 4,245,469  |

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 28, 2002 AND APRIL 29, 2001 (Unaudited)

|   | 2002        | 2001       |
|---|-------------|------------|
|   | -----       | -----      |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |             |            |
| Net income  | \$ 35,844   | \$ 128,538 |
| Adjustments to reconcile net income to net cash provided by operating activities: |             |            |
| Depreciation and amortization   | 290,825     | 278,161    |
| Deferred income taxes   | 8,000       | --         |
| Gain on sale of assets and investments  | (5,900)     | --         |
| Changes in assets and liabilities:  |             |            |
| (Increase) decrease in:   |             |            |
| Miscellaneous receivables   | (13,356)    | 47,901     |
| Inventories   | (32,262)    | 63,347     |
| Prepaid expenses  | 91,691      | (132,371)  |
| Increase (decrease) in:   |             |            |
| Accounts payable  | (38,177)    | 187,374    |
| Accrued expenses and other liabilities  | 6,464       | (32,703)   |
| Income taxes payable  | --          | 13,636     |
|   | -----       | -----      |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | 343,129     | 553,883    |
|   | -----       | -----      |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |             |            |
| Purchase of property and equipment  | (694,425)   | (284,497)  |
| Acquisition of restaurant assets  | (867,826)   | --         |
| Sale or redemption of investments   | 176,053     | 121,250    |
| Purchase of investments   | (91,642)    | (236,798)  |
| Other   | 2,757       | 43,853     |
|   | -----       | -----      |
| NET CASH (USED IN) INVESTING ACTIVITIES   | (1,475,083) | (356,192)  |
|   | -----       | -----      |

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|   |             |             |
|---|-------------|-------------|
| CASH FLOWS FROM FINANCING ACTIVITIES:                                 |             |             |
| Proceeds from debt  | 500,000     | --          |
| Repayment of debt   | (48,266)    | (33,373)    |
| Purchase of treasury stock  | --          | (6,302)     |
|   | -----       | -----       |
| NET CASH PROVIDED BY (USED IN)<br>FINANCING ACTIVITIES                | 451,734     | (39,675)    |
|   | -----       | -----       |
| NET (DECREASE) INCREASE IN CASH AND<br>CASH EQUIVALENTS               | (680,220)   | 158,016     |
| CASH AND CASH EQUIVALENTS:  |             |             |
| Beginning   | 1,408,062   | 1,159,580   |
|   | -----       | -----       |
| Ending  | \$ 727,842  | \$1,317,596 |
|   | =====       | =====       |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                     |             |             |
| Cash payment for:   |             |             |
| Interest  | \$ 41,562   | \$ 21,954   |
|   | =====       | =====       |
| Income taxes  | \$ 240      | \$ 3,500    |
|   | =====       | =====       |
| Noncash Transactions:   |             |             |
| Increase (decrease) in fair value of securities<br>available for sale | \$ 1,668    | \$ (2,608)  |
|   | =====       | =====       |
| Change in fair value of derivatives accounted<br>for as hedges        | \$ (13,674) | \$ --       |
|   | =====       | =====       |

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 27, 2002 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 28, 2002 presented in the

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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: ACQUISITION

On April 1, 2002, the Company acquired for \$867,826 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 3: EARNINGS PER SHARE

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

### NOTE 4: INVENTORIES

| Inventories consist of the following: | April 28, 2002 | January 27, 2002 |
|---------------------------------------|----------------|------------------|
| Food                                  | \$ 580,797     | \$ 564,547       |
| Beverages                             | 164,840        | 149,735          |
| Supplies                              | 455,289        | 429,907          |
|                                       | -----          | -----            |
|                                       | \$1,200,926    | \$1,144,189      |
|                                       | =====          | =====            |

### NOTE 5: INCOME TAXES

At April 28, 2002, the Company had net deferred tax assets of approximately \$2,388,000 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 \$1,230,000 has been established to offset these assets.

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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 6: 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. Beginning January 28, 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets". Pursuant to this standard the Company no longer amortizes its goodwill and liquor licenses. The Company will continue to review its goodwill and liquor licenses for possible impairment of loss of value. No impairment provision was required upon the adoption of this standard or as of April 28, 2002.

### NOTE 7: HEDGING INSTRUMENTS

As of January 29, 2001, the Company adopted the provisions of the new accounting standard, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires that the fair value of all derivative

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financial instruments be recorded on the Company's consolidated balance sheet as assets or liabilities. The Company has interest rate swap agreements relating to substantially all 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).

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### 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, 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.

#### 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 eleven restaurants on a year-round basis. At the year ended January 27, 2002, the Company was operating 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 "Jack Baker's Lobster Shanty" or "Baker's Wharfside." At said date, the Company was also operating 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 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"). On April 1, 2002, the Company commenced 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.



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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 Monmouth Escondido's restaurant derives a significant portion of its sales during the holiday season

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from Thanksgiving through Christmas. Moore's experiences a seasonality factor similar to but not as dramatic as the seasonality factor of the New Jersey seafood restaurants. The Company anticipates that Freehold Escondido's will experience a seasonality factor similar to Moore's and that Manatee's will follow the seasonality pattern of the other Florida restaurants.

The Company operated nine restaurants during the three months ended April 29, 2001.

### RESULTS OF OPERATIONS

#### SALES

Sales for the three months ended April 28, 2002 ("fiscal 2003") were \$5,643,100, an increase of \$524,500 or 10.2 %, as compared to \$5,118,600 for the three months ended April 29, 2001 ("fiscal 2002"). The increase includes sales of \$425,600 at Freehold Escondido's which opened on January 29, 2002 and sales of \$181,000 at Manatee's which opened on April 1, 2002. The other nine restaurants combined had decreased sales of approximately \$82,100 or 1.6% as compared to last year's first quarter. The primary reason for the decline in sales was a weak tourist season in Florida, where sales were off by \$146,500 or 6.1% versus last year, due to public concerns about travel safety after September 11, 2001, and the weak national economy. The number of customers served in the nine restaurants which operated during the comparable three month periods decreased by 3.6% while the average check paid per customer increased by 2%. The average check paid per customer at both Freehold Escondido's and Manatee's is less than at the seven seafood restaurants and Moore's and higher than at Monmouth Escondido's.

#### GROSS PROFIT; GROSS MARGIN

Gross profit was \$3,908,100 or 69.3% of sales for the first quarter ended April 28, 2002 compared to \$3,481,100 or 68% of sales for the quarter ended April 29, 2001. The primary reason for the improvement was lower costs of high volume seafood items including shrimp, scallops, flounder, and lobster which are primary components of the Company's menus. Additionally, the Company's gross profit was improved by the addition of Freehold Escondido's which offers a lower cost Mexican fare. Manatee's operated for only four weeks during the first quarter and had no effect on overall gross profit.

#### OPERATING EXPENSES

Total operating expenses increased by 15.1% from \$3,352,500 for the first quarter of fiscal 2002 to \$3,857,700 for the first quarter of fiscal 2003. Payroll and related expenses were 32.4% of sales versus 30.5% of sales for the corresponding quarter of the previous year. The increase in payroll expenses as a percentage of sales is attributable to several reasons: the substantial decrease in sales in Florida, health insurance premiums which increased by 20% on April 1, 2002, salary increases, and the overall higher payroll costs at Freehold Escondido's. Historically, new restaurants have higher operating expenses during the first few months of operation. Other operating expenses increased to 22.2% of sales for the first quarter this year versus 21.0%

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primarily due to the addition of the two new restaurants and higher occupancy costs resulting from higher property insurance premiums. The Company's property and casualty insurance coverages renewed in April 2002 at an overall increase of 26%. However, the property component of the insurance package, which is included in the Company's occupancy costs, was renewed with a 56% rate increase.

Depreciation and amortization increased by approximately \$12,700 over the corresponding quarter due to the depreciation expenses associated with the \$1,334,200

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renovation of the Freehold Escondido's and the \$834,400 purchase of the furniture, fixtures, equipment, liquor license and franchising rights of Manatee's offset by the reduction in amortization costs due to the Company adoption of SFAS No. 142. Effective January 28, 2002 the Company no longer amortizes indefinite life goodwill and intangible assets (liquor licenses) as a charge to earnings (see Note 6).

General and administrative expenses were \$52,100 higher in the first quarter of fiscal 2003 versus the first quarter of fiscal 2002. The primary components of the increase were increases of approximately \$7,600 in group insurance costs, higher salaries of \$17,300 and \$16,400 more in training and recruiting costs associated with the opening of the two new restaurants.

### OTHER INCOME AND EXPENSE

Interest expense was \$21,800 higher for the three months ended April 28, 2002 compared to last year due to interest expense associated with a \$1,200,000 bank loan the Company borrowed from its primary bank to finance the renovation of Freehold Escondido's and the \$500,000 bank line of credit which the Company used to partially finance the acquisition of Manatee's. The \$1,200,000 loan is repayable in monthly installments of principal with interest at an annual rate of 7.57% through September 2011, whereas the Company is paying interest only on the \$500,000 line on a monthly basis of LIBOR plus 2% with the \$500,000 due on June 30, 2003. Management and the bank have agreed in principle to restructure the \$500,000 as a five-year term loan. Investment income for the quarter was essentially the same as last year.

### NET INCOME

For the three months ended April 28, 2002, net income was \$35,800 or \$.01 per share compared to net income of \$128,500 or \$.03 per share for the three months ended April 29, 2001. The primary reasons for the decline in net income this year are the reduced sales and profits of the Florida restaurants due primarily to the weak tourist season, the higher operating expenses of the two new restaurants, the substantial increase in insurance costs and the increase in interest expense associated with the two new bank loans.

### 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 1.96:1 at April 28, 2002 compared to 1.90:1 at the year ended January 27, 2002. Working capital was \$2,032,500 at April 28, 2002 versus \$2,301,500 at the year-end, a reduction of \$269,000. During the first quarter ended April 28, 2002, net cash decreased by \$680,200. Net cash provided by operating activities was \$343,100. The primary components were net income, after adjustment for depreciation, of

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\$326,700 and a decrease in prepaid expenses of \$91,700 primarily due to the financing of the Company's property insurance renewal over a twelve month period.

Investing activities during the first quarter of fiscal 2003 resulted in a net cash outflow of \$1,475,100. Capital expenditures were \$1,537,800 with major components including \$843,400 for the April 1, 2002 acquisition of the furniture, fixtures, equipment, liquor license and franchising rights of Manatee's, approximately \$277,300 for restaurant

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improvements and company vehicles, and the payment of \$417,100 of accounts payable from January 27, 2002 associated with the renovation of Escondido's in Freehold. Other investing activities included investment purchases of available-for-sale securities totaling \$91,600 offset by \$176,100 from the sale of investments and proceeds of maturing certificates of deposit.

Financing activities for the quarter ended April 28, 2002 generated a net cash flow of \$451,700 and included debt repayment of \$48,300 and bank loan proceeds of \$500,000 which were used to partially finance the purchase of the assets of Manatee's.

During the corresponding three month period ended April 29, 2001, working capital increased by \$271,500 and net cash increased by \$158,000. The primary components of last year's cash flow were net income, after adjustment for depreciation, of \$406,700, an increase in prepaid expenses of \$132,400 due to increased insurance premium costs, an increase in accounts payable of \$187,400 due to higher sales, capital expenditures of \$284,500 for restaurant improvements and company vehicles, investment purchases totaling \$236,800 for available-for-sale securities and approximately \$6,300 to repurchase 6,841 shares of the Company's outstanding stock pursuant to a Stock Repurchase Plan authorized by the Company's Board of Directors in May, 2000.

Management believes that funds from operations will be sufficient to meet obligations for the restaurants for the balance of fiscal 2003, including planned capital expenditures of approximately \$375,800 in addition to those incurred during the first three 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 will have to absorb in fiscal 2003.

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CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

PART II OTHER INFORMATION

None.

SIGNATURE

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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

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ANTHONY C. PAPALIA

Principal Executive and Financial Officer

DATED: June 7, 2002