CHEFS INTERNATIONAL INC
Form 10KSB
May 02, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 30, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from_________________to________________

Commission File Number 0-8513

CHEFS INTERNATIONAL, INC.
[Name of small business issuer in its charter]

Delaware	22-2058515
[State or other jurisdiction of incorporation or organization]	[IRS Employer Identification Number]
62 Broadway, P.O. Box 1332 Pt. Pleasant Beach, New Jersey	08742
[Address of principal executive offices]	[Zip Code]

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

Securities registered pursuant to Section 12(b) of the Exchange Act: NONE

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, $.01 par value
(Title of Class)

Check whether the issuer [1] filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months [or for such shorter period that the issuer was required to file such reports], and [2] has been subject to such filing requirements for the past 90 days. YES X NO ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.
[ ]

The issuer's revenues for the year ended January 30, 2005 totaled $21,563,608.

On April 1, 2005, the aggregate market value of the voting stock of the issuer (consisting of Common Stock, $.01 par value) held by non-affiliates was approximately $3,775,000 based upon the last sale price for such Common Stock on said date in the over-the-counter market as reported by the Pink Sheets LLC. On such date, there were 3,925,384 shares of the issuer's Common Stock issued and outstanding.

Transitional Small Business Disclosure Format (check one)

Yes ___ No X ___

CHEFS INTERNATIONAL, INC.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

(a) BUSINESS DEVELOPMENT - Chefs International, Inc. ("Chefs" or the "Company") was organized under the laws of the State of Delaware in March 1975. The Company currently operates nine restaurants on a year-round basis, seven of which are free-standing seafood restaurants in New Jersey (four) and Florida (three); one of which is a free-standing Mexican theme restaurant located in Freehold, New Jersey, and one of which is a free-standing restaurant also located in Freehold, New Jersey featuring an eclectic American food menu. Five of the seafood restaurants are operated under the name "Jack Baker's Lobster Shanty," one under the name "Baker's Wharfside" and one under the name "Mr. Manatee's Casual Grille." The Mexican theme restaurant is operated under the name "Escondido's Mexican Restaurant." The eclectic American food restaurant is operated under the name "Moore's Tavern and Restaurant." The Company opened its first seafood restaurant in November 1978, its Mexican theme restaurant in January 2002 and "Moore's Tavern and Restaurant" in February 2000. (As used herein, the term the "Company" may at times include Chefs and its various subsidiaries.)

The Company's executive offices are located at 62 Broadway, Point Pleasant Beach, New Jersey 08742. Its telephone number is (732) 295-0350.

DEVELOPMENTS SINCE THE BEGINNING OF THE LAST FISCAL YEAR

"GOING PRIVATE" TRANSACTION

On April 18, 2005, the Company announced that at a Special Meeting of its Stockholders held on that date, an Agreement and Plan of Merger between the Company and Lombardi Restaurant Group, Inc. (at times referred to as "Acquisition Co.") pursuant to which Acquisition Co. would be merged into the Company and each share of Chefs common stock (other than the 2,606,446 shares owned by Acquisition Co.) would be canceled and converted into the right to receive a cash payment of $3.12, had been approved and adopted by the affirmative vote of a majority of the shares of Chefs common stock outstanding on the February 25, 2005 Record Date for the meeting. The proposed Merger is designed to convert Chefs from a publicly owned to a privately owned corporation. It is contemplated that the Merger will be effected in May 2005. Although the required stockholder vote has been obtained, the Merger will not be completed unless all of the remaining closing conditions are satisfied so there can be no assurance that the Merger will occur.

If the Merger does occur;

- The Company will no longer be publicly owned;

- Chefs common stock will no longer trade in the over-the-counter market or be quoted on the OTC Bulletin Board(R);

- The stockholders of Acquisition Co., namely Anthony M. Lombardi, Joseph S. Lombardi, Michael F. Lombardi, Robert M. Lombardi, Stephen F. Lombardi (the five "Lombardi Brothers"), the Lombardi & Lombardi P.A. law firm. the Lombardi & Lombardi P.A. Defined Benefit Pension Plan (the Lombardi Brothers, the law firm and the Pension Plan at times referred to as the "Lombardi Group"), Lee Maschler and Matthew Maschler, (the "Maschler Brothers"), (the Lombardi Group and the Maschler Brothers collectively referred to at times as the

"Continuing Stockholders"), will own all of the Company's outstanding common stock; and

- The Company's "Public Stockholders" which term excludes the Continuing Stockholders and stockholders who properly exercised dissenters' rights of appraisal, will have their shares of common stock canceled and converted into the right to receive a cash payment of $3.12 per share, without interest, and without deduction of any commission, and will no longer have any interest in the Company's assets or its future earnings or growth, if any.

RESTAURANT CLOSING

In the first quarter of calendar year 2004, management decided to sell the Company's Jensen Beach, Florida Lobster Shanty restaurant due to declining sales and a lack of profitability. The Company executed a contract to sell this restaurant for $900,000. The closing took place on May 3, 2004. The Company recognized a gain of $415,473 from this sale. See Note 8 of Notes to the Consolidated Financial Statements.

RESIGNATION OF PRESIDENT, TREASURER, PRINCIPAL EXECUTIVE AND PRINCIPAL FINANCIAL OFFICER

In April 2004, Anthony C. Papalia, the Company's president, principal executive, principal financial and principal accounting officer requested of the Company's board of directors that he be released from his employment contract (due to expire in March 2005) 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. Robert M. Lombardi was appointed to succeed Mr. Papalia as president and principal executive officer. Martin W. Fletcher, the Company's controller, was appointed to succeed Mr. Papalia as the Company's principal financial and principal accounting officer and was elected a vice president of the Company.

RESTAURANT CLOSINGS DUE TO HURRICANE DAMAGE

In September 2004, Florida hurricanes caused the closings of the Company's three Florida restaurants for approximately ten days in the case of the Cocoa Beach restaurant, approximately two months in the case of the Vero Beach Lobster Shanty restaurant and approximately two and one-half months in the

case of the Vero Beach Mr. Manatee's Casual Grill restaurant. To date, the Company has received insurance advances against its claims of approximately $1,060,000 and anticipates a final settlement of its claims will occur in fiscal 2006. The Company realized a gain of $202,399 in the fourth quarter of fiscal 2005 related to partial settlement of its hurricane damage claims.

BANK LOANS

At January 26, 2004, the Company had a $500,000 revolving line of credit ("L/C line") from First Union Bank (subsequently acquired by Wachovia Bank), expiring on June 30, 2005 and secured by a first mortgage on its Toms River, New Jersey Lobster Shanty restaurant. All subsequent references to Wachovia Bank shall refer to Wachovia Bank as well as to First Union Bank prior to its acquisition by Wachovia Bank. In November 2004, the L/C line was increased to $1,000,000 and the Company borrowed $500,000 for repairs to its Florida

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restaurants due to the hurricane damage. As a result, at January 30, 2005, the outstanding indebtedness under the L/C line was $500,000. In February 2005, the Company borrowed an additional $300,000 for repairs, bringing the total outstanding indebtedness under the line to $800,000. In April, 2005, the Company reduced the outstanding indebtedness under the line to $400,000 using $400,000 of insurance proceeds to pay down the loan. Interest on the unpaid principal balance under this L/C line is at the LIBOR Market Index Rate plus 2%.

The Company is indebted to Wachovia Bank under a $500,000 Term Loan made in May 2002, the proceeds of which were applied to the repayment of the balance under an outstanding L/C line. Principal payments under the Term Loan are due in amounts varying from $5,000 to $25,000 in the months of March through November through 2007 together with interest at the LIBOR Market Index Rate plus 2%. Indebtedness under the Term Loan is secured by a mortgage on the Company's Toms River, New Jersey Lobster Shanty restaurant. At January 30, 2005, the outstanding principal balance under this Term Loan was approximately $210,000.

In September 2001, the Company borrowed $600,000 from Wachovia Bank secured by a first mortgage on its Baker's Wharfside restaurant in Point Pleasant Beach, New Jersey and borrowed an additional $600,000 from the Bank secured by a first mortgage on its Jack Baker's Lobster Shanty restaurant in Point Pleasant Beach. Each of these two loans have a ten year maturity providing for annual principal payments of approximately $60,000 commencing in fiscal 2003 together with interest on the unpaid balance at an annual rate of 7.57%. At January 30, 2005, the outstanding principal balance of each of these loans was approximately $417,500.

The Company applied the $1,200,000 of loan proceeds as part of the $1,300,000 it utilized to renovate, decorate and equip (kitchen, bar, furniture, fixtures) its Escondido's Mexican Restaurant in Freehold, New Jersey which opened in January 2002.

In October 1998, the Company borrowed $880,000 from Wachovia Bank to fund the $1,100,000 purchase of its Vero Beach, Florida Lobster Shanty seafood restaurant. This loan is repayable in monthly installments of $8,319 comprised of principal and interest at an annual rate of 7.82% through November 2008 and is secured by a first mortgage on the Vero Beach property. At January 30, 2005, approximately $644,100 was outstanding under this loan (which provides for a $431,429 "balloon" payment in November 2008).

In March 2005, the Company obtained a $1,500,000 non-revolving Line of Credit from Wachovia Bank to partially fund renovations to the Lobster Shanty

restaurant in Point Pleasant Beach, New Jersey. Borrowings under this line of credit convert into a ten year term loan commencing July 31, 2005. In April 2005, the Company borrowed $750,000 under this line. Borrowings under this line are collaterized by a mortgage on the Point Pleasant Beach Lobster Shanty property. Interest on borrowings under this line is at the LIBOR Market Index Rate plus 2%.

Repayment of the Company's term loans and of borrowings under its lines of credit is guaranteed by each of the Company's subsidiaries.

Pursuant to its principal Loan Agreements, the Company has agreed to certain affirmative and negative covenants, violation of which without Wachovia Bank's waiver would constitute a default under the Loan Agreements. Included are affirmative covenants by the Company to maintain its properties in good condition and repair; maintain adequate insurance coverage; conduct its business in the

manner and at the locations where it is currently being conducted; maintain a Funds Flow Coverage of not less than 1.20 to 1.00; maintain a Tangible Net Worth at fiscal 2005 year end of not less than $12,650,000 increasing by not less than $50,000 in each subsequent year; maintain a ratio of Senior Liabilities to Effective Tangible Net Worth of not more than .50 to 1.00 measured semi-annually; and maintain liquid assets (cash, time deposits, marketable securities) of not less than $500,000. Also included are negative covenants of the Company not to permit or effect a material change in ownership or in management; not to create or permit certain liens or encumbrances on its assets; not to guarantee third party obligations; and not to retire or otherwise acquire any of its capital stock (without receiving a waiver from the Bank.) The Company received a waiver from Wachovia Bank of any claim that the resignation and departure of Anthony C. Papalia at June 28, 2004 as the Company's principal executive and principal financial officer might be deemed a violation of the covenant regarding a material change in management. The Company was in compliance with all material covenants under the Loan Agreements at January 30, 2005.

(b) BUSINESS OF ISSUER - The Company is engaged in one business; the operation of nine restaurants in New Jersey and Florida on a year-round basis.

RESTAURANT OPERATIONS

The Company currently operates nine restaurants on a year-round basis, seven of which are free-standing seafood restaurants in New Jersey (four) and Florida (three); one of which is a free-standing Mexican theme restaurant located in Freehold, New Jersey, and one of which is a free-standing restaurant also located in Freehold, New Jersey featuring an eclectic American food menu. Five of the seafood restaurants are operated under the name "Jack Baker's Lobster Shanty," one under the name "Baker's Wharfside" and one under the name "Mr. Manatee's Casual Grille." The Mexican theme restaurant is operated under the name "Escondido's Mexican Restaurant." The eclectic American food restaurant is operated under the name "Moore's Tavern and Restaurant." The Company opened its first seafood restaurant in November 1978, its Mexican theme restaurant in January 2002 and "Moore's Tavern and Restaurant" in February 2000. The Company's restaurants, all of which are operated on a year-round basis, are as follows:

Location	Date of Opening Under the Company's Management
SEAFOOD RESTAURANTS	

Jack Baker's Lobster Shanty	
Vero Beach, Florida	December 1979
Pt. Pleasant Beach, New Jersey	October 1980
Toms River, New Jersey	October 1980
Cocoa Beach, Florida	September 1981
Hightstown, New Jersey	December 1981
Baker's Wharfside	
Pt. Pleasant Beach, New Jersey	October 1980
Mr. Manatee's Casual Grille Restaurant	
Vero Beach, Florida	April 2002

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Location	Date of Opening Under the Company's Management
ESCONDIDO'S MEXICAN RESTAURANT	
Freehold, New Jersey	January 2002
MOORE'S TAVERN AND RESTAURANT	
Freehold, New Jersey	February 2000

SEAFOOD RESTAURANTS

The Company's seafood restaurants provide a variety of seafood dishes including shellfish such as lobster, scallops, shrimp, oysters and clams, and other fish including red snapper, bluefish, grouper and other varieties. A limited selection of non-seafood entrees is also offered including steak and chicken as well as a dessert selection. Most of the Company's seafood restaurants have a nautical decor.

JACK BAKER'S LOBSTER SHANTY RESTAURANTS

VERO BEACH, FLORIDA - This restaurant, consisting of approximately 6,900 square feet, is free standing in Vero Beach, Florida on the intracoastal waterway, and seats approximately 200. It opened in December, 1979 pursuant to a lease from a partnership, the principal partner of which was the Company's then principal stockholder. During fiscal 1998, the Company constructed an outdoor deck with a bar and dining facilities at this restaurant at a cost of approximately $125,000. At August 31, 1998, the Company was continuing to lease this restaurant on a month-to-month "net" basis at a monthly rental of $10,000 with the Company also paying personal property taxes and insurance thereunder. On that date, the United States Bankruptcy Court for the District of New Jersey ordered the acceptance of the Company's bid of $1,100,000 to purchase the Vero Beach restaurant property from the partnership. On October 30, 1998, the Company completed the purchase of the property for $1,100,000. To fund the purchase, the

Company obtained an $880,000 first mortgage loan from its principal lending bank, and paid the balance of the purchase price from working capital. The Company's successful bid was based upon an independent appraisal of the property and was equal to the appraised value. See "Bank Loans" herein as to the repayment terms of this loan.

During fiscal 2002, the Company was assessed and paid $62,674 as its share for the development by the City of Vero Beach of the Royal Palm Pointe project. This project is a city park development contiguous to the Company's Jack Baker's Lobster Shanty and its Mr. Manatee's restaurants. Among other amenities, it provides municipal parking which the Company believes has enhanced its restaurant business at those locations.

The Company was forced to close this restaurant for 53 days in September and October 2004 due to damage from the September 2004 Florida hurricanes. To date, the Company has spent approximately $625,000 in capital expenditures and repairs on this restaurant and anticipates spending an additional $30,000 to $50,000 to complete the work.

PT. PLEASANT BEACH, NEW JERSEY - This restaurant, consisting of approximately 17,000 square feet, is free standing with a waterfront location on Channel Drive in Pt. Pleasant Beach, New Jersey and seats approximately 750. It shares parking with the Baker's Wharfside restaurant in Pt. Pleasant Beach with space for approximately 250 automobiles. The Company purchased this restaurant and three others (including the land, buildings, improvements and businesses

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including personal property and fixtures, liquor licenses and all of the outstanding stock of the four corporations operating these restaurants) from its then principal stockholder, and from three partnerships owned by him, in October, 1980 for an aggregate $7,750,000 less a subsequent $250,000 prepayment discount.

The Company has commenced major renovations to this restaurant which will take place in fiscal 2005 and 2006 at an anticipated cost of approximately $2,200,000. The Company expects to finance approximately $1,500,000 of the cost with bank loans and the balance from working capital.

TOMS RIVER, NEW JERSEY - This restaurant, consisting of approximately 10,750 square feet, is free standing on Robbins Parkway with a waterfront location on the Toms River in Toms River, New Jersey and seats approximately 375. Municipal parking facilities are available nearby. The Company purchased this restaurant and three others (including the land, buildings, improvements, and businesses including personal property and fixtures, liquor licenses and all of the outstanding stock of the four corporations operating these restaurants) from its then principal stockholder, and from three partnerships owned by him, in October 1980 for an aggregate $7,750,000 less a subsequent $250,000 prepayment discount. During fiscal 1998, the Company commenced an interior renovation of this restaurant, the bulk of which was completed in fiscal 1998 with the balance completed early in fiscal 1999. The total cost of this renovation was approximately $338,000. In fiscal 1999, the Company constructed an outdoor deck with a bar and dining facilities at this restaurant adding approximately 125 seats at a cost of approximately $188,000.

In May 1998, the Company spent $166,000 to purchase a lot and building with a waterfront location adjacent to the Toms River Lobster Shanty. The Company partially funded the purchase price with the bank loan previously described. The Company has obtained the permits and variances necessary for it to develop an outdoor patio dining area with seating for 125 on this site but delayed construction pending resolution of a lawsuit initiated by a neighboring

landowner attempting to prevent construction. The landowner's time to appeal from the granting of the permits and variances to the Company has expired. Management assumes there will be no further objection to the Company's construction of the planned patio dining area. As a result of the delay, the board of directors has deferred its decision on whether to proceed with the construction of the patio. If the board determines to proceed in the next several months, the Company estimates the total cost of construction and outfitting at approximately $350,000 for an opening which could take place in fiscal 2007.

COCOA BEACH, FLORIDA - This approximately 240 seat restaurant, consisting of approximately 9,600 square feet, is located in a free standing building on Highway A1A in Cocoa Beach and has parking for approximately 90 cars. The Company acquired this restaurant as well as a seafood restaurant in Titusville, Florida in September 1981 through the purchase from two unaffiliated individuals of the outstanding capital stock of two corporations engaged in the ownership and operation of a Florida seafood restaurant at each of the two sites. The corporations owned the land on which the restaurants were located, the restaurant buildings, the restaurant businesses including personal property and fixtures and liquor licenses for each restaurant, all of which were included in the sale. The purchase price paid by the Company for the stock of the two corporations (prior to closing adjustments) was $3,370,000, the bulk of which was represented by 20-year promissory notes payable monthly and secured by mortgages on the restaurants. The Company sold the Titusville restaurant to an unaffiliated third party in January 1988 realizing a loss of approximately $942,000. The Company prepaid the balance of the remaining indebtedness under the notes in July 1993

using the net proceeds from the sale in June 1993 of another Florida restaurant property.

The Company was forced to close this restaurant for twelve days in September 2004 due to damage from the September 2004 Florida hurricanes.

HIGHTSTOWN, NEW JERSEY - This restaurant, consisting of approximately 4,600 square feet, is free standing on State Highway 33 approximately two miles east of Hightstown and seats approximately 175. The restaurant has parking for approximately 100 automobiles. The Company purchased this restaurant and three others (including the land, buildings, improvements and businesses including personal property and fixtures, liquor licenses and all of the outstanding stock of the four corporations operating these restaurants) from its then principal stockholder and from three partnerships owned by him, in October 1980 for an aggregate $7,750,000 less a subsequent $250,000 prepayment discount.

BAKER'S WHARFSIDE RESTAURANT

PT. PLEASANT BEACH, NEW JERSEY - This restaurant, consisting of approximately 7,500 square feet, is free standing with a waterfront location on Channel Drive in Pt. Pleasant Beach, New Jersey and seats approximately 500. It shares parking with the Lobster Shanty restaurant in Pt. Pleasant Beach with space for approximately 250 automobiles. The Company purchased this restaurant and three others (including the land, buildings, improvements and businesses including personal property and fixtures, liquor licenses and all of the outstanding stock of the four corporations operating these restaurants) from its then principal stockholder, and from three partnerships owned by him, in October, 1980 for an aggregate $7,750,000 less a subsequent $250,000 prepayment discount.

MR. MANATEE'S CASUAL GRILLE RESTAURANT

VERO BEACH, FLORIDA - This restaurant, consisting of approximately 4,000 square feet, is free standing at 30 Royal Palm Pointe in Vero Beach and seats approximately 165. It has parking for approximately 40 automobiles but there are additional municipal parking spaces available at the contiguous Royal Palm Pointe municipal park. Pursuant to a January 2002 asset purchase agreement, the Company purchased the furnishings, fixtures and equipment, liquor license, goodwill, right to the name and the business of Mr. Manatee's from an unaffiliated third party for $800,000. The Company paid $300,000 of the purchase price from its available cash reserves and borrowed the $500,000 balance (which it repaid in fiscal 2003) under its available Line of Credit. On April 1, 2002, the Company entered into a five year lease of the restaurant property at a monthly rental of $8,000 under a triple "net-net" Lease. The Lease provides the Company with an option to renew the lease for up to three additional five year terms with the rental increasing by ten percent for each additional five-year renewal term. The Lease also provides the Company with the right to purchase the Property for $1,075,000 at the expiration of the initial five year term of the Lease.

Mr. Manatee's Casual Grille opened under the Company's management on April 1, 2002. It is a casual theme restaurant primarily featuring seafood items, serving lunch meals, dinner meals and sandwiches. To date, the average check at Mr. Manatee's has been approximately 15% to 20% lower than the check average at the Company's other seafood restaurants.

The Company was forced to close this restaurant for 76 days in September through November 2004 due to damage from the September 2004 Florida hurricanes. To date, the Company has spent approximately $335,000 in capital expenditures and

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repairs and anticipates spending an additional $30,000 to $50,000 to complete the work.

MEXICAN THEME RESTAURANT

At January 30, 2005, the Company was operating one Mexican theme restaurant; its free-standing "Escondido's Mexican Restaurant" in Freehold, New Jersey.

The Company's Mexican theme restaurant features Mexican cuisine including fajitas, tortillas, burritos and enchiladas with cheese, beef, chicken, pork and seafood fillings. The menu also includes appetizers, soups and salads and a limited number of American style offerings such as steaks and burgers. Alcoholic offerings such as margaritas and tequilas complement fruit drinks and other soft drinks.

The Company opened its Freehold, New Jersey "Escondido's Mexican Restaurant" located on West Main Street (Route 537) in January 2002. This free-standing restaurant, consisting of approximately 5,000 square feet of leased space, is decorated in a bright multi-colored Mexican motif. The restaurant has a bar and tables and booths which can accommodate approximately 225 patrons and shares parking facilities with the adjoining Moore's Tavern and Restaurant. It has a liquor license permitting the consumption of wine and alcoholic beverages on the premises. The restaurant is open for lunch and dinner seven days per week.

The Company leased the facility ("Building B") from Moore's Realty (whose partners are members of the Lombardi family). The lease is a "triple-net" lease pursuant to which the Company is required to pay real estate taxes,

insurance and heating and air conditioning costs. The lease is for a five-year term through January 2007 and contains provisions for three consecutive five-year renewals at the Company's option which are automatically effective unless the Company gives written notice at least six months before the end of the applicable term that it does not intend that such option be exercised. The Company has the right to terminate the lease upon six months' written notice during the initial lease term provided that such notice cannot be given until 18 months after the commencement of the initial lease term and upon twelve months written notice during any renewal term.

The lease provides for a minimum annual rental of $90,000 during each year of the initial five-year term, $100,000 during each year of the first five-year renewal period, $112,500 during each year of the second five-year renewal period and $125,500 during each year of the third five-year renewal period. In addition to the minimum annual rental, the Company is also required to pay an amount to Moore's Realty equal to (i) 6% of the total gross sales of food and beverages etc. at the facility in each year (excluding taxes and gratuities) (the "gross annual rental") less (ii) the minimum annual rental for that year. For the fiscal year ended January 30, 2005, the gross rental aggregated $99,656. Moore's Realty has the right to terminate the lease upon twelve months' prior written notice if, for the preceding lease year, the gross annual rental did not exceed the minimum annual rental for that year.

The Company expended approximately $1,300,000 to renovate, decorate and equip (kitchen, bar, furniture, fixtures) its Escondido's Mexican Restaurant in Freehold, New Jersey. The bulk of the costs were paid from the proceeds of two bank loans from Wachovia Bank aggregating $1,200,000. See "Developments Since the Beginning of the Last Fiscal Year - Bank Loans" in this Item 1. During the renovation of this restaurant, the Company paid an aggregate $15,000 in rents to

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Moore's Realty with respect to Building B. The Company had no additional cost for the liquor license for these premises, the license being permitted as an expansion of the license on the adjoining "Moore's Tavern and Restaurant."

See "Moore's Tavern and Restaurant" herein as to the Company's lease of the Building C pad site to provide additional parking for both this restaurant and Moore's Tavern and Restaurant.

MOORE'S TAVERN AND RESTAURANT

In February 2000, the Company executed a lease with Moore's Realty (whose partners are members of the Lombardi family). The lease was of premises on West Main Street (Route 537) in Freehold, New Jersey (Building A), where an entity affiliated with Moore's Realty, Moore's Inn, Inc. was operating a restaurant and tavern under the name "Moore's Inn." The Company provided consulting services to the operators of Moore's Inn from January 3, 2000 until February 23, 2000 when it executed the following described lease and purchase agreements and commenced to operate the facility under the name "Moore's Tavern and Restaurant."

The lease was for a five-year term through February 22, 2005 and contains provisions for three consecutive five-year renewals at the Company's option which are automatically effective unless the Company gives written notice at least six months before the end of the initial term or at least six months before the end of the applicable renewal period that it does not intend that such option be exercised. After 18 months, the Company can terminate the lease upon six months' written notice provided that during each of the five-year renewal periods, the Company must provide at least twelve months' prior written notice to terminate.

The lease is a "triple-net" lease pursuant to which the Company will pay real estate taxes, insurance and heating and air conditioning costs. The lease provides for a minimum annual rental of $90,000 during each year of the initial five-year term, $100,000 during each year of the first five-year renewal period, $112,500 during each year of the second five-year renewal period and $125,500 during each year of the third five-year renewal period. In addition to the minimum annual rental, the Company is also required to pay an amount to Moore's Realty equal to (i) 6% of the total gross sales of food and beverages etc. at the facility in each year (excluding taxes and gratuities) (the "gross annual rental") less (ii) the minimum annual rental for that year. For the fiscal year ended January 30, 2005, the gross rental aggregated $152,545. Moore's Realty has the right to terminate the lease upon twelve months' prior written notice if, for the preceding lease year, the gross annual rental did not exceed the minimum annual rental for that year.

During the lease term, the Company has been granted the exclusive right to the use of the names "Moore's Inn" and "Moore's Tavern" within the State of New Jersey. Moore's Realty has agreed not to operate, lease, rent or permit to be operated as a restaurant or tavern during the lease term, any premises owned, leased or occupied by it or members of the Lombardi family (not presently occupied as such), located within ten miles of Moore's Tavern and Restaurant.

In connection with the lease, the Company purchased a New Jersey liquor license from Moore's Inn, Inc. for $350,000 and agreed to sell the license back to the Seller or to Moore's Realty at the termination of the lease for the same $350,000. In addition, the Company purchased existing furniture, fixtures and equipment at Moore's Inn from Moore's Inn, Inc. for $250,000 agreeing to leave all of the furniture, fixtures and equipment at the premises "...in good working condition, reasonable wear and tear excepted... " upon termination of the lease.

The lease of the Moore's Inn and the purchase of the liquor license and the furniture, fixtures and equipment cannot be deemed "arm's length" transactions due to the interest therein of the Lombardi family. The transactions were negotiated for the Company by Anthony C. Papalia, its then president and chief executive officer. In negotiating the transactions, Mr. Papalia took into account his experience in similar restaurant leases, the prices at which liquor licenses were sold in neighboring areas (finding such prices to be comparable to the liquor license purchase price paid by the Company) and the condition of the furniture, fixtures and equipment. The bulk of the furniture, fixtures and equipment had been purchased by the Seller during the twelve months ended June 30, 1999 at a price of $621,893. Mr. Papalia and the non-interested directors concluded that the terms of the transaction were fair and in the best interests of the Company.

At the time of execution of the lease, Moore's Realty agreed not to sell or lease a building ("Building B") adjacent to the Moore's Inn or the nearby pad site for a proposed building ("Building C") for a period of one year. If during the first year, the Company entered into an agreement to purchase or lease Building B, Moore's Realty agreed not to sell or lease the pad site to anyone other than the Company for an additional one-year period. See "Mexican Theme Restaurant" herein as to the Company's lease of Building B from Moore's Realty in fiscal 2002, renovation of the facility and opening of an "Escondido's Mexican Restaurant" at the facility in January 2002. At the time of the Company's leasing of Building B, the Company and Moore's Realty executed an amendment to their January 21, 2000 lease agreement extending the initial term of the earlier lease to the termination date provided for in the later lease and similarly extending the renewal periods of the earlier lease to coincide with the renewal periods of the Building B lease.

The Moore's Tavern and Restaurant, consisting of approximately 7,700 square feet, is free standing and is located on West Main Street (Route 537) in Freehold, New Jersey. The restaurant seats approximately 260 (with an outdoor patio for warm weather use that can seat an additional approximately 40 persons) and accommodates parking for approximately 200 automobiles, the parking to be shared with any businesses operated from Building B (now operated by the Company as an Escondido's Mexican Restaurant), and proposed Building C. See "Building Pad C Parking Lot" as to the Company's leasing of the Building C pad site to provide additional parking for patrons of its two Freehold, New Jersey restaurants. The tavern portion of this restaurant is of an historic nature having been initially constructed in the late 18th century and owned by an officer in the American Revolutionary Army. The entire restaurant is decorated in a revolutionary period decor.

The Moore's Tavern and Restaurant is open for lunch and dinner on a year-round basis. It features an eclectic American food menu offering sandwiches, burgers, steak and other meats, chicken and fish, potatoes, vegetables and desserts, and alcoholic beverages.

BUILDING PAD C PARKING LOT

In connection with the February 2000 execution of the lease of Moore's Inn to the Company, Moore's Realty agreed not to sell or lease a building ("Building B") adjacent to Moore's Inn or the nearby pad site for a proposed building ("Building C") to a third party for a period of one year. Moore's Realty also agreed that if during the initial one-year period, the Company entered into an agreement to purchase or lease Building B, it would not sell or lease the Building C pad site to anyone other than the Company for an additional one-year

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period. In October 2001, the Company leased Building B from Moore's Realty and in January 2002, opened its Mexican theme restaurant in Building B under the name "Escondido's Mexican Restaurant."

In September 2002, the Company leased the Building C pad site from Moore's Realty for use as a parking lot for its Freehold, New Jersey Moore's Tavern and Restaurant and its Escondido's Mexican Restaurant. The lease is for a five-year term through January 2007 and contains provisions for three consecutive five-year renewals at the Company's option. Either party has the right to terminate the lease upon twelve (12) months written notice after conclusion of the initial five (5) year term provided that if the Landlord elects to terminate the lease, it must offer the Tenant the right to lease an adjoining paved parking area sufficient to park at least fifty (50) automobiles on terms and conditions similar to those contained in the lease. The lease also provides that if the Company is leasing either Building A (Moore's Tavern and Restaurant) or Building B (Escondido's Mexican Restaurant) at the time of termination by Moore's Realty, Moore's Realty will not permit a restaurant to be developed on the Building C pad site.

The lease is a "triple-net" lease pursuant to which the Company pays real estate taxes, insurance, electricity charges, snow and ice removal, cleaning and maintenance. The lease provides for a minimum rent at an annual rate of $40,000 during each year of the initial five-year term, $44,000 during each year of the first five-year renewal period; $50,000 during each year of the second five-year renewal period and $55,000 during each year of the third five-year renewal period. In addition to the minimum annual rent, the Company is required to pay an amount to Moore's Realty equal to (i) 1% of the total gross sales of the food and beverages etc. at the Moore's Tavern and Restaurant and at

the Escondido's Mexican restaurant in each year (excluding taxes and gratuities) (the "gross annual rent"), less (ii) the minimum annual rent for such year. During fiscal 2003, the Company installed curbing, paving and other improvements to the site at a cost of approximately $134,000. The site now provides parking for approximately 65 automobiles for patrons of the two Freehold restaurants. Moore's Realty has agreed to reimburse the Company's costs. Moore's Realty's reimbursement obligation is being applied as a credit against the minimum rent and the gross annual rent, if any, due under the lease. As a result, the Company did not pay any rent to Moore's Realty in fiscal 2005 with respect to this pad site and still has approximately $36,000 of credits remaining.

The lease for the Building C pad site cannot be deemed as an "arm's length" transaction due to the interest therein of the Lombardi family. The lease was negotiated for the Company by Anthony C. Papalia, its then president and chief executive officer. Mr. Papalia and the non-interested directors concluded that the terms of the transaction were fair and in the best interests of the Company.

SOURCES OF FOOD PRODUCTS

The food products used by the Company in the operation of its seafood restaurants, its Moore's Tavern and Restaurant and its Escondido's Mexican Restaurant are readily available from a variety of sources including national distributors and local sources on an order basis when needed.

SEASONAL ASPECTS

The Company's New Jersey seafood restaurants experience a significant portion of their sales from May through September whereas its Florida seafood restaurants experience a significant portion of their sales from January through

April. Moore's Tavern and Restaurant and the Freehold Escondido's Mexican Restaurant have experienced a seasonality factor similar to but not as dramatic as the seasonality factor of the Company's New Jersey seafood restaurants. Mr. Manatee's Casual Grille follows the seasonality pattern of the Company's Florida restaurants.

TRADEMARKS

The Company has no patents, trademarks, licenses, franchises or concessions which it regards as material to its restaurant business with the exception of the service mark "Jack Baker's Lobster Shanty" registered for a 20 year period with the U.S. Patent and Trademark Office in February, 1989, and its rights to use of the names "Moore's Inn" and "Moore's Tavern" as described above. The Company also believes its use of the service mark "Escondido's Mexican Restaurant" is material to its restaurant business. The Company applied to the United States Commissioner of Trademarks and effective September 2002, obtained registration of the service mark "Escondido's Mexican Restaurant."

COMPETITION

The restaurant business is highly competitive and the success of any restaurant depends to a great extent upon the services it supplies and its location. The Company's seafood restaurants compete primarily with other local seafood restaurants and to a lesser extent, with local restaurants serving a more general fare. The principal national competition to the Company's seafood restaurants is the Red Lobster restaurant chain. This chain has substantially greater resources than the Company. The Company's Florida seafood restaurants also face competition from Shells seafood restaurants operating in their area.

There are other restaurants in the vicinity of the location where the Company is now operating its Escondido's Mexican Restaurant, all of which supply competition to the Company's Mexican theme restaurant. In addition, there are other Mexican style restaurants including an outlet of Chevy's, a national chain, in the area. The Moore's Tavern and Restaurant faces competition from local restaurants as well as from national chains including TGI Fridays and Chili's restaurants in the area. Typical "chain" competitors to all of the Company's restaurants, which are affiliated with better established and more prominent national chains, are Ruby Tuesdays and TGI Fridays. There can be no assurance that the Company's units will be able to successfully compete with any of such other restaurants.

GOVERNMENT REGULATION

The Company is subject to various Federal, state and local laws affecting the operation of its restaurants, including licensing and regulation by health, sanitation, safety and fire departments and alcoholic beverage control authorities. The Company is also subject to the Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions. While such regulations have not had a material negative impact on the Company's operations to date, difficulties in obtaining necessary licenses or permits could result in delays or cancellations in the opening of new restaurants and increases in the minimum wage will increase the Company's labor costs.

Each of the Company's New Jersey and Florida restaurants holds a state liquor license and is subject to the liquor licensing laws of New Jersey or Florida (depending on location). Management regards the aggregate and per claim liability insurance which it carries to be adequate for the nature of its operations taking into account the fact that it serves liquor at each location.

EMPLOYEES

The Company maintains its administrative employees at its executive offices including its principal officers (see "Item 9 - Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act"), secretarial and bookkeeping personnel. Each of the Company's seafood restaurant units employs a general manager, two assistant managers and between 40 and 130 other employees to serve as waitresses, waiters, busboys, bartenders, cooks, dishwashers, kitchen help, hostesses and cashiers (some on a part-time basis). The Company's Escondido's Mexican Restaurant in Freehold, New Jersey employs between 30 and 60 employees and its Moore's Tavern and Restaurant employs approximately 60 employees, in each case serving similar functions. The Company also presently employs two area supervisors, each responsible for certain of the Company's restaurants. Managerial candidates are recruited for the Company's restaurants from hotel and restaurant management schools, restaurant recruiting agencies, through advertising in restaurant management magazines and by promotion from within the Company's own organization. At January 30, 2005, the Company had approximately 500 employees (including part-time workers). The Company is not a party to any collective bargaining agreements and has enjoyed satisfactory employee relations since inception.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's executive and administrative offices are located in an approximately 4,000 square foot two story Company owned building of cinder block construction at 62 Broadway, Point Pleasant Beach, New Jersey.

See Item 1 herein for a description of the Company's operating

restaurants.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceeding.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the quarter ended January 30, 2005.

A Special Meeting of the Company's stockholders was held on April 18, 2005. At the Special Meeting, a total of 2,873,469 votes were cast in favor of, a total of 8,944 votes were cast against and 2,084 shares abstained from voting with respect to the proposal to approve and adopt the Agreement and Plan of Merger dated as of December 22, 2004 between Acquisition Co. and the Company and the Merger pursuant to which Acquisition Co. would be merged with and into the Company and each share of Chefs common stock (other than shares owned by Acquisition Co. and shares owned by stockholders who have properly exercised dissenters' rights of appraisal) will be canceled and converted into the right to receive a cash payment of $3.12 without interest, and without deduction of any commission, so that the Agreement and Plan of Merger and the Merger have been approved and adopted by the affirmative vote of a majority of the shares of Chefs common stock outstanding on the February 25, 2005 Record Date for the meeting.

CHEFS INTERNATIONAL, INC.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock was listed on the NASDAQ Stock Market Small Cap System under the symbol "CHEF" until the close of business on December 16, 1998 when it was delisted because of the failure of the common stock to maintain a closing bid price at or above $1.00 per share. Commencing December 17, 1998, the common stock has been traded in the over-the-counter market under the symbol "CHEF." The following chart sets forth the range of high and low closing bid prices for the common stock in the over-the-counter market for the periods indicated as obtained from the Pink Sheets LLC.

Fiscal 2004 Quarter Ended	Bid Prices	
	High	Low
April 27, 2003	1.42	1.35
July 27, 2003	1.38	1.35
October 26, 2003	1.40	1.38
January 25, 2004	1.85(a)	1.40(a)
Fiscal 2005 Quarter Ended		
April 25, 2004	2.76(b)	1.55(b)
July 25, 2004	3.05(c)	2.76(c)

October 24, 2004	3.05	3.03
January 30, 2005	3.05	2.90

The above quotations represent prices between dealers and do not include retail mark-ups, mark-downs or commissions. They do not necessarily represent actual transactions.

(a) During the quarter (on November 21, 2003), the Company publicly announced its receipt of a Merger offer from the Lombardi Group offering to purchase the outstanding Common Stock owned by the Public Stockholders for a cash purchase price of $1.75 per share.

(b) During the quarter, after publicly announcing on March 8, 2004, the rejection of the $1.75 per share offered purchase price, the Company, on March 15, 2004, publicly announced the increased offer by the Lombardi Group of a cash purchase price of $2.50 per share. After publicly announcing on April 19, 2004, the rejection of the $2.50 per share offered purchase price, the Company, on April 21, 2004, publicly announced the increased offer by the Lombardi Group of a cash purchase price of $3.00 per share.

(c) During the quarter (on June 1, 2004), the Company publicly announced that the Special Committee appointed by the Board of Directors to review and make a recommendation to the Board regarding the fairness of the proposed Merger offer to the Public Stockholders, had advised the Board of Directors that in the Committee's judgment, the proposed increased purchase price of $3.12 per share

(increased after discussions between counsel for the Special Committee and counsel for the Lombardi Group), was fair to the Company's Public Stockholders, and had determined to recommend that the Board accept the proposal.

At February 25, 2005, the number of record holders of the Common Stock was 6,296. Such number of record holders was determined from the Company's shareholder records and does not include beneficial owners whose shares are held in nominee accounts with brokers, dealers, banks and clearing agencies.

The Company did not sell any of its equity securities during the fiscal year ended January 30, 2005.

ITEM 6. MANAGEMENT'S DISCUSSION AND
ANALYSIS OR PLAN OF OPERATION

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

Certain statements regarding future performance in this Annual Report on Form 10-KSB 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, the impact of competition to the Company's restaurants, pricing and acceptance of the Company's food products. In addition, the Company's performance may be adversely affected if it is unable to find a satisfactory successor to its president and principal executive officer, Anthony C. Papalia, who left the Company's employ at the end of June 2004.

FINANCIAL REPORTING

Note 1 to the consolidated financial statements includes a summary of significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. However, in the opinion of management, the Company does not have any individual accounting policy that is critical to the preparation of its consolidated financial statements. This is due principally to the nature of the accounting requirements of the Company's business. The following is a review of the more significant accounting policies and methods used by the Company.

Depreciation and Amortization: The Company depreciates its property and equipment and amortizes its definite life intangible assets using straight-line methods over the estimated useful lives of the assets. Intangible assets (including liquor licenses) deemed to have indefinite useful lives are not amortized but are subject to impairment tests at least annually, or more frequently if circumstances occur that indicate impairment may have occurred. The Company tested for impairment of its definite and indefinite life intangible assets and no impairment charges were necessary during fiscal 2004 or fiscal 2005. See Note 6 of Notes to the Consolidated Financial Statements.

Income Taxes: The Company accounts for income taxes in accordance with statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are determined based on the difference between book and tax assets and liabilities, using enacted tax rates in effect for the year in which the differences are

expected to reverse. The recognition of the deferred tax assets is based on management's best assumptions and estimates of future income. A valuation allowance is recorded when management determines that it is more likely than not that some portion of the deferred tax assets will not be realized. These assumptions and estimates will be periodically reviewed and, if needed, adjustments will be made as required. During fiscal 2005, the Company determined that sales of certain of its tangible and intangible assets will result in sufficient taxable income so that a valuation allowance against the deferred tax assets is no longer warranted.

Hedging Instruments: The Company has interest rate swap agreements relating to a portion of its variable rate debt. The Company accounts for these hedging instruments under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," and its related amendment, SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as "SFAS No. 133"). 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.

OVERVIEW

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

The Company currently operates nine restaurants on a year-round basis.

See Item 1, "Developments Since the Beginning of the Last Fiscal Year" as to the Company's sale of its Lobster Shanty Restaurant in Jensen Beach, Florida during the second quarter of calendar 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." 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 its 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 closing of the Company's Escondido's restaurant in the Monmouth Mall in Eatontown, New Jersey ("Monmouth") in June 2003 and its sale of its Jensen Beach, Florida Lobster Shanty restaurant in May 2004 reduced the number of restaurants operated by the Company to nine.

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.

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The Company operated eleven restaurants during the year ended January 25, 2004.

The statements of operations are comprised of a 53-week period for the year ended January 30, 2005 ("fiscal 2005") and a 52-week period for the year ended January 25, 2004 ("fiscal 2004").

RESULTS OF OPERATIONS

Sales for the year ended January 30, 2005 totaled $21,563,600, a decrease of $719,600 or 3.2%, as compared to total sales of $22,283,200 for the year ended January 25, 2004, despite an additional week of sales included in the fiscal 2005 results. Fiscal 2004's sales included $311,800 in sales at the Monmouth Escondido's ("Monmouth") which was closed in June 2003 and $1,210,300 in sales at the Jensen Beach, Florida Lobster Shanty, ("Jensen Beach") which was sold in May 2004, compared to $526,900 for Jensen Beach in fiscal 2005, a decrease of $683,400 at Jensen Beach. Sales for the nine restaurants that operated during the comparable periods increased by $275,600 or 1.3%. The three Florida restaurants that operated during the comparable periods realized decreased sales of $228,500 or 3.4% due to closure of the restaurants as a result of the devastation caused by the September 2004 hurricanes. The closures ranged from twelve days at the Cocoa Beach restaurant to 76 days at the Vero Beach Mr. Manatee's restaurant. Some weather observers believe that this was the worst Florida storm season ever recorded and clearly the effect of the damage has impacted the 2004-2005 Florida tourist season by the continued closure of several major hotels/motels. All three Florida restaurants reported lower sales for the current (2004-2005) tourist season. The six New Jersey restaurants that operated during the comparable periods realized increased sales of $504,100 or 3.6% versus last year due to a mild 2003-2004 winter and despite lower sales during a lack-luster rainy 2004 summer tourist season. Sales in both states continue to be under pressure due to concerns about terrorism and the record

high cost of gasoline. The number of customers served in the nine restaurants that operated during the comparable periods decreased by 3.8% while the average check increased by 5.3% versus the prior year.

GROSS PROFIT

Gross profit was $14,678,200 or 68.1% of sales for fiscal 2005 compared to $15,248,300 or 68.4% for 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 due to the increase in the price of oil, 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 8% from $15,318,500 for fiscal 2004 to $14,090,800 for fiscal 2005. Payroll and related expenses were 30.5% of sales for fiscal 2005 compared to 31.1% of sales for fiscal 2004. The primary reasons for the improvement were the closure of the Monmouth and Jensen Beach restaurants which operated with higher payroll costs, and lower health and worker's compensation insurance costs at the other nine restaurants. Other operating expenses were 21.7% of sales for fiscal 2005 compared to 22.2% of sales for fiscal 2004 primarily attributable to the closures of Monmouth and Jensen Beach,

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which offset increased utility costs at the other restaurants related to the substantial increase in oil prices.

Depreciation and amortization expenses in fiscal 2005 were lower by approximately $65,700 versus fiscal 2004 due primarily to the closings of Monmouth and Jensen Beach and the write off of property and equipment destroyed or damaged by the hurricanes. Depreciation expenses will increase in the future as the replacement assets purchased in fiscal 2005 are depreciated.

General and administrative expenses for fiscal 2005 were lower by approximately $130,000 versus the prior fiscal year due primarily to reductions in salaries and payroll taxes of approximately $78,200 and lower insurance costs of approximately $54,200. Salaries for fiscal 2005 included $71,500 attributed to the Company's Executive Incentive Bonus Plan ("Bonus Plan") (see Note 12 to the Consolidated Financial Statements), while salaries in fiscal 2004 attributed to the Bonus Plan were $51,000.

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 resulting 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. As part of a Surrender Agreement, the Mall was given an option to purchase the Company's liquor license for a specified price. However, during fiscal 2005, the Mall declined to purchase the license and management is currently in the process of marketing the license to interested parties.

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

During the fourth quarter of fiscal 2005, the Company spent an additional $35,200 on hurricane costs and received net insurance advances of approximately $558,000 from its insurance carriers resulting in a net gain related to the hurricanes of approximately $202,400 for the year ended January 30, 2005.

OTHER INCOME AND EXPENSE.

Interest expense was $9,400 lower in fiscal 2005 due to debt reduction. During the fourth quarter of fiscal 2005, the Company's primary bank lender 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 and a variable interest rate equal to the monthly LIBOR Market Index Rate plus 2%. The Company intends to use the line to cover short-term cash needs related to the hurricane losses. At the year end, the Company had drawn $500,000 on the line. Investment income was $114,700 higher in fiscal 2005 primarily due to an increase of $60,700 in capital gains realized on the sale of investments (see Note 10 to the Consolidated Financial Statements).

NET INCOME.

For the year ended January 30, 2005, the Company realized net income of $783,500 or $.20 per share compared to $39,000 or $.01 per share for the year ended January 25, 2004. Net income for the current year includes a gain of approximately $415,000 recognized on the sale of Jensen Beach and a net gain of

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approximately $202,400 related to the Florida hurricanes. The prior year's net income included a charge of $410,000 for the loss on closing the Monmouth restaurant and a credit of $57,000 for income taxes.

LIQUIDITY AND CAPITAL RESOURCES.

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

The Company's ratio of current assets to current liabilities was 2.12:1 at January 30, 2005, compared to 2.56:1 at January 25, 2004. Working capital was $3,355,700 at the end of fiscal 2005, a decrease of $331,200 versus the prior year. During fiscal 2005, there was an increase in cash of $831,300. Net cash provided from operating activities was $2,090,700. The primary components were net income, after adjustment for depreciation, deferred income taxes, the gain on the sale of Jensen Beach, and the net gain related to the hurricanes of $1,999,200; a decrease in inventories of $86,000 primarily related to the sale of Jensen Beach; a decrease in pre-paid expenses of $90,400 as a result of a change in the financing of the Company's annual property and casualty insurance program; an increase of $131,800 in accounts payable primarily due to construction costs associated with restaurant renovations and hurricane costs; and a decrease of $210,000 in accrued expenses primarily due to a final payment of $120,000 paid as per the Surrender Agreement associated with the closing of Monmouth (see Note 8 to the Consolidated Financial Statements).

Investing activities during fiscal 2005 resulted in a net cash outflow of approximately $1,222,600. Capital expenditures were $2,165,200, including $984,600 for hurricane related furniture, fixtures and equipment, $655,200 for in-progress renovations at the Lobster Shanty restaurants in Cocoa Beach, Florida and Point Pleasant Beach, New Jersey, and the balance of approximately $525,400 for routine restaurant improvements and the purchase of two Company vehicles. Other investing activities included $842,200 in net proceeds from the

sale of Jensen Beach. Investment purchases of $1,295,400 for available-for-sale securities were offset by $1,291,300 from the sale of investments which resulted in a gain of $129,800. At January 30, 2005, the fair value of the Company's holdings available-for-sale securities resulted in net unrealized gains of $109,100 (see Note 3 to the Consolidated Financial Statements). The resulting gains are recorded in stockholder's equity as a component of accumulated other comprehensive income.

Financing activities for fiscal 2005 resulted in a net cash outflow of $36,700 and included debt repayment of $271,300; bank loan proceeds of $500,000 which were drawn on the bank line to partially finance the cost of rebuilding the Florida restaurants pursuant to damages incurred by the hurricanes, and a change in other assets primarily due to approximately $226,500 in costs related to the proposal by the principal shareholders of the Company to purchase all of the remaining outstanding shares of common stock (see Note 2 to the Consolidated Financial Statements).

During fiscal 2004, net cash increased by $341,000. Net cash provided from operating activities was $1,342,000. The primary components were net income, after adjustment for depreciation, deferred income taxes, and a loss on closing of the Monmouth restaurant, of $1,442,300; an increase in inventories of $111,000 primarily related to bulk purchases of shrimp; an increase in prepaid expenses of $90,000 primarily related to the revised financing agreement for the Company's property and casualty insurance premiums; an increase in the current portion of the Company's deferred tax assets, and an increase of $120,400 in accounts

payable due to increased sales and the inventory purchases. Investing activities for fiscal 2004 resulted in a net cash outflow of $568,600. Capital expenditures were $449,100, including $31,400 to renovate the Freehold Escondido's bar and $417,700 for routine restaurant improvements. Other investing activities included the purchase of various investments totaling $534,300 offset by $453,100 realized from the proceeds of maturing certificates of deposit and the sale of investments which resulted in a gain of $69,200. Financing activities in fiscal 2004 resulted in a net cash outflow of $432,400 and included debt repayment of $271,500; treasury stock purchases of $59,200 to repurchase 40,000 shares of the Company's outstanding common stock, and approximately $110,000 in costs related to the Merger proposal (see Note 2 to the Consolidated Financial Statements).

At the end of fiscal 2005, the Company was in compliance with all of the financial covenants under its loan agreements with its primary bank, Wachovia Bank, National Association. The Company was also in full compliance at the year ended January 25, 2004.

RECENT DEVELOPMENTS

In January 2005, the Company began a major renovation of the Lobster Shanty located in Point Pleasant Beach, New Jersey, at a projected cost of approximately $2,200,000. Management expects that the renovated restaurant will be fully operational in May, 2005. In order to partially finance the project, the Company entered into an agreement to borrow up to $1,500,000 through a Non-Revolving Line of Credit with Wachovia Bank ("Construction Line") which expires on July 31, 2005 at a monthly interest rate of one-month LIBOR plus 2.00%. At July 31, 2005 the balance due on the construction line will be converted to a term loan based on a 15-year payout with a ten year balloon at an interest rate to be determined prior to the conversion. At April 21, 2005 the Company had borrowed $750,000 on the construction line.

In February 2005, the Company borrowed an additional $300,000 on its $1,000,000 bank line for repair costs associated with the Florida hurricanes.

In April 2005, the Company received additional net insurance advances of $502,600 which brings the total advances received to date to $1,060,600. Upon receipt of the recent advances, the Company paid $400,000 against the balance due on the $1,000,000 bank line of credit, leaving a total of $600,000 available for future borrowings.

In April 2005, management negotiated the annual renewals for group health ("health") and property and casualty ("property") insurance coverages. The health plan was renewed at a decrease of approximately 3.7% versus the prior year. The property plan coverage was renewed at an increase of approximately 10.5%, a majority of which can be attributed to the impact of last year's hurricanes on Florida insurance companies.

Management anticipates that funds from operations and the construction line will be sufficient to meet the Company's obligations in fiscal 2006, including projected capital expenditures for improvements and renovations of approximately $3,000,000.

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

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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 several years.

ITEM 7. FINANCIAL STATEMENTS

Attached.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

ITEM 8A CONTROLS AND PROCEDURES

(a) EXPLANATION OF DISCLOSURE CONTROLS AND PROCEDURES. Robert M. Lombardi, the Company's principal executive officer and Martin W. Fletcher, the Company's principal financial and principal accounting officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of a date within 90 days of the filing date of this Annual Report (the "Evaluation Date") have each 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 Annual 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 action. As a

result, no corrective actions were taken.

ITEM 8B OTHER INFORMATION

NONE

CHEFS INTERNATIONAL, INC.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table sets forth certain information with respect to each of the current directors of the Company:

Name	Age	Position	Date First Elected a Director
Robert M. Lombardi(a)	53	Chairman of the Board, President, Principal Executive Officer	May 1999
Nicholas B. Boxter(b)	57	Director	December 1999
Kenneth Cubelli(b)	51	Director	December 1999
Raymond L. Dademo(b)	47	Director	December 1999

Name	Age	Position	Date First Elected a Director
Anthony M. Lombardi(a)	49	Director	July 1999
Joseph S. Lombardi(a)	54	Director	July 1999
Michael F. Lombardi(a)	56	Director	July 1999
Stephen F. Lombardi(a)	49	Director	July 1999

(a) The five Lombardis who serve as directors are brothers.

(b) Messrs. Boxter, Cubelli and Dademo were the members of the Special Committee appointed by the Board of Directors to review and make a recommendation to the Board regarding the fairness of the proposed Merger transaction to the Public Stockholders. If the Merger is consummated, they will resign from the Board.

The other executive officer of the Company (in addition to Robert M. Lombardi) is:

Name	Age	Office
Martin W. Fletcher	52	Vice President, Principal Financial and Principal Accounting Officer

The Company does not have an Executive Committee or a separate Audit Committee. The entire Board of Directors serves as the Company's Audit Committee. The term of office of each director and executive officer expires when his successor is elected and qualified. Executive officers are elected by and hold office at the discretion of the Board of Directors.

CODE OF ETHICS

The Board of Directors adopted a code of ethics applicable to the Company's principal executive, principal financial and principal accounting officer during the second quarter of fiscal 2005. The Company will provide a copy of the code of ethics without charge, to any person requesting same in writing addressed to the Company's chief financial officer at the Company's executive offices at 62 Broadway, Point Pleasant Beach, NJ 08742.

DIRECTORS AND EXECUTIVE OFFICERS

The following is a brief account of the business experience of each director and executive officer of the Company during the past five years.

DIRECTORS

Robert M. Lombardi, M.D. is, and for more than the past five years has been principally engaged as a physician and orthopedic surgeon with the Edison-Metuchen Orthopedic Group, a medical practice group located in Edison, New Jersey, where he also serves as a senior officer. He is also an officer of Moore's Inn, Inc. and a partner in Moore's Realty. He was elected president and principal executive officer of the Company in June 2004 to succeed Anthony C. Papalia.

Nicholas B. Boxter, C.P.A. is, and for more than the past five years has been principally engaged in the practice of accountancy with his own firm in Whitehouse, New Jersey.

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Kenneth Cubelli, M.D. is, and for more than the past five years has been principally engaged as a physician and orthopedic surgeon with the Morris County Orthopedic Group in Denville, New Jersey.

Raymond L. Dademo, Esq. is, and for more than the past five years has been principally engaged as a practicing attorney with his own law firm in Brick, New Jersey.

Anthony M. Lombardi, D.D.S. is, and for more than the past five years has been principally engaged in the practice of dentistry in Edison, New Jersey. He is also an officer of Moore's Inn, Inc.

Joseph S. Lombardi, M.D. is, and for more than the past five years has been principally engaged as a physician and orthopedic surgeon with the Edison-Metuchen Orthopedic Group, where he is a senior officer. He is also an officer of Moore's Inn, Inc. and a partner in Moore's Realty.

Michael F. Lombardi, Esq. is, and for more than the past five years has been principally engaged as a practicing attorney and a senior officer of Lombardi & Lombardi, P.A., an Edison, New Jersey law firm. He is also an officer of Moore's Inn, Inc. and a partner in Moore's Realty.

Stephen F. Lombardi, Esq. is, and for more than the past five years has been principally engaged as a practicing attorney and a senior officer of Lombardi & Lombardi, P.A., an Edison, New Jersey law firm. He is also an officer of Moore's Inn, Inc. and a partner in Moore's Realty.

EXECUTIVE OFFICER

The other executive officer of the Company in addition to Robert M. Lombardi is Martin W. Fletcher who has been continuously employed by the Company for the preceding five years in various capacities. He has served as general manager of the Company's Toms River, New Jersey Lobster Shanty, as area

supervisor for its Florida west coast restaurants, as assistant controller, since September 1987 as controller and since March 1988 as secretary and a director of the Company. He resigned as a director of the Company in July 1999. Mr. Fletcher was elected principal financial and principal accounting officer of the Company in June 2004 to succeed Anthony C. Papalia. At the same time, he was elected a vice president of the Company. He is currently devoting all of his working time to the business of the Company.

COMPLIANCE WITH SECTION 16 (A) OF THE EXCHANGE ACT

Based solely upon a review of Forms 3, 4 and 5, the Company believes that with respect to fiscal 2005, all Section 16(a) filing requirements applicable to its officers, directors and beneficial owners of more than 10% of its equity securities were timely complied with.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation paid or accrued by the Company during the three fiscal years ended January 30, 2005 to its Principal Executive Officer as well as to any other executive officer of the Company or a subsidiary who earned at least $100,000 during fiscal 2005. During the three-year period ended January 30, 2005, the Company did not grant any restricted stock awards or have any long-term incentive plan in effect. The Company maintains a non-qualified Supplemental Employee Benefit Program for its

officers, supervisors, restaurant managers and assistant managers paying annual contributions ranging from $1,000 to approximately $3,000 per individual. The Program provides life insurance death benefits, disability income benefits and retirement income benefits. A former officer and director, James Fletcher, the father of Martin W. Fletcher, is not covered under this Program but the Company agreed that if he remained in its employ until age 65 and left such employ at any time thereafter, the Company would pay him $20,000 annually for the ten year period following such termination of employment or until his death, if he dies prior thereto. To date, the Company has made annual payments over an eight year period pursuant to this agreement.

SUMMARY COMPENSATION TABLE

Annual Compensation

Name and Principal Position	Fiscal Year	Salary	Bonus(d)	Other Annual Compensation(e)
Robert M. Lombardi	2005(a)	-0-	-0-	-0-
President and				
Principal Executive				
Officer				
Anthony C. Papalia	2005(b)	$77,833	-0-	$1,044
President and	2004	$179,162	$7,500	$2,088
Principal Executive	2003	$174,630	$4,500	$2,088
Officer				
Martin W. Fletcher	2005(c)	$124,603	$17,000	$2,902
Principal Financial	2004	$103,915	$9,100	$2,902
Officer and Controller	2003	$101,255	$5,367	$2,902

(a) Dr. Lombardi was elected president and principal executive officer of the

Company to succeed Anthony C. Papalia in June 2004.

(b) Mr. Papalia resigned as president, principal executive and principal accounting officer of the Company effective in June 2004.

(c) Mr. Fletcher was elected principal financial and principal accounting officer of the Company in June 2004 to succeed Mr. Papalia.

(d) In May 2000, the Company's Board of Directors adopted an executive incentive bonus plan providing for an annual cash bonus to be paid to Company employees performing executive type functions with respect to each fiscal year (commencing with fiscal 2001) in which the Company achieved certain specified levels of earnings before deducting interest, income taxes, depreciation and amortization. Extraordinary items are excluded for purposes of the computation. The bonus pool for fiscal 2005 aggregated $71,500 and was distributed to five employees including Martin Fletcher who received $17,000.

(e) Represents contributions under the Supplemental Employee Benefit Program.

EMPLOYMENT AGREEMENTS

At the annual meeting of the Company's stockholders held on December 19, 1995, stockholders ratified employment contracts between the Company and Anthony Papalia as principal executive officer and principal financial officer and between the Company and Martin Fletcher as controller. Each contract expired at the conclusion of the Company's 1999 fiscal year and was automatically renewed on a year by year basis for up to five consecutive additional one-year terms unless either party gave at least six months' prior notice that he or it did not desire

such renewal. As no such notice was given during fiscal 1999, each contract was extended for a first renewal year. Mr. Papalia's annual salary under the contract was $150,000 and Mr. Fletcher's annual salary under the contract was $87,000 but each individual's salary was made subject to automatic increase in each Renewal Year based on increases in the Consumer Price Index. If the employment of either individual was terminated other than for cause, he would become entitled to a Severance Payment equal to the amount of his compensation over the balance of the contract term. Each individual was also entitled to terminate his employment and receive a Severance Payment equal to six months' salary in the event of a "change of control" of the Company. Amendments to each employment contract executed in June 1999 and August 1999 extended the first renewal year through March 31, 2000, renewed each contract for a second renewal year through March 31, 2001 and recast each renewal year so as to commence on April 1 of each year and to expire on March 31 of the following year. Notice of intention not to renew must now be given no later than September 30 of the year preceding the year in which the renewal term commences. In November 2001, each employment contract was further amended to renew the term through March 31, 2005. The amendments retained the automatic salary increase provision based on increases in the Consumer Price Index and provided for an automatic one year renewal in the absence of prior notice not to renew. As a result, during fiscal 2005, Mr. Papalia's annual salary was increased to $186,702 and Mr. Fletcher's annual salary was increased to $133,208.

See Item 1 - "Developments Since the Beginning of the Last Fiscal Year" herein as to the release of Mr. Papalia from his obligations under his employment contract effective at the close of business on June 28, 2004 and his resignation, effective at such date, as president, principal executive officer and principal financial and principal accounting officer of the Company.

STOCK OPTIONS

At January 30, 2005 and at January 30, 2005 there were no outstanding employee or non-employee stock options exercisable to purchase shares of Chefs' common stock.

DIRECTORS' COMPENSATION

During fiscal 2005, no compensation was paid to any of the Company's directors for serving in such capacity. Furthermore, no method of compensation has been established for the directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of April 15, 2005 with respect to their ownership of Chefs' common stock by (i) each person known by the Company to be the beneficial owner of more than 5% of Chefs' outstanding common stock, (ii) each director of the Company, (iii) each executive officer of the Company, and (iv) all directors and executive officers as a group.

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Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percentage Ownership
Directors*		
Robert M. Lombardi (also president)	1,335,826(1)	34%
Nicholas B. Boxter	--	--
Kenneth Cubelli	100,000	3%
Raymond L. Dademo	2,000	--
Anthony M. Lombardi	111,001(1)	3%
Joseph S. Lombardi	599,633(1)	15%
Michael F. Lombardi	332,047	8%
Stephen F. Lombardi	191,669(1)(2)(3)	5%
All executive officers and directors as a group (eight persons)	2,511,508(1)(2)(3)	64%
Other 5% Stockholders		
Maschler Group(4)	196,938(4)	5%

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* The address of each director and executive officer is c/o the Company, 62 Broadway, Point Pleasant Beach, New Jersey 08742.

(1) Robert M. Lombardi, Anthony M. Lombardi, Joseph S. Lombardi, Michael F. Lombardi and Stephen F. Lombardi, Lombardi & Lombardi, P.A. and the Lombardi & Lombardi, P.A. Defined Benefit Pension Plan previously filed a report on Schedule 13D and amendments thereto indicating that they were acting separately and not as a group but subsequently filed amendments to the Schedule 13D indicating that they are acting as a "group." The five individual Lombardis are brothers and for purposes of this report, they and the above entities are deemed the "Lombardi Group." See Item 1 - "Developments Since the Beginning of the Last Fiscal Year" as to the proposal by the Lombardi Group to acquire all of the

outstanding shares of Chefs common stock not owned by the Lombardi Group and the two Maschler Brothers in connection with a Merger transaction designed to take the Company "private". The proposed Merger Agreement and the Plan of Merger were duly adopted by the Company's stockholders at a special meeting held on April 18, 2005.

(2) Includes 111,668 shares owned by the Lombardi & Lombardi, P.A. Defined Benefit Pension Plan. Michael F. Lombardi and Stephen F. Lombardi each have voting and dispositive power with respect to all 111,668 of such shares.

(3) Includes 49,000 shares owned by Lombardi & Lombardi, P.A. Michael F. Lombardi and Stephen Lombardi each have voting and dispositive power with respect to all 49,000 of such shares.

(4) The Maschler Group includes two brothers, Lee Maschler and Matthew H. Maschler who each own 98,469 shares of Common Stock. See Item 1 as to the Merger Agreement and the Plan of Merger designed to take the Company "private."

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See Item 1 - "Restaurant Operations - Mexican Theme Restaurant - Moore's Tavern and Restaurant" as to rentals paid in fiscal 2005 by the Company with respect to its two Freehold, New Jersey restaurants and the "Building Pad C Parking Lot" to Moore's Realty (whose partners are members of the Lombardi Group and other members of the Lombardi family).

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

2.1 Agreement and Plan of Merger between the Company and Lombardi Restaurant Group, Inc. dated as of December 22, 2004.(A)

3.1 Restated Certificate of Incorporation of the Company(B)

3.2 By-Laws of the Company, as amended(C)

4.1 Specimen Common Stock Certificate(D)

10.2 Employment Agreement dated as of December 19, 1995 between Chefs and Anthony Papalia(E)

10.3 Employment Agreement dated as of December 19, 1995 between Chefs and Martin Fletcher(F)

10.4 Loan Agreement dated October 30, 1998 between the Company and First Union National Bank ("First Union")and the Company's $880,000 Promissory Note issued pursuant thereto for funding utilized by the Company to purchase the Vero Beach, Florida Lobster Shanty Restaurant(B)

10.4.1 Loan Agreement dated September 7, 2001 between the Company and First Union containing the Company's affirmative and negative covenants(H).

10.5 Lease Agreement executed in January 2000 for Moore's Inn facility, between Moore's Realty Associates ("Moore's Realty") as Landlord and the Company as Tenant(C)

10.5.1 Lease Agreement dated October 1, 2001 for Building B in Freehold, New

Jersey between Moore's Realty as Landlord and the Company as Tenant (opened as Escondido's Mexican Restaurant)(H).

10.5.2 Lease Agreement dated September 1, 2002 for the Building C pad site between Moore's Realty and the Company.(J)

10.6 Liquor License Sale/Purchase Agreement executed in January 2000 between Moore's Inn, Inc. as Transferor and the Company as Transferee(C)

10.7 Sale/Purchase Agreement for Furniture, Fixtures and Equipment executed in January 2000 between Moore's Inn, Inc. as Seller and the Company as Purchaser(C)

10.9 Chefs International Executive Incentive Bonus Plan(H)

10.10 Asset Purchase Agreement dated January 25, 2002 for personal property, furnishings, fixtures and equipment, liquor license, tradename and goodwill of Mr. Manatee's restaurant in Vero Beach, Florida between Causeway Foods, Inc. and Mr. Manatee's Franchise Corporation as Sellers and the Company as Buyer.(H)

10.11 Commercial Lease Option dated April 1, 2002 between Stephen Craig Long as Lessor and the Company as Lessee for the Mr. Manatee's facility.(I)

21 Subsidiaries

31.1 Certifications of Principal Executive and Principal Financial Officers

31.2 Certifications of Principal Executive and Principal Financial Officers

32.1 Certifications of Principal Executive and Principal Financial Officers of the Company pursuant to 18 United States Code Section 1350.

32.2 Certifications of Principal Executive and Principal Financial Officers of the Company pursuant to 18 United States Code Section 1350.

(A) Incorporated by reference to Appendix to the Company's Rule 13e-3 Transaction Statement on Schedule 13E-3 filed with the Securities and Exchange Commission on December 23, 2004.

(B) Incorporated by reference to exhibit filed with the Company's annual report on Form 10-KSB for the fiscal year ended January 31, 1999.

(C) Incorporated by reference to exhibit filed with the Company's annual report on Form 10-KSB for the fiscal year ended January 30, 2000.

(D) Incorporated by reference to exhibit filed with the Company's Registration Statement on Form SB-2 (File No. 33-66936).

(E) Incorporated by reference to exhibit filed with the Company's annual report on Form 10-K for the fiscal year ended January 28, 1996.

(F) Incorporated by reference to exhibit filed with Amendment No. 1 to the Company's current report on Form 8-K/A for April 1, 1999.

(G) Incorporated by reference to exhibit filed with the Company's current report on Form 8-K for October 6, 2000.

(H) Incorporated by reference to exhibit filed with the Company's annual report on Form 10-KSB for the fiscal year ended January 27, 2002

(I) Incorporated by reference to exhibit filed with the Company's annual report on Form 10-KSB for the fiscal year ended January 26, 2003.

(J) Incorporated by reference to exhibit filed with the Company's annual report on Form 10-KSB for the fiscal year ended January 25, 2004.

(b) REPORTS ON FORM 8-K

During the last quarter of its fiscal year ended January 30, 2005, the Company filed one current report on Form 8-K. This report, for December 22, 2004, in Item 1.01 reported the execution on that date of the Agreement and Plan of Merger by the Company with the Lombardi Restaurant Group, Inc. On April 18, 2005, the Company filed a current report on Form 8-K for that date reporting in Item 8.01 that at the Special Meeting of Stockholders held on April 18, 2005, the Agreement and Plan of Merger between the Company and Lombardi Restaurant Group, Inc. had been approved and adopted by the affirmative vote of a majority of the shares of the Company's common stock outstanding on the Record Date for the Meeting.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The firm of McGladrey & Pullen, LLP ("McGladrey Pullen"), certified public accountants, audited the accounts of Chefs and its subsidiaries (collectively the "Company") for the fiscal years ended January 30, 2005 and January 25, 2004.

(1) AUDIT FEES. McGladrey Pullen billed the Company approximately $71,500 for professional services rendered for the audit of the Company's annual consolidated financial statements for its 2005 fiscal year and to review the financial statements included in its quarterly reports on Form 10-QSB filed with respect to quarterly periods in such fiscal year as compared to approximately $70,000 for such services with respect to the Company's 2004 fiscal year.

(2) AUDIT-RELATED FEES. None.

(3) TAX FEES. McGladrey Pullen billed the Company approximately $12,000 for tax services for fiscal 2005 and approximately $10,000 for tax services for fiscal 2004. The fees were billed for tax return preparation.

(4) ALL OTHER FEES. Approximately $10,000 in fees were billed to the Company by McGladrey Pullen with respect to fiscal 2005 and no fees were billed by said firm to the Company with respect to fiscal 2004 for miscellaneous professional services.

(5) PRE-APPROVAL AND PROCEDURES. The engagement of McGladrey Pullen to render the above services was approved by the Company's Board of Directors.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) CHEFS INTERNATIONAL, INC.

By s/ Robert M. Lombardi
Robert M. Lombardi, President,
Principal Executive Officer

Date: April 29, 2005

By s/ Martin W. Fletcher
Martin W. Fletcher, Vice President
Principal Financial and
Accounting Officer

Date: April 29, 2005

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By s/ Robert M. Lombardi
Robert M. Lombardi, Chairman
Of the Board of Directors

Date: April 29, 2005

By s/ Michael F. Lombardi
Michael F. Lombardi,
Director

Date: April 29, 2005

By s/ Anthony Lombardi
Anthony Lombardi, Director

Date: April 29, 2005

By s/ Stephen F. Lombardi
Stephen F. Lombardi,
Director

Date: April 29, 2005

By s/ Joseph S. Lombardi
Joseph S. Lombardi, Director

Date: April 29, 2005

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

Financial Report

January 30, 2005

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McGladrey & Pullen
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Chefs International, Inc.
Point Pleasant, New Jersey

We have audited the accompanying consolidated balance sheet of Chefs International, Inc. and subsidiaries as of January 30, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two fiscal years in the period ended January 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chefs International, Inc. and subsidiaries as of January 30, 2005, and the results of their operations and their cash flows for each of the two fiscal years in the period ended January 30, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ McGLADREY & PULLEN, LLP

New York, New York
April 1, 2005, except for Note 2, as to which the date is April 20, 2005

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

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CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
JANUARY 30, 2005

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 2,242,184
Available-for-sale securities	2,494,277
Miscellaneous receivables	62,007
Receivable - related party	36,489
Inventories	1,154,026
Deferred income taxes	244,000
Prepaid expenses and other	107,554
TOTAL CURRENT ASSETS	6,340,537
Property and Equipment, at cost	20,353,272
Less: Accumulated depreciation	8,377,549
PROPERTY AND EQUIPMENT, NET	11,975,723
Other Assets:	
Asset held for sale	50,181

Intangibles	867,087
Equity in life insurance policies	536,596
Deferred income taxes	293,000
Deferred going private costs	336,539
Other	72,959
TOTAL OTHER ASSETS	2,156,362
	$ 20,472,622

See notes to consolidated financial statements.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (CONTINUED)
JANUARY 30, 2005

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Line of credit	$ 500,000
Current maturities of notes and mortgages payable	270,770
Accounts payable	954,350
Accrued payroll	211,325
Other accrued expenses	496,536
Income taxes payable	61,524
Gift certificates	490,363
TOTAL CURRENT LIABILITIES	2,984,868
Notes and Mortgages Payable	1,418,322
Other Liabilities:	
Accrued retirement benefits	462,773
Interest rate swap agreements	86,494
OTHER LIABILITIES	549,267
Stockholders' Equity:	
Capital stock - common $.01 par value, Authorized 15,000,000 shares, Issued and outstanding 3,925,384	39,254
Additional paid-in capital	31,488,838
Accumulated deficit	(16,031,543)
Accumulated other comprehensive income	23,616
TOTAL STOCKHOLDERS' EQUITY	15,520,165

$ 20,472,622

See notes to consolidated financial statements.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JANUARY 30, 2005 AND JANUARY 25, 2004

	2005	2004
Sales	$ 21,563,608	$ 22,283
Cost of Goods Sold	6,885,461	7,034
GROSS PROFIT	14,678,147	15,248
Operating Expenses:		
Payroll and related expenses	6,579,630	6,924
Other operating expenses	4,679,150	4,956
Depreciation and amortization	1,050,592	1,116
General and administrative expenses	1,781,472	1,911
Loss on restaurant closings	--	410
	14,090,844	15,318
INCOME (LOSS) FROM OPERATIONS BEFORE OTHER OPERATING INCOME	587,303	(70
Other Operating Income:		
Gain on restaurant closings	415,473	
Gain related to settlement for hurricane damages	202,399	
	617,872	
OPERATING INCOME (LOSS)	1,205,175	(70
Other Income (Expense):		
Investment income	325,930	211
Interest expense	(149,635)	(159
	176,295	52

INCOME (LOSS) BEFORE INCOME TAXES	1,381,470	(18
Provision (Credit) for Income Taxes	598,000	(57
NET INCOME	$ 783,470	$ 38
Basic and Diluted Income Per Common Share	$ 0.20	$

See notes to consolidated financial statements.

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CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED JANUARY 30, 2005 AND JANUARY 25, 2004

	Number of Shares	Capital Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumu Oth Compreh Income
BALANCE AT JANUARY 26, 2003	3,969,540	39,695	$ 31,549,492	$(16,854,010)	$ (37
Comprehensive Income:					
Net income	--	--	--	38,997	
Net unrealized gains on available-for-sale securities arising during period, net of $109,000 of taxes	--	--	--	--	42
Reclassification adjustment for gains realized on available-for-sale securities, net of $14,000 of taxes	--	--	--	--	(5
Change in fair value of derivatives accounted for as hedges, net of $8,000 of taxes	--	--	--	--	2
TOTAL COMPREHENSIVE INCOME	--	--	--	--	
Stock repurchase program	(40,000)	(400)	(58,800)	--	

Retirement of treasury stock	(3,550)	(36)	(3,849)	--	
Fractional shares conversion and other	126	2	1,988	--	
BALANCE AT JANUARY 25, 2004	3,926,116	39,261	31,488,831	(16,815,013)	2
Comprehensive Income:					
Net income	--	--	--	783,470	
Net unrealized gains on available-for-sale securities arising during period, net of $27,000 of taxes	--	--	--	--	2
Reclassification adjustment for gains realized on available-for-sale securities, net of $66,000 of taxes	--	--	--	--	(6
Change in fair value of derivatives accounted for as hedges, net of $24,000 of taxes	--	--	--	--	3
TOTAL COMPREHENSIVE INCOME	--	--	--	--	
Fractional shares conversion	(732)	(7)	7	--	
BALANCE AT JANUARY 30, 2005	3,925,384	39,254	$ 31,488,838	$(16,031,543)	$ 2

See notes to consolidated financial statements.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 30, 2005 AND JANUARY 25, 2004

	2005
Cash Flows From Operating Activities:	
Net income	$ 783,47
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,050,59

Deferred income taxes	502,00
Gain on sale of investments	(129,82
(Gain) loss on restaurant closings	(415,47
Other disposal losses	2,48
Hurricane damage settlements	78,62
Changes in assets and liabilities:	
(Increase) decrease in:	
Miscellaneous receivables	59,10
Inventories	86,02
Prepaid expenses	90,42
Increase (decrease) in:	
Accounts payable	131,76
Accrued expenses and other liabilities	(210,04
Income taxes payable	61,52
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,090,66
Cash Flows From Investing Activities:	
Purchase of property and equipment	(2,165,19
Proceeds sale of restaurant	842,19
Sale and redemption of investments	1,291,34
Purchase of investments	(1,295,40
Equity in life insurance policies	104,42
NET CASH (USED IN) INVESTING ACTIVITIES	(1,222,63
Cash Flows From Financing Activities:	
Proceeds from line of credit	500,00
Repayment of debt	(271,34
Purchase and retirement of treasury stock	-
Other	(265,39
NET CASH (USED IN) FINANCING ACTIVITIES	(36,74
NET INCREASE IN CASH AND CASH EQUIVALENTS	831,28
Cash and Cash Equivalents:	
Beginning	1,410,89
Ending	$ 2,242,18
Supplemental Disclosure of Cash Flow Information:	
Cash payment for:	
Interest	$ 147,63
Income taxes	$ -
Noncash Transactions:	
(Decrease) increase in fair value of securities available for sale	$ (74,70
Change in fair value of derivatives accounted for as hedges	$ 63,10

See notes to consolidated financial statements.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business:

Chefs International, Inc. and its subsidiaries (the "Company") operate nine restaurants. Six of these restaurants are seafood restaurants, located in New Jersey and Florida, generally operating under the trade name, "Jack Bakers Lobster Shanty". The Company also operates Escondido's Mexican Restaurant, Moore's Tavern and Restaurant, an eclectic American restaurant, and Mr. Manatee's Casual Grille, a casual theme restaurant primarily featuring seafood items. Escondido's and Moore's Tavern are located in New Jersey; Mr. Manatee's is located in Florida. Segment information is not presented since all of the Company's revenue is attributable to a single reportable segment.

52-53 Week Period:

The Company's year-end is the last Sunday in January. The statements of operations are comprised of a 53 week period for fiscal 2005, and a 52 week period for fiscal 2004.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents:

Cash equivalents are comprised of certain highly liquid investments with a maturity of three months or less when purchased.

The Company maintains cash balances at several financial institutions in New Jersey and Florida. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000 at each financial institution. Uninsured cash balances at January 30, 2005 totaled approximately $2,005,000.

Available-for-Sale Securities:

At January 30, 2005, available-for-sale securities consist of mutual funds, and equity securities. Available-for-sale securities are carried at fair value with unrealized gains or losses reported in a separate component of stockholders' equity. Realized gains or losses are determined based on the specific identification method.

Revenue Recognition:

Sales from restaurants are recognized as revenue at the point of the delivery of meals and services. Gift certificates are sold in the ordinary course of business. Proceeds from gift certificate sales are recorded as deferred revenue at the time a gift certificate is sold and are not recognized as revenue until a gift certificate is redeemed.

Inventories:

Inventories consist of food, beverages and supplies and are stated at the lower of cost (determined by the first-in, first-out method) or

market.

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1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment:

Property and equipment are carried at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. The estimated useful lives range from 5 to 40 years for buildings and improvements, including leaseholds, and 5 to 10 years for furniture and equipment.

Intangible Assets:

Indefinite life intangible assets are not amortized but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In assessing the recoverability of goodwill and indefinite life intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets.

The impairment evaluation for indefinite life intangible assets includes the comparison of the asset's carrying value to the asset's fair value. When the carrying value exceeds the fair value, an impairment charge is recorded for the amount of the difference. An intangible asset is determined to have an indefinite useful life when there are no legal, regulatory, contractual, competitive, economic or any other factors that may limit the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Company. In each reporting period, the Company also evaluates the remaining useful life of an intangible asset that is not being amortized to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is determined to have a finite useful life, the asset will be amortized prospectively over the estimated remaining useful life and accounted for in the same manner as intangible assets subject to amortization.

The Company has determined that the Company's liquor licenses have an indefinite life and these assets are no longer being amortized.

Intangible assets subject to amortization are amortized on a straight-line method over their estimated useful lives.

Income Taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by

a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments:

The Company's interest rate swap agreements are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability "cash flow" hedge. Changes in the fair value of a derivative that is highly effective as (and that is designated and qualifies as) a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings).

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific assets and liabilities on the balance sheet or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is designated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with subsequent changes in its fair value recognized in current-period earnings.

Advertising:

The Company expenses advertising costs as incurred. Advertising costs for fiscal 2005 and 2004 were $421,500 and $516,700, respectively.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Consolidation of Variable Interest Entities:

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN 46 was subject to significant interpretation by the FASB, and was revised and reissued in December 2003 ("FIN 46R"). FIN 46R states that if an entity has a controlling financial interest in a variable interest entity, the assets, the liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements to the entity. The provisions of FIN 46 and FIN 46R are applicable for small business issuers that have variable interest entities (VIE) by the end of the first reporting period ending after December 15, 2004. The adoption of FIN 46 and FIN 46R did not have any effect on the Company's consolidated financial statements.

Earnings Per Share:

The weighted average number of shares outstanding used to compute basic and diluted earnings per share for fiscal 2005 and 2004 was 3,925,384 and 3,926,116, respectively.

Reclassifications:

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

2. GOING PRIVATE TRANSACTION

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.

At a special meeting of the stockholders on April 18, 2005, the proposed plan, which provides for the merger of the Company with Acquisition Co., a company formed to merge with the Company, was approved. Acquisition Co. is owned by nine shareholders (continuing shareholders) of the Company. The Company, after the merger, will acquire approximately 1,320,000 shares of its common stock at a total purchase cost of approximately $4,120,000, financed through capital contributions by the continuing shareholders. Costs incurred in connection with this transaction were $336,539 through January 30, 2005, and have been deferred pending completion of the transaction. These costs will be added to the cost to acquire the shares and will be treated as a cost of treasury stock.

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3. AVAILABLE-FOR-SALE SECURITIES

Details as to available-for-sale securities at January 30, 2005 are as follows:

	Gross Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Fair Value of Securities with Unrealized (Losses)
Mutual funds	$ 1,862,193	$ 76,114	$ (54,943)	$ 1,883,364	$ 764,601
Equity securities	522,974	129,721	(41,782)	610,913	90,503
	$ 2,385,167	$ 205,835	$ (96,725)	$ 2,494,277	$ 855,104

All of the investments with unrealized losses have been in a continuous unrealized loss position for more than one year. The severity of the impairments in relation to the carrying amounts of the individual investments (fair value average is approximately 10% less than cost) is consistent with current market conditions. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company

does not consider these investments to be other-than-temporarily impaired at January 30, 2005.

4. INVENTORIES

Inventories consist of the following at January 30, 2005:

Food	$ 578,674
Beverages	142,010
Supplies	433,342
	$ 1,154,026

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at January 30, 2005:

Land	$ 3,168,630
Buildings and improvements, including leaseholds	14,073,456
Furniture and equipment	2,236,206
Construction in progress	789,507
China, glassware and utensils (a)	85,473
	$ 20,353,272

(a) Carried at original cost for each restaurant. All replacement purchases are charged to expense as incurred.

Depreciation expense was $1,037,000 and $1,103,000 for fiscal 2005 and 2004, respectively.

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6. INTANGIBLE ASSETS

Intangible assets deemed to have indefinite useful lives are not amortized but are subject to impairment tests at least annually, or more frequently if circumstances occur that indicate impairment may have occurred. Management has determined that the Company's liquor licenses have an indefinite life. The Company's annual impairment test of the liquor license intangible asset resulted in no impairment during the year ended January 30, 2005.

Intangible assets at January 30, 2005 consist of:

	Liquor Licenses	Covenant Not to Compete (a)
Cost	$ 1,175,998	$ 63,126
Accumulated amortization	(336,266)	(35,771)

	$ 839,732	$ 27,355

(a) Arising from the acquisition of Mr. Manatee's Casual Grille.

Amortization expense was $12,625 for both fiscal 2005 and 2004.

The aggregate amortization expense for the covenant not to compete for each of the next three years is as follows: $12,625 annually for the fiscal years 2006 through 2007 and $2,105 for 2008.

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7. LINE OF CREDIT AND NOTES AND MORTGAGES PAYABLE

Borrowing under $1,000,000 line of credit payable on demand and is which is collateralized by real estate located in Toms River, New Jersey. The line expires June 30, 2005 and bears interest at LIBOR plus 2.00%.

Mortgages payable in various monthly installments to amortize the mortgage principal at the rate of $120,000 annually, through September 2011 with interest at LIBOR plus 2.00%, collateralized by real estate located in Point Pleasant Beach, New Jersey

Mortgage payable in monthly installments of $8,319, inclusive of interest at LIBOR plus 2.00%, through November 2008, collateralized by real estate located in Vero Beach, Florida

Mortgage payable in various monthly installments to amortize the mortgage principal at the rate of $100,000 annually, through May 2007, with interest at LIBOR plus 2.00%, collateralized by real estate located in Toms River, New Jersey

Less: Current maturities

Annual maturities for fiscal years 2007 through 2010 are $274,909, $189,283, $599,130 and $120,000, respectively.

LIBOR was 2.6% at January 30, 2005.

The Company maintains an interest rate risk-management strategy that uses derivative financial instruments to minimize unanticipated

earnings fluctuations caused by interest rate volatility. The Company's specific goal is to lower (where possible) the cost of its borrowed funds.

As of January 30, 2005, the Company had interest rate swap agreements relating to approximately $1,479,000 of the Company's variable rate debt. Unrealized net losses under the interest rate swap agreements totaled approximately $86,500 at January 30, 2005. These unrealized net losses are recorded in Accumulated Other Comprehensive Income in the consolidated balance sheet. Since the Company does not intend to terminate the swap agreements during the upcoming year, the Company does not anticipate that any of these unrealized losses will be reclassified into earnings in the next twelve months, except for the amounts that will be realized when periodic settlements of the variable interest liability are recorded in earnings. No gain or loss was recognized in earnings during the year ended January 30, 2005 as a result of hedge ineffectiveness.

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7. LINE OF CREDIT AND NOTES AND MORTGAGES PAYABLE (CONTINUED)

All of the Company's mortgages and loans are with the same financial institution. The loan covenants governing the borrowings include, among other items, requirements relating to tangible net worth, capital expenditures and working capital.

During February 2005, the Company entered into an agreement to borrow up to $1,500,000 through a Non-Revolving Line of Credit with a bank, in order to partially finance a major renovation of the Lobster Shanty located in Point Pleasant Beach, New Jersey. The line expires on July 31, 2005 and carries a monthly interest rate of 1-month LIBOR plus 2.00%. At July 31, 2005, the balance due on the line will be converted to a term loan based on a 15-year payout with a 10-year balloon with the interest rate to be determined prior to the conversion. The Company has borrowed $750,000 on the line, subsequent to year-end. Also, subsequent to year-end, the Company borrowed an additional $300,000 on its $1,000,000 bank line for costs associated with the Florida hurricanes, leaving a total of $200,000 available.

8. 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. An aggregate loss of $410,024 was recorded for the year ended January 25, 2004. In connection with this restaurant closing, the Company is attempting to sell the liquor license used in that location. The liquor license has been classified as an "Asset held for sale" in the accompanying balance sheet as of January 30, 2005.

In May 2004, the Company sold its restaurant and property located in Jensen Beach, Florida for $900,000, resulting in a gain of $415,473 for the year ended January 30, 2005.

9. HURRICANE DAMAGES AND SETTLEMENTS

In September 2004, the Company's three Florida restaurants were damaged as a result of Hurricanes Frances and Jeanne. The Company has recognized a gain of $202,399 related to the event. The Company has received interim payments of $600,000 (which it has recognized as income) on its insurance claims and incurred $397,601 of costs, 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 $985,000 in fiscal 2005 for capital expenditures related to the hurricanes and expects to spend substantial additional amounts for additional capital expenditures in the future.

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. Should the insurer determine that its obligations are less than interim payments already made to the Company, the Company maybe required to reimburse the insurer for the excess. Additionally, the Company may be eligible for claims under its business interruption policy.

Total claims for damages under various insurance policies that the Company has filed, for which no settlements or interim payments have been received, approximate $1,200,000 as of March 31, 2005.

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10. INVESTMENT INCOME

The components of investment income are summarized as follows:

	2005	2004
Interest	$ 18,621	$ 13,60
Dividends	177,482	128,48
Realized gain on sales of available-for-sale securities	129,827	69,17
	$ 325,930	$ 211,25

11. RETIREMENT PROGRAMS

The Company has a non-qualified supplemental retirement program which provides life insurance to certain eligible employees. The Company is the owner of all cash values of the policies. The death benefit is split, reimbursing the Company for premiums paid with the balance paid

to the beneficiary designated by the employee. Employees vest in the program after ten years, with the option to take ownership of the policy at that time or let the Company continue to fund the policy. The Company has recorded, as a long-term asset in the accompanying balance sheet, its equity in life insurance for premiums advanced and has included in other long-term liabilities the Company's estimated liability for the amount of the equity in life insurance which the Company will be required to turn over to employees.

Additionally, the Company has an agreement with a former director/employee which provides for the payment of $20,000 per year through 2007. The discounted present value of this agreement is included in accrued retirement benefit. The amount has been partially insured with a life insurance contract owned by the Company.

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11. RETIREMENT PROGRAMS (CONTINUED)

Reconciliation of changes in the accrued retirement benefits and funded status of the plan as of January 30, 2005 were:

Change in estimated benefit obligation:	
Benefit obligation at the beginning of year	$ 589,720
Change in cash surrender value for vested employees	55,100
Estimating obligation increase for non-vested employees	6,233
Employee withdrawals	(169,835)
Benefit payments	(20,000)
Dividends received	2,697
Other	(1,142)
Benefit obligation at end of year	$ 462,773

Components of retirement plan expense were:

	2005	2004
Policy premiums	$ 43,456	$ 52,600
(Increase) decrease in cash surrender value in excess of estimated change in obligation for nonvested employees	(6,233)	8,198
Companies' portion of nonvested employee withdrawals	(2,159)	(11,970)
Other	(760)	857
	$ 34,304	$ 49,685

Although the Company has designated the equity in life insurance policies to fund the benefit obligation for those retirement benefits,

the equity in these policies are not segregated plan assets. As such, the retirement obligation is considered non-funded at January 30, 2005.

12. EXECUTIVE INCENTIVE BONUS PLAN

The Company has an executive incentive bonus plan which provides eligible employees an annual cash bonus if the Company achieves certain financial goals. The charge to operations applicable to the incentive plan for fiscal 2005 and 2004 was $71,485 and $51,000, respectively.

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13. INCOME TAXES

The provision (credit) for income taxes consist of the following:

	2005	2004
Current - Federal	$ 15,000	$ --
- State	81,000	6,000
Deferred	502,000	(63,000)
	$ 598,000	$ (57,000)

The significant components of deferred tax assets and liabilities as of January 30, 2005 are as follows:

Deferred Tax Assets:	
Tax loss carryforwards	$ 189,000
Depreciation and amortization	321,000
Other comprehensive loss	1,000
Other	54,000
TOTAL DEFERRED TAX ASSETS	565,000
Deferred Tax Liability:	
Other	28,000
NET DEFERRED TAX ASSETS	$ 537,000

For the fiscal years ended January 30, 2005 and January 25, 2004, no valuation allowance was required. The net change in the valuation allowance for fiscal 2004 was a reduction of $1,098,000, principally due to the expiration of tax loss carryforwards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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13. INCOME TAXES (CONTINUED)

The Company has available at January 30, 2005, operating loss carryforwards which expires as follows:

Year of Expiration	
2010	$ 58,000
2011	145,000
2012	88,000
2024	166,000
	$ 457,000

The difference between the tax provision at the statutory Federal income tax rate and the tax provision attributable to income before income tax for the years ended January 30, 2005 and January 25, 2004 is as follows:

	2005	2004
Federal statutory rate	$ 478,000	$ (6,100)
State taxes net of Federal benefit	70,500	(900)
Expiration of operating loss carryforwards	91,500	1,090,000
Valuation allowance change	--	(1,098,000)
Non taxable income	(42,000)	(42,000)
PROVISION (CREDIT) FOR INCOME TAXES	$ 598,000	$ (57,000)

14. TRANSACTIONS WITH RELATED PARTIES

The Company has a lease through January 2007 for its Moore's Inn ("Moore's") restaurant property with Moore's Realty Associates ("Moore's Realty"), a partnership owned by the principal shareholders of the Company. The lease requires minimum annual rentals of $90,000, plus percentage rent of 6% of sales exceeding $1.5 million. The lease contains three five-year renewal options.

The Company also has a five-year lease for the property adjacent to Moore's for the Company's Escondido's Mexican Restaurant (Escondido's). The terms of this lease are the same as the lease for Moore's.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Additionally, the Company has a lease with Moore's Realty for an additional parking lot for Moore's and Escondido's. The initial term of the lease expires January 25, 2007 and contains three five-year renewal options. During the initial term of the lease, minimum annual rentals are $40,000, plus percentage rent of 1% of the combined annual sales of Moore's and Escondido's exceeding $4million. The lease also contains a provision whereby Moore's Realty agreed to reimburse the Company for improvements made to the parking lot up to $150,000. During fiscal 2003, the Company made improvements of approximately $135,000, which is being reimbursed by an offset to the monthly rent payment. Included in the accompanying balance sheet at January 30, 2005 is a current receivable of $36,489.

Rent expense paid pursuant to these leases for fiscal 2005 and 2004 was $294,234 and $279,763, respectively, which included percentage rent of $59,763 and $51,963, respectively.

Moores Realty is not considered a variable interest entity as there is sufficient equity investment by the partners and the partners have a controlling financial interest in the partnership. Additionally, as of January 30, 2005 there was no debt on the partnership.

The Company has a retirement agreement with a former director/employee (see Note 11).

15. COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases restaurants, parking lots and equipment under operating leases including related party leases (Note 14) expiring at various times through fiscal 2008.

Minimum future rental payments under noncancelable operating leases as of January 30, 2005 are as follows:

2006	$ 356,892
2007	353,001
2008	40,506
	$ 750,399

Total rent expense, including rent paid to related parties, was $452,455 and $497,615 for fiscal 2005 and 2004, respectively.

Employment Agreements:

The Company has employment agreements through June 2007 with three employees for annual amounts ranging from $124,800 to $151,400. The agreements provide for annual adjustments based on the increase in the consumer price index. These agreements also provide for lump sum payments in the event of the termination of the employees without cause or a change in control of the Company, as defined, for a portion of the unexpired term of the contracts.

CHEFS INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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16. FINANCIAL INSTRUMENTS

The carrying amounts reflected in the consolidated balance sheet for cash and cash equivalents, investments, receivables and notes and mortgages payable approximate their respective fair values. Fair values for investments are based primarily on quoted prices for those or similar instruments. The carrying value of cash and cash equivalents, receivables and notes and mortgages payable is considered to be representative of their fair value because of their relatively short maturities or variable interest rates.