

## **FOR IMMEDIATE RELEASE**

Contact: Kenneth L. Hignett  
Senior Vice President, Chief Financial Officer & Secretary  
(216) 359-9000

### **MORGAN'S FOODS ANNOUNCES FULL YEAR AND FOURTH QUARTER FISCAL 2008 RESULTS**

Cleveland, Ohio (June 2, 2008) -- Morgan's Foods, Inc. (OTC:MRFD) ([www.morgansfoods.com](http://www.morgansfoods.com)) announces full year and fourth quarter fiscal 2008 results.

For the fiscal year ended March 2, 2008, the Company reported revenue of \$96,318,000, an increase of \$5,070,000, or 5.6%, compared to fiscal 2007. The \$5,070,000 increase in restaurant revenues during fiscal 2008 was due mainly to a 3.3% increase in comparable restaurant revenues, \$1,830,000 in revenues for the fifty-third week of the Company's 2008 fiscal year and \$730,000 of additional revenue from a new restaurant. The revenue increases were partially offset by \$534,000 of lost revenues due to restaurants being temporarily closed for remodeling during the Company's very active image enhancement schedule and \$635,000 of lost revenue for restaurants permanently closed. The comparable restaurant revenue increase resulted from moderately effective products and promotions from the franchisors.

Revenues for the 17 weeks ended March 2, 2008, were \$28,509,000, an increase of \$2,687,000 compared to the 16 weeks ended February 25, 2007 primarily resulting from a 3.3% increase in comparable restaurant revenues, \$1,830,000 in revenues for the seventeenth week and \$434,000 of revenue from a new restaurant. The revenue increases were partially offset by \$216,000 of lost revenues due to restaurants being temporarily closed for remodeling during the Company's very active image enhancement schedule and \$170,000 of lost revenue for restaurants permanently closed.

Net income for fiscal 2008 was \$414,000 or \$0.14 per share (\$0.14 diluted) compared to net income of \$3,527,000 or \$1.29 per share (\$1.27 diluted) for fiscal 2007. For the fourth quarter of fiscal 2008 the net loss was \$(1,447,000) or \$.50 per share (\$.49 diluted) compared to \$337,000 or \$.12 per share (\$.12 diluted) for the fourth quarter of fiscal 2007. The Company's net income (loss) for both the fourth quarter of fiscal 2008 and the full year contain a charge of \$1,872,000 related to the early extinguishment of debt through a refinancing transaction. In addition, the Company's margins were negatively impacted by increased labor costs due to significant minimum wage increases during the year and by the disruption to its operations caused by its heavy image enhancement schedule. During fiscal 2008, the Company had \$8,215,000 in capital expenditures largely for the image enhancement of 20 of its restaurants and the construction of one new KFC/Taco Bell "2n1".

On May 30, 2008, subsequent to its fiscal year end of March 2, 2008, the Company completed a set of financing transactions involving: 1) the sale leaseback of five of its restaurant properties, 2) variable rate equipment debt supported by five additional restaurants and 3) the payment, before their maturity, of nine existing loans secured by certain of the properties. The Company retired approximately \$1,532,000 of debt, paid \$222,000 of prepayment charges and administrative fees and will write off approximately

\$31,000 of deferred financing costs associated with the loans being retired early. The Company received approximately \$5,182,000 of proceeds from the sale leasebacks, net of origination fees and costs, and approximately \$2,970,000 of net proceeds from the equipment loan. The Company will use the proceeds of the transactions for general corporate purposes, including funding of its image enhancement program. No effects of this transaction are included in the Company's financial statements for the fiscal year ended March 2, 2008.

“Our management team continues to address the extreme cost pressures faced by our business in the current environment and is taking the steps necessary to position the Company to adjust to the new realities of the quick service restaurant industry” said Leonard R. Stein-Sapir, Chairman and Chief Executive Officer.

### **Forward-Looking Statements**

Statements in this release that are not historical in nature are forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied in this release. The forward-looking statements reflect the Company's current expectations, are based upon data available at the time of the statement. Such risks and uncertainties include both Company risks and uncertainties and general economic and industry risks and uncertainties. Such risks and uncertainties include, but are not limited to, the Company's debt covenant compliance, actions that lenders may take with respect to any debt covenant violations, the Company's ability to obtain waivers of any debt covenant violations or to pay all of its current and long-term obligations and those risks described in Part I Item 1.A. (“Risk Factors”) of the Company's Form 10-K for the fiscal year ended March 2, 2008. Economic and industry risks and uncertainties include, but are not limited to, franchisor promotions, business and economic conditions, legislation and governmental regulation, competition, success of operating initiatives and advertising and promotional efforts, volatility of commodity costs and increases in minimum wage and other operating costs, availability and cost of land and construction, consumer preferences, spending patterns and demographic trends. The Company does not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the date of this release.

Morgan's Foods, Inc. operates a total of 96 restaurants in six states, being comprised of 72 KFC restaurants, 6 Taco Bell restaurants, 13 KFC/Taco Bell “2n1” restaurants, 3 Taco Bell/Pizza Hut Express “2n1's”, 1 KFC/Pizza Hut Express “2n1” and 1 KFC/A&W “2n1”.

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Table attached.

MORGAN'S FOODS, INC.  
SELECTED FINANCIAL INFORMATION

	Fourth Quarter Ended (unaudited)		Fiscal Year Ended	
	March 2, 2008	February 25, 2007	March 2, 2008	February 25, 2007
Revenues	\$ 28,509,000	\$ 25,822,000	\$ 96,318,000	\$ 91,248,000
Cost of sales:				
Food, paper and beverage	8,802,000	7,733,000	29,524,000	27,981,000
Labor and benefits	8,801,000	7,668,000	27,404,000	24,798,000
Restaurant operating expenses	7,399,000	6,626,000	24,415,000	22,765,000
Depreciation and amortization	960,000	868,000	2,953,000	2,950,000
G&A expenses	1,829,000	1,761,000	6,111,000	5,428,000
Loss on restaurant assets	36,000	9,000	112,000	5,000
Operating income	682,000	1,157,000	5,799,000	7,321,000
Interest Expense:				
Prepayment and deferred financing costs	(1,872,000)	-	(1,872,000)	-
Bank debt and notes payable	(1,035,000)	(1,107,000)	(3,472,000)	(3,762,000)
Capital leases	(38,000)	(36,000)	(125,000)	(117,000)
Other income and expense, net	138,000	81,000	433,000	221,000
Income before income taxes	(2,125,000)	95,000	763,000	3,663,000
Income tax provision (benefit)	(678,000)	(242,000)	349,000	136,000
Net Income (loss)	\$ (1,447,000)	\$ 337,000	\$ 414,000	\$ 3,527,000
Basic net income (loss) per common share	\$ (0.50)	\$ 0.12	\$ 0.14	\$ 1.29
Diluted net income (loss) per common share	\$ (0.49)	\$ 0.12	\$ 0.14	\$ 1.27
Basic average number of shares outstanding	2,934,995	2,738,982	2,911,448	2,738,982
Diluted average number of shares outstanding	2,974,233	2,767,478	2,968,654	2,767,478

	March 2, 2008	February 25, 2007
<b>ASSETS</b>		
Current assets	\$8,285,000	\$9,458,000
Property and equipment, net	35,430,000	30,470,000
Deferred tax assets	766,000	825,000
Other assets	11,481,000	11,570,000
Total assets	<u>\$ 55,962,000</u>	<u>\$52,323,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$13,620,000	\$11,861,000
Long-term debt	\$35,789,000	\$34,445,000
Long-term capital lease obligations	1,144,000	1,299,000
Other long-term liabilities	1,083,000	1,302,000
Deferred tax liabilities	1,853,000	1,577,000
Total shareholder's equity	2,473,000	1,839,000
Total liabilities and shareholders' equity	<u>\$55,962,000</u>	<u>\$52,323,000</u>