

## **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 2010 RESULTS**

Cleveland, Ohio (June 1, 2010) -- Morgan's Foods, Inc. (OTC:MRFD) ([www.morgansfoods.com](http://www.morgansfoods.com)) announces full year and fourth quarter fiscal 2010 results.

Revenue was \$90,544,000 in fiscal 2010, a decrease of \$1,941,000, or 2.1%, compared to fiscal 2009. The \$1,941,000 decrease in restaurant revenues during fiscal 2010 was primarily due to \$1,888,000 of revenue lost from restaurants either temporarily or permanently closed. During the later part of fiscal 2010, one restaurant was closed for 14 weeks for an extensive remodel and early in fiscal 2010, one restaurant was closed permanently due to the expiration of the lease and the inability to find a suitable new site in the trade area.

Revenues for the 16 weeks ended February 28, 2010, were \$23,766,000, a decrease of \$1,950,000, or 7.6%, compared to the 16 weeks ended March 1, 2009 primarily resulting from a 5.7%, or \$1,446,000, decrease in comparable restaurant revenues and \$505,000 of lost revenue from restaurants either temporarily or permanently closed.

The Company recorded a net profit of \$396,000, or \$0.13 per share (\$0.13 diluted) for the fiscal year ended February 28, 2010 despite a loss of \$(704,000), or \$(0.24) per share (\$0.24 diluted), in the fourth quarter (16 weeks) ended February 28, 2010. This compares to a loss for fiscal 2009 of \$(1,390,000), or \$(0.47) per share (\$0.47 diluted), and a net loss for the fourth quarter of fiscal 2009 of \$(776,000), or \$(0.26) per share (\$0.26 diluted). Our results for fiscal 2010 included a charge of \$56,000 for stock option compensation expense and \$75,000 of loss on restaurant assets while fiscal 2009 included a charge of \$525,000 related to the early extinguishment of debt, \$88,000 of stock option compensation expense and \$417,000 of loss on restaurant assets. The Company's margins were positively affected during fiscal 2010 by lower food costs due to commodity cost decreases and higher usage rebates on our beverage contracts, partially offset by higher costs during the rollout of Kentucky Grilled Chicken ("KGC") during the first through third quarters of fiscal 2010. Capital expenditures in fiscal 2010 were \$1,648,000 compared to \$3,626,000 in fiscal 2009 as the Company completed the image enhancement of one restaurant during fiscal 2010 compared to five image enhancements and one restaurant relocation during fiscal 2009. The Company was required to complete the image enhancement of five restaurants during fiscal 2010 and completed only one with another being completed subsequent to the fiscal year end. The Company is negotiating potential changes to its schedule of image enhancement requirements with the franchisor.

"Despite weaker economic conditions in our market areas, fiscal 2010 produced good results with the exception of the fourth quarter which was negatively impacted by severe winter weather. The reduction of our food costs during the past year is a welcome effect of the global decline in food commodity costs and we will continue to manage our restaurants for maximum efficiency and customer satisfaction. The

introduction of KGC during fiscal 2010 has enhanced the choices we offer our customers and we look forward to additional new menu items based on this broader platform.” 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 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 February 28, 2010. 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 68 KFC restaurants, 6 Taco Bell restaurants, 12 KFC/Taco Bell “2n1's”, 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		Fiscal Year Ended	
	February 28, 2010	March 1, 2009	February 28, 2010	March 1, 2009
Revenues	\$ 23,766,000	\$ 25,716,000	\$ 90,544,000	\$ 92,485,000
Cost of sales:				
Food, paper and beverage	7,316,000	7,989,000	28,457,000	29,695,000
Labor and benefits	7,632,000	7,754,000	26,332,000	26,850,000
Restaurant operating expenses	6,511,000	6,945,000	23,765,000	24,068,000
Depreciation and amortization	913,000	871,000	3,026,000	3,224,000
G&A expenses	1,604,000	1,838,000	5,691,000	5,740,000
Loss on restaurant assets	63,000	430,000	75,000	417,000
Operating income	(273,000)	(111,000)	3,198,000	2,491,000
Interest Expense:				
Prepayment and deferred financing costs	(3,000)	(97,000)	13,000	(525,000)
Bank debt and notes payable	(758,000)	(916,000)	(2,558,000)	(3,190,000)
Capital leases	(33,000)	(32,000)	(108,000)	(111,000)
Other income and expense, net	62,000	111,000	191,000	336,000
Income before income taxes	(1,005,000)	(1,045,000)	736,000	(999,000)
Income tax provision (benefit)	(301,000)	(269,000)	340,000	391,000
Net Income (loss)	\$ (704,000)	\$ (776,000)	\$ 396,000	\$ (1,390,000)
Basic net income (loss) per common share	\$ (0.24)	\$ (0.26)	\$ 0.13	\$ (0.47)
Diluted net income (loss) per common share	\$ (0.24)	\$ (0.26)	\$ 0.13	\$ (0.47)
Basic average number of shares outstanding	2,934,995	2,934,995	2,934,995	2,934,995
Diluted average number of shares outstanding	2,934,995	2,934,995	2,991,941	2,934,995

	February 28, 2010	March 1, 2009
<b>ASSETS</b>		
Current assets	\$ 6,792,000	\$ 8,266,000
Property and equipment, net	31,227,000	32,559,000
Other assets	546,000	676,000
Intangibles	10,360,000	10,487,000
Total assets	<u>\$ 48,925,000</u>	<u>\$ 51,988,000</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$ 10,776,000	\$ 24,357,000
Long-term debt	29,725,000	19,738,000
Long-term capital lease obligations	1,061,000	1,105,000
Other long-term liabilities	3,853,000	4,061,000
Deferred tax liabilities	1,887,000	1,556,000
Total shareholder's equity	1,623,000	1,171,000
Total liabilities and shareholders' equity	<u>\$ 48,925,000</u>	<u>\$ 51,988,000</u>