

FOR IMMEDIATE RELEASE

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**MORGAN'S FOODS ANNOUNCES FIRST QUARTER
FISCAL 2012 RESULTS**

Cleveland, Ohio (July 6, 2011) -- Morgan's Foods, Inc. (OTC:MRFD) (www.morgansfoods.com) announces first quarter fiscal 2012 results.

Revenues decreased \$2,608,000 in the quarter ended May 22, 2011 as compared to the prior year quarter, primarily the result of the permanent closing of 16 restaurants, including the 12 for which the franchise agreements were terminated, causing a reduction in revenues of approximately \$1,674,000 as well as a decrease in comparable restaurant revenues of 3.9%, or \$755,000. Also, the removal of the Taco Bell concept from three locations caused a reduction of approximately \$215,000 partially offset by the temporary closing during the previous year quarter of two restaurants for image enhancement reducing the prior year revenues by approximately \$36,000.

The Company recorded a net loss of \$(217,000) or \$(0.07) per share (\$0.07 diluted) for the first quarter of fiscal 2012 compared to a net profit of \$575,000, or \$0.20 per share (\$0.19 diluted) for the comparable prior year period. Our results for fiscal 2012 first quarter include a charge of \$96,000 for loss on restaurant assets, compared to \$50,000 in the first quarter of fiscal 2011. The Company's operating margins in the fiscal 2012 first quarter were nearly 4.0% of sales lower than the margins in the comparable prior year period due to higher food costs driven by higher commodity costs and high food cost promotions and disruptions to labor efficiencies due to the closing of 12 restaurants during the fiscal 2012 first quarter. The Company was required by its KFC franchisor to close 12 restaurants during the quarter due to failure to complete the image enhancement of the restaurants on a timely basis. Capital expenditures in the fiscal 2012 period were \$87,000 compared to \$381,000 in fiscal 2011 as the Company completed the image enhancement of one restaurant during fiscal 2011 compared to no image enhancements during fiscal 2012. Subsequent to the end of the fiscal 2012 first quarter, the Company completed the image enhancement of two of its KFC restaurants. Since its April 2011 payment, the Company has been paying "interest only" on substantially all of its debt to conserve cash and to begin discussions regarding the restructuring of its debt. As a result of this strategic default, all of the Company's debt is classified as current in the balance sheets as of May 22, 2011 and February 27, 2011. The Company and its financial advisor, Brookwood Associates, are continuing to negotiate the financial restructuring, utilizing debt and sale/leaseback financing. During the first quarter of fiscal 2012 the Company has executed a pre-negotiation agreement with KFC outlining the terms of the negotiation of an image enhancement schedule for its 64 remaining KFC concept restaurants.

The interest only payments and covenant violations (discussed above) could result in the lenders calling of the Company's debt or foreclosing on the assets securing the debt. While the lenders have not initiated any remedies they could. If they do the Company's ability to fulfill its obligations under its franchise agreements and its ability to continue as a going concern would be adversely affected. Also, even though the Pre-negotiation Agreement outlines generally the mutually acceptable terms of a final

agreement on image enhancements obligations there can be no assurance that the Company will be able to reach a final agreement with KFC or that KFC will not exercise its termination rights if an agreement is not reached.

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 1A. ("Risk Factors") of the Company's Form 10-K for the fiscal year ended February 27, 2011. 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 56 KFC restaurants, 5 Taco Bell restaurants, 10 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

	Quarter Ended	
	May 22, 2011	May 23, 2010
Revenues	\$ 19,562,000	\$ 22,170,000
Cost of sales:		
Food, paper and beverage	6,497,000	6,757,000
Labor and benefits	5,685,000	6,256,000
Restaurant operating expenses	4,864,000	5,676,000
Depreciation and amortization	602,000	647,000
G&A expenses	1,249,000	1,253,000
Loss (gain) on restaurant assets	96,000	50,000
Operating income	569,000	1,531,000
Interest Expense:		
Prepayment and deferred financing costs	33,000	98,000
Bank debt and notes payable	469,000	561,000
Capital leases	23,000	24,000
Other income and expense, net	87,000	89,000
Income (loss) before income taxes	(43,000)	759,000
Income tax provision	174,000	184,000
Net Income (loss)	<u>\$ (217,000)</u>	<u>\$ 575,000</u>
Basic net income (loss) per common share	\$ (0.07)	\$ 0.20
Diluted net income (loss) per common share	\$ (0.07)	\$ 0.19
Basic average number of shares outstanding	2,934,995	2,934,995
Diluted average number of shares outstanding	2,934,995	3,033,634
	May 22, 2011	February 27, 2011
ASSETS		
Current assets	\$ 6,858,000	\$ 5,796,000
Property and equipment, net	25,764,000	27,838,000
Other assets	382,000	410,000
Intangibles	10,034,000	10,044,000
Total assets	<u>\$ 43,038,000</u>	<u>\$ 44,088,000</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ 34,277,000	\$ 35,566,000
Long-term debt	-	-
Long-term capital lease obligations	1,002,000	1,013,000
Other long-term liabilities	4,657,000	4,362,000
Deferred tax liabilities	2,684,000	2,512,000
Total shareholder's equity	418,000	635,000
Total liabilities and shareholders' equity	<u>\$ 43,038,000</u>	<u>\$ 44,088,000</u>