

FOR IMMEDIATE RELEASE

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

MORGAN'S FOODS ANNOUNCES THIRD QUARTER FISCAL 2010 RESULTS

Cleveland, Ohio (December 23, 2009) -- Morgan's Foods, Inc. (OTC:MRFD) (www.morgansfoods.com) announces third quarter fiscal 2010 results.

Revenues decreased \$1,322,000 in the quarter ended November 8, 2009 as compared to the prior year quarter primarily as the result of a 4.8% decrease in comparable restaurant revenues and the permanent closing of three restaurants, partially offset by the relocation of a KFC restaurant to a higher volume location. The decrease in comparable revenues was largely attributable to depressed economic conditions in many of the Company's market areas and the difficulty in tailoring marketing and product offerings to the reduced purchasing power of customers. Revenues for the thirty-six weeks ended November 8, 2009 of \$66,778,000 were essentially flat with the comparable prior year period due to a comparable restaurant sales increase of 1.9% and the relocation of one restaurant to a higher volume location, offset by the permanent closing of four restaurants. The comparable sales increase was primarily the result of the introduction of Kentucky Grilled Chicken® ("KGC"), which took place during the first quarter of fiscal 2010.

Income before taxes for the fiscal 2010 third quarter increased to \$643,000 from \$181,000 in the comparable prior year period. This increase of \$462,000 was primarily the result of significant improvements in operating margins, primarily food costs and the closure of unprofitable locations as well as lower interest costs in the current year. Income before taxes for the thirty-six weeks ended November 8, 2009 increased to \$1,741,000 from \$46,000 for the comparable prior year period for essentially the same reasons mentioned above.

Net income for the quarter ended November 8, 2009 was \$426,000, or \$.15 per share (\$.14 diluted), compared to a net loss for the quarter ended November 9, 2008 of \$67,000, or \$.02 per share (\$.02 diluted). Net income for the thirty-six weeks ended November 8, 2009 was \$1,100,000, or \$.37 per share (\$.37 diluted), compared to a net loss for the thirty-six weeks ended November 9, 2008 of \$614,000, or \$.21 per share (\$.21 diluted). The improvement in net income was primarily the result of higher income before taxes and a decrease in the Company's effective tax rate for the current year caused by changes in the estimates of the future usage of deferred tax benefits. This change did not affect the Company's cash balances or cashflow for the current year period as the tax provisions relate primarily to deferred taxes.

Cash provided by operating activities was \$3,843,000 for the thirty-six weeks ended November 8, 2009 compared to cash used in operating activities of \$64,000 for the thirty-six weeks ended November 9, 2008. The increase in operating cash flow resulted primarily from the increase in net income and a decrease of \$389,000 in accounts receivable, a decrease of \$480,000 in accounts payable and an increase of \$712,000 in accrued liabilities compared to an increase of \$4,000 in accounts receivable and decreases of \$1,167,000 in accounts payable and \$910,000 in accrued liabilities in the comparable prior year period. The current year changes in receivables, payables and accrued liabilities were caused primarily by the recording of vendor rebates and incentives relating to the extension of a beverage contract. The Company paid scheduled long-term bank and capitalized lease debt of \$2,256,000 in the first thirty-six weeks of fiscal 2010 compared to payments of \$2,284,000 for the same period in fiscal 2009. In the thirty-six weeks ended November 9, 2008, the Company received \$1,972,000 of proceeds from sale/leaseback transactions which added to cash from investing activities. Also in the first thirty-six weeks of fiscal 2009, the Company paid \$2,451,000 of bank debt in advance of its maturity, had \$3,000,000 in proceeds from long-term borrowings and recorded a deferred gain of \$3,216,000 on

sale/leaseback transactions which affected cash from financing activities. Capital expenditures in the first thirty-six weeks of fiscal 2010 were \$1,072,000, compared to \$3,581,000 for the same period in fiscal 2009 as the Company had no image enhancement activity in the current fiscal year. As of November 8, 2009 management believes that it will not meet the stated deadlines for seven of its image enhancement projects and is in discussions with its franchisors to obtain revised schedules.

“We have found it very difficult to generate meaningful revenue increases in the current economic climate but are hopeful that upcoming programs will generate improved sales. We welcome the continued reductions in food costs and are pleased with the effect that our tight operating controls have had on profitability.” said Leonard 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, the Company’s ability to negotiate extensions to franchisors’ image enhancement requirements 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 1, 2009. 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 92 restaurants in six states, being comprised of 69 KFC restaurants, 6 Taco Bell restaurants, 12 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”.

###

Table attached.

MORGAN'S FOODS, INC.
SELECTED FINANCIAL INFORMATION

	Quarter Ended		Thirty-six Weeks Ended	
	November 8, 2009	November 9, 2008	November 8, 2009	November 9, 2008
Revenues	\$ 20,645,000	\$ 21,967,000	\$ 66,778,000	\$ 66,769,000
Cost of sales:				
Food, paper and beverage	6,375,000	7,236,000	21,141,000	21,706,000
Labor and benefits	5,867,000	6,301,000	18,700,000	19,096,000
Restaurant operating expenses	5,374,000	5,595,000	17,254,000	17,123,000
Depreciation and amortization	685,000	789,000	2,113,000	2,353,000
G&A expenses	1,241,000	1,188,000	4,087,000	3,902,000
Loss (gain) on restaurant assets	(9,000)	(9,000)	12,000	(13,000)
Operating income	1,112,000	867,000	3,471,000	2,602,000
Interest Expense:				
Prepayment fees and deferred financing costs	(98,000)	-	(16,000)	428,000
Bank debt and notes payable	584,000	716,000	1,800,000	2,274,000
Capital leases	25,000	26,000	75,000	79,000
Other income and expense, net	(42,000)	(56,000)	(129,000)	(225,000)
Income (loss) before income taxes	643,000	181,000	1,741,000	46,000
Income tax provision	217,000	248,000	641,000	660,000
Net Income (loss)	\$ 426,000	\$ (67,000)	\$ 1,100,000	\$ (614,000)
Basic net income (loss) per common share	\$ 0.15	\$ (0.02)	\$ 0.37	\$ (0.21)
Diluted net income (loss) per common share	\$ 0.14	\$ (0.02)	\$ 0.37	\$ (0.21)
Basic average number of shares outstanding	2,934,995	2,934,995	2,934,995	2,934,995
Diluted average number of shares outstanding	2,995,541	2,939,126	2,983,002	2,947,157

	November 8, 2009	March 1, 2009
ASSETS		
Current assets	\$ 8,044,000	\$ 8,246,000
Property and equipment, net	31,594,000	32,559,000
Deferred tax assets	299,000	594,000
Other assets	10,976,000	11,163,000
Total assets	\$ 50,913,000	\$ 52,562,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$10,396,000	\$24,357,000
Long-term debt	30,563,000	19,738,000
Long-term capital lease obligations	1,074,000	1,105,000
Other long-term liabilities	4,088,000	4,061,000
Deferred tax liabilities	2,465,000	2,130,000
Total shareholder's equity	2,327,000	1,171,000
Total liabilities and shareholders' equity	\$ 50,913,000	\$ 52,562,000