

**FOR IMMEDIATE RELEASE**

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**MORGAN'S FOODS ANNOUNCES THIRD QUARTER FISCAL 2009 RESULTS**

Cleveland, Ohio (December 24, 2008) -- Morgan's Foods, Inc. (OTC:MRFD) ([www.morgansfoods.com](http://www.morgansfoods.com)) announces third quarter fiscal 2009 results.

Revenues for the quarter ended November 9, 2008 were \$21,967,000 compared to \$22,282,000 for the prior year quarter ended November 4, 2007. The revenue decrease of \$315,000 in the current year quarter compared to the prior year quarter was primarily the result of a 0.9% decrease in comparable restaurant revenues and the permanent closing of one restaurant and the temporary closing of another to facilitate relocation to a new facility. The \$1,040,000 decrease in revenues for the thirty-six weeks ended November 9, 2008 from the comparable year earlier period was mainly the result of a decline in comparable restaurant revenue of 1.5%. This decline was primarily the result of weak product promotions by the KFC system during the second quarter of the current fiscal year including the Toasted Wrap as well as difficult economic conditions for consumers in our market areas during the entire current year to date.

Income before taxes for the fiscal 2009 third quarter decreased to \$181,000 from \$427,000 in the comparable prior year period. This decrease of \$246,000 was mainly the result of the decline in revenues and reductions in restaurant operating margins mainly related to food cost increases. While menu price increases have been implemented during the current year quarter, they have not fully offset the rapid increases in costs. Income before taxes for the thirty-six weeks ended November 9, 2008 was \$46,000 compared to \$2,888,000 for the comparable prior year period for primarily the same reasons as the quarter and additionally, the inclusion of \$428,000 of prepayment fees and the write off of deferred financing costs related to the refinancing of certain of the Company's debt during the current year period.

Net income (loss) for the quarter ended November 9, 2008 was a loss of \$67,000, or \$.02 per share (\$.02 diluted), compared to net income for the quarter ended November 4, 2007 of \$161,000, or \$.05 per share (\$.05 diluted). The reduction in net income was primarily the result of lower income before taxes and an increase in the Company's effective tax rate for the current year quarter 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 provisions relate primarily to deferred taxes. Net income (loss) for the thirty-six weeks ended November 9, 2008 was a loss of \$614,000, or \$.21 per share (\$.21 diluted), compared to net income for the thirty-six weeks ended November 4, 2007 of \$1,861,000, or \$.64 per share (\$.62 diluted).

Cash used in operating activities was \$64,000 for the thirty-six weeks ended November 9, 2008 compared to cash provided by operating activities of \$4,377,000 for the thirty-six weeks ended November 4, 2007. The decrease in operating cash flow resulted primarily from a decrease in

net income which included refinancing costs in the current year and decreases in accounts payable and accrued liabilities. The Company paid scheduled long-term bank and capitalized lease debt of \$2,284,000 in the first thirty-six weeks of fiscal 2009 compared to payments of \$2,225,000 for the comparable period in fiscal 2008. Capital expenditures in the thirty-six weeks ended November 9, 2008 were \$3,581,000, compared to \$4,821,000 for the comparable period in fiscal 2008 as the Company has continued its image enhancement activity into fiscal 2009 to meet the requirements of its franchise agreements.

“Our management team continues its work on initiatives to control labor costs and we are seeing some signs of relief in commodity prices which we believe will translate into improved food costs. The current state of the economy in our market areas however continues to be very challenging and we continue to look to our franchisors for the successful products and promotions that will drive customer traffic,” 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 94 restaurants in six states, being comprised of 70 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

	Quarter Ended		Thirty-six Weeks Ended	
	November 9, 2008	November 4, 2007	November 9, 2008	November 4, 2007
Revenues	\$ 21,967,000	\$ 22,282,000	\$ 66,769,000	\$ 67,809,000
Cost of sales:				
Food, paper and beverage	7,236,000	6,806,000	21,706,000	20,722,000
Labor and benefits	6,301,000	6,356,000	19,096,000	18,603,000
Restaurant operating expenses	5,595,000	5,716,000	17,123,000	17,016,000
Depreciation and amortization	789,000	678,000	2,353,000	1,993,000
G&A expenses	1,188,000	1,522,000	3,902,000	4,282,000
Loss (gain) on restaurant assets	(9,000)	84,000	(13,000)	76,000
Operating income	867,000	1,120,000	2,602,000	5,117,000
Interest Expense:				
Prepayment fees and deferred financing costs	-	-	428,000	-
Bank debt and notes payable	716,000	787,000	2,274,000	2,437,000
Capital leases	26,000	29,000	79,000	87,000
Other income and expense, net	(56,000)	(123,000)	(225,000)	(295,000)
Income (loss) before income taxes	181,000	427,000	46,000	2,888,000
Income tax provision	248,000	266,000	660,000	1,027,000
Net Income (loss)	\$ (67,000)	\$ 161,000	\$ (614,000)	\$ 1,861,000
Basic net income (loss) per common share	\$ (0.02)	\$ 0.05	\$ (0.21)	\$ 0.64
Diluted net income (loss) per common share	\$ (0.02)	\$ 0.05	\$ (0.21)	\$ 0.62
Basic average number of shares outstanding	2,934,995	2,934,995	2,934,995	2,916,995
Diluted average number of shares outstanding	2,939,126	2,977,260	2,947,157	2,982,685

	November 9, 2008	March 2, 2008
<b>ASSETS</b>		
Current assets	\$ 8,717,000	\$ 8,285,000
Property and equipment, net	34,096,000	35,430,000
Deferred tax assets	349,000	766,000
Other assets	11,225,000	11,481,000
Total assets	\$ 54,387,000	\$ 55,962,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$11,157,000	\$13,620,000
Long-term debt	34,195,000	35,789,000
Long-term capital lease obligations	1,121,000	1,144,000
Other long-term liabilities	3,906,000	1,083,000
Deferred tax liabilities	2,149,000	1,853,000
Total shareholder's equity	1,859,000	2,473,000
Total liabilities and shareholders' equity	\$ 54,387,000	\$ 55,962,000