

**FOR IMMEDIATE RELEASE**

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**MORGAN'S FOODS ANNOUNCES THIRD QUARTER  
FISCAL 1999 RESULTS**

Beachwood, Ohio (December 23, 1998) -- Morgan's Foods, Inc. (AMEX:MR) today announced financial results for the third quarter of its 1999 fiscal year. For the quarter ended November 8, 1998, the Company reported revenues of \$9,972,000, compared to revenues of \$9,034,000 for the quarter ended November 9, 1997. Revenues for the thirty-six weeks ended November 8, 1998 were \$28,638,000 compared to \$27,644,000 for the prior year to date period.

The revenue increase in the quarter was primarily the result of operating six additional KFC restaurants, partially offset by the closing of one East Side Mario's restaurant during the quarter, and decreases in the comparable East Side Mario's restaurants. Comparable restaurant sales for the KFC restaurants increased 3.8% from the year earlier quarter while comparable sales for the East Side Mario's restaurants declined by 8.0%.

Operating income for the fiscal 1999 third quarter decreased slightly to \$207,000 from \$230,000 in fiscal 1998, caused by improved operating efficiencies in the KFC restaurants and the addition of purchased KFC's offset by increased losses in the East Side Mario's restaurants and expenses associated with the litigation against East Side Mario's. Operating income for the thirty-six weeks ended November 8, 1998 increased to \$905,000 from \$879,000 in the year earlier period. The net loss for the third quarter of fiscal 1999 was \$(132,000) or \$(.05) per share compared to \$(143,000) or \$(.05) per share for the fiscal 1998 third quarter. The net loss for the thirty-six weeks ended November 8, 1998 was \$(68,000) or \$(.02) per share compared to \$(117,000) or \$(.04) per share in the year earlier period. All per share amounts have been restated for the one-for-six reverse stock split, which was effective July 14, 1997.

During the current fiscal year the Company has made capital expenditures of \$3,630,000. These capital expenditures included the purchase of six KFC restaurants from other franchisees, the acquisition of land on which to build two new KFC restaurants and the image enhancement of two existing KFC restaurants.

Morgan's Foods, Inc. operates 47 KFC restaurants in five states, three of which also offer Taco Bell products, and five East Side Mario's restaurants in Cleveland/Akron and Columbus, Ohio.

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Table Attached.

## MORGAN'S FOODS, INC.

### SELECTED FINANCIAL INFORMATION (UNAUDITED)

|   | Third Quarter Ended |                     | Thirty-Six Weeks Ended |                     |
|---|---------------------|---------------------|------------------------|---------------------|
|   | November 8, 1998    | November 9, 1997    | November 8, 1998       | November 9, 1997    |
| Revenues                                      | \$ 9,972,000        | \$ 9,034,000        | \$28,638,000           | \$27,644,000        |
| Cost of sales:                                |                     |                     |                        |                     |
| Food, paper and beverage                      | 3,314,000           | 2,900,000           | 8,977,000              | 8,761,000           |
| Labor and benefits                            | 2,647,000           | 2,404,000           | 7,434,000              | 7,329,000           |
| Restaurant operating expenses                 | 2,595,000           | 2,440,000           | 7,856,000              | 7,541,000           |
| Depreciation and amortization                 | 448,000             | 419,000             | 1,359,000              | 1,271,000           |
| General and administrative expenses           | <u>761,000</u>      | <u>641,000</u>      | <u>2,107,000</u>       | <u>1,863,000</u>    |
| Operating income                              | 207,000             | 230,000             | 905,000                | 879,000             |
| Interest expense:                             |                     |                     |                        |                     |
| Bank debt and notes payable                   | (236,000)           | (188,000)           | (630,000)              | (591,000)           |
| Capital leases                                | (124,000)           | (124,000)           | (381,000)              | (375,000)           |
| Loss on disposal of restaurants               | -                   | (80,000)            | -                      | (80,000)            |
| Other income                                  | <u>28,000</u>       | <u>24,000</u>       | <u>56,000</u>          | <u>57,000</u>       |
| Loss before income taxes                      | (125,000)           | (138,000)           | (50,000)               | (110,000)           |
| Provision for income taxes                    | <u>7,000</u>        | <u>5,000</u>        | <u>18,000</u>          | <u>7,000</u>        |
| Net loss                                      | <u>\$ (132,000)</u> | <u>\$ (143,000)</u> | <u>\$ (68,000)</u>     | <u>\$ (117,000)</u> |
| Net loss per common share                     | <u>\$ (.05)</u>     | <u>\$ (.05)</u>     | <u>\$ (.02)</u>        | <u>\$ (.04)</u>     |
| Weighted average number of shares outstanding | 2,910,839           | 2,916,315           | 2,910,839              | 2,934,893           |

|   | November 8, 1998     | March 1, 1998        |
|---|----------------------|----------------------|
| <b>ASSETS</b>                               |                      |                      |
| Current assets                              | \$ 3,121,000         | \$ 2,974,000         |
| Property and equipment, net                 | 17,279,000           | 15,099,000           |
| Other assets                                | <u>2,308,000</u>     | <u>2,037,000</u>     |
| Total assets                                | <u>\$ 22,708,000</u> | <u>\$ 20,110,000</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                      |                      |
| Current liabilities                         | \$ 5,283,000         | \$ 5,020,000         |
| Long-term debt                              | 10,600,000           | 7,815,000            |
| Long-term capital lease obligations         | 4,637,000            | 5,019,000            |
| Shareholders' equity                        | <u>2,188,000</u>     | <u>2,256,000</u>     |
| Total liabilities and shareholders' equity  | <u>\$ 22,708,000</u> | <u>\$ 20,110,000</u> |