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**MORGAN'S FOODS ANNOUNCES FIRST QUARTER FISCAL 2007 RESULTS**

Beachwood, Ohio (July 13, 2006) -- Morgan's Foods, Inc. (OTC:MRFD) ([www.morgansfoods.com](http://www.morgansfoods.com)) announces first quarter fiscal 2007 results.

For the quarter ended May 21, 2006, the Company reported revenues of \$21,101,000, compared to revenues of \$20,760,000 for the quarter ended May 22, 2005. The revenue increase of \$341,000 in the quarter was the result of comparable restaurant revenue increases of 1.6%. The increase in comparable restaurant revenues was primarily the result of more effective product promotions by the Company's KFC and Taco Bell franchisors during the current year quarter.

Net income in the first quarter of fiscal 2007 was \$899,000 or \$.33 per share (\$.32 diluted) compared to net income of \$1,192,000 or \$.44 per share (\$.43 diluted), as restated for a change in deferred taxes, in the first quarter of fiscal 2006. The prior year quarter included \$255,000 of gain on damaged restaurant assets replaced with insurance proceeds. Absent the insurance gains, the Company's profitability in the quarter is similar to the prior year quarter with higher revenues in the current year mostly offsetting slightly higher food and labor costs.

The Company's operating cash flow for the first quarter of fiscal 2007 was \$1,890,000 compared to \$2,530,000 in the prior quarter, primarily due to the deferred timing of some payments during the prior year period. The strong cash flow in the first quarter increased the Company's cash balances from \$6,415,000 at February 26, 2006 to \$7,127,000 at May 21, 2006.

Morgan's Foods, Inc. operates a total of 98 restaurants in six states, being comprised of 72 KFC restaurants, 7 Taco Bell restaurants, 14 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

	<u>First Quarter Ended (unaudited)</u>	
	<u>May 21, 2006</u>	<u>May 22, 2005</u> (as restated)
Revenues	\$21,101,000	\$20,760,000
Cost of sales:		
Food, paper and beverage	6,640,000	6,421,000
Labor and benefits	5,495,000	5,344,000
Restaurant operating expenses	5,211,000	5,115,000
Depreciation and amortization	723,000	750,000
G&A expenses	1,135,000	1,151,000
Gain on restaurant assets	<u>(6,000)</u>	<u>(255,000)</u>
Operating income	1,903,000	2,234,000
Interest Expense:		
Bank debt and notes payable	(919,000)	(995,000)
Capital leases	(27,000)	(11,000)
Other income and expense, net	<u>23,000</u>	<u>29,000</u>
Income before income taxes	980,000	1,257,000
Provision for income taxes	<u>81,000</u>	<u>65,000</u>
Net income	<u>\$ 899,000</u>	<u>\$ 1,192,000</u>
Basic net income per common share	<u>\$ .33</u>	<u>\$ .44</u>
Diluted net income per common share	<u>\$ .32</u>	<u>\$ .43</u>
Basic weighted average number of shares outstanding	2,718,495	2,718,495
Diluted weighted average number of shares outstanding	2,806,030	2,721,879
	<u>(unaudited)</u>	
	<u>May 21, 2006</u>	<u>February 26, 2006</u>
<b>ASSETS</b>		
Current assets	\$ 8,909,000	\$ 8,246,000
Property and equipment, net	29,890,000	30,225,000
Other assets	<u>12,232,000</u>	<u>12,280,000</u>
Total assets	<u>\$51,031,000</u>	<u>\$50,751,000</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>		
Current liabilities	\$11,622,000	\$11,424,000
Long-term debt	36,587,000	37,357,000
Long-term capital lease obligations	1,187,000	1,194,000
Other long-term liabilities	1,525,000	1,631,000
Deferred tax liabilities	1,397,000	1,331,000
Shareholders' deficiency	<u>(1,287,000)</u>	<u>(2,186,000)</u>
Total liabilities and shareholders' deficiency	<u>\$51,031,000</u>	<u>\$50,751,000</u>