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MORGAN'S FOODS ANNOUNCES FIRST QUARTER FISCAL 2005 RESULTS

Beachwood, Ohio (July 7, 2004) -- Morgan's Foods, Inc. (AMEX:MR) (www.morgansfoods.com) today announced financial results for the first quarter of its 2005 fiscal year. For the quarter ended May 23, 2004, the Company reported revenues of \$18,343,000, compared to revenues of \$19,828,000 for the quarter ended May 25, 2003.

The revenue decrease in the quarter was primarily the result of a 6.7% decrease in comparable restaurant revenues. The decrease in comparable restaurant revenues was primarily the result of ineffective and inadequate new product promotions by the KFC franchisor during the quarter.

Operating income for the fiscal 2005 first quarter decreased to \$183,000 from \$1,283,000 in fiscal 2004, primarily due to inefficiencies resulting from lower average restaurant volumes, increased health care costs and impairment losses of \$266,000 recognized on three restaurants to reduce their carrying values to their estimated fair values. The net loss for the first quarter of fiscal 2005 was (\$847,000) or (\$.31) per share compared to a net income of \$180,000 or \$.07 per share for the first quarter of fiscal 2004.

The Company's weak operating results caused cash provided by operating activities to decrease to \$67,000 for the quarter ended May 23, 2004 compared to \$1,222,000 for the quarter ended May 25, 2003. The Company paid scheduled long-term debt and capitalized lease debt of \$745,000 and invested \$246,000 in capital improvements in the first quarter of fiscal 2005. As a result cash and cash equivalents fell to \$3,451,000 as of May 23, 2004 from \$4,353,000 as of February 29, 2004.

As has been previously reported, the Company has not been in compliance, for the last four fiscal years, with certain fixed charge coverage ratios required by its loan agreements. Based upon financial results for the quarter ended May 23, 2004 the Company continues to be out of compliance with certain fixed charge coverage ratios but has obtained waivers of these violations from applicable lenders. If the Company does not comply with debt covenants in the future, and if waivers are not obtained, the lenders will have certain remedies available to them which could include calling of the debt or acceleration of payments.

As reported in its June 29, 2004 press release the Company submitted an application to have its common shares removed from listing on the American Stock Exchange. If the application is accepted, the liquidity of the Company's common shares and the price of the stock could be adversely affected.

This document contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as

amended. The statements include those identified by such words as “may,” “will,” “expect” “anticipate,” “believe,” “plan” and other similar terminology. The “forward-looking statements” reflect the Company’s current expectations and are based upon data available at the time of the statements. Actual results involve risks and uncertainties, including both those specific to the Company as well as general economic and business risks.

Morgan’s Foods, Inc. operates 76 KFC restaurants, 7 Taco Bell restaurants, 14 KFC/Taco Bell "2n1's", 3 Taco Bell/Pizza Hut Express “2n1” restaurants, 1 KFC/Pizza Hut Express “2n1” and 1 KFC/A&W “2n1” in six states.

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Table Attached.

MORGAN'S FOODS, INC.

SELECTED FINANCIAL INFORMATION

	<u>First Quarter Ended (unaudited)</u>	
	<u>May 23, 2004</u>	<u>May 25, 2003</u>
Revenues	\$18,343,000	\$19,828,000
Cost of sales:		
Food, paper and beverage	5,572,000	6,069,000
Labor and benefits	5,480,000	5,358,000
Restaurant operating expenses	4,782,000	5,000,000
Depreciation and amortization	783,000	803,000
G&A expenses	1,273,000	1,305,000
Loss on restaurant assets	<u>270,000</u>	<u>10,000</u>
Operating income	183,000	1,283,000
Interest Expense:		
Bank debt and notes payable	(1,036,000)	(1,109,000)
Capital leases	11,000	(11,000)
Other income and expense, net	<u>17,000</u>	<u>21,000</u>
Income (loss) before income taxes	(847,000)	184,000
Provision for income taxes	-	4,000
Net (loss) income	<u>\$ (847,000)</u>	<u>\$ 180,000</u>
Basic and diluted net income (loss) per common share	<u>\$ (.31)</u>	<u>\$.07</u>
Basic weighted average number of shares outstanding	2,718,441	2,718,441
Diluted weighted average number of shares outstanding	2,718,441	2,725,293

	<u>May 23, 2004</u>	<u>February 29, 2004</u>
ASSETS		
Current assets	\$ 5,143,000	\$ 5,792,000
Property and equipment, net	33,120,000	33,891,000
Other assets	<u>12,926,000</u>	<u>12,989,000</u>
Total assets	<u>\$51,189,000</u>	<u>\$52,672,000</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities	\$10,003,000	\$ 9,791,000
Long-term debt	42,614,000	43,370,000
Long-term capital lease obligations	378,000	379,000
Other long-term liabilities	1,757,000	1,848,000
Shareholders' deficiency	<u>(3,563,000)</u>	<u>(2,716,000)</u>
Total liabilities and shareholders' deficiency	<u>\$51,189,000</u>	<u>\$52,672,000</u>