

## **FOR IMMEDIATE RELEASE**

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### **MORGAN'S FOODS ANNOUNCES SECOND QUARTER FISCAL 2010 RESULTS**

Cleveland, Ohio (September 30, 2009) -- Morgan's Foods, Inc. (OTC:MRFD) ([www.morgansfoods.com](http://www.morgansfoods.com)) announces second quarter fiscal 2010 results.

Revenues increased \$153,000 in the quarter ended August 16, 2009 as compared to the prior year quarter primarily as the result of a 2.6% increase in comparable restaurant revenues and the relocation of a KFC restaurant to a higher volume location, partially offset by the permanent closing of four restaurants. The increase in comparable revenues was largely attributable to the introduction of Kentucky Grilled Chicken® ("KGC") which took place during the first quarter of fiscal 2010. The increase of \$1,331,000 in revenue for the twenty-four weeks ended August 16, 2009 compared to the twenty-four weeks ended August 17, 2008 was primarily the result of a comparable restaurant revenue increase of 5.0% and the factors discussed above.

Income before taxes for the fiscal 2010 second quarter increased to \$619,000 from a loss of \$311,000 in the comparable prior year period. This increase of \$930,000 was primarily the result of significant improvements in operating margins, including both food and labor costs and the increase in revenues related to the introduction of the KGC product as well as reductions in expenses related to the early extinguishment of debt and lower interest costs in the current year. Income before taxes for the twenty-four weeks ended August 16, 2009 increased to \$1,098,000 from a loss of \$135,000 for the comparable prior year period for essentially the same reasons mentioned above.

Net income for the quarter ended August 16, 2009 was \$320,000, or \$.11 per share (\$.11 diluted), compared to a net loss for the quarter ended August 17, 2008 of \$641,000, or \$.22 per share (\$.22 diluted). Net income for the twenty-four weeks ended August 16, 2009 was \$674,000, or \$.23 per share (\$.23 diluted), compared to a net loss for the twenty-four weeks ended August 17, 2008 of \$547,000, or \$.19 per share (\$.19 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 \$4,107,000 for the twenty-four weeks ended August 16, 2009 compared to cash used in operating activities of \$267,000 for the twenty-four weeks ended August 17, 2008. The increase in operating cash flow resulted primarily from the increase in net income and decreases of \$395,000 in accounts receivable and increases of \$196,000 in accounts payable and \$1,106,000 in accrued liabilities compared to decreases of \$840,000 in accounts payable and \$819,000 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 \$1,496,000 in the first twenty-four weeks of fiscal 2010 compared to payments of \$1,545,000 for the same period in fiscal 2009. Capital expenditures in the twenty-four weeks ended August 16, 2009 were \$802,000, compared to \$2,956,000 for the same period in fiscal 2009 as the Company had no image enhancement activity in the current fiscal year.

"We are extremely proud of our ability to improve operating margins and increase efficiencies to achieve significant gains in net income from modest gains in revenues. Negative economic conditions in many of our

market areas are still making it difficult to achieve meaningful revenue gains and we continue to rely on our franchisors to provide the creative advertising and promotions necessary to drive sales increases.” 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 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 68 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		Twenty-four Weeks Ended	
	August 16, 2009	August 17, 2008	August 16, 2009	August 17, 2008
Revenues	\$ 23,202,000	\$ 23,049,000	\$ 46,133,000	\$ 44,802,000
Cost of sales:				
Food, paper and beverage	7,356,000	7,506,000	14,766,000	14,470,000
Labor and benefits	6,405,000	6,557,000	12,833,000	12,795,000
Restaurant operating expenses	6,004,000	6,041,000	11,880,000	11,528,000
Depreciation and amortization	711,000	791,000	1,428,000	1,564,000
G&A expenses	1,437,000	1,364,000	2,846,000	2,714,000
Loss (gain) on restaurant assets	15,000	(9,000)	21,000	(4,000)
Operating income	1,274,000	799,000	2,359,000	1,735,000
Interest Expense:				
Prepayment and deferred financing costs	82,000	428,000	82,000	428,000
Bank debt and notes payable	591,000	734,000	1,216,000	1,558,000
Capital leases	25,000	27,000	50,000	53,000
Other income and expense, net	(43,000)	(79,000)	(87,000)	(169,000)
Income (loss) before income taxes	619,000	(311,000)	1,098,000	(135,000)
Income tax provision	299,000	330,000	424,000	412,000
Net Income (loss)	\$ 320,000	\$ (641,000)	\$ 674,000	\$ (547,000)
Basic net income (loss) per common share	\$ 0.11	\$ (0.22)	\$ 0.23	\$ (0.19)
Diluted net income (loss) per common share	\$ 0.11	\$ (0.22)	\$ 0.23	\$ (0.19)
Basic average number of shares outstanding	2,934,995	2,934,995	2,934,995	2,934,995
Diluted average number of shares outstanding	2,990,361	2,944,450	2,976,733	2,951,173

	August 16, 2009	March 1, 2009
<b>ASSETS</b>		
Current assets	\$ 9,046,000	\$ 8,246,000
Property and equipment, net	31,981,000	32,559,000
Deferred tax assets	398,000	594,000
Other assets	11,039,000	11,163,000
Total assets	\$ 52,464,000	\$ 52,562,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities	\$11,620,000	\$24,357,000
Long-term debt	\$31,363,000	19,738,000
Long-term capital lease obligations	\$1,085,000	1,105,000
Other long-term liabilities	\$4,152,000	4,061,000
Deferred tax liabilities	\$2,343,000	2,130,000
Total shareholder's equity	1,901,000	1,171,000
Total liabilities and shareholders' equity	\$ 52,464,000	\$ 52,562,000