

Morgan's Foods, Inc. Releases Earnings

NEWS RELEASE – For Immediate Release

Cleveland, Ohio -- Morgan's Foods, Inc. (OTC: MRFD) July 10, 2013, today announced first quarter fiscal 2014 results.

Results of Morgan's Foods, Inc. and its consolidated subsidiaries for the first quarter of fiscal 2014 and 2013 are summarized below.

	First Quarter Ended	
	May 26, 2013	May 20, 2012
Revenues	\$ 20,930,000	\$ 20,314,000
Adjusted EBITDA*	1,889,000	1,816,000
Cash Flow from Operations	3,355,000	2,386,000
Cash Balance	4,894,000	2,971,000
Bank Debt	6,406,000	8,216,000
Shares Outstanding	4,039,147	2,934,995
Comparable Restaurant Revenue	5.8%	9.6%
Total Restaurants	73	75

*Adjusted EBITDA is presented as a performance measure because management believes that it best represents the operating metrics of the Company without the potentially distortive effects of financing and fixed asset levels. The adjustments were made to remove non-operating, non-recurring items from EBITDA to improve comparability. These adjustments are outlined in the reconciliation attached to this release.

The Company recorded comparable restaurant revenue increases of 5.8% in the fiscal quarter ended May 26, 2013 compared to 9.6% for the prior year quarter. The increases in both periods were partially offset by certain temporary and permanent restaurant closings.

Cash balances as shown do not include restricted cash. Cash flow from operations is taken from the Company's financial statements and includes a number of working capital reconciling items such as changes in accruals, prepaids and accounts payable. In the Company's payment cycle, many payments are made on the first of the calendar month and thus can improve cash flow from operations when the period end changes from a date after the first of the month to a date prior to the first as it did in the first quarter of the 2014 fiscal year which began on March 4, 2013 and ended on May 26, 2103. Additionally, the Company made rent payments on capitalized leases of \$536,000 in the first quarter of fiscal 2014 and \$529,000 in the prior year quarter.

The Company reported pre-tax net income for the first quarter of fiscal 2014 of \$492,000 compared to pre-tax net income of \$110,000 in the comparable prior year quarter. The improvement in net income reflects improved restaurant operating efficiencies due to higher sales levels, reductions in general and administrative expenses, a reduction of \$311,000 in loss on restaurant assets and reductions of \$50,000 in bank interest expense and \$25,000 in capitalized lease interest expense. These improvements were partially offset by a penalty of \$100,000 for the closure of a franchised restaurant prior to the expiration of the franchise agreement.

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About the Company

Morgan's Foods, Inc. operates 57 KFC restaurants, 4 Taco Bell restaurants, 9 KFC/Taco Bell "2n1's" and 3 Taco Bell/Pizza Hut Express "2n1's".

Forward-Looking Statements and Use of Non-GAAP Financial Metrics

This press release includes certain non-GAAP financial measures. The reconciliations of such measures to the most comparable GAAP figures in accordance with Regulation G are included herein.

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 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, if necessary, 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 1A.("Risk Factors") of the Company's Form 10-K for the fiscal year ended March 3, 2013. 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.

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MORGAN'S FOODS, INC.
SELECTED FINANCIAL INFORMATION (unaudited)

	Quarter	
	May 26, 2013	May 20, 2012
Revenues	\$ 20,930,000	\$ 20,314,000
Cost of sales:		
Food, paper and beverage	6,863,000	6,597,000
Labor and benefits	5,957,000	5,751,000
Restaurant operating expenses	4,971,000	4,975,000
Depreciation and amortization	681,000	604,000
G&A expenses	1,168,000	1,194,000
Loss on restaurant assets	59,000	370,000
Operating income	1,231,000	823,000
Interest Expense:		
Bank debt and notes payable	180,000	230,000
Capital leases	477,000	502,000
Other income and expense, net	82,000	(19,000)
Income before income taxes	492,000	110,000
Income tax provision	85,000	71,000
Net Income	\$ 407,000	\$ 39,000
Basic net income per common share	\$ 0.11	\$ 0.01
Diluted net income per common share	\$ 0.11	\$ 0.01
Basic average number of shares outstanding	3,542,519	2,934,995
Diluted average number of shares outstanding	3,613,868	2,934,995
	May 26, 2013	March 3, 2013
ASSETS		
Current assets	\$ 7,588,000	\$ 6,049,000
Property and equipment, net	35,004,000	34,401,000
Other assets	374,000	411,000
Intangibles	9,601,000	9,639,000
Total assets	\$ 52,567,000	\$ 50,500,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ 10,092,000	\$ 8,279,000
Long-term debt	5,527,000	7,338,000
Long-term capital lease obligations	22,022,000	22,079,000
Other long-term liabilities	10,690,000	10,812,000
Deferred tax liabilities	3,244,000	3,175,000
Total shareholder's equity (deficit)	992,000	(1,183,000)
Total liabilities and shareholders' equity	\$ 52,567,000	\$ 50,500,000

Reconciliation of Non-GAAP Measures

	First Quarter Ended	
	May 26, 2013	May 20, 2012
Net income from continuing operations	\$ 407,000	\$ 39,000
Provision for income taxes	85,000	71,000
Interest expense, bank debt	180,000	230,000
Interest expense, capitalized leases	477,000	502,000
Depreciation and amortization	681,000	604,000
EBITDA	\$ 1,830,000	\$ 1,446,000
Loss on restaurant assets	59,000	370,000
Adjusted EBITDA	\$ 1,889,000	\$ 1,816,000

The above chart outlines the financial statement line items that reconcile the Company's net income from continuing operations to EBITDA (earnings before interest, taxes, depreciation and amortization). Additionally, non-recurring, non-operating items are removed to arrive at Adjusted EBITDA. As a result, Adjusted EBITDA improves the comparability of EBITDA as a relative measure of the Company's performance from period to period.