Morgan's Foods, Inc. Releases Earnings

NEWS RELEASE – For Immediate Release

Cleveland, Ohio -- Morgan's Foods, Inc. (OTC: MRFD) December 20, 2013, today announced third quarter fiscal 2014 results.

Results of Morgan's Foods, Inc. and its consolidated subsidiaries for the third quarter and third quarter year to date of fiscal 2014 and 2013 are summarized below:

	Third Quarter Ended		Thirty-six Weeks Ended	
	November 10, 2013	November 4, 2012	November 10, 2013	November 4, 2012
Revenues	$ 19,050,000	$ 20,060,000	$ 59,732,000	$ 61,016,000
Adjusted EBITDA*	1,390,000	1,650,000	4,561,000	5,176,000
Cash Flow from Operations	89,000	93,000	2,900,000	2,133,000
Cash Balance (unrestricted)	2,676,000	2,971,000	2,676,000	2,971,000
Restricted Cash	2,773,000	350,000	2,773,000	350,000
Bank Debt	8,731,000	8,216,000	8,731,000	8,216,000
Shares Outstanding	4,048,147	2,934,995	4,048,147	2,934,995
Comparable Restaurant Revenue	-3.0%	5.8%	-0.1%	7.3%
Total Restaurants	69	75	69	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 a comparable restaurant revenue decrease of 3.0% in the fiscal quarter ended November 10, 2013 compared to a 5.8% increase for the prior year quarter. The decrease in the current year quarter was primarily the result of weak sales in the KFC brand. The increase in the prior year quarter was the result of positive sales growth in both the KFC and Taco bell concepts and both periods included the effects of certain temporary and permanent restaurant closings. The comparable decrease of 0.1% and the comparable increase of 7.3% for the thirty-six weeks ended November 10, 2013 and November 4, 2012 respectively resulted from the same factors as the quarterly results.

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. Additionally, the Company made rent payments on capitalized leases of $586,000 in the third quarter of fiscal 2014 and $572,000 in the third quarter of fiscal 2013.

The Company reported a pre-tax loss for the third quarter of fiscal 2014 of $244,000 compared to pre-tax net income of $196,000 in the comparable prior year quarter. The reduction in net income reflects lower sales as well as $336,000 of financing cost write offs related to the refinancing of debt and $130,000 of unrealized loss on the change in market value of derivatives during the current year quarter compared to none in the prior year quarter partially offset by decreases of $73,000 in bank interest expense and $39,000 in capitalized lease interest compared to the prior year.

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About the Company

Morgan's Foods, Inc. operates 53 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 Ended		Thirty-six Weeks Ended	
	November 10, 2013	November 4, 2012	November 10, 2013	November 4, 2012
Revenues	$ 19,050,000	$ 20,060,000	$ 59,732,000	$ 61,016,000
Cost of sales:				
Food, paper and beverage	6,137,000	6,466,000	19,482,000	19,769,000
Labor and benefits	5,448,000	5,747,000	17,049,000	17,261,000
Restaurant operating expenses	4,635,000	5,073,000	14,759,000	15,333,000
Depreciation and amortization	707,000	644,000	2,071,000	1,869,000
G&A expenses	1,068,000	1,140,000	3,443,000	3,524,000
Loss (gain) on restaurant assets	205,000	106,000	736,000	564,000
Operating income	850,000	884,000	2,192,000	2,696,000
Interest Expense:				
Bank debt and notes payable	127,000	200,000	461,000	647,000
Capital leases	465,000	504,000	1,406,000	1,512,000
Other income and expense, net	372,000	(16,000)	438,000	(47,000)
Unrealized loss on derivatives	130,000	-	130,000	-
Income (loss) before income taxes	(244,000)	196,000	(243,000)	584,000
Income tax provision	63,000	71,000	234,000	214,000
Net Income (loss)	$ (307,000)	$ 125,000	$ (477,000)	$ 370,000
Basic net income (loss) per common share	$ (0.08)	$ 0.04	$ (0.12)	$ 0.13
Diluted net income (loss) per common share	$ (0.08)	$ 0.04	$ (0.12)	$ 0.13
Basic average number of shares outstanding	4,044,147	2,934,995	3,875,374	2,934,995
Diluted average number of shares outstanding	4,044,147	2,984,694	3,875,374	2,953,294

	November 10, 2013	March 3, 2013
ASSETS		
Current assets	$ 8,417,000	$ 6,049,000
Property and equipment, net	34,799,000	34,401,000
Other assets	352,000	411,000
Intangibles	9,487,000	9,639,000
Total assets	$ 53,055,000	$ 50,500,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	$ 8,308,000	$ 8,279,000
Long-term debt	7,789,000	7,338,000
Long-term capital lease obligations	22,839,000	22,079,000
Other long-term liabilities	10,541,000	10,812,000
Deferred tax liabilities	3,367,000	3,175,000
Total shareholder's equity	211,000	(1,183,000)
Total liabilities and shareholders' equity	$ 53,055,000	$ 50,500,000

Reconciliation of Non-GAAP Measures

	Third Quarter Ended		Thirty-six Weeks Ended	
	November 10, 2013	November 4, 2012	November 10, 2013	November 4, 2012
Net income from continuing operations	$ (307,000)	$ 125,000	$ (477,000)	$ 370,000
Provision for income taxes	63,000	71,000	234,000	214,000
Interest expense, bank debt	127,000	200,000	461,000	647,000
Interest expense, capitalized leases	465,000	504,000	1,406,000	1,512,000
Depreciation and amortization	707,000	644,000	2,071,000	1,869,000
EBITDA	$ 1,055,000	$ 1,544,000	$ 3,695,000	$ 4,612,000
Loss on restaurant assets	205,000	106,000	736,000	564,000
Unrealized loss on derivatives	130,000	-	130,000	-
Adjusted EBITDA	$ 1,390,000	$ 1,650,000	$ 4,561,000	$ 5,176,000

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.