

## Morgan's Foods, Inc. Releases Earnings

### NEWS RELEASE – For Immediate Release

Cleveland, Ohio -- Morgan's Foods, Inc. (OTC: MRFD) June 3, 2013, today announced fourth quarter and year end fiscal 2013 results.

Results of Morgan's Foods, Inc. and its consolidated subsidiaries for the fourth quarter and year end of 2013 and 2012 are summarized below. (Dollar amounts are in millions, except for per share amounts).

	Fourth Quarter Ended		Fiscal Year Ended	
	March 3, 2013	February 26, 2012	March 3, 2013	February 26, 2012
Revenues	\$ 25,850,000	\$ 23,884,000	\$ 86,866,000	\$ 82,237,000
Adjusted EBITDA*	1,589,686	1,122,677	6,767,000	4,744,000
Cash Flow from Operations	(518,000)	1,133,000	1,615,000	1,555,000
Cash Balance	2,971,000	3,455,000	2,971,000	3,455,000
Bank Debt	8,216,000	8,406,000	8,216,000	8,406,000
Shares Outstanding	2,934,995	2,934,995	2,934,995	2,934,995
Comparable Restaurant Revenue	2.6%	7.3%	5.7%	2.3%
Total Restaurants	74	76	74	76

The Company recorded comparable restaurant revenue increases of 2.6% in the fiscal quarter ended March 3, 2013 and 5.7% for the full fiscal year. These increases were partially offset by certain temporary and permanent restaurant closings.

\*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.

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 impair cash flow from operations when the period end changes from a date prior to the first of the month to a date after the first as it did in the fiscal period ending March 3, 2013.

The Company reported pre-tax net income for fiscal 2013 of \$237,000 compared to a pre-tax loss of \$1,290,000 in fiscal 2012. The improvement in net income reflects better restaurant operating metrics, accounting for an increase in restaurant profitability of 1.3% of sales and a reduction of general and administrative expense of \$370,000. These improvements were partially offset by an increase of \$710,000 in bank and capitalized lease interest in fiscal 2013 compared to fiscal 2012 due to the sale/leaseback of 29 restaurants by the Company in December 2011.

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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

	Fourth Quarter Ended		Fiscal Year Ended	
	March 3, 2013	February 26, 2012	March 3, 2013	February 26, 2012
Revenues	\$ 25,850,000	\$ 23,884,000	\$ 86,866,000	\$ 82,237,000
Cost of sales:				
Food, paper and beverage	8,566,000	7,852,000	28,335,000	27,238,000
Labor and benefits	7,749,000	7,026,000	25,010,000	23,794,000
Restaurant operating expenses	6,602,000	6,315,000	21,935,000	21,298,000
Depreciation and amortization	967,000	810,000	2,836,000	2,598,000
G&A expenses	1,417,000	1,579,000	4,941,000	5,311,000
Loss on restaurant assets	155,000	140,000	719,000	766,000
Early Extinguishment of Debt	-	372,000	-	405,000
Operating income	394,000	(210,000)	3,090,000	827,000
Interest Expense:				
Bank debt and notes payable	(279,000)	(349,000)	(926,000)	(1,703,000)
Capital leases	(537,000)	(493,000)	(2,049,000)	(562,000)
Other income and expense, net	75,000	11,000	122,000	148,000
Income before income taxes	(347,000)	(1,041,000)	237,000	(1,290,000)
Income tax provision (benefit)	161,000	72,000	375,000	390,000
Net Income (loss)	\$ (508,000)	\$ (1,113,000)	\$ (138,000)	\$ (1,680,000)
Basic net income (loss) per common share	\$ (0.17)	\$ (0.38)	\$ (0.05)	\$ (0.57)
Diluted net income (loss) per common share	\$ (0.17)	\$ (0.38)	\$ (0.05)	\$ (0.57)
Basic average number of shares outstanding	2,934,995	2,934,995	2,934,995	2,934,995
Diluted average number of shares outstanding	2,934,995	2,934,995	2,934,995	2,934,995

	March 3, 2013	February 26, 2012
ASSETS		
Current assets	\$ 6,049,000	\$ 8,172,000
Property and equipment, net	34,401,000	33,848,000
Other assets	411,000	\$ 513,000
Intangibles	9,639,000	9,893,000
Total assets	\$ 50,500,000	\$ 52,426,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	\$ 8,279,000	\$ 8,604,000
Long-term debt	7,338,000	8,220,000
Long-term capital lease obligations	22,079,000	22,505,000
Other long-term liabilities	10,812,000	11,280,000
Deferred tax liabilities	3,175,000	2,862,000
Total shareholder's equity	(1,183,000)	(1,045,000)
Total liabilities and shareholders' equity	\$ 50,500,000	\$ 52,426,000

## Reconciliation of Non-GAAP Measures

	Fourth Quarter Ended		Fiscal Year Ended	
	March 3, 2013	February 26, 2013	March 3, 2013	February 26, 2013
Net loss from continuing operations	\$ (508,000)	\$ (1,113,000)	\$ (138,000)	\$ (1,680,000)
Provision for income taxes	161,000	72,000	375,000	390,000
Interest expense, bank debt	279,000	349,000	926,000	1,703,000
Interest expense, capitalized leases	537,000	492,000	2,049,000	562,000
Depreciation and amortization	966,000	810,000	2,836,000	2,598,000
<b>EBITDA</b>	\$ 1,435,000	\$ 610,000	\$ 6,048,000	\$ 3,573,000
Loss (gain) on restaurant assets	154,000	140,000	719,000	766,000
Early Extinguishment of Debt	-	372,000	-	405,000
<b>Adjusted EBITDA</b>	\$ 1,589,000	\$ 1,122,000	\$ 6,767,000	\$ 4,744,000

The above chart outlines the financial statement line items that reconcile the Company's net loss 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.