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MORGANS FOODS INC  
Form 10-Q  
July 09, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended May 25, 2003

Commission file number 0-3833

Morgan's Foods, Inc.

(Exact name of registrant as specified in its charter)

Ohio

34-0562210

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

24200 Chagrin Boulevard, Suite 126, Beachwood, Ohio

44122

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(216) 360-7500

(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ...X... No .....

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes ..... No ...X...

As of June 27, 2003, the issuer had 2,718,441 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Morgan's Foods, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

|   | QUARTER ENDED |               |
|---|---------------|---------------|
|   | MAY 25, 2003  | MAY 26, 2002  |
| REVENUES .....                            | \$ 19,828,000 | \$ 19,159,000 |
| COST OF SALES:                            |               |               |
| FOOD, PAPER AND BEVERAGE .....            | 6,069,000     | 5,834,000     |
| LABOR AND BENEFITS .....                  | 5,358,000     | 5,233,000     |
| RESTAURANT OPERATING EXPENSES .....       | 5,000,000     | 4,758,000     |
| DEPRECIATION AND AMORTIZATION .....       | 803,000       | 764,000       |
| GENERAL AND ADMINISTRATIVE EXPENSES ..... | 1,305,000     | 1,315,000     |
| LOSS ON RESTAURANT ASSETS .....           | 10,000        | 10,000        |
| OPERATING INCOME .....                    | 1,283,000     | 1,245,000     |
| INTEREST EXPENSE:                         |               |               |
| BANK DEBT AND NOTES PAYABLE .....         | (1,109,000)   | (1,141,000)   |
| CAPITAL LEASES .....                      | (11,000)      | (14,000)      |
| OTHER INCOME AND EXPENSE, NET .....       | 21,000        | 54,000        |
| NET INCOME BEFORE INCOME TAXES .....      | 184,000       | 144,000       |
| PROVISION FOR INCOME TAXES .....          | 4,000         | 2,000         |
| NET INCOME .....                          | \$ 180,000    | \$ 142,000    |
| BASIC AND DILUTED NET INCOME              |               |               |
| PER COMMON SHARE .....                    | \$ .07        | \$ .05        |
| BASIC WEIGHTED AVERAGE NUMBER OF          |               |               |
| SHARES OUTSTANDING .....                  | 2,718,441     | 2,726,468     |
| DILUTED WEIGHTED AVERAGE NUMBER OF        |               |               |
| SHARES OUTSTANDING .....                  | 2,725,293     | 2,734,600     |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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MORGAN'S FOODS, INC.

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## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

|   | MAY 25, 2003  | MARCH 2, 2003 |
|---|---------------|---------------|
|   | -----         | -----         |
| <b>ASSETS</b>   |               |               |
| CURRENT ASSETS:   |               |               |
| CASH AND EQUIVALENTS .....  | \$ 4,791,000  | \$ 4,901,000  |
| CERTIFICATE OF DEPOSIT .....  | 300,000       | --            |
| RECEIVABLES .....   | 457,000       | 300,000       |
| INVENTORIES .....   | 517,000       | 492,000       |
| PREPAID EXPENSES .....  | 640,000       | 562,000       |
|   | -----         | -----         |
|   | 6,705,000     | 6,255,000     |
| PROPERTY AND EQUIPMENT:   |               |               |
| LAND .....  | 10,970,000    | 10,970,000    |
| BUILDINGS AND IMPROVEMENTS .....  | 18,795,000    | 18,781,000    |
| PROPERTY UNDER CAPITAL LEASES .....                                     | 1,006,000     | 1,006,000     |
| LEASEHOLD IMPROVEMENTS .....  | 7,389,000     | 7,380,000     |
| EQUIPMENT, FURNITURE AND FIXTURES .....                                 | 18,691,000    | 18,618,000    |
| CONSTRUCTION IN PROGRESS .....  | 323,000       | 54,000        |
|   | -----         | -----         |
|   | 57,174,000    | 56,809,000    |
| LESS ACCUMULATED DEPRECIATION AND AMORTIZATION ..                       | 21,127,000    | 20,357,000    |
|   | -----         | -----         |
|   | 36,047,000    | 36,452,000    |
| OTHER ASSETS .....  | 1,299,000     | 1,331,000     |
| FRANCHISE AGREEMENTS .....  | 1,986,000     | 2,016,000     |
| DEFERRED TAXES .....  | 600,000       | 600,000       |
| GOODWILL .....  | 9,371,000     | 9,371,000     |
|   | -----         | -----         |
|   | \$ 56,008,000 | \$ 56,025,000 |
|   | =====         | =====         |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>                            |               |               |
| CURRENT LIABILITIES:  |               |               |
| CURRENT MATURITIES OF LONG-TERM DEBT .....                              | \$ 2,651,000  | \$ 2,603,000  |
| CURRENT MATURITIES OF CAPITAL LEASE OBLIGATIONS                         | 98,000        | 108,000       |
| ACCOUNTS PAYABLE .....  | 3,696,000     | 3,193,000     |
| ACCRUED LIABILITIES .....   | 3,405,000     | 3,462,000     |
|   | -----         | -----         |
|   | 9,850,000     | 9,366,000     |
| LONG-TERM DEBT .....  | 45,428,000    | 46,113,000    |
| LONG-TERM CAPITAL LEASE OBLIGATIONS .....                               | 419,000       | 436,000       |
| OTHER LONG-TERM LIABILITIES .....                                       | 1,553,000     | 1,532,000     |
| SHAREHOLDERS' DEFICIT   |               |               |
| PREFERRED SHARES, 1,000,000 SHARES AUTHORIZED,<br>NO SHARES OUTSTANDING |               |               |
| COMMON STOCK  |               |               |
| AUTHORIZED SHARES - 25,000,000  |               |               |
| ISSUED SHARES - 2,969,405 .....   | 30,000        | 30,000        |
| TREASURY STOCK - 250,964 IN 2004 AND 2003 .....                         | (284,000)     | (284,000)     |
| CAPITAL IN EXCESS OF STATED VALUE .....                                 | 28,829,000    | 28,829,000    |
| ACCUMULATED DEFICIT .....   | (29,817,000)  | (29,997,000)  |
|   | -----         | -----         |

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|                                      |               |               |
|--------------------------------------|---------------|---------------|
| TOTAL SHAREHOLDERS' DEFICIENCY ..... | (1,242,000)   | (1,422,000)   |
|                                      | -----         | -----         |
|                                      | \$ 56,008,000 | \$ 56,025,000 |
|                                      | =====         | =====         |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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Morgan's Foods, Inc.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY

(unaudited)

|                           | COMMON SHARES |           | TREASURY SHARES |              | CAPITAL IN<br>EXCESS OF<br>STATED VALUE |
|---------------------------|---------------|-----------|-----------------|--------------|---|
|                           | SHARES        | AMOUNT    | SHARES          | AMOUNT       |   |
| Balance, March 3, 2002 .. | 2,969,405     | \$ 30,000 | (241,564)       | \$ (251,000) | \$ 28,829,000                           |
| Net loss .....            | --            | --        | --              | --           | --                                      |
| Purchase of common shares | --            | --        | (9,400)         | (33,000)     | --                                      |
|                           | -----         | -----     | -----           | -----        | -----                                   |
| Balance March 2, 2003 ... | 2,969,405     | 30,000    | (250,964)       | (284,000)    | 28,829,000                              |
| Net income .....          | --            | --        | --              | --           | --                                      |
|                           | -----         | -----     | -----           | -----        | -----                                   |
| Balance May 25, 2003 .... | 2,969,405     | \$ 30,000 | (250,964)       | \$ (284,000) | \$ 28,829,000                           |
|                           | =====         | =====     | =====           | =====        | =====                                   |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Morgan's Foods, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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(unaudited)

|   | QUARTER ENDED |              |
|---|---------------|--------------|
|   | MAY 25, 2003  | MAY 26, 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES:           |               |              |
| NET INCOME .....                                | \$ 180,000    | \$ 142,000   |
| ADJUSTMENTS TO RECONCILE TO NET CASH            |               |              |
| PROVIDED BY OPERATING ACTIVITIES:               |               |              |
| DEPRECIATION AND AMORTIZATION .....             | 803,000       | 764,000      |
| AMORTIZATION OF DEFERRED FINANCING COSTS ...    | 32,000        | 33,000       |
| AMORTIZATION OF SUPPLY AGREEMENT ADVANCES ..    | (179,000)     | (196,000)    |
| FUNDING FROM SUPPLY AGREEMENTS .....            | 68,000        | 62,000       |
| LOSS ON RESTAURANT ASSETS .....                 | 10,000        | 10,000       |
| CHANGE IN ASSETS AND LIABILITIES:               |               |              |
| INCREASE IN RECEIVABLES .....                   | (157,000)     | (102,000)    |
| INCREASE IN INVENTORIES .....                   | (25,000)      | (63,000)     |
| DECREASE (INCREASE) IN PREPAID EXPENSES ...     | (78,000)      | 110,000      |
| DECREASE IN OTHER ASSETS .....                  | --            | 18,000       |
| INCREASE (DECREASE) IN ACCOUNTS PAYABLE ...     | 503,000       | (249,000)    |
| INCREASE IN ACCRUED LIABILITIES .....           | 65,000        | 51,000       |
|   | 1,222,000     | 580,000      |
| CASH FLOWS FROM INVESTING ACTIVITIES:           |               |              |
| CAPITAL EXPENDITURES .....                      | (368,000)     | (98,000)     |
| PURCHASE OF CERTIFICATE OF DEPOSIT .....        | (300,000)     | --           |
|   | (668,000)     | (98,000)     |
| CASH FLOWS FROM FINANCING ACTIVITIES:           |               |              |
| PRINCIPAL PAYMENTS ON LONG-TERM DEBT .....      | (637,000)     | (370,000)    |
| PRINCIPAL PAYMENTS ON CAPITAL LEASE OBLIGATIONS | (27,000)      | (25,000)     |
| PURCHASE OF TREASURY SHARES .....               | --            | (33,000)     |
|   | (664,000)     | (428,000)    |
| NET CHANGE IN CASH AND EQUIVALENTS .....        | (110,000)     | 54,000       |
| CASH AND EQUIVALENTS, BEGINNING BALANCE .....   | 4,901,000     | 7,441,000    |
|   | \$ 4,791,000  | \$ 7,495,000 |
|   | \$ 4,791,000  | \$ 7,495,000 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Morgan's Foods, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTERS ENDED MAY 25, 2003 AND MAY 26, 2002  
 (unaudited)

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The interim consolidated financial statements of Morgan's Foods, Inc. have been prepared without audit. In the opinion of Company Management, all adjustments have been included. Unless otherwise disclosed, all adjustments consist only of normal recurring adjustments necessary for a fair statement of results of operations for the interim periods. Except as noted in the notes to the financial statements, these unaudited financial statements have been prepared using the same accounting principles that were used in preparation of the Company's annual report on Form 10-K for the year ended March 2, 2003.

**Certificate of Deposit.** During the first quarter of fiscal 2004, the Company issued a letter of credit for \$300,000 in favor of one of its vendors. The letter of credit which expires September 27, 2003 is secured by a \$300,000 certificate of deposit.

### NOTE 2. INCOME PER COMMON SHARE.

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is based on the combined weighted average number of shares outstanding, which includes the assumed exercise, or conversion of options. In computing diluted net income per common share, the Company has utilized the treasury stock method.

### NOTE 3. STOCK OPTIONS.

The Company's outstanding stock options are accounted for using the intrinsic value method, under which compensation cost is measured as the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee must pay to acquire the stock. Had compensation cost for the options granted been determined based on their fair values at the grant dates in accordance with the fair value method of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, the Company's net income and earnings per share would have been presented at the pro forma amounts indicated below:

|  | Quarter Ended |              |
|--|---------------|--------------|
|  | May 25, 2003  | May 26, 2002 |
| Net income as reported .....                                 | \$ 180,000    | \$ 142,000   |
| Add (subtract) stock-based compensation expense, net of tax: |               |              |
| - As reported (intrinsic value method)                       | --            | --           |
| - Pro forma (fair value method) .....                        | --            | --           |
|  | -----         | -----        |
| Net income - pro forma .....                                 | \$ 180,000    | \$ 142,000   |
|  | =====         | =====        |
| Basic and diluted income per common share:                   |               |              |
| As reported .....  | \$ .07        | \$ .05       |
| Pro forma .....  | \$ .07        | \$ .05       |

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### NOTE 4. NEW ACCOUNTING STANDARDS.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. The new rules apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of long-lived assets. The Company adopted the provisions of SFAS No. 143 beginning in fiscal 2004. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated financial position or results of operations.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

**Description of Business.** Morgan's Foods, Inc. ("the Company") operates, through wholly-owned subsidiaries KFC restaurants under franchises from KFC Corporation and Taco Bell restaurants under franchises from Taco Bell Corporation. As of June 27, 2003, the Company operates 75 KFC restaurants, 7 Taco Bell restaurants, 16 KFC/Taco Bell "2n1's" under franchises from KFC Corporation and franchises or licenses from Taco Bell Corporation, 3 Taco Bell/Pizza Hut Express "2n1's" operated under franchisees from Taco Bell Corporation and licenses from Pizza Hut Corporation, 1 KFC/Pizza Hut Express "2n1" operated under a franchise from KFC Corporation and a license from Pizza Hut Corporation and 1 KFC/A&W "2n1" operated under a franchise from KFC Corporation and a license from A&W Restaurants, Inc. The Company's fiscal year is a 52 - 53 week year ending on the Sunday nearest the last day of February.

#### SUMMARY OF EXPENSES AND OPERATING INCOME AS A PERCENTAGE OF REVENUES

|                                     | QUARTER ENDED |              |
|-------------------------------------|---------------|--------------|
|                                     | MAY 25, 2003  | MAY 26, 2002 |
| Cost of sales:                      |               |              |
| Food, paper and beverage .....      | 30.6%         | 30.5%        |
| Labor and benefits .....            | 27.0%         | 27.3%        |
| Restaurant operating expenses ..... | 25.2%         | 24.8%        |
| Depreciation and amortization ..... | 4.0%          | 4.0%         |
| General and administrative expenses | 6.6%          | 6.9%         |
| Operating income .....              | 6.5%          | 6.5%         |

**Revenues.** Revenues for the quarter ended May 25, 2003 were \$19,828,000 compared to \$19,159,000 for the quarter ended May 26, 2002. This increase of \$669,000 was primarily due to a 3.2% increase in comparable restaurant revenues. The increase in comparable restaurant revenues was primarily the result of effective product promotions by the franchisors and increased local advertising during the quarter.

**Costs of Sales - Food, Paper and Beverages.** Food, paper and beverage costs for the first quarter increased as a percentage of revenue from 30.5% in fiscal 2003 to 30.6% in fiscal 2004. This increase was primarily the result of product promotions during the first quarter of fiscal 2004 having a higher food cost than those which were promoted during the first quarter of fiscal 2003.

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This increase was partially offset by efficiencies gained from higher average restaurant volumes as well as rebates from increased beverage sales.

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Cost of Sales - Labor and Benefits. Labor and benefits decreased as a percentage of revenue for the quarter ended May 25, 2003 to 27.0% compared to 27.3% for the year earlier quarter. The decrease was primarily due to efficiencies gained from higher average restaurant volumes which were partially offset by increased health care costs.

Restaurant Operating Expenses. Restaurant operating expenses increased as a percentage of revenue to 25.2% in the first quarter of fiscal 2004 compared to 24.8% in the first quarter of fiscal 2003. This increase was primarily due to increased general insurance and local advertising costs which were partially offset by efficiencies gained from higher restaurant volumes.

Depreciation and Amortization. Depreciation and amortization increased to \$803,000 in the current year first quarter from \$764,000 in the prior year first quarter. This increase was a result of restaurant development which was placed in service later in fiscal year 2003.

General and Administrative Expenses. General and administrative expenses were substantially unchanged at \$1,305,000 and \$1,315,000 for the first quarters of fiscal 2004 and 2003 respectively.

Loss on Restaurant Assets. The loss on restaurant assets was unchanged at \$10,000 in the first quarters of fiscal 2004 and 2003.

Operating Income. Operating income in the first quarter of fiscal 2004 increased to \$1,283,000 or 6.5% of revenues compared to \$1,245,000 or 6.5% of revenues for the first quarter of fiscal 2003. Operating income was a consistent percentage of revenues as a result of higher average restaurant volumes being offset by higher cost product promotions, increased health care and general insurance costs and increased depreciation expense.

Interest Expense. Interest expense on bank debt decreased to \$1,109,000 in the first quarter of fiscal 2004 from \$1,141,000 in fiscal 2003 due to lower debt balances during the fiscal 2004 quarter. Interest expense on capitalized leases was substantially unchanged from the prior year first quarter.

Other Income. Other income decreased to \$21,000 in the first quarter of fiscal 2004 from \$54,000 in the first quarter of fiscal 2003 as a result of lower interest income due to decreases in both the interest rate earned and the average cash balance in the first quarter of fiscal 2004.

Provision for Income Taxes. The provision for income taxes was substantially unchanged at \$4,000 and \$2,000 in the first quarters of fiscal 2004 and 2003, respectively.

Liquidity and Capital Resources. Cash flow activity for the twelve weeks of fiscal 2004 and fiscal 2003 is presented in the Consolidated Statements of Cash Flows. Cash provided by operating activities was \$1,222,000 for the twelve weeks ended May 25, 2003. The Company paid scheduled long-term bank and capitalized lease debt of \$664,000 in the first quarter of fiscal 2004.

The quick service restaurant operations of the Company have historically provided sufficient cash flow to service the Company's debt, refurbish and upgrade restaurant properties and cover administrative overhead.



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Management believes that operating cash flow will provide sufficient capital to continue to operate and maintain the KFC, Taco Bell and "2n1" restaurants, service the Company's debt and support required corporate expenses.

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The Company's debt arrangements require the maintenance of a consolidated fixed charge coverage ratio of 1.2 to 1 regarding all of its mortgage loans and individual restaurant coverage ratios between 1.2 and 1.5 to 1 on certain of its loans. As of March 2, 2003, the Company was not in compliance with the consolidated ratio of 1.2 to 1 or the unit level ratios relating to \$33,346,000 of its debt. The Company has obtained waivers of these violations from the applicable lenders. As these waivers continue through the end of fiscal year 2004, the Company has classified its debt as long term as of March 2, 2003 and May 25, 2003. All payments on the Company's debt have been, and continue to be current and management believes that the Company will continue to be able to service the debt. If the Company does not comply with debt covenants in the future, and if future waivers are not obtained, the lenders will have certain remedies available to them which could include calling of the debt or acceleration of payments. Noncompliance with the requirements of the Company's mortgage debt, if not waived, could also trigger cross-default provisions of other debt agreements.

The Company continues to be out of compliance with certain of the continued listing standards of the American Stock Exchange and was required to submit a revised business plan to the Exchange indicating how the Company would achieve compliance with those standards. Specifically, the Company fell under the guidelines in Section 1003(a)(i) with shareholders' equity of less than \$2,000,000 and has sustained losses from continuing operations and/or net losses in two of its three most recent fiscal years and Section 1003(a)(ii) with shareholder's equity of less than \$4,000,000 and has sustained losses from continuing operations and/or net losses in three out of its four most recent fiscal years.

On March 25, 2003 the Company submitted its revised plan to the staff at the Exchange indicating how it would regain compliance with the continued listing standards and received notice from the Exchange on April 30, 2003 that it has accepted the Company's revised plan. The Exchange has allowed the Company to continue its plan for compliance until August 17, 2003, the end of the Company's second fiscal quarter, at which time the Exchange will reassess the Company's compliance with the continued listing standards. During the term of the extension, the Exchange will monitor the Company's performance and the Company will be required to report to the Exchange any change in its performance which would be inconsistent with the plan which was approved by the Exchange on April 30. Any failure to meet the operating plan which was accepted by the Exchange could result in the commencement of delisting proceedings. If the Company were delisted, or if its common shares were suspended from trading, the liquidity of its common shares could be diminished.

The Company's market risk exposure is primarily due to possible fluctuations in interest rates as they relate to future borrowings. The Company has evaluated the potential effect of a 1.0% increase in these rates on future capital spending plans and believes that there would be no material effect. The Company does not enter into derivative financial investments for trading or speculation purposes. As a result, the Company believes that its market risk exposure is not material to the Company's financial position, liquidity or results of operations.

Commitments. During the first quarter of fiscal year 2004, the Company

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issued a letter of credit for \$300,000 in favor of one of its vendors. The letter of credit which expires September 27, 2003 is secured by a \$300,000 certificate of deposit.

Seasonality. The operations of the Company are affected by seasonal fluctuations. Historically, the Company's revenues and income have been highest during the summer months with the fourth fiscal quarter representing the slowest period. This seasonality is primarily attributable to weather conditions in the Company's marketplace, which consists of portions of Ohio, Pennsylvania, Missouri, Illinois, West Virginia and New York.

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SAFE HARBOR STATEMENTS. 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 and general economic and industry factors. Factors specific to the Company include, but are not limited to, its debt covenant compliance and its ability to obtain waivers of any debt covenant violations as well as the listing status of its common shares with the American Stock Exchange.

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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information required by this item is included under "Liquidity and Capital Resources".

### ITEM 4. CONTROLS AND PROCEDURES.

- (a) Within the 90-day period prior to the filing date of this Quarterly Report on Form 10-Q, the Company, under the supervision, and with the participation, of its management, including its Chief Executive Officer and Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures, as contemplated by Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective.
- (b) No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation performed pursuant to Securities Exchange Act Rule 13a-15 referred to above.

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## PART II OTHER INFORMATION

### ITEM 5. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's annual meeting of shareholders was held on June 27, 2003 and voting was conducted on the following proposals:

Proposal 1 - The election of seven Directors. The following seven Directors were elected:

| NAME<br>----        | FOR<br>--- | WITHHOLD<br>----- | ABSTAIN<br>----- |
|---------------------|------------|-------------------|------------------|
| Leonard Stein-Sapir | 2,493,319  | 5,048             | 26,262           |
| Lawrence S. Dolin   | 2,497,640  | 727               | 26,262           |
| Bahman Guyuron, M.D | 2,496,540  | 1,827             | 26,262           |
| Kenneth L. Hignett  | 2,494,306  | 4,061             | 26,262           |
| Steven S. Kaufman   | 2,497,814  | 553               | 26,262           |
| Bernard Lerner      | 2,497,814  | 553               | 26,262           |
| James J. Liguori    | 2,493,540  | 4,827             | 26,262           |

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### MORGAN'S FOODS, INC. INDEX TO EXHIBITS

| Exhibit<br>Number<br>----- | Exhibit Description<br>-----   |
|----------------------------|--|
| 99.1                       | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Leonard R. Stein-Sapir, Chairman of the Board and Chief Executive Officer        |
| 99.2                       | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Kenneth L. Hignett, Senior Vice President, Chief Financial Officer and Secretary |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Morgan's Foods, Inc.

-----  
(Registrant)

Dated: July 9, 2003

By: /s/ Kenneth L. Hignett

-----  
Kenneth L. Hignett  
Senior Vice President,  
Chief Financial Officer & Secretary

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CERTIFICATIONS

-----  
I, Leonard R. Stein-Sapir, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Morgan's Foods, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and

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procedures as of a date within 90 days prior to the filing date of this report (the "Evaluation Date"); and

c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 9, 2003

/s/ Leonard R. Stein-Sapir

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Leonard R. Stein-Sapir  
Chairman of the Board,  
Chief Executive Officer

### CERTIFICATIONS

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I, Kenneth L. Hignett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Morgan's Foods, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material

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information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this report (the "Evaluation Date"); and

c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 9, 2003

/s/ Kenneth L. Hignett

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Kenneth L. Hignett,  
Senior Vice President,  
Chief Financial Officer & Secretary