

MORGANS FOODS INC
Form 10-Q
September 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 12, 2012

or

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

For the transition period from _____ to _____

Commission File Number 1-08395

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 No.)

4829 Galaxy Parkway, Suite S, Cleveland, Ohio 44128
(Address of principal executive offices) (Zip Code)

(216) 359-9000
(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 21, 2012, the issuer had 2,934,995 common shares outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MORGAN'S FOODS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter Ended	
	August 12, 2012	August 14, 2011
Revenues	\$20,642,000	\$19,513,000
Cost of sales:		
Food, paper and beverage	6,706,000	6,604,000
Labor and benefits	5,763,000	5,543,000
Restaurant operating expenses	5,285,000	5,105,000
Depreciation and amortization	621,000	579,000
General and administrative expenses	1,190,000	1,224,000
Loss on restaurant assets	88,000	148,000
Early extinguishment of debt	-	-
Operating income	989,000	310,000
Interest expense:		
Bank debt and notes payable	217,000	445,000
Capital leases	506,000	23,000
Other (income) and expense, net	(12,000)	32,000
Income (loss) before income taxes	278,000	(190,000)
Provision for income taxes	72,000	67,000
Net income (loss)	\$206,000	\$(257,000)
Basic net income (loss) per common share:	\$0.07	\$(0.09)
Diluted net income (loss) per common share:	\$0.07	\$(0.09)
Basic weighted average number of shares outstanding	2,934,995	2,934,995
Diluted weighted average number of shares outstanding	2,940,194	2,934,995

See notes to these consolidated financial statements.

MORGAN'S FOODS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Twenty-four Weeks Ended	
	August 12, 2012	August 14, 2011
Revenues	\$40,956,000	\$39,075,000
Cost of sales:		
Food, paper and beverage	13,303,000	13,101,000
Labor and benefits	11,514,000	11,228,000
Restaurant operating expenses	10,260,000	9,969,000
Depreciation and amortization	1,225,000	1,181,000
General and administrative expenses	2,384,000	2,473,000
Loss on restaurant assets	458,000	359,000
Early extinguishment of debt	-	33,000
Operating income	1,812,000	731,000
Interest expense:		
Bank debt and notes payable	447,000	914,000
Capital leases	1,008,000	46,000
Other (income) and expense, net	(31,000)	4,000
Income (loss) before income taxes	388,000	(233,000)
Provision for income taxes	143,000	241,000
Net income (loss)	\$245,000	\$(474,000)
Basic net income (loss) per common share:	\$0.08	\$(0.16)
Diluted net income (loss) per common share:	\$0.08	\$(0.16)
Basic weighted average number of shares outstanding	2,934,995	2,934,995
Diluted weighted average number of shares outstanding	2,937,595	2,934,995

See notes to these consolidated financial statements.

MORGAN'S FOODS, INC.
CONSOLIDATED BALANCE SHEET

	August 12, 2012	February 26, 2012
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 3,859,000	\$3,455,000
Restricted cash	2,039,000	2,080,000
Receivables	438,000	546,000
Inventories	679,000	652,000
Prepaid expenses	500,000	462,000
Assets held for sale	300,000	977,000
Total current assets	7,815,000	8,172,000
Property and equipment:		
Land	1,275,000	1,275,000
Buildings and improvements	2,836,000	2,823,000
Property under capital leases	22,968,000	22,885,000
Leasehold improvements	11,581,000	10,119,000
Equipment, furniture and fixtures	18,752,000	18,056,000
Construction in progress	43,000	404,000
Total property and equipment	57,455,000	55,562,000
Less accumulated depreciation and amortization	22,760,000	21,714,000
Net book value of property and equipment	34,695,000	33,848,000
Other assets	457,000	513,000
Franchise agreements, net	753,000	821,000
Goodwill	8,950,000	9,072,000
Total assets	\$ 52,670,000	\$52,426,000
LIABILITIES AND SHAREHOLDERS' DEFICIT		