

MORGANS FOODS INC  
Form DEF 14A  
June 06, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**SCHEDULE 14A**

(RULE 14a-101)

**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by**

**Rule 14a-6(e)(2))**  Definitive Proxy Statement  Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

MORGAN S FOODS, INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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**MORGAN S FOODS, INC.**  
4829 Galaxy Parkway, Suite S  
Cleveland, Ohio 44128

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD JUNE 27, 2008**

**TO THE SHAREHOLDERS:**

You are hereby notified that the Annual Meeting of Shareholders of Morgan s Foods, Inc., an Ohio corporation (the Company ), will be held at the Marriott Cleveland East, 26300 Harvard Rd., Warrensville Heights, OH 44122, on Friday, June 27, 2008, at 10:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect the Board of Directors of the Company.
2. To transact such other business as may properly come before the meeting or any adjournment thereof.

**Only shareholders of record at the close of business on May 14, 2008 will be entitled to notice of and to vote at the meeting or any adjournment thereof.**

BY ORDER OF THE BOARD OF  
DIRECTORS

KENNETH L. HIGNETT  
*Secretary*

June 6, 2008

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE TO ENSURE THAT THEIR SHARES ARE REPRESENTED AT THE MEETING OR ANY ADJOURNMENT THEREOF.

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**MORGAN S FOODS, INC.**  
4829 Galaxy Parkway, Suite S  
Cleveland, Ohio 44128

**PROXY STATEMENT**

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Morgan's Foods, Inc., an Ohio corporation (the Company), for use at the Annual Meeting of Shareholders of the Company (the Meeting) to be held at the Marriott Cleveland East, 26300 Harvard Rd., Warrensville Heights, Ohio 44122, on Friday, June 27, 2008 at 10:00 a.m., Eastern Daylight Time, and at any adjournment thereof.

This proxy statement and accompanying notice and form of proxy are being mailed to shareholders on or about June 6, 2008. A copy of the Company's Annual Report to Shareholders, including financial statements, for the fiscal year ended March 2, 2008 (the 2008 fiscal year) is enclosed with this proxy statement.

The presence of any shareholder at the Meeting will not operate to revoke his proxy. Any proxy may be revoked, at any time before it is exercised, in open meeting, or by giving notice to the Company in writing, or by filing a duly executed proxy bearing a later date.

If the enclosed proxy is executed and returned to the Company, the persons named therein will vote the shares represented by it at the Meeting. The proxy permits specification of a vote for the election of directors, or the withholding of authority to vote in the election of directors, or the withholding of authority to vote for one or more specified nominees.

Where a choice is specified in the proxy, the shares represented thereby will be voted in accordance with such specification. If no specification is made, such shares will be voted at the Meeting FOR the election as directors of the nominees set forth herein under Election of Directors.

Under Ohio law and the Company's Articles of Incorporation, broker non-votes and abstaining votes will not be counted in favor of or against election of any nominee.

The close of business on May 14, 2008, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Meeting. As of May 14, 2008, the Company's outstanding voting securities consisted of 2,934,995 Common Shares, without par value, each of which is entitled to one vote on all matters to be presented to the shareholders at the Meeting.

**ELECTION OF DIRECTORS**

At the Meeting, shares represented by proxies will be voted, unless otherwise specified in such proxies, for the election of the seven nominees to the Board of Directors named in this proxy statement and the enclosed proxy. These nominees were selected by the Board of Directors and will, if elected, serve as directors of the Company until the next annual meeting of the shareholders and until their successors are elected and shall qualify. All of the nominees are currently members of the Board of Directors and all nominees have consented to be nominated and to serve if elected. If, for any reason, any one or more nominees becomes unavailable for election, it is expected that proxies will be voted for the election of such substitute nominees as may be designated by the Board of Directors.

If notice in writing is given by any shareholder to the President or the Secretary of the Company, not less than 48 hours before the time fixed for holding the Meeting, that such shareholder desires that the voting

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for the election of directors shall be cumulative, and if an announcement of the giving of such notice is made upon the convening of the Meeting by the President or Secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate such voting power as he possesses at such election and to give one candidate an amount of votes equal to the number of directors to be elected multiplied by the number of his shares, or to distribute his votes on the same principle among two or more candidates, as he sees fit.

If voting for the election of directors is cumulative, the persons named in the enclosed proxy will vote the shares represented by proxies given to them in such fashion as to elect as many of the nominees as possible.

The table below sets forth, as of May 14, 2008, certain information about each of the nominees for director. **The Board of Directors recommends that you vote for the following nominees:**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation for the Past Five Years</b>	<b>Director of the Company Since</b>
Lawrence S. Dolin	64	Chairman and Chief Executive Officer, Noteworthy Medical Systems, Inc. (electronic health records software)	1981
Bahman Guyuron, M.D., F.A.C.S.	62	Kiehn-DesPrez Professor and Chief Division of Plastic Surgery University Hospitals Case Medical Center and Case Western Reserve University	2003
Kenneth L. Hignett	61	Senior Vice President, Chief Financial Officer and Secretary of the Company (March 1992 to present); Vice President, Secretary and Treasurer of the Company (January 1991 to March 1992); Vice President and Treasurer of the Company (June 1989 to January 1991)	1993
Steven S. Kaufman	58	Partner and Executive Committee Member, Thompson Hine LLP (law firm)	1989
Bernard Lerner	81	President and Chief Executive Officer, Automated Packaging Systems, Inc. (manufacturer of packaging materials and machinery)	1989
James J. Liguori	59	President and Chief Operating Officer of the Company (July 1988 to present); Executive Vice President of the Company (August 1987 to July 1988); Vice President of the Company (June 1979 to August 1987)	1984
Leonard R. Stein-Sapir	69	Chairman of the Board and Chief Executive Officer of the Company (April 1989 to present)	1981

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Lawrence S. Dolin also serves as a director of Falconstor Software, Inc., a company in the business of providing software IP storage.

The Board of Directors has determined that each of the following members is an independent director as defined by the listing standards of The Nasdaq Stock Market: Lawrence S. Dolin, Bernard Lerner, Steven S. Kaufman and Bahman Guyuron.

The Board of Directors has an Executive Committee, an Audit Committee, and a Compensation and Human Resources Committee. The Company does not have a nominating committee. The Board of Directors as a whole functions as the nominating committee due to the relatively small size of the Board and the smaller market capitalization of the Company.

The Executive Committee consists of James J. Liguori, Lawrence S. Dolin, Bernard Lerner and Leonard R. Stein-Sapir. This committee has the authority, between meetings of the Board of Directors, to exercise substantially all of the powers of the Board in the management of the business of the Company.

The Audit Committee consists of Lawrence S. Dolin (Chairman), Steven S. Kaufman and Bernard Lerner. This committee, as set forth in more detail in the Audit Committee Charter which is attached to this Proxy Statement as Exhibit A, approves the Company's retention of independent auditors and pre-approves any audit or non-audit services performed by them. It reviews with such accountants the arrangements for, and the scope of, the audit to be conducted by them. It also reviews with the independent accountants and with management the results of audits and various other financial and accounting matters affecting the Company. The Board has determined that Lawrence S. Dolin qualifies as an audit committee financial expert, as defined in the rules of the Securities and Exchange Commission.

The members of the Compensation and Human Resources Committee are Steven S. Kaufman, Bernard Lerner (Chairman), Bahman Guyuron and Lawrence S. Dolin. This committee administers the Company's compensation, benefits and stock option plans. At its meeting on June 22, 2007, the Board of Directors of the Company adopted a charter establishing the duties and responsibilities of the Compensation and Human Resources Committee of the Board of Directors. The charter of the Compensation and Human Resources Committee is attached to this Proxy Statement as Exhibit B.

The Board of Directors met four times, the Audit Committee met four times, the Compensation and Human Resources Committee met once and the Executive Committee did not meet, during the 2008 fiscal year. Each director currently serving on the Board attended 75% or more of the meetings held during such year by the Board and the meetings of the committee(s) on which he served. The Company encourages the attendance of all directors at the annual shareholders meetings. Four of the Company's directors attended the annual shareholders meeting last year.

Nominations for Director are made by the Board as a whole. When selecting new Director nominees, the Board considers any requirements of applicable law, as well as a candidate's strength of character, judgment, business experience, specific areas of expertise, and factors relating to the composition of the Board (including its size and structure). The Board will review any candidate recommended by shareholders of the Company in light of its criteria for selection of new directors. If a shareholder wishes to recommend a candidate, he or she should send his or her recommendation, with a description of the candidate's qualifications, to the secretary of the Company, Kenneth L. Hignett, 4829 Galaxy Pkwy., Suite S, Cleveland, Ohio 44128.

**AUDIT COMMITTEE REPORT**

The Audit Committee is composed of three directors, all of whom are independent under the Sarbanes-Oxley Act. The Committee operates under a written charter adopted on June 23, 2000, reviewed annually and ratified most recently on June 22, 2007 (a copy of the charter is attached as Exhibit A to this Proxy Statement). The Committee's responsibilities include oversight of the Company's independent auditors as well as oversight of management's conduct in the Company's financial reporting process. The Committee



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also approves the Company's retention of independent auditors and pre-approves any audit or non-audit services performed by them. Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon. For fiscal 2008, the Committee met and held discussions with management and the independent auditors. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee discussed with the independent auditors matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Oversight Board in Rule 3200T. The Company's independent auditors also provided to the Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No.1, Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T and the Committee discussed with the independent auditors their firm's independence. The Audit Committee has considered whether the provision of non-audit services by the independent auditors is compatible with maintaining the auditor's independence.

Based on the Committee's discussion with management and the independent auditors and the report of the independent auditors to the Committee, the Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 2, 2008 filed with the Securities and Exchange Commission.

The Audit Committee

Lawrence S. Dolin, Chairman

Steven S. Kaufman

Bernard Lerner

**INDEPENDENT AUDITOR FEES**

The aggregate audit fees billed or to be billed to the Company for the fiscal year ended March 2, 2008 by the Company's independent auditors, Grant Thornton LLP, are \$173,342 and for the fiscal year ended February 25, 2007 by the Company's independent auditors were \$11,672 for Deloitte & Touche LLP and \$174,684 for Grant Thornton LLP. There were no tax, audit-related or other fees paid to our independent auditors for the years ended March 2, 2008 and February 25, 2007.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

**Security Ownership of Certain Beneficial Owners.** The following table sets forth certain information with respect to all persons known to the Company to be the beneficial owners of more than 5% of the Company's outstanding Common Shares as of May 14, 2008.

<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares</b>	<b>Percent of Class</b>
Leonard R. Stein-Sapir (1) 4829 Galaxy Pkwy., Suite S Cleveland, OH 44128	805,281	26.8%
Moab Partners LP (2) 152 East 62 <sup>nd</sup> Street New York, NY 10021	322,376	10.9%
Blackhorse Capital Advisors LLC (2) 45 Rockefeller Center, 20 <sup>th</sup> Floor New York, NY 10111	340,200	11.5%
Hoak Public Equities LP (3) 500 Crescent Court, Suite 220 Dallas TX 75201	150,000	5.1%

(1) Includes 98 shares owned by Mr. Stein-Sapir's children and 1,666 shares owned by his wife. Mr. Stein-Sapir disclaims any beneficial interest in the shares owned by his wife and children.

(2) Based on the most recent filings of SEC Form 4 by the reporting parties.

(3) Based on Schedule 13G filing dated March 27, 2008.

**Security Ownership of Management.** The following table sets forth information as of May 14, 2008, with respect to Common Shares beneficially owned by all directors and nominees for election as directors of the Company and by all officers and directors of the Company as a group. Each person owns beneficially and of record the shares indicated and has sole voting and investment power with respect thereto, except as otherwise set forth in the footnotes to the table.

<b>Name</b>	<b>Number of Shares</b>	<b>Percent of Class</b>
Lawrence S. Dolin (1)	106,125	3.6%
Bahman Guyuron	90,823	3.0%
James J. Liguori (2)	81,539	2.7%
Steven S. Kaufman	4,686	*
Leonard R. Stein-Sapir (3)	805,281	26.8%
Bernard Lerner	103,066	3.5%
Kenneth L. Hignett	41,522	1.4%
Barton J. Craig (4)	20,000	*
Ramesh J. Gursahaney	250	*
All officers and directors as a group (11 persons) (5)	1,254,729	41.8%

\* Less than one percent of the outstanding Common Shares of the Company.

(1) Includes 43,000 shares owned by a partnership of which Mr. Dolin is a general partner and 625 shares owned by Mr. Dolin's wife. Mr. Dolin disclaims any beneficial interest in the shares owned by his wife.

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- (2) Includes 83 shares owned by his wife. Mr. Liguori disclaims any beneficial interest in the shares owned by his wife and 50,000 shares subject to exercisable options.
- (3) Includes 98 shares owned by Mr. Stein-Sapir's children and 1,666 shares owned by his wife. Mr. Stein-Sapir disclaims any beneficial interest in the shares owned by his wife and children.
- (4) Includes 20,000 shares subject to exercisable options.
- (5) Includes 70,000 shares subject to exercisable options.

**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

*Administration of the Compensation Plan* - The proxy statement disclosure rules of the Securities and Exchange Commission require the Company to provide certain information concerning the compensation of the Principal Executive Officer and the other executive officers of the Company. The Company's compensation plan is administered by the Compensation and Human Resources Committee of the Board of Directors and decisions on the compensation of the Company's Officers are made by the Committee.

*Objectives of the Compensation Program* The objective of the Company's compensation program is to provide competitive compensation to retain key management and to reward them for success in increasing shareholder value.

*Principles of the Compensation Program* The Company's compensation program is formulated to recognize the abilities and experience which each executive brings to his position. The annual review is expected to reward

executives for the successful performance of their duties and to provide an incentive for future performance.

*Elements of Compensation* - Compensation of the Company's executive officers and officers consists primarily of base salary and stock option grants. The Company also provides a matching contribution to deferred compensation under a 401(k) Plan described in a separate section of this proxy statement. Stock options are used by the Company to align the interests of executives more closely with those of the shareholders. The granting of stock options also aids in the retention of high quality executives by providing long-term incentives. The Company has no formal bonus plan for executives. The Board of Directors has in the past authorized discretionary bonuses for executives. The Company does not provide retirement benefits.

*Base Salary* - Since 1999, the Company has relied on its own informal surveys of compensation levels to gauge the reasonableness of the compensation of Leonard Stein-Sapir, the Company's Chief Executive Officer. Mr. Stein-Sapir's compensation was at an annual rate of \$250,000 at the beginning of the 2005 fiscal year which was unchanged since February 28, 2000 but was voluntarily reduced at January 1, 2005 to an annual rate of \$25,000, was raised to \$50,000 in April 2006 and to \$125,000 in August 2006 and has continued at that rate through the end of fiscal 2008.

All executive officer salaries are reviewed on an annual basis. In deciding on changes in the annual base salary of the Chief Executive Officer the Board considers several performance factors. Among these are operating and administrative efficiency and the maintenance of an appropriately experienced management team. The Board also evaluates the Chief Executive Officer's performance in the area of finding and evaluating new business opportunities to establish the most productive strategic direction for the Company. Salary changes for other executives are based primarily on their performance in supporting the strategic initiatives of the Chief Executive Officer, meeting individual goals and objectives set by the Chief Executive Officer, and improving the operating efficiency of the Company. Also, where applicable, changes in the duties and responsibilities of each other executive officer may be considered in deciding on changes in annual salary. Due to the cash needs of the Company, the salaries of the Chief Financial Officer and the General Counsel were also voluntarily reduced to an annual rate of \$25,000 annually, effective January 1, 2005, increased to \$50,000 in April 2006 and then to \$100,000 in August 2006.

**Compensation and Human Resources Committee Report**

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We have reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on the review and discussion, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation and Human Resources Committee

Bernard Lerner, Chairman

Lawrence S. Dolin

Steven S. Kaufman

Bahman Guyuron

**Summary Compensation Table**

The following table sets forth for each of the Company's last two fiscal years the compensation earned by or awarded or paid to the Company's Principal Executive Officer, Principal Financial Officer and each of the Company's other three most highly compensated officers earning more than \$100,000 during the 2008 fiscal year:

Name and Principal Position	Year	Salary	All Other Compensation (1)	Total Compensation
Leonard R. Stein-Sapir Chairman and Chief Executive Officer	2008	\$127,404	\$ 14,458	\$141,862
	2007	89,423	4,694	94,117
James J. Liguori President and Chief Operating Officer	2008	178,365	12,636	191,001
	2007	175,000	16,215	191,215
Kenneth L. Hignett Sr. Vice President, Chief Financial Officer & Secretary	2008	101,923	3,607	105,530
	2007	75,000	3,215	78,215
Barton J. Craig Sr. Vice President, General Counsel	2008	101,923	5,004	106,927
	2007	75,000	5,004	80,004
Ramesh J. Gursahaney Vice President, Operations	2008	152,885	2,752	155,637
	2007	146,154	4,663	150,817

(1) Represents the value of insurance premiums paid by the Company with respect to term life insurance for the benefit of the named executives, the

matching  
contribution  
made by the  
Company to the  
401(k) Plan and  
expense  
allowances.

**OUTSTANDING OPTION AWARDS AT FISCAL YEAR END  
AND OPTION EXERCISES IN FISCAL 2008**

The following table sets forth certain information about the number of options exercised during the 2008 fiscal year and the number of unexercised nonqualified stock options held as of March 2, 2008 by each executive named in the Summary Compensation Table.

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Name	Shares Acquired  on Exercise	Value Realized	Unexercised Options as of March 2, 2008		Exercise Price	Expiration Date
			Exercisable	Unexercisable		
Leonard R. Stein-Sapir	50,000	\$ 360,237				
James J. Liguori			50,000		\$4.125	April 1, 2009
Kenneth L. Hignett	25,000	\$ 157,494				
Barton J. Craig			7,500		\$3.000	January 6, 2010
Ramesh J. Gursahaney			12,500		\$4.125	April 1, 2009

Ramesh J. Gursahaney

**Retirement and Savings Plan 401(k)**

Since October 1, 1993, the Company has maintained a Retirement and Savings Plan under IRS Code Section 401(k) (the 401(k) Plan). The 401(k) Plan allows eligible employees to defer a portion of their compensation before federal income tax to a qualified trust. All employees who are at least 21 years of age are eligible to participate in the 401(k) Plan. The participants may choose from sixteen investment options for the investment of their deferred compensation. In addition, the Company matches 30% of each participant's salary deferral, for the first 6% of their salary, with a cash contribution. For the fiscal year ended March 2, 2008, the Company contributed \$92,974 to the 401(k) Plan and paid or accrued \$10,572 in administrative fees.

**Director Compensation**

Messrs. Dolin, Kaufman, Lerner and Dr. Guyuron each received \$12,000 for serving on the Board of Directors during the fiscal year ended March 2, 2008. Directors who are also officers of the Company do not receive additional compensation as Directors. Additional compensation of \$2,000 per meeting was paid to Directors serving on the Audit Committee. No additional compensation is paid to Directors for serving on other Committees of the Board. The following table lists the compensation paid to directors in the fiscal year ended March 2, 2008:

Name	Fees Earned	Total Compensation
Lawrence S. Dolin	\$20,000	\$20,000
Bernard Lerner	\$20,000	\$20,000
Stephen S. Kaufman	\$16,000	\$16,000
Bahman Guyuron	\$12,000	\$12,000

**SELECTION OF INDEPENDENT AUDITORS**

Grant Thornton LLP serves as the Company's independent auditors. The Board of Directors of the Company has not selected independent auditors for the Company and its subsidiaries for the fiscal year ending March 1, 2009. Representatives of Grant Thornton LLP are expected to be present at the Meeting and will have the opportunity to make a statement and to respond to appropriate questions.

**SHAREHOLDER PROPOSALS**

Any shareholder who intends to present a proposal for inclusion in the proxy statement and form of proxy relating to the 2009 Annual Meeting of Shareholders is advised that the proposal must be received by the Company at its principal executive offices not later than February 6, 2009. The Company is not required to include in its proxy statement or form of proxy a shareholder proposal which is received after that date or which otherwise fails to meet



requirements for shareholder proposals established by regulations of the Securities and Exchange Commission.

If a shareholder intends to raise, at the Company's annual meeting in 2009, a proposal that he does not seek to have included in the Company's proxy statement, he must notify the Company of the proposal on or

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before April 23, 2009. If the shareholder fails to notify the Company, the Company's proxies will be permitted to use their discretionary voting authority with respect to such proposal when and if it is raised at such annual meeting, whether or not there is any discussion of such proposal in the proxy statement for that meeting.

**COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and owners of more than ten percent of the Company's Common Shares (10% stockholders), to file with the Securities and Exchange Commission (the SEC) initial reports of ownership and reports of changes in ownership of Common Shares of the Company. Executive officers, directors and 10% stockholders are required by SEC regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a).

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company, and with respect to the officers and directors, representations that no other reports were required, during the fiscal year ended March 2, 2008, all Section 16(a) filing requirements applicable to its executive officers, directors and 10% stockholders were complied with.

**EXPENSES OF SOLICITATION**

The cost of the solicitation of proxies will be borne by the Company. In addition to the use of the mail, proxies may be solicited by regular employees of the Company, either personally or by telephone. The Company does not expect to pay any compensation for the solicitation of proxies, but it may reimburse brokers and other persons holding shares in their names or in the names of nominees for their expenses in sending proxy materials to beneficial owners and obtaining proxies from such owners.

**SHAREHOLDER COMMUNICATIONS WITH THE BOARD**

Shareholders may communicate with Board Members by addressing a letter to the Secretary of the Company at 4829 Galaxy Pkwy., Suite S, Cleveland, OH 44128.

**OTHER MATTERS**

The Board of Directors is not aware of any matter to be presented for action at the Meeting other than that shown in this document. Should any other matters be properly presented for action at the Meeting, the enclosed proxy confers upon the proxy holders named therein the authority to vote on such matters in accordance with their judgment.

BY ORDER OF THE BOARD OF  
DIRECTORS

KENNETH L. HIGNETT  
*Secretary*

Cleveland, Ohio  
June 6, 2008

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**Exhibit A**  
**CHARTER OF THE AUDIT COMMITTEE**  
**OF THE BOARD OF DIRECTORS**

**Organization**

*This charter governs the operations of the audit committee. The committee shall review and reassess the charter at least annually and obtain the approval of the board of directors. The committee shall be appointed by the board of directors and shall comprise at least three directors, each of whom are independent of management and the Company. Members of the committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Company. All committee members shall be financially literate, or shall become financially literate within a reasonable period of time after appointment to the committee and at least one member shall have accounting or related financial management expertise.*

**Statement of Policy**

*The audit committee shall provide assistance to the board of directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements, and the legal compliance and ethics programs as established by management and the board. In so doing, it is the responsibility of the committee to maintain free and open communication between the committee, independent auditors and management of the Company. In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel, or other experts for this purpose.*

**Responsibilities and Processes**

*The primary responsibility of the audit committee is to oversee the Company's financial reporting process on behalf of the board and report the results of their activities to the board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements. The committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The committee should take the appropriate actions to set the overall corporate tone for quality financial reporting, sound business risk practices, and ethical behavior.*

*The following shall be the principal recurring processes of the audit committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the committee may supplement them as appropriate.*

*The committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the board and the audit committee, as representatives of the Company's shareholders. The committee shall have the ultimate authority and responsibility to evaluate and, where appropriate, replace the independent auditors. The committee shall discuss with the auditors their independence from management and the Company and the matters included in the written disclosures required by the Independence Standards Board. Annually, the committee shall review and recommend to the board the selection of the Company's independent auditors, subject to shareholders' approval.*

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*The committee shall discuss with the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing and compensation. Also, the committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs. Further, the committee shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations.*

*The committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the committee shall discuss the results of the quarterly review and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards. The chair of the committee may represent the entire committee for the purposes of this review.*

*The committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the committee shall discuss the results of the annual audit and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards.*

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**Exhibit B**  
**CHARTER OF THE COMPENSATION COMMITTEE**  
**OF THE BOARD OF DIRECTORS**

**Purpose of Committee**

*The role of the Compensation Committee (the Committee) is to establish and oversee the compensation policies of Morgan's Foods, Inc. (the Company) on behalf of the Board of Directors (the Board). The Committee will discharge the duties of the Board, to the extent delegated to the Committee, and approve or make recommendations to the Board, with respect to compensation of the Company's senior officers. The Committee will produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations of the Securities and Exchange Commission (the SEC) and any exchange or over-the-counter market on which the Company's stock is then listed.*

*The Committee shall ensure that a proper system of long-term and short-term compensation is in place for management, and that compensation plans are appropriate and competitive and properly reflect the objectives and performance of management and the Company.*

**Committee Membership**

*The Committee shall be comprised of at least three members of the Board each of whom has been affirmatively determined in the judgment of the Board to qualify as an independent director under the applicable rules of the SEC and any exchange or over-the-counter market on which the Company's stock is then listed. Each Committee member must also be a non-employee director as defined in Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and an outside director within the meaning of Section 162(m) of the Internal Revenue Code. The Board shall designate the Chairperson of the Committee, provided that if the Board does not so designate a Chairperson, the members of the Committee, by majority vote, may designate a Chairperson.*

*Any vacancy of the Committee shall be filled by majority vote of the Board at the next meeting of the Board following the occurrence of the vacancy. No member of the Committee shall be removed except by majority vote of the Board.*

**Meetings**

*The Committee will meet at least once each year, with authority to convene additional meetings as circumstances require. All Committee members are expected to attend each meeting, either in person or by teleconference. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Committee members will be furnished with copies of the minutes of each meeting. The Committee, at its discretion, may ask members of management, the Company's counsel, or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary; provided however, that the President and Chief Executive Officer (the CEO) or any other officer may not be present during the Committee's deliberation or voting processes with respect to setting and approving any aspect of the compensation for that person.*

**Committee Duties and Responsibilities**

*The Committee shall carry out the duties and responsibilities set forth below. These functions should serve as a guide, with the understanding that the Committee may carry out additional functions and adopt additional policies and practices as may be appropriate in light of changing business, legislative, regulatory, legal, or other*

*conditions.*

- a) *Review and approve all aspects of the compensation of the Company's officers (other than the CEO), including their participation in incentive-compensation plans, performance-based compensation, and equity-based compensation plans;*

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- b) *Review and approve corporate goals and objectives relevant to the compensation of the CEO, and, after an evaluation of the CEO's performance in light of those goals and objectives, set the compensation of the CEO (in determining any long-term incentive component of the CEO's compensation, the Committee should consider, among other factors, the Company's performance and relative shareholder return, the value of similar incentive awards for chief executive officers at comparable companies and the awards given to the CEO in past years);*
- c) *Review and make periodic recommendations to the Board with respect to the Company's policies and practices regarding general compensation, benefits, and perquisites, including, without limitation, the Company's incentive-compensation plans and equity-based compensation plans (in circumstances in which equity-based compensation plans are not subject to shareholder approval, such plans shall be subject to Committee approval);*
- d) *Monitor compliance with the Company's policies and practices with regard to general compensation, benefits, and perquisites;*
- e) *Prepare the Compensation Committee Report and authorize its inclusion in the Company's annual proxy statement in accordance with the rules and regulations of the SEC;*
- f) *Monitor disclosure with regard to compensation matters in the Company's proxy statement; and*
- g) *Report to the Board at least once a year.*

**Delegation**

*The Committee may delegate its duties and responsibilities to a subcommittee consisting of one or more members of the Committee, or to senior officers of the Company. Any delegation may be made only to the extent permitted by SEC rules, exchange rules, over-the-counter market rules, and applicable law. The Committee may not, however, delegate any of its duties and responsibilities with regard to (i) compensation arrangements, including salary and short-term and long-term incentive awards, with respect to the CEO and any other officer identified as an executive officer by the Board, or (ii) the Company's annual proxy statement.*

**Surveys and Studies**

*The Committee may conduct or authorize surveys or studies of matters within the Committee's scope of responsibilities as described above, including, but not limited to, surveys or studies of compensation practices in relevant industries, to maintain the Company's competitiveness and ability to recruit and retain highly qualified personnel, and may retain and terminate, at the expense of the Company, independent counsel or other consultants necessary to assist in any such survey or study. If any compensation consultant or firm is to assist in the evaluation of the compensation of the CEO or any other officer identified as an executive officer by the Board, the Committee shall have the sole authority to retain and terminate the compensation consultant or firm and approve such firm or person's fees and other retention terms.*

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**PROXY**

**PROXY**

**MORGAN S FOODS, INC.**

The undersigned hereby appoints Lawrence S. Dolin, Leonard R. Stein-Sapir and James J. Liguori, and each of them, attorneys and proxies of the undersigned with full power of substitution to attend the Annual Meeting of Shareholders of Morgan s Foods, Inc. (the Company ) at Marriott Cleveland East, 26300 Harvard Road, Warrensville Heights, Ohio, on Friday, June 27, 2008 at 10:00 a.m., Eastern Daylight Time, or any adjournment thereof, and to vote the number of shares of the Company which the undersigned would be entitled to vote and with all the power the undersigned would possess, if personally present, as follows:

1.  FOR, or  WITHHOLD AUTHORITY to vote for the following nominees for election as directors: Leonard R. Stein-Sapir, Lawrence S. Dolin, James J. Liguori, Steven S. Kaufman, Bernard Lerner, Kenneth L. Hignett and Bahman Guyuron, M.D.

*(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee s name on the line provided below.)*

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2. On such other business as may properly come before the meeting or any adjournment thereof.

*(continued, and to be signed, on the other side)*

*(Continued from other side)*

**The proxies will vote as specified above or if a choice is not specified they will vote FOR the nominees listed in Item 1.**

Receipt of Notice of Annual Meeting of Shareholders and Proxy State ment dated June 6, 2008, is hereby acknowledged.

**THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY**

Proxy Card