

September 21, 1998

Dear Fellow Owner:

We survived El Niño.

For new owners, a discussion about the influence of weather on bowling may be helpful. League bowlers provide the steady base to support our operations by showing up every week. The casual or non-organized bowlers provide a less predictable but increasingly important contribution to our earnings.

League bowling is influenced by predictable weather, such as the change of seasons. Indoor recreation, including bowling, declines in the summer when there is competition with a wider variety of outdoor activities. Casual bowling varies with unpredictable changes in weather. Rain is always a benefit. Snow and ice keep our customers at home, although the league bowlers only postpone their trip until the weather is better, when their matches are made up.

Last winter was almost completely snow free and the weather patterns also created a relatively rain free spring and summer. Therefore, it was particularly gratifying to achieve a fourth quarter profit increase. Each quarter of fiscal 1998 was better than the same quarter during the prior year, and 16 of our 23 centers improved their operating results.

All of this overlays the long-term decline in league bowling. Bowler's Digest in a recent issue noted that our biggest market, Metropolitan Washington, had the third greatest number of league bowlers in the country, climbing past many areas historically famous for league bowling. In the course of the article, it noted that the local women's bowlers association had a membership of 19,000. What the article did not note was that ten years ago that membership was 42,000. Remember, that's in a good bowling market.

We have been able to overcome part of this decline by investing in glow-in-the-dark and bumper bowling equipment, which is primarily used by casual bowlers. But, two of our best performing centers could not accommodate much of the new equipment, and still significantly improved their results, mostly by working harder at giving good service. In independent surveys and by our own observations, we have seen a higher level of customer service. More and more, when observing our staff solve a problem, I find myself wishing I had thought of their response.

Creating a commitment to service is an evolutionary process. It was 40 years ago that the prospectus shown on the facing page was issued. Three of our current directors were listed as stockholders in that prospectus and Ron Kuhn, our current Director of Maintenance (who builds all of our facilities) was on the payroll. Irv Clark, Director of Operations, started at Bowl America in 1963, and Cheryl Dragoo, our Controller, in 1972. Each of them first worked in a bowling center. Our association with Ron is older than Bowl America. He first worked at the

Clarendon Bowling Center, a business founded in 1938 by the same four partners who later founded Bowl America and whose families continue in the business today. It is difficult for us older people to find businesses we traded with while growing up that are still around and can trace their management to the time of our youth. (Anyone who can think of another one besides us and Marriott, drop me a line.)

Weather does not recognize our fiscal calendar. Rain continued to stay away during the first part of fiscal 1999. It looked like the entire State of Florida was on fire during July, and August was the driest in history in our Northern markets. Despite the weather, we were still able to improve our operating results for the two months. This may not produce a better quarter because the late Labor Day has resulted in one less week of winter league bowling in September. However, those predictable leagues will complete their season one week later and that revenue will be shown in the fourth quarter. There is also La Niña to consider. This is the phenomenon that is said to typically follow El Niño and create hurricanes in the fall and a cold icy winter in the East.

But there is little we can do about the weather. Continuing to adapt to the shift to casual bowling while not discouraging the heaviest users, our league bowlers, remains our biggest challenge. Our biggest asset in managing the process remains our capable and experienced staff.

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Each of our four founders was succeeded by at least one family member, and this year, one of these successors retired after 28 years on the Board. Dr. Howard Katzman came on the Board when our company had significant debt and derived 95% of its earnings from premises with leases that would by now have expired. During his tenure, we became a company with a like percentage of earnings coming from facilities owned by the Company, or with leases extending at least until 2010. All debt was retired and important contingency reserves created. Howard never supported the expedient and always was prepared to invest in the future.



Leslie H. Goldberg, *President*
