September 18, 2000

Dear Fellow Employees and Owners:

Recently a customer approached me while I was having lunch at Bowl America Shirley. He asked if I thought the bowling industry would survive. His question was based in part on the July 10 *Washington Post* article, "After Gutter Balls, AMF Looks for a Strike," written by Jerry Knight. It related the financial problems of AMF to some of the social changes noted by Robert Putnam and first discussed here in 1995. Dr. Putnam has put his findings in a new book called *Bowling Alone*. Furthermore, stories about the AMF debt repayment difficulties have appeared in *The Wall Street Journal* and *The New York Times*.

I thought it was important to make the distinction between the approaches to financing taken by AMF and Bowl America. I therefore responded to the *Post* article with the following letter (which they did not print).

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Mr. Jerry Knight July 12, 2000
The Washington Post

Dear Jerry:

I hoped as I read your article that you would emphasize that the AMF problem was a financial problem and not a bowling problem by citing Bowl America's success in adjusting to "Bowling Alone" (both the book and the phenomenon). We first discussed Dr. Putnam's findings in our 1995 Annual Report and expressed our confidence in being able to deal with it. After all, the four families that went into the bowling business together in 1938 are still associated in Bowl America today. We have been through gas rationing, the advent of television, color television, VCRs, cable television and the increase in the number of women in the workplace. All of these items changed how people participate in recreation and entertainment activities and, in fact, contributed to what Dr. Putnam defines as a "loss of social capital."

I am enclosing the press release from our nine-month earnings report, which shows that we have completed our eleventh consecutive year-to-year quarterly profit improvement. (You may not have come across it, because the Post did not print this report or the ten quarterly improvements that preceded it.)

We are, of course, in the entertainment business and, like other entertainment activities, subject to continuing swings in public tastes. We think that among the reasons we have been able to deal with the events noted above are:

1. Our strong financial position. Bowl America has no debt. In addition, we have substantial reserves to adapt to changes in public taste, both now and in the future. Casino operators (among other masters of statistics) are quick to tell you that you have to have the cash to outlast a bad run so that you can capitalize on the good run that inevitably follows.
2. We have been at it a long time. As a result, from Board level to the bowling center level, we are experienced in dealing with swings in public taste.

Bowl America could have been damaged the most by the decline in league bowling. Over time, more than any other bowling chain, we have emphasized service to the league bowlers. But even as our league participation declined, our well-run bowling centers have been able to adapt. Your weekly summary of local stocks shows our profit has improved by 26% in the trailing twelve months, and this morning's Post had a small "u" next to our stock price. This is not a flash in the pan. Bowl America has increased its dividend for 28 consecutive years and twice in the last twelve months.

And there is a sometimes ignored comment by Dr. Putnam that suggests the future may be even better. He has observed that those who reverse the process of retreating from communal activities have a lower mortality rate. I can see the headlines now:

BOWL TOGETHER: LIVE LONGER
Join a Bowl America League Before It's Too Late

Now, wouldn't that be a 300 game?

Sincerely,
Leslie H. Goldberg
President

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Since my reply things have gotten even better for us. Trailing twelve month per share earnings are now up 36% and we now have our twelfth consecutive quarterly year-to-year profit improvement. Our stock price is even higher.

But I still remember that after the 1972 market "correction" it took us 17 years of annual earnings increases before our stock price returned to its 1972 level (Coca-Cola followed the same pattern for most of those years, so it was not a small company problem). Despite that great earnings growth, our P/E during those years dropped to 4. Of course, the market recovery was delayed by the surge in inflation brought on by skyrocketing oil prices (which of course can never happen again).

I am no better than anyone else at predicting the future. Timing the market is beyond me. But a dividend that increases faster than prices provides real income in any market and downside protection in a poor market. It gives us a chance to share our success four times a year, something I hope we can do for many years in the future.

Leslie H. Goldberg, *President*