FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1996-08-26** | Period of Report: **1996-05-29**
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FILER

AMERICAN RECREATION CENTERS INC

CIK:**5719**| IRS No.: **941441151** | State of Incorp.:**CA** | Fiscal Year End: **0531**
Type: **10-K** | Act: **34** | File No.: **000-02849** | Film No.: **96620722**
SIC: **7900** Amusement & recreation services

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RANCHO COROVA CA 95670
9168528005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)

For The Fifty-Two Week Fiscal Year Ended May 29, 1996

Commission File Number 0-2849

AMERICAN RECREATION CENTERS, INC.

Incorporated in California   Federal Employer No. 94-1441151

11171 Sun Center Drive, Suite 120, Rancho Cordova, California 95670
Mailing Address: P. O. Box 580, Rancho Cordova, CA 95741

Registrant's Telephone Number: (916) 852-8005

Securities Registered Pursuant to Section 12 (b) of the Act:
None

Securities Registered Pursuant to Section 12 (g) of the Act:
Common Stock, No Par Value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of Registrant was $28,152,709 based upon the average trading price quoted on the NASDAQ system on August 14, 1996. The number of shares of Registrant's only class of common stock outstanding at fiscal year end was 4,647,899 shares.

Documents Incorporated by Reference - See pages 2 and 3

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K		Document
Part I		None
Part II		
Item 6.	Selected Financial Data	Company's Annual Report to Shareholders for the fiscal year ended May 29, 1996, page 3
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	Company's Annual Report to Shareholders for the fiscal year ended May 29, 1996, pages 4-5
Item 8.	Financial Statements and Supplementary Data	Company's Annual Report to Shareholders for the fiscal year ended May 29, 1996, pages 6-13,

		and Price Waterhouse LLP Report dated July 22, 1996, page 14
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	Not applicable

Part III

Item 10.	Directors and Executive Officers of the Registrant	Company's Proxy Statement to be filed in connection with its Annual Meeting of Shareholders to be held September 24, 1996, pages 5-6
Item 11.	Executive Compensation	Company's Proxy Statement to be filed in connection with its Annual Meeting to Shareholders to be held September 24, 1996, pages 8-15

Item 12.	Security Ownership of Certain Beneficial Owners and Management	Company's Proxy Statement to be filed in connection with its Annual Meeting to Shareholders to be held September 24, 1996, pages 3-4
Item 13.	Certain Relationships and Related Transactions	Company's Proxy Statement to be filed in connection with its Annual Meeting to Shareholders to be held September 24, 1996, pages 7-8

Part IV

Item 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	Exhibits as specified in Item 14 of this Report, pages 16-17

PART I

ITEM 1. BUSINESS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS. Certain statements in this Form 10-K under "Item 1. Business," and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-K constitute "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of American Recreation Centers, Inc. (the Company) to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; advertising, marketing and sales efforts; success of the Company's efforts to restage certain bowling centers as family entertainment centers; acceptance of new programs and entertainment offerings; business abilities and judgement of personnel; availability of qualified management personnel; changes in, or the failure to comply with, government regulations; weather conditions; operating cost containment efforts; continued availability of lines of credit; availability of qualified construction personnel; ability to remodel, refurbish and restage Company facilities in a cost effective manner; uncertainties surrounding consolidation of the industry; the historically cyclical nature of the bowling industry; and other factors referenced in this Form 10-K.

(a) GENERAL DEVELOPMENT OF BUSINESS - BOWLING AND RECREATION OPERATIONS. The

Company was incorporated in California in 1959. It is one of the largest chain operators of bowling centers in the United States. As of August 14, 1996 it operates a total of 41 bowling centers (eighteen in Northern California, three in Southern California, eight in Texas, seven in Wisconsin, three in Oklahoma and one each in Kentucky and Missouri) containing an aggregate of 1,624 lanes. ARC's bowling centers range in size from 24 to 72 lanes. Twelve centers are located in buildings that are leased from third parties; nine centers are located in buildings that are owned by the Company or its wholly-owned subsidiaries; and twenty are operated by joint ventures which own the buildings and in which the Company is an 85% owner.

ARC's bowling centers include food and beverage facilities and coin-operated video and other games. ARC operates the beverage facilities in all the bowling centers, each of which sells beer, wine and mixed drinks with the exception of one center which sells only beer and wine. The Company operates the snack bars in all centers except three older centers that lease restaurants to independent operators. Beverage operations are profitable. Profits from food operations are generally minimal; this service is offered primarily for the convenience of bowling patrons. The bowling division receives a percentage of the gross revenues from coin-operated video and other games which are owned by third party vendors or, in the case of the California bowls, by a wholly-owned

subsidiary, ARC Games, Inc. Most centers contain pro shops leased to independent operators. ARC does, however, operate the pro shops in seven of its centers and these pro shops generate a modest profit. All of ARC's bowling centers have child care facilities and parking. The Company provides child care for the convenience of bowlers free of charge. The Company's bowling centers have computerized cash receipt control systems to control receipt of funds for all games bowled as well as computer terminals that communicate with the corporate office computer system to further enhance these controls.

Approximately 61% of ARC's bowling lineage revenues are derived from bowling leagues that enter into league reservation agreements to use a specified number of lanes for a specified time on a weekly, or other periodic basis over the course of a bowling season. The seasons for league play are generally nine months in the winter and three months in the summer. However, shorter "midseason" leagues are also offered throughout the year.

The Company aggressively markets its primary product league bowling, through a continuous personal sales program at each of its centers. ARC sales personnel call on employers and a wide variety of nonprofit organizations, such as churches, social clubs, civic clubs, P.T.A.'s and fraternal groups, offering them free bowling parties as an inducement to visit the bowling centers, try league bowling and hopefully contract for league bowling. In numerous centers, the Company utilizes full-time direct sales personnel. In addition the Company advertises in all the recognized mass media--radio, television and newspaper--and engages in on-going direct mail marketing programs aimed at specific age and demographic groups.

The bowling industry is highly competitive on a local basis. Most of ARC's centers compete with a number of individually owned and operated centers. Several of the Company's centers in Southern California, Texas and the Midwest also compete with centers owned by bowling center chains of equivalent or larger size. Further competition for ARC's bowling centers could arise if bowling chains or independent owners construct new bowling facilities in the same areas as ARC's existing centers. To date, the Company has experienced modest competition for acquisition of independently owned bowling centers, but expects that as the industry consolidates, ARC could experience competition from other chains such as AMF (approximately 265 centers), Brunswick Corporation (approximately 150 centers), Bowling Corporation of America (approximately 50 centers), and Bowl America (approximately 25 centers).

The Company has access to bowling equipment from Brunswick Corporation and AMF Incorporated, several smaller manufacturers and through purchases of used equipment from other bowling centers. The Company maintains a warehouse of equipment, including lanes and automatic pinsetters for replacements and to equip new centers. The restaurant and beverage business also have multiple sources of supply. The Company has not experienced problems or interruptions as a result of inadequate supplies of any type.

ARC has approximately 1,400 employees in total. With the exception of 20 people at the

Company's headquarters, the remaining employees are bowling and recreation operations employees and are based in individual bowling centers. The Company maintains a variety of training programs and incentive compensation plans, and believes that relations with its employees are good. The Company has no organized labor agreements.

Over the past three fiscal years, revenue growth in the Company's bowling business has been attributable to acquisitions, as thirteen bowling centers were added. During the same period, revenue in comparable centers declined 3% per year. The decline in comparable center revenue reflects a nationwide decline in the popularity of bowling. Industry-wide, bowling proprietors have been faced with heightened competition from other entertainment and recreational venues, including the rapidly expanding movie theater industry and formula restaurant chains. Military base closures and anti-smoking legislation continued to impact business, particularly in the Company's California centers. Lastly, league bowling continues to decline due to societal changes including longer work weeks, emphasis on family activities and other factors that have made bowlers less likely to commit to league schedules.

Foreseeing the pressure on the bowling industry, management embarked upon a plan to test the concept of broadening the Company's operations from one that offers primarily bowling as family entertainment to one that offers a broader menu of recreational activities, with bowling being only one of those alternatives. The objective has been to create a broader base of entertainment attractions that will increase the frequency and revenue per customer per visit. Two test locations were completed in fiscal 1996.

Ten lanes of the 60-lane Pastimes center in San Jose, California have been converted to space that contains children's soft-play, redemption games and branded food operations. These activities are targeted to families with young children. Secondly, a 49,000 square foot family entertainment center in Addison, Texas opened in December 1995. This facility, called Fun Fest, features branded food operations, high tech electronic games including virtual reality and laser activities, billiards, darts, and other recreational attractions, all designed to attract young adult customers. Fun Fest generated $1.3 million in its first five and a half months of operations and has been consistently profitable. The Pastimes concept has been slower to gain consumer acceptance, but revenue has been improving, particularly this summer.

Based on the preliminary results of the two family entertainment center concepts and on the continued decline in bowling-related revenue, the Company plans to pursue adding new revenue sources to select bowling centers. These include Pizza Hut Express, redemption games, darts, billiards, themed bars, party rooms, virtual reality games and combinations thereof. As of the date of this Form 10-K, redemption centers and other new entertainment attractions have already been introduced at a number of centers. This new strategy has begun to change the overall sales mix and profit margins of the Company. Revenue from bowling lineage, which has very little direct cost associated with it, has been steadily declining. Revenue from new entertainment attractions has been increasing but

usually carries an associated cost of goods or other direct costs. Consequently, profit margins have been negatively impacted. However, the Company believes that the conversion strategy will ultimately produce higher revenue and profits than if the Company remained a "bowling-only" concern. Although the Company believes that refurbishing and restaging its centers is necessary for these reasons, no assurance can be given that these actions will be successful or that similar or different actions will not be required in the future.

The Company is also engaged on a continuous basis in discussion regarding the possibility of acquiring additional bowling centers, both within and outside of its current operating areas. However, the Company is more focused on the Midwest and Southern states where land and building prices tend to be more favorable and regional economies tend to be stronger. A majority of the over 7,000 bowling centers in the United States are independently owned and the Company believes that many of these independent owners and operators may now have an interest in selling their centers. The Company's strategy is to acquire centers when it believes that a center's operations can be improved by instituting professional management, staff training and controls, by aggressive marketing, facilities remodeling and updating, and by introduction of the family entertainment concept.

Information regarding the Company's significant acquisitions and dispositions is set forth in Part II, Item 8, through incorporation by reference to the 1996 Annual Report to Shareholders, Note 3 to financial statements.

GENERAL DEVELOPMENT OF BUSINESS - DISCONTINUED OPERATIONS. Prior to the first quarter of fiscal 1996, the Company operated in two business segments: bowling and direct marketing. On August 4, 1995, the Company sold its 62.5 percent interest in The Right Start, Inc., a catalog company and retailer of infants' and children's products that comprised the operations of the direct marketing segment. The sale price for the 3,937,000 shares was $11,811,000 cash plus an option to repurchase 400,000 shares of Right Start's common stock at an exercise price ranging from $3.30 to $6.00 over a seven year period. The option was subsequently sold during the Company's first fiscal 1997 quarter for $800,000 in cash.

Information regarding the Company's sale of its interest in The Right Start, Inc. is set forth in Part II, Item 8, through incorporation by reference to the 1996 Annual Report to Shareholders, Note 2 to the financial statements.

(b) Not applicable to Registrant.

(c) NARRATIVE DESCRIPTION OF BUSINESS. Included in (a) above.

(d) Not applicable to Registrant

ITEM 2. PROPERTIES.

Facilities. The following table on pages 9 through 12 sets forth the name and address of each bowling center, the number of lanes that it contains and whether the building in which the center is located is leased or owned. With one exception, the Company owns all of the equipment at each center. Leases on the centers, giving the effect of option renewal periods, expire as follows: one in 1999; six from 2000 through 2009; five from 2010 through 2019; and one from 2020 through 2029. The leases provide for minimum and percentage rentals and, in a majority of cases, for the payment of property taxes and insurance by the lessee. With a single exception, the Company's leases with unaffiliated parties do not provide for cost of living adjustments in the lease payments.

<TABLE>
<CAPTION>

Name and Address	Number of Lanes	Status of Property
SAN FRANCISCO BAY AREA		
<S>	<C>	<C>
Mel's Southshore Bowl 300 Park Street Alameda, California	40	Owned
Mission Lanes 1287 South Park Victoria Milpitas, California	40	Owned
Pinole Valley Lanes 1580 Pinole Valley Road Pinole, California	40	Leased
19th Avenue Bowl 1830 South Delaware San Mateo, California	32	Leased
Mowry Lanes 585 Mowry Avenue Fremont, California	40	Owned
Mel's Redwood Bowl 2580 El Camino Real Redwood City, California	40	Owned(2)
Valle Vista Bowl 3345 Sonoma Boulevard Vallejo, California	42	Leased
SAN JOSE		
Pastimes 5420 Thornwood Drive San Jose, California	60	Leased
Fiesta Lanes 1523 West San Carlos San Jose, California	40	Leased
Saratoga Lanes 1585 Saratoga Avenue San Jose, California	32	Leased
SACRAMENTO/SAN JOAQUIN VALLEY		
Mardi Gras Lanes 4800 Madison Avenue Sacramento, California	50	Leased

</TABLE>

Name and Address	Number of Lanes	Status of Property
Alpine Valley Bowl 2326 Florin Road Sacramento, California	40	Owned
Birdcage Bowl 6149 Sunrise Boulevard Citrus Heights, California	40	Leased
Rocklin Bowl 2325 Sierra Meadow Drive Rocklin, California	40	Owned
Land Park Bowl 5850 Freeport Boulevard Sacramento, California	32	Owned
Visalia Lanes 1740 West Caldwell Avenue Visalia, California	40	Owned
Rodeo Lanes 140 Shaw Avenue Clovis, California	40	Leased
Sunnyside Lanes 5693 East Kings Canyon Road Fresno, California	36	Leased
SOUTHERN CALIFORNIA		
Cerritos Lanes 18811 Carmenita Road Cerritos, California	40	Leased
Friendly Hills Lanes 15545 East Whittier Boulevard Whittier, California	32	Owned
Forest Lanes 22771 Centre Drive Lake Forest, California	40	Leased
DALLAS, TEXAS		
Triangle Bowl - Lewisville 1398 West Main Street Lewisville, Texas	32	Owned(1)

Name and Address	Number of Lanes	Status of Property
Triangle Bowl - Richardson 2101 North Central Expressway Richardson, Texas	40	Owned(1)
Triangle Bowl - Irving 1717 North Beltline Road Irving, Texas	48	Owned(1)
Triangle Bowl - Desoto 121 Northgate Drive Desoto, Texas	40	Owned(1)
Triangle Bowl - Arlington 1801 East Lamar Boulevard Arlington, Texas	48	Owned(1)
Triangle Bowl - Midland Park 5320 West Loop 250 North Midland, Texas	32	Owned
Fun Fest 3805 Beltline Road Addison, TX 75244	30	Owned(1)
HOUSTON, TEXAS		
Triangle Bowl -Houston	28	Owned(1)

Name and Address	Number of Lanes	Status of Property
650 West Crosstimbers Houston, Texas		
OWENSBORO, KENTUCKY		
Bowlodrome 600 East 14th Street Owensboro, Kentucky	24	Owned(1)
OKLAHOMA		
Sunny Lanes 4330 South East 15th Street Del City, Oklahoma	24	Owned(1)
Windsor Lanes 4600 North West 23rd Street Oklahoma City, Oklahoma	40	Owned(1)
Moore Bowl 420 South West 6th Street Moore, Oklahoma	40	Owned(1)

</TABLE>

<TABLE>
<CAPTION>

Name and Address	Number of Lanes	Status of Property
KANSAS CITY, MISSOURI		
<S>	<C>	<C>
Capital Lanes 11611 Hickman Mill Road Kansas City, Missouri	24	Owned(1)
MILWAUKEE, WISCONSIN		
Bowlero Bowl 11737 West Burleigh Wauwatosa, Wisconsin	72	Owned(1)
West Allis Bowl 10901 West Lapham West Allis, Wisconsin	48	Owned(1)
West Bowl 7505 West Oklahoma Milwaukee, Wisconsin	48	Owned(1)
South Park Bowl 305 North Chicago South Milwaukee, Wisconsin	40	Owned(1)
Waukesha Bowl 901 Northview Road Waukesha, Wisconsin	48	Owned(1)
Regency Lanes 6014 North 76th Street Milwaukee, Wisconsin	60	Owned(1)
Bowl Aire 2547 Park Avenue Beloit, WI 53511	32	Owned(1)

</TABLE>

(1) Owned by joint ventures in which the Company has an 85 percent interest.
(2) Building is owned, land is leased.

REAL ESTATE

The following table sets forth certain information about the real estate owned or partially owned by the Company or in partnership with others as of August 14, 1996.

<TABLE>
<CAPTION>

COMPANY OWNED REAL ESTATE

BOWLING PROPERTIES	LOCATION	SIZE OF LAND IN ACRES	BUILDING IN SQUARE FEET	% OWNED BY ARC	FISCAL YEAR ACQUIRED	CURRENT USE

<S>	<C>	<C>	<C>	<C>		<C>	<C>
Mowry Lanes	Fremont, CA	2.30	35,000	100		1987	Bowling Center
Land Park Bowl	Sacramento, CA	2.53	30,000	100		1987	Bowling Center
Mel's Southshore Bowl	Alameda, CA	2.10	40,000	100		1986	Bowling Center
Alpine Valley Lanes	Sacramento, CA	4.00	40,000	100		1985	Bowling Center
Rocklin Bowl	Rocklin, CA	2.85	36,000	100		1986	Bowling Center
Visalia Lanes	Visalia, CA	3.00	33,000	100		1983	Bowling Center
Mission Lanes	Milpitas, CA	3.07	33,000	100		1978	Bowling Center
Friendly Hills Lanes	Whittier, CA	2.75	34,000	100		1972	Bowling Center
Mel's Redwood Bowl	Redwood City, CA	0.00	40,000	100		1993	Bowling Center
Triangle Bowl - Houston	Houston, TX	2.33	28,000	85	(4)	1982	Bowling Center
Triangle Bowl - Lewisville (1)	Lewisville, TX	2.80	30,000	85	(4)	1986	Bowling Center
Triangle Bowl - Richardson	Richardson, TX	3.22	38,000	85	(4)	1988	Bowling Center
Triangle Bowl - Irving	Irving, TX	4.04	60,000	85	(4)	1988	Bowling Center
Triangle Bowl - Desoto	Desoto, TX	4.00	38,000	85	(4)	1991	Bowling Center
Triangle Bowl - Arlington	Arlington, TX	4.28	44,000	85	(4)	1993	Bowling Center
Triangle Bowl - Midland	Midland, TX	4.21	38,000	85	(4)	1995	Bowling Center
Fun Fest	Addison, TX	4.29	49,000	85	(4)	1995	Family Entertainment Center
Bowlodrome	Owensboro, KY	0.83	24,000	85	(5)	1993	Bowling Center
Capital Lanes	Kansas City, MO	4.00	26,000	85	(5)	1994	Bowling Center
Sunny Lanes	Del City, OK	3.50	22,000	85	(5)	1993	Bowling Center
Windsor Lanes	Oklahoma City, OK	4.14	40,000	85	(5)	1994	Bowling Center
Moore Bowl	Moore, OK	3.00	38,000	85	(5)	1994	Bowling Center
Bowlero Bowl	Wauwatosa, WI	9.00	71,000	85	(5)	1995	Bowling Center
West Allis Bowl	West Allis, WI	4.00	45,000	85	(5)	1995	Bowling Center
West Bowl	Milwaukee, WI	1.00	41,500	85	(5)	1995	Bowling Center
South Park Bowl	S. Milwaukee, WI	4.00	40,000	85	(5)	1995	Bowling Center
Waukesha Bowl	Waukesha, WI	5.00	50,000	85	(5)	1995	Bowling Center
Regency Lanes	Milwaukee, WI	6.25	90,000	85	(5)	1995	Bowling Center
Bowl Aire	Beloit, WI	6.00	33,000	85	(5)	1995	Bowling Center
Total Bowling		102.49	1,166,500				

<CAPTION>
NON-BOWL REAL ESTATE

<S>	<C>	<C>	<C>	<C>		<C>	<C>
Visalia (Land - Retail site)	Visalia, CA	1.34		100		1983	Vacant lot
Rocklin (Land - Retail site)	Rocklin, CA	2.30		87.5	(3)	1982	Vacant lot
Livermore (Warehouse)	Livermore, CA	1.00	20,000	50	(2)	1979	Current warehouse
Madison Avenue (Office)	Sacramento, CA	0.00	6,000	100		1987	Office building
Raley Boulevard (Land - Warehouse site)	Sacramento, CA	3.57		100		1985	Vacant lot
Broadway Grand (Land - Office site)	Oakland, CA	1.13		60	(2)	1978	Parking lot
Commercial - Restaurant (1)	Lewisville, TX	0.68	4,000	100		1986	Restaurant
Sun Center (Office) (6)	Rancho Cordova, CA	2.40	37,000	100		1990	Office building
Total Non-Bowling		12.42	67,000				

</TABLE>

1. These properties are on adjoining parcels of land in Lewisville, TX.
2. Partnership with Bernal Investments, Inc., a Northern California real estate contractor and not an affiliate with the Company.
3. Partnership with Fong, Eatough and Borges, a Northern California architecture and planning firm and not an affiliate with the Company.
4. Joint Venture with Neil Hupfauer.
5. Joint Venture with William Kratzenberg.
6. The Company's headquarters occupies approximately 20% of the rentable office space. The rest is leased or available for lease to tenants.

ITEM 3. LEGAL PROCEEDINGS.

Registrant is normally engaged in a number of cases of ordinary and routine litigation incidental to its business, substantially all of which actions involve personal injuries, minor wage disputes, or workers' compensation claims, and occasional landlord-tenant disputes. Substantially all of the claims under such routine litigation are covered by insurance or adequate reserves, and most such cases are being defended by an insurance carrier at no direct cost to Registrant.

Registrant is not engaged in any significant litigation, nor is it aware of any significant claims or threatened litigation as of August 14, 1996.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SECURITY MATTERS.

(a), (b) and (c) - On August 14, 1996 the average price for a share of the Registrant's Common Stock was $6.50. At August 14, 1996, there were approximately 4,700 holders of record of the Registrant's Common Stock.

The following table sets forth (i) the quarterly range of high and low bid prices per share of the Registrant's Common Stock in the over-the-counter market, as reported by NASDAQ (National Association of Securities Dealers' Automated Quotation System), and (ii) the quarterly cash dividends per share declared by the Registrant on its Common Stock.

Fiscal Quarters:	High	Low	Cash Dividends
1996:			
First Quarter	$7.375	$5.875	$.0625
Second Quarter	$6.75	$5.75	$.0625
Third Quarter	$6.625	$5.875	$.0625
Fourth Quarter	$7.125	$5.75	$.065
1995:			
First Quarter	$7.00	$6.375	$.060
Second Quarter	$7.00	$5.875	$.060
Third Quarter	$6.50	$4.50	$.060
Fourth Quarter	$7.625	$6.125	$.0625

ITEM 6. SELECTED FINANCIAL DATA.

Incorporated by reference to 1996 Annual Report to Shareholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Incorporated by reference to 1996 Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements together with the report thereon of Price Waterhouse dated July 22, 1996, appearing in the American Recreation Centers, Inc. 1996 Annual Report to Shareholders are incorporated by reference in this Form 10-K Annual Report.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Incorporated by reference to Definitive Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference to Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated by reference to Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference to Definitive Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a)(1) Financial Statements

The financial statements of the Company as set forth under Item 8 of this report on Form 10-K are incorporated herein by reference to the following pages of the 1996 Annual Report to Shareholders:

<TABLE>
<CAPTION>

<S>	Page in Annual Report** <C>
Report of Independent Accountants	14
Consolidated Balance Sheet at May 29, 1996 and May 31, 1995	6
Consolidated Statement of Income and Retained Earnings for the three years ended May 29, 1996	7
Consolidated Statement of Cash Flows for the three years ended May 29, 1996	8
Notes to Consolidated Financial Statements	9-13
(a)(2) Financial Statement Schedules	
Report of Independent Accountants on Financial Statement Schedule for the three years ended May 29, 1996	19
II - Valuation Reserves	20

</TABLE>

(a)(3) Financial Statements of the American Recreation Centers, Inc. Employee Stock Ownership Plan for the year ended May 29, 1996 to be filed by amendment.

** Incorporated by reference from the indicated pages of the 1996 Annual Report to Shareholders.

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(4) Listing of Exhibits

The following exhibits of the Company are included or incorporated herein. (Note: The numbers preceding the exhibits correspond to the specific number within Item 601 of Regulation S-K.)

Exhibit Number	
10.1	Contract for investment banking services between the Company and Allen & Company Incorporated, dated March 30, 1995.**
10.2	Executive Severance Agreement between the Company and Robert A. Crist, dated April 1, 1995.**
10.3	Executive Severance Agreement between the Company and Karen B. Wagner, dated April 1, 1995.**
10.4	Executive Severance Agreement between the Company and Susan K. Cook, dated April 1, 1995.**
13.1	Annual Report to Shareholders for fiscal year ended May 29, 1996.
13.2	Proxy statement to be filed in connection with the Annual Shareholders Meeting on September 24, 1996.**

27.1   Financial Data Schedule

(b)   The following reports on Form 8-K were filed during the fiscal year ended May 29, 1996:

August 4, 1995	Reporting the sale of the Company's majority interest in The Right Start, Inc.
May 3, 1996	Reporting the repurchase of a 240,000 share block of the Company's common stock, which represented 4.9% of the shares outstanding.

(c)   Not applicable.

(d)   Not applicable.

**Previously filed.

SIGNATURES

Pursuant to the requirement of Sections 13 and 15 (d) 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.

AMERICAN RECREATION CENTERS, INC.
(Registrant)

Dated: August 20, 1996

/s/ Robert A. Crist

Robert A. Crist, President and
Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Robert A. Crist Robert A. Crist, Principal Executive Officer and Director, President	August 20, 1996
/s/ Karen B. Wagner Karen B. Wagner, Principal Financial and Accounting Officer, Vice President/Treasurer	August 20, 1996
/s/ Stanley B. Schneider Stanley B. Schneider, Director	August 20, 1996
/s/ G. Gervaise Davis III G. Gervaise Davis III, Vice President/Legal and Secretary	August 20, 1996
/s/ Stephen R. Chanecka Stephen R. Chanecka, Director	August 20, 1996

Report of Independent Accountants on
Financial Statement Schedule

To the Board of Directors
of American Recreation Centers, Inc.

Our audits of the consolidated financial statements referred to in our report dated July 22, 1996 appearing in the 1996 Annual Report to Shareholders of American Recreation Centers, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a.2.) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

Sacramento, California
July 22, 1996

AMERICAN RECREATION CENTERS, INC. SCHEDULE II

AND CONSOLIDATED SUBSIDIARIES

VALUATION RESERVES

<TABLE>
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	Balance at beginning of period	Additions charged to: Costs and expenses	Additions charged to: Other accounts	Deductions	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Fifty-two weeks ended:					
May 29, 1996					
Allowance for doubtful accounts	16,000	34,000			50,000
Fifty-three weeks ended:					
May 31, 1995					
Allowance for doubtful accounts	96,000			(80,000)	16,000
Property held for sale	3,077,000			(3,077,000)	0
Fifty-two weeks ended:					
May 25, 1994					
Allowance for doubtful accounts	101,000			(5,000)	96,000
Property held for sale	5,644,000	397,000		(2,964,000)	3,077,000

</TABLE>

EXHIBIT 13.1

To Our Shareholders

In last year's annual report, we discussed the process of transformation occurring at American Recreation Centers as we re-stage our business from one primarily offering bowling into one offering an expanded menu of entertainment alternatives at neighborhood locations in six states. Fiscal 1996 proved that this strategy is both correct and necessary.

Nationwide, bowling's popularity continued to lag. ARC and other bowling proprietors faced heightened competition from other entertainment and recreational venues, including the rapidly expanding movie theater industry and formula restaurant chains. Also, military base closures and anti-smoking legislation continued to impact business at several of our bowls, particularly in California. Nationwide, league bowling saw continued declines as bowlers resist committing to league schedules due to longer work weeks, family activities and other factors.

The financial impact of these trends was obvious. It was difficult maintaining revenue levels at comparable bowls and, despite extremely tight cost controls, profitability declined at most of our centers. Also, the changing revenue mix put further pressure on profit margins as high-profit bowling lineage comprised a smaller percentage of total revenue in fiscal 1996 than in previous years. See the Management's Discussion and Analysis for more details on the financial results for the year.

Bowling is a cyclical industry and has endured other downturns in the past. While there is no guarantee the current slide has bottomed, ARC and other proprietors are working diligently to strengthen marketing programs and entice customers back into our centers. Bowling remains an affordable family entertainment option and it is our charge to heighten the visibility of bowling as a popular entertainment option. At ARC, for instance, we have created special pricing programs and packages to attract bowlers at many centers particularly impacted by base closures and local economic factors.

In addition to working harder and smarter to rebuild bowling lineage, our expansion in the "family entertainment center" (FEC) concept kicked off in fiscal 1996. Fun Fest in Addison, Texas is our first FEC constructed from scratch. In less than six months, this 49,000 square foot facility has generated $1.3 million in revenue and consistent profits. At Fun Fest, bowling is one alternative among many to attract young adult customers. Fun Fest has created a great deal of excitement among bowling proprietors nationwide who view it as the look of the future for the industry.

Our other "FEC" at Pastimes in San Jose, California has enjoyed moderate success. There, we converted ten lanes of bowling into a children's area complete with soft play apparatus, redemption games and branded food. This approach targeted families with young children. After a slow start, Pastimes' new concept has been steadily taking hold with improved revenue, particularly this summer.

With these two FECs, ARC is the leader in the industry as we point to broadening our entertainment offerings in the future. In addition, we have expanded redemption games, darts and billiards at several ARC centers in fiscal 1996 and plan to add more in fiscal 1997. Also, in fiscal 1996, we took over vending operations from third-party providers, thus giving ARC more control while adding revenue and profitability to our operations.

At the end of the fiscal year, we restructured our California bowling division, eliminating one layer of management. At the same time, the Company has undertaken a nationwide search to recruit a high quality marketing director with broad entertainment experience who can help guide the Company as it offers expanded entertainment options to the consumer.

In fiscal 1996 ARC grew to 41 centers in six states with our acquisition of a 32 lane center in Beloit, Wisconsin. ARC is the fourth largest chain bowling proprietor in America.

Our stock repurchase program has acquired about 500,000 shares, equal to approximately 10 percent of the shares outstanding. Your Board of Directors continues to believe ARC shares represent excellent value considering the Company's long-term prospects and opportunities. Also, long-term debt was at a near five-year low at the end of fiscal 1996, totaling just under $28 million. The debt load is about the same today that it was in fiscal 1992 when ARC owned 25 centers.

Lastly, Robert Feuchter, Chairman of the Board, at age 70, announced his retirement in August and will not be included in the slate of directors to be voted upon at the September annual meeting. Bob joined the company in 1959 and was elected President in 1965 and Chairman of the Board in 1967. He served as Chairman, President and CEO until 1990 and has served as Chairman since then. Under Bob's leadership ARC grew from a small Northern California chain into one of the largest in the Nation. Bob's success and force of personality made him one of the more respected members of the industry. His experience, candor and guidance will be missed by his peers, employees and members of the Board of Directors. His son, Bruce Feuchter, a securities lawyer, has agreed to accept a nomination for a board position to be voted on at the September annual meeting.

As we enter fiscal 1997, we believe ARC is prepared to meet the continuing challenges in bowling as well as hasten our evolution into a broader entertainment company.

Sincerely,

Robert A. Crist

President and Chief Executive Officer

About The Company

American Recreation Centers, Inc. (ARC) is one of the largest chain operators of bowling centers in the United States and the largest publicly-owned company whose principal business is bowling and recreation.

The Company's bowling operations include 41 bowling centers, 21 in California, eight in Texas, seven in Wisconsin, three in Oklahoma and one each in Kentucky and Missouri with a total of 1,624 lanes. The non-California centers are owned and operated by three 85 percent company-owned joint ventures: Triangle Bowl Associates, American Red Carpet, and Mid-America Associates.

League bowling provides stability to the bowling industry through commitments to use lanes at specific times on a periodic basis. Approximately 61 percent of ARC's bowling revenue was derived from league bowling during 1996 and approximately 60,000 bowlers regularly participate in ARC league programs. Non-league bowling, consisting of open play and special events, is also an important contributor of revenue and profits.

ARC is leveraging the broad appeal of bowling by creating a wide variety of entertainment attractions within its centers which are designed to increase the frequency and revenue per customer per visit. A 49,000 square foot family entertainment center in Addison, Texas opened in December 1995. It contains 30 lanes of bowling, and features branded food operations, high tech electronic games including virtual reality and laser activities, billiards, darts, and other recreational attractions. Ten lanes of a former 60-lane center in San Jose, California were recently converted to include children's soft-play, redemption games and branded food operations.

The Company's common stock is traded on the NASDAQ National Market System under the symbol AMRC. Stock prices are quoted daily and appear in the Wall Street Journal and other newpapers. At May 29, 1996, the Company had approximately 4,700 shareholder accounts.

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Financial Highlights

<TABLE>
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Dollars in thousands, except per share amounts	Fiscal Year Ended May 29, 1996	May 31, 1995	May 25, 1994
Revenues	$ 46,080	$ 45,694	$ 41,196
Operating income	3,659	5,513	5,884
Net income (loss):			
Continuing operations, excluding property transactions	738	1,566	1,904
Gain (Loss) on property transactions	173	1,361	(127)
Discontinued operations	2,305	(1,316)	112
	3,216	1,611	1,889
Earnings (Loss) per share:			
Continuing operations, excluding property transactions	.15	.31	.38
Gain (Loss) on property transactions	.03	.27	(.02)
Discontinued operations	.46	(.26)	.02
	.64	.32	.38
Cash dividends per share	.2525	.2425	.225

</TABLE>

Selected Financial Data

(Unaudited)
<TABLE>
<CAPTION>

Dollars in thousands, except per share amounts	May 29, 1996	May 31, 1995	May 25, 1994	May 26, 1993	May 27, 1992
	Fiscal Year Ended				
<S>	<C>	<C>	<C>	<C>	<C>
Operating revenue	$ 46,080	$ 45,694	$ 41,196	$ 38,783	$ 37,868
Net income (loss):					
Continuing operations	738	1,566	1,904	1,364	1,358
Property transactions	173	1,361	(127)	(178)	908
Discontinued operations	2,305	(1,316)	112	655	720
	3,216	1,611	1,889	1,841	2,986
Net income from continuing operations as a percent of operating revenue	1.6%	3.4%	4.6%	3.5%	3.6%
Earnings (Loss) per share:					
Continuing operations	.15	.31	.38	.27	.27
Property transactions	.03	.27	(.02)	(.03)	.18
Discontinued operations	.46	(.26)	.02	.14	.15
	.64	.32	.38	.38	.60
Cash dividends per share	.2525	.2425	.225	.205	.185
Shareholders' equity per share	6.18	5.87	5.77	5.56	5.36
Return on equity	11%	5%	7%	7%	12%
Total assets	72,131	76,925	73,439	70,020	65,932
Long-term debt and capital leases (includes current maturities)	27,990	30,800	31,315	30,516	28,822

<CAPTION>

Quarterly Data and Market Price Information
The following table sets forth supplementary financial information for each quarter in the Company's fiscal years ended May 29, 1996 and May 31, 1995.

Fiscal 1996 quarters ended Dollars in thousands, except per share amounts	August 30, 1995	November 29, 1995	February 28, 1996	May 29, 1996
<S>	<C>	<C>	<C>	<C>
Operating revenue	$ 8,825	$ 11,475	$ 13,357	$ 12,423
Operating income (loss)	(532)	1,140	1,870	1,181
Net income (loss):				
Continuing operations	(654)	383	728	281
Property transactions	--	--	--	173
Discontinued operations	2,305	--	--	--
	1,651	383	728	454
Earnings (Loss) per share:				
Continuing operations	(.13)	.08	.14	.06
Property transactions	--	--	--	.03
Discontinued operations	.46	--	--	--
	.33	.08	.14	.09
Price range				
High	7.375	6.75	6.625	7.125
Low	5.875	5.75	5.875	5.75
Dividends paid	.0625	.0625	.0625	.065

<CAPTION>

Fiscal 1995 quarters ended Dollars in thousands, except per share amounts	August 24, 1994	November 23, 1994	February 22, 1995	May 31, 1995
<S>	<C>	<C>	<C>	<C>
Operating revenue	$ 8,310	$ 11,405	$ 12,916	$ 13,063
Operating income (loss)	(336)	1,466	2,438	1,945
Net income (loss):				
Continuing operations	(541)	429	965	713
Property transactions	1,037	--	324	--

Discontinued operations	34	(897)	(396)	(57)
	530	(468)	893	656
Earnings (Loss) per share:				
Continuing operations	(.11)	.08	.20	.14
Property transactions	.21	--	.06	--
Discontinued operations	.01	(.18)	(.08)	(.01)
	.11	(.10)	.18	.13
Price range				
High	7.00	7.00	6.50	7.625
Low	6.375	5.875	4.50	6.125
Dividends paid	.06	.06	.06	.0625

</TABLE>

The fiscal 1995 quarterly information has been restated from that previously filed in the Company's Form 10-Qs to reflect the Company's disposition of its majority-owned subsidiary, The Right Start, Inc. The results of operations of The Right Start, Inc. were previously included in the consolidated results as the direct marketing division. They have been reclassified as income (loss) from discontinued operations. (See Note 2).

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations For an understanding of the significant factors that influenced the Company's performance during the past three fiscal years, this discussion and analysis should be read in conjunction with the consolidated financial statements which appear on pages 6 through 13 of this report.

Results of Continuing Operations The Company's operating revenue increased 1% in 1996 and 11% in 1995 due to acquisitions. Revenue from comparable operating units declined in both years. Net income from continuing operations, which totaled $911,000 in 1996, $2,927,000 in 1995 and $1,777,000 in 1994 was significantly impacted each year by non-operating transactions. These transactions and operating results are discussed below.

Discontinued Operations Discontinued operations include the operations and gain on sale of the Company's majority interest in The Right Start, Inc. (Right Start), a catalog company and retailer of infants' and children's products. The 1996 sale of the Company's investment in Right Start produced an after-tax gain of $2,251,000. Discontinued operations also include the Company's majority share of Right Start's operating results which totaled $54,000 in 1996, a loss of ($1,316,000) in 1995, and $112,000 in 1994.

Bowling Bowling revenue increased 1% in 1996 and 12% in 1995 due to acquisitions. In addition, 1995 was a 53 week fiscal year, whereas 1996 and 1994 each comprised 52 weeks. 1996 additions included the construction of the Fun Fest family entertainment center in Addison, Texas and the acquisition of a 32-lane center in Beloit, Wisconsin. Six bowling centers comprising most of the former Red Carpet chain in Milwaukee, Wisconsin were acquired in the second quarter of 1995. These centers aggregated 316 lanes.

Comparable center revenue declined nearly 5% in 1996 and 1% in 1995. The comparable center declines were 3% in both years when the impact of the 53rd week is eliminated. Revenue from bowling lineage comprised 55% of total revenue in 1996, 57% in 1995, and 58% in 1994. For comparable centers, 1996 lineage revenues were down 5% when the 53rd week is eliminated. This decline was a combination of a 4% price increase which was offset by a nearly 9% decline in volume. In 1995, a 2% price decrease combined with a 1% decline in bowler traffic to produce a 3% decrease in lineage revenue. With the decline in bowler traffic both years, ancillary revenue from beverage, food, video games and other sources were also impacted. Consequently, total revenue per lane bed was $28,200 in 1996, $30,200 in 1995, and $31,000 in 1994. These numbers also reflect the 1995 purchase of the Red Carpet centers which have much lower revenue per lane bed results than the Company's historical average but were acquired for their opportunity for growth.

The decline in bowling revenue is consistent with an industry-wide downturn caused by competing recreational and entertainment activities, demographic changes and other economic influences. The industry has experienced increased competition from formula restaurant chains, the proliferation of movie theaters and other activities, all of which compete for consumers' recreation and entertainment dollars. League bowling has experienced a substantial decline as bowlers are less likely to commit to league schedules due to longer work weeks, family activities, and other factors. Lastly, military base closures and anti-smoking legislation have had a major impact on bowling centers influenced by these factors.

The bowling industry has traditionally been cyclical in nature with downturns similar to the current situation followed by a resurgence in the popularity of the activity, however, no assurance can be given that such a resurgence in business will occur. Various industry membership organizations are consolidating their efforts to further strengthen industry marketing programs and to increase the visibility of bowling as a family entertainment business. The Company has been a market leader offering short season leagues and creating more special group party programs to address the demographic issues facing the industry. The Company had also created special pricing programs and value packaging, especially in centers hard hit by economic factors.

Foreseeing the downward trend in the bowling industry, the Company embarked upon a plan to broaden its operations from one that offers primarily bowling as family entertainment into one that offers a broader menu of recreation options, with bowling being an alternative. Two test locations were opened in the latter part of 1996. The 49,000 square foot Fun Fest family entertainment center was constructed in Addison, Texas. This facility blends 30 lanes of bowling with other recreation formats designed to attract young adult customers. In its first five and a half months of operations Fun Fest generated revenue of $1.3 million and has been consistently profitable. Secondly, ten lanes of a former 60 lane center in San Jose, California were converted to include children's soft play, redemption games and branded food operations, all targeted to families with small children. In addition to the two test concepts, the Company also expanded its redemption games, darts and billiards operations in a number of centers and converted its vending operations from the use of third party vendors to in-house. 4

Operating income in 1996 declined 28% overall and 32% for comparable centers. Operating income in 1995 was even with 1994 levels as operating income from newly acquired centers was offset by a 15% decline in profitability for comparable centers. For both periods, the decline in profitability was principally due to the overall drop in revenue which was so pronounced in certain centers due to the factors discussed above that cost controls could not mitigate the loss of revenue. Additionally, in 1996 the introduction of new non-bowling activities added new revenue but at a lower margin than traditional bowling activities.

1996's operating income included a $134,000 pre-tax charge for the restructuring of the California bowling division which includes 21 centers. The reorganization eliminated a layer of management that should result in more effective and less costly management in the future. The Company is currently recruiting for a new marketing executive, which should allow the Company to further restage itself.

Corporate and Other Other operating activities include the Company's non-bowling real estate activities. The decline in "Other" revenue and operating income in 1996 and 1995 relates primarily to the sale of certain commercial real estate properties as described below.

Corporate expense includes the costs of the corporate office and staff, shareholder relations, directors' fees, professional and consulting fees, and other costs not allocable to bowling. Corporate expense decreased 4% in 1996 and increased 14% in 1995 primarily due to the costs of investment banking and related services incurred in connection with an unsolicited offer for the acquisition of the Company in 1995.

Gain (Loss) on Property Transactions It is the Company's policy to strategically sell its non-bowling real estate and redeploy the proceeds to operating activities. Gains and losses on the disposition of such assets have been recognized in 1996, 1995 and 1994 and are described in Note 3 to the consolidated financial statements.

Liquidity and Capital Resources Cash generated from continuing operations was $4,374,000 in 1996 after adding back $4,679,000 in taxes paid on the gain on sale of Right Start. Financing activities included repayment of $8,827,000 in long-term debt, new long-term debt totaling $6,017,000 to finance acquisitions and other capital expenditures, payment of $1,236,000 in dividends to shareholders, and the repurchase of $2,928,000 (net of stock issued for stock options) of the Company's common stock in connection with a stock repurchase program authorized by the Board of Directors.

Investing activities included the receipt of $7,132,000 (net of $4,679,000 in taxes) in connection with the sale of the Company's discontinued operations, receipt of $2,840,000 in proceeds from the sale of commercial real estate and bowling equipment, and capital expenditures totaling $8,254,000. In 1997, the Company plans to expend approximately $3,000,000 for conversion of certain bowling centers to family entertainment centers and for general bowling center refurbishments. These capital expenditures will be financed through cash generated from operations and long-term bank financing.

At May 29, 1996, the Company had $10,128,000 available under an unused bank commitment. Advances can be used to acquire, construct or refurbish bowling centers or to acquire other compatible recreation businesses and would bear interest at the prime rate plus .75%. The Company also maintains various line-of-credit arrangements to augment seasonal shortfalls in working capital. At May 29, 1996, there were no borrowings outstanding under the Company's $2,000,000 line-of-credit. Advances under this line would bear interest at the prime rate plus .5%. There were also no borrowings outstanding under a $1,000,000 line-of-credit which is designated for use by one of the Company's wholly-owned subsidiaries. This line bears interest at the prime rate plus 1%. The Company's long-term debt at May 29, 1996 totaled $27,990,000. The current debt load represents a five year low, despite having grown from 25 centers in 1992 to 41 centers today.

The Company has paid quarterly cash dividends for 28 consecutive years. Cash dividends for 1996 of $.2525 per share represent a 4% increase of 1995's dividend which was up 8% over 1994's dividend.

Outlook The Company's core business is bowling which has experienced an industry-wide downturn over the last several years. To counteract the industry trend, the Company's strategy is to systematically convert bowling-only facilities into neighborhood-based family entertainment centers that offer bowling. The objective is to attract more customers to Company facilities and increase the amount each customer spends per visit. This strategy may result in highly profitable but declining bowling lineage revenue being replaced by new revenue from sources that carry a lower profit margin. Consequently, the Company expects that operating margins may be less than historical levels but that overall operating results will be greater than if the Company offered only bowling activities. Although the Company believes that refurbishing and restaging its centers is necessary, no assurance can be given that these actions will be successful or that similar or different actions will not be required in the future.

Consolidated Balance Sheet

<TABLE>
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Dollars in thousands	May 29, 1996	May 31, 1995
<S>	<C>	<C>
Assets		
Current assets:		
Cash and equivalents	$ 3,489	$ 4,508
Accounts and notes receivable	810	274
Inventories	609	510
Current deferred income tax benefits	520	--
Other current assets	1,327	1,510
Net investment in discontinued operations	--	6,683
Total current assets	6,755	13,485
Property, equipment and leaseholds, at cost:		
Land and buildings	41,965	40,466
Machinery and equipment	37,777	34,922
Leaseholds and leasehold improvements	8,532	7,201
Construction in progress	--	892
	88,274	83,481
Less--Accumulated depreciation and amortization	(28,572)	(26,018)
	59,702	57,463
Other assets	5,674	5,977
	$ 72,131	$ 76,925
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,952	$ 4,191
Current maturities of long-term debt and capital leases	1,796	2,053

Accrued salaries and related expenses	1,182	987
Current deferred taxes	--	2,311
Total current liabilities	7,930	9,542
Long-term debt and capital leases	26,194	28,747
Income taxes deferred to future years	7,209	7,233
Minority interests	2,060	1,732
Shareholders' equity:		
Common stock:		
Authorized--21,484,375 shares		
Issued and outstanding--1996, 4,647,899 shares; 1995, 5,054,259 shares	9,845	12,773
Preferred stock:		
Authorized--5,000,000 shares		
Issued and outstanding--None		
Retained earnings	18,893	16,898
Total shareholders' equity	28,738	29,671
Commitments and contingencies		
	$ 72,131	$ 76,925

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income and Retained Earnings

<TABLE>
<CAPTION>

	Fiscal Year Ended		
Dollars in thousands, except per share amounts	May 29, 1996	May 31, 1995	May 25, 1994
<S>	<C>	<C>	<C>
Operating revenue:			
Bowling	$ 45,222	$ 44,687	$ 39,690
Other	858	1,007	1,506
	46,080	45,694	41,196
Operating, general and administrative expense:			
Bowling	40,777	38,505	33,540
Other	550	535	770
Corporate	1,094	1,141	1,002
	42,421	40,181	35,312
Operating income (loss):			
Bowling	4,445	6,182	6,150
Other	308	472	736
Corporate	(1,094)	(1,141)	(1,002)
Operating income	3,659	5,513	5,884
Interest expense	(2,677)	(2,984)	(2,759)
Interest and other income	584	331	242
Gain (Loss) on property transactions, net	411	2,483	(509)
Gain on sale of subsidiary's stock	--	--	297
Income from continuing operations before provision for income taxes and minority interests	1,977	5,343	3,155
Provision for income taxes	(705)	(1,867)	(1,102)
Minority interests	(361)	(549)	(276)
Income from continuing operations	911	2,927	1,777

Discontinued operations:			
Gain on sale of investment in The Right Start, Inc., net of applicable income taxes of $1,568	2,251	--	--
Income (Loss) from operations of The Right Start, Inc., net of applicable income taxes of $49, ($1,254) and $102	54	(1,316)	112
Net income	3,216	1,611	1,889
Retained earnings, beginning of year	16,898	16,494	15,678
Cash dividends ($.2525, $.2425 and $.225 per share)	(1,236)	(1,220)	(1,116)
Income tax benefits	15	13	43
Retained earnings, end of year	$ 18,893	$ 16,898	$ 16,494
Earnings per share:			
Continuing operations	$ .18	$ .58	$ .36
Discontinued operations	.46	(.26)	.02
	$ .64	$ .32	$ .38

</TABLE>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

<TABLE>
<CAPTION>

	Fiscal Year Ended		
Dollars in thousands	May 29, 1996	May 31, 1995	May 25, 1994
<S>	<C>	<C>	<C>
Cash Flows from Operating Activities:			
Net income	$ 3,216	$ 1,611	$ 1,889
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,662	3,390	3,137
(Income) Loss from discontinued operations	(2,305)	1,316	(112)
Gain on sale of subsidiary's stock	--	--	(297)
(Gain) Loss from property transactions	(411)	(2,483)	509
Results attributed to minority interests	361	549	276
(Decrease) Increase in deferred income taxes	(3,406)	2,193	1,132
Decrease (Increase) in other current assets	188	(490)	187
(Decrease) Increase in accounts payable and accrued expenses	(1,610)	1,078	(381)
Net cash (used in) from operations	(305)	7,164	6,340
Cash Flows from (used in) Investing Activities:			
Proceeds from sale of subsidiary's stock	11,811	--	425
Expenditures for property, equipment and leaseholds	(8,254)	(12,866)	(5,757)
Proceeds from sale of property and equipment	2,840	8,479	--
Payments received on loan to ESOP	--	54	239
Other	(137)	31	(215)
Net cash from (used in) investing activities	6,260	(4,302)	(5,308)
Cash Flows from (used in) Financing Activities:			
Issuance of long-term debt	6,017	11,401	5,755
Repayment of long-term debt	(8,827)	(12,381)	(5,091)
Dividends to shareholders	(1,236)	(1,220)	(1,116)
(Retirement) Issuance of common stock	(2,928)	333	655
Net cash (used in) from financing activities	(6,974)	(1,867)	203
Net (decrease) increase in cash and equivalents	(1,019)	995	1,235
Cash and equivalents at beginning of year	4,508	3,513	2,278
Cash and equivalents at end of year	$ 3,489	$ 4,508	$ 3,513
Supplementary schedule of noncash investing and financing activities:			
Assets received in lieu of payment of note receivable			$ 465

Note receivable as partial payment for real property sold			$	650
Stock issued and retired in connection with exercise of stock options	$	525		

</TABLE>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note I: Description of Business and Significant Accounting Policies

American Recreation Centers, Inc. and its subsidiaries (the Company) operate bowling centers in California, Texas, Wisconsin, Kentucky, Missouri and Oklahoma. The Company's non-California bowling centers are owned and operated by three 85 percent owned partnerships; Triangle Bowl Associates, Mid-America Associates and American Red Carpet. The accompanying financial statements include the accounts of American Recreation Centers, Inc., its wholly and majority-owned corporate subsidiaries and general partnerships in which the Company has controlling financial interests.

Discontinued operations include the operations and gain on sale of the Company's majority interest in The Right Start, Inc. (Right Start), a catalog company and retailer of infants' and children's products. Significant data related to discontinued operations is disclosed in Note 2.

Certain financial statement reclassifications of 1995 and 1994 amounts have been made for comparative purposes.

A summary of the accounting principles and practices used in the preparation of the consolidated financial statements follows.

Financial Statement Presentation The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year The Company's fiscal year is a fifty-two or fifty-three week period ending on the last Wednesday in May. Fiscal years 1996 and 1994 each comprised 52 weeks. Fiscal year 1995 comprised 53 weeks.

Earnings Per Share of Common Stock Earnings per share is computed on the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Average shares outstanding were 4,968,484, 5,020,649 and 4,940,461 in 1996, 1995 and 1994. Common stock equivalents include the Company's stock options. Common stock equivalents in the aggregate are not dilutive and, accordingly, are excluded from the computations of earnings per share.

Cash and Equivalents Cash equivalents include certificates of deposit, money market accounts, and demand deposits all of which have original maturities of three months or less.

Inventories Inventories consist of products purchased for resale and are stated at the lower of cost, determined on a first-in, first-out basis, or market value.

Property, Equipment and Leaseholds Additions, major renewals and betterments are included in the asset accounts at cost. Maintenance, repairs and minor renewals are charged to operations when incurred. Generally, depreciation for financial statement purposes is computed using the straight-line method over the estimated useful life of the asset. Accelerated methods are used for income tax purposes. The estimated lives of the assets for financial statement purposes are as follows: building, 25-40 years; equipment, 3-25 years; and leaseholds and leasehold improvements, 10 years or life of lease. The costs and related accumulated depreciation of assets retired or otherwise disposed of are eliminated from the accounts. Gains and losses from disposals are included in operations.

Sale of Stock by Subsidiaries Upon the sale of stock by its corporate subsidiaries, the Company has elected to reflect in its consolidated income statement the difference between the book value of its interest in such subsidiaries after the sale of stock, and the book value of its interest in such subsidiaries prior to the sale of stock.

Income Taxes The Company accounts for income taxes using an asset and liability approach under which deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities.

Note 2: Discontinued Operations and Subsequent Event

During fiscal 1996, the Company sold its majority interest in Right Start to an investment group led by Kayne, Anderson Investment Management Inc. for $11,811,000 cash plus an option to repurchase 400,000 shares of Right Start's common stock at exercise prices ranging from $3.30 to $6.00 over a seven year period. In connection with the transaction, the Company has agreed to reimburse Right Start up to $680,000 should it be unable to sustain ordinary loss treatment for its deferred tax loss carryforward and it have sufficient taxable income in or before its fiscal year 2000.

The Company's share of Right Start's results of operations up to the date of sale, is included in the consolidated statement of income as discontinued operations. Income (Loss) from operations of Right Start, net of applicable income taxes, is summarized as follows:

<TABLE>
<CAPTION>

Dollars in thousands	1996	1995	1994
<S>	<C>	<C>	<C>
Revenue	$ 7,830	$ 45,741	$ 50,515
Operating income (loss)	118	(1,659)	224
Interest and other income and expense, net	16	43	54
Loss on sale of Children's Wear Digest	--	(1,744)	--
Income (Loss) from operations of Right Start before income taxes and minority interest	134	(3,360)	278
Income taxes	(49)	1,254	(102)
Minority interest	(31)	790	(64)
	$ 54	$ (1,316)	$ 112

</TABLE>

Subsequent to May 29, 1996, the Company sold the option to repurchase 400,000 shares of Right Start for $800,000. An after-tax gain of $480,000, or $.10 per share, will be recorded in the first quarter of fiscal 1997.

Note 3: Acquisitions and Dispositions and Sales of Subsidiary's Stock

1996 In 1996's fourth quarter, the Company's seventy percent owned Union Square Associates partnership sold its commercial real estate holdings in Union City, California for $2,580,000. A pre-tax, pre-minority interest gain of $411,000 was realized on the sale.

During the fourth quarter of 1996, the American Red Carpet joint venture acquired the land, building and equipment of a 32-lane bowling center in Beloit, Wisconsin for $1,400,000.

1995 During the first quarter of 1995, the Company's 90 percent owned partnership sold its Budget Mini-Storage facility in Milpitas, California for $3,600,000. Proceeds were used to retire long-term debt of $2,487,000 and to acquire bowling centers in Milwaukee, Wisconsin (see below). A pre-tax, pre-minority interest gain of $2,007,000 was recorded on the sale. The sale of the Budget Mini-Storage and the acquisition of the Milwaukee centers was accounted for as a like-kind exchange for income tax purposes.

In the second quarter, the Company formed the American Red Carpet joint venture to acquire substantially all of the Red Carpet bowling chain in Milwaukee, Wisconsin. The $8,000,000 purchase price included the land, building and equipment of six bowling centers totaling 316 lanes. 1995 acquisitions also included the purchase of the $700,000 Fun Fest building site in Addison, Texas by Triangle Bowl Associates.

In the third quarter of 1995, the Company sold the land and building housing its 60-lane bowling center in San Pablo, California for $2,500,000. Proceeds were used to retire $1,768,000 in long-term debt. A pre-tax gain of $533,000 was recognized on the sale which will be deferred for income tax purposes provided the Company reinvests the proceeds from the sale in similar assets within three years.

1994 During the first quarter of 1994, the Company sold 63,000 shares of The Right Start, Inc.'s common stock for a pre-tax gain of $297,000. Cash proceeds totaled $425,000. The sale reduced the Company's ownership in Right Start from 63.5 percent to 62.5 percent.

1994 acquisitions included the purchase by Triangle Bowl Associates of a 32-lane bowling center in Midland, Texas for $600,000. The purchase included a ten year lease on the land and building with a stated option price exercisable anytime during the ten years. The purchase option for $1,000,000 was exercised during the third quarter of 1995. Mid-America Associates acquired a 24-lane center in Kansas City, Missouri and two 40-lane centers in Oklahoma City, Oklahoma. The total purchase price for all three centers, which included land and buildings, was approximately $3,400,000.

During the fourth quarter of 1994, a $398,000 pre-tax charge was recorded in anticipation of the pending sale of a real estate investment in Oakland, California. The sale was completed during the second quarter of 1995.

Subsequent to year-end, the Company repossessed the operating assets of a 36-lane bowling center in Fresno, California in lieu of payment on a note receivable and assumed the center's lease. A loss of $111,000 reflecting the excess of the note balance over the fair market value of the assets received was recorded in 1994.

<TABLE>
<CAPTION>

Note 4: Long-term Debt and Lease Commitments

Dollars in thousands	May 29, 1996	May 31, 1995
<S>	<C>	<C>
Secured notes payable in monthly installments with weighted average interest rates of 9.0% and 9.6%	$ 27,095	$ 29,554
Other	895	1,246
	27,990	30,800
Less--Amounts due within one year	1,796	2,053
	$ 26,194	$ 28,747

</TABLE>

Notes payable and installment contracts are secured by real property and equipment with a cost of $43,702,000 and assignment of rents under real property leases. Installment contracts, which bear interest at annual rates varying from 7.5% to 10.25%, are payable in fixed monthly amounts.

Maturities of long-term indebtedness at May 29, 1996, excluding capital lease obligations, during the next five years are: 1997-$1,456,000; 1998-$3,485,000; 1999-$2,595,000; 2000-$5,108,000; 2001-$2,225,000.

The Company has $10,128,000 available under an unused bank commitment. Proceeds from the unused commitment can be used to acquire, construct or refurbish bowling centers or to acquire other compatible recreational businesses. Advances would bear interest at the prime rate plus .75%.

The Company also maintains a secured line-of-credit arrangement with a bank whereby the Company may borrow up to $2,000,000 for short-term cash needs. Interest is payable on the outstanding balance at a rate of .5% over the bank's prime rate. The line-of-credit requires a 30 day out-of-debt period each fiscal year. At May 29, 1996 and May 31, 1995 there were no borrowings outstanding under the line-of-credit.

The Company's wholly-owned subsidiary, ARC Games, Inc., maintains a $1,000,000 unsecured bank line-of-credit. Advances bear interest at the bank's prime rate plus 1%. $415,000 was outstanding under the line as of May 31, 1995 and is included in current maturities of long-term debt. The line-of-credit agreement requires that the Company maintain a $250,000 interest bearing minimum balance with the bank.

Of the forty-one bowling centers operated by the Company at May 29, 1996, thirteen are leased under noncancelable agreements expiring from 1999 through 2020. The other bowling centers are owned by the Company or leased from partnerships in which the Company owns majority interests. The Company's minimum rental commitments under noncancelable operating leases at May 29, 1996 are as follows:

<TABLE>
<CAPTION>

Dollars in thousands	Operating Lease
<S>	<C>
1997	$ 1,568
1998	1,582
1999	1,574
2000	1,317
2001	1,205
2002 and after	4,272
	$ 11,518

</TABLE>

The leases provide for minimum and percentage rentals and in the majority of cases, for the payment of property taxes and insurance by the lessee. Rental expense under operating leases, including property taxes of $242,000, $270,000 and $239,000 was $2,027,000, $1,845,000 and $2,064,000 in 1996, 1995 and 1994. Included in the rental expense above are additional rents of $236,000, $270,000 and $317,000 based on sales volume above minimums. The Company is also contingently liable for rent payments on a lease assigned to a third party in the event of nonpayment by the assignee.

<TABLE>
<CAPTION>

Note 5: Common Stock Activity and Stock Options

Dollars in thousands	Shares Issued	Amount
<S>	<C>	<C>
Balance, May 26, 1993	4,886,291	$ 11,785
Issued	117,262	655
Balance, May 25, 1994	5,003,553	12,440
Issued	50,706	333
Balance, May 31, 1995	5,054,259	12,773
Issued	131,333	660
Repurchase of stock	(537,693)	(3,588)
Balance, May 29, 1996	4,647,899	$ 9,845

</TABLE>

The Company has an employee stock ownership plan (ESOP) and an employee stock purchase plan (ESPP) for the benefit of its eligible employees as defined in the plans. The ESOP is funded exclusively by employer contributions made at the discretion of the Board of Directors. Contributions to the ESOP totaled $300,000 in 1996 and $425,000 in 1995 and 1994. The ESOP held 710,882 and 686,479 shares of the Company's common stock at May 29, 1996 and May 31, 1995. All of the shares were allocated to the benefit of plan participants. Under the ESPP, employees' contributions are matched by the Company at a rate of fifty percent. Employer contributions to the ESPP totaled $65,000, $73,000 and $84,000 in 1996, 1995 and 1994.

In accordance with the 1988 Key Employee Incentive Stock Option Plan, as amended (Employee Plan), options to purchase 850,000 common shares of the Company can be issued to key employees. Under the 1988 Stock Option Plan for Non-Employee Directors, as amended (Directors' Plan), options to purchase 150,000 common shares of the Company can be issued to non-employee directors for services to the Company.

Under both plans, options are required to be granted at the fair market value of the stock at the date of grant. Options may be granted until September 30, 1998. Participants are generally required to exercise their options within five years of vesting or within sixty days of termination. Under the Employee Plan, options granted generally can vest up to five years (or less at the discretion of the Board of Directors). Under the Directors' Plan, directors automatically receive a grant of 5,000 options three months after becoming a director and 2,500 options for each of the next four years to a maximum of 15,000 options. Such options are vested at the date of grant.

At May 29, 1996, 227,207 and 90,000 options were available for grant under the Employee and Directors' Plans, respectively. Transactions for stock options are as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
Balance, beginning of year	594,617	651,450	565,901
Granted	100,000	12,500	197,900
Exercised	(131,333)	(21,000)	(60,000)
Canceled	(130,834)	(48,333)	(52,351)
Balance at end of year	432,450	594,617	651,450
Exercisable at end of year	281,250	488,183	417,700
Range of exercise prices at end of year	$5.00-$8.75	$5.00-$8.75	$5.00-$8.75
Grant prices	$6.375	$6.25	$6.00-$6.375

</TABLE>

Note 6: Income Taxes

<TABLE>

The Company files a consolidated federal income tax return which includes the results of operations of its partnerships and corporate subsidiaries, with the exception of The Right Start, Inc. which filed a separate federal return. Tax payments in 1996, 1995 and 1994 were $5,295,000, $72,000 and $113,000.

<CAPTION>

The provision for income taxes consists of the following:

Dollars in thousands	1996	1995	1994
Current:			
Federal	$ 4,856	$ (383)	$ (274)
State	823	36	20
	5,679	(347)	(254)
Deferred:			
Federal	(3,138)	1,899	1,110
State	(268)	315	246
	(3,406)	2,214	1,356
Total provision	$ 2,273	$ 1,867	$ 1,102

</TABLE>

The effective income tax rates on pre-tax earnings from continuing operations are 44% in 1996, 39% in 1995 and 38% in 1994. The following table details the major differences between the effective tax rates and the statutory federal income tax rate of 34%.

<TABLE>
<CAPTION>

	1996	1995	1994
Federal income tax rate	34%	34%	34%
Increase (Decrease) in tax rate resulting from:			
State income taxes, net of federal tax benefits	7	5	6
Rate differentials applied to reversing of temporary differences	3	--	--
Dividends on ESOP shares	--	--	(2)
	44%	39%	38%

<CAPTION>

Deferred tax liabilities (assets) are comprised of the following (in thousands):	May 29, 1996	May 31, 1995

<S>

Depreciation	$ 5,113	$ 5,258
Gain on sale of stock by subsidiary	--	2,991
Real property transactions	1,940	2,026
Other	452	171
Gross deferred tax liabilities	7,505	10,446
State taxes	(605)	(442)
Other	(520)	(129)
Gross deferred tax assets	(1,125)	(571)
Net deferred tax liability	$ 6,380	$ 9,875

</TABLE>

Tax benefits of $15,000 in 1996 and $13,000 in 1995 resulting from employees' exercise of stock options have been credited directly to equity. At May 29, 1996, the Company has a net operating loss carryforward which can be used to offset future income. This carryforward is expected to generate a future tax benefit of $103,000.

The American Red Carpet joint venture is currently being audited by the Wisconsin Department of Revenue. While the audit has not been finalized, based on preliminary results, the Company believes it has adequately provided for any additional taxes that may result.

Note 7: Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and cash equivalents: The carrying amount reported in the balance sheet approximates fair value due to their short-term maturities.

Long-term debt: Fair value was determined by discounting future cash flows using the Company's current incremental borrowing rates for similar types of borrowing arrangements. At May 29, 1996 the fair value of long-term debt approximates the carrying amount reported in the balance sheet.

Note 8: Litigation and Contingencies

The Company is a party to legal actions arising in the ordinary course of its business. Management and the Company's legal counsel are of the opinion that none of these legal actions will have a significant effect on the Company's financial position.

Report of Independent Accountants

To the Board of Directors and Shareholders of American Recreation Centers, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income and retained earnings and of cash flows appearing on pages 6 through 13 of this report present fairly, in all material respects, the financial position of American Recreation Centers, Inc. and its subsidiaries at May 29, 1996 and May 31, 1995, and the results of their operations and their cash flows for each of the three years in the period ended May 29, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Sacramento, California
July 22, 1996

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