BON TON STORES INC

FORM 10-K
(Annual Report)

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Industry	Retail (Department & Discount)
Sector	Services
Fiscal Year	01/31

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2004 Form 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the Fiscal Year Ended January 29, 2005	**Commission File Number 0-19517**

THE BON-TON STORES, INC.

2801 East Market Street
York, Pennsylvania 17402
(717) 757-7660
www.bonton.com

Incorporated in Pennsylvania	**IRS No. 23-2835229**

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.01 par value

The Company has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

The Company is an accelerated filer (as defined in Rule 12b-2 of the Act).

Disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is contained in the Company's proxy statement incorporated by reference in Part III of this Form 10-K.

As of the last business day of the Company's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the Company was approximately $128.2 million, based upon the closing price of $13.81 per share.*

As of April 8, 2005, there were 13,666,932 shares of Common Stock, $.01 par value, and 2,951,490 shares of Class A Common Stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2005 Annual Meeting of Shareholders (the "Proxy Statement") are incorporated by reference in Part III to the extent described in Part III.

* Calculated by excluding all shares held in the treasury of the Company or that may be deemed to be beneficially owned by executive officers and directors of the Company, without conceding that all such persons are "affiliates" of the Company for purposes of the federal securities laws.

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References to a year in this Form 10-K refer to The Bon-Ton Stores, Inc. fiscal year, which is the 52 or 53 week period ending on the Saturday nearer January 31 of the following calendar year (e.g., a reference to fiscal 2004 is a reference to the fiscal year ended January 29, 2005).

PART I

Item 1. Business.

General

The Bon-Ton Stores, Inc. (the "Company") is a Pennsylvania corporation. The Company and its predecessors have been operating department stores since 1898.

As of January 29, 2005, the Company operated 139 department stores and two furniture stores in sixteen states from the Northeast to the Midwest under the names "Bon-Ton" and "Elder-Beerman." The stores carry a broad assortment of quality, brand-name fashion apparel and accessories for women, men and children, cosmetics, furnishings and other goods.

The Company's executive offices are located at 2801 East Market Street, York, Pennsylvania.

Merchandising

Our stores offer opening price point, moderate and better merchandise in apparel, home furnishings, cosmetics, accessories, shoes and other categories. Sales of apparel constituted 54.5%, 56.5% and 59.7% of net sales for fiscal 2004, 2003 and 2002, respectively. Elder-Beerman store sales from October 24, 2003 (the acquisition date) through January 31, 2004 are included in fiscal 2003, while fiscal 2002 does not include Elder-Beerman store sales. The following table illustrates net sales by product category for fiscal 2004, 2003 and 2002:

Merchandise Category	2004	2003	2002
Women's clothing	25.8%	25.4%	27.4%
Home	19.1	17.4	14.7
Men's clothing	14.2	15.8	16.0
Cosmetics	11.9	11.5	11.0
Accessories	8.7	9.0	8.8
Children's clothing	6.0	6.1	6.5
Shoes	5.8	5.6	5.8
Intimate apparel	4.7	4.9	4.9
Juniors' clothing	3.8	4.3	4.9
Total	100.0%	100.0%	100.0%

We carry a number of highly recognized brand names, including Calvin Klein, Estee Lauder, Liz Claiborne, Nautica, Nine West, Ralph Lauren, Van Heusen, Sag Harbor, OshKosh, Easy Spirit, Pfaltzgraff and Tommy Hilfiger. Within these brands, we select collections which balance fashion, price and selection.

We depend on our relationships with our key vendors to secure branded merchandise. If we lose the support of these vendors, it could have a material adverse effect on the Company.

Complementing branded merchandise, our private brand merchandise provides fashion at competitive pricing under names such as Andrea Viccaro, Jenny Buchanan, Madison & Max and Statements.bt. We view this private brand merchandise as a strategic addition to our strong array of highly recognized, quality national brands and as an opportunity to increase brand exclusiveness, customer loyalty and competitive differentiation. Private brand merchandise represented 10.5%, 10.7% and 11.1% of net sales in fiscal 2004, 2003 and 2002, respectively (sales made at Elder-Beerman stores prior to the acquisition on October 24, 2003 are excluded). Private brand merchandise sold in Elder-Beerman stores represented 7.7% and 7.8% of Elder-Beerman net sales for fiscal 2004 and 2003, respectively.

Our business, like that of most retailers, is subject to seasonal fluctuations, with the major portion of sales and income realized during the latter half of each year, which includes the back-to-school and holiday seasons.

Marketing

The Company's primary target customers are women between the ages of thirty-five and sixty-five with annual household incomes between $35,000 and $100,000. Advertising messages are focused on communicating the Company's merchandise offerings and the strong quality/ value relationship in those offerings. The Company employs advertising programs that include print and broadcast as well as creative in-store signing, displays and special promotions. Newspaper inserts are used on a regular cadence. The Company also uses television in markets where it is productive and cost efficient. The Company uses a database targeting system facilitating focused direct mail to our preferred charge customers who are most likely to respond to a merchandise offering.

Customer Credit

Our customers may pay for their purchases with Bon-Ton and Elder-Beerman proprietary credit cards; third party credit cards such as Visa, Mastercard and Discover; cash or check.

Our proprietary credit card holders generally constitute our most loyal and active customers. During fiscal 2004, the average dollar amount for proprietary credit card purchases substantially exceeded the average dollar amount for cash purchases. We believe our credit cards are a particularly productive tool for customer segmentation and target marketing.

The following table summarizes the percentage of total fiscal year sales generated by payment type (sales made at Elder-Beerman stores prior to the acquisition on October 24, 2003 are excluded):

Type of Payment	2004	2003	2002
Proprietary credit card	52%	53%	56%
Third party credit card	26	25	22
Cash or check	22	22	22
Total	100%	100%	100%

Competition

We face competition for customers from traditional department stores, mass merchandisers, specialty stores, off-price and discount stores, and, to a lesser extent, catalogue and internet retailers. Many of our competitors have substantially greater financial and other resources than the Company, and some of our competitors have greater leverage with vendors, which may allow such competitors to obtain merchandise more easily or on better terms.

We believe we compare favorably with our competitors with respect to quality, assortment of merchandise, prices for comparable quality merchandise, customer service and store environment. We also believe our knowledge of secondary markets, developed over many years of operation, gives us a competitive advantage as we focus on secondary markets as our primary area of operation.

Associates

As of January 29, 2005, we had approximately 12,600 full-time and part-time associates. We employ additional part-time associates during peak periods. None of our associates are represented by a labor union. We believe that our relationship with our associates is good.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, are available without charge on our website, www.bonton.com, as soon as reasonably practicable after they are filed electronically with the SEC.

We also make available on our website, free of charge, the following documents:

Audit Committee Charter
Compensation and Human Resources Committee Charter
Governance and Nominating Committee Charter
Code of Ethical Standards and Business Practices

Executive Officers

The executive officers of the Company, their ages (as of April 8, 2005) and their positions, are as follows:

NAME	AGE	POSITION
Tim Grumbacher	65	Executive Chairman of the Board
Byron L. Bergren	58	President and Chief Executive Officer and Director
James H. Baireuther	58	Vice Chairman, Chief Administrative Officer and Chief Financial Officer
David B. Zant	48	Vice Chairman and Chief Merchandising Officer
James M. Zamberlan	58	Executive Vice President — Stores
Dennis R. Clouser	52	Senior Vice President — Human Resources
Lynn C. Derry	49	Senior Vice President — General Merchandise Manager
John S. Farrell	59	Senior Vice President — Stores
Robert A. Geisenberger	44	Senior Vice President — Marketing and Sales Promotion
John J. Gleason	62	Senior Vice President — Credit
James A. Lance	56	Senior Vice President — Chief Information Officer
Patrick J. McIntyre	60	Senior Vice President — Business Process Development
Keith E. Plowman	47	Senior Vice President — Finance and Principal Accounting Officer
Deborah M. Rivera	42	Senior Vice President — General Merchandise Manager
Ryan J. Sattler	60	Senior Vice President — Operations, Corporate Communications and Community Services
Robert R. Sears	48	Senior Vice President — General Merchandise Manager

Mr. Bergren was named President and Chief Executive Officer in August 2004. Mr. Bergren joined the Company in November 2003 as Vice Chairman and served as President and Chief Executive Officer of The Elder-Beerman Stores Corp. from February 2002 through August 2004. He served as Chairman of the Southern Division of Belk, Inc. from 1999 to February 2002, as Partner of the Florida Division of Belk, Inc. from 1992 to 1999, and in senior executive positions at Belk Stores from 1985 to 1992.

Mr. Zant joined the Company as Vice Chairman and Chief Merchandising Officer in January 2005. From July 2002 to December 2004, he was Executive Vice President — General Merchandise Manager for Belk, Inc. From June 2001 to July 2002, he was President of Belk's Central Division. Prior to that, Mr. Zant was with the Parisian Division of Saks Incorporated, serving as Executive Vice President of Merchandising.

Mr. Zamberlan was appointed Executive Vice President — Stores in November 2004. He has served as Executive Vice President — Stores for The Elder-Beerman Stores Corp. for more than five years.

Mr. Clouser was appointed Senior Vice President — Human Resources in February 2005. He served as Vice President — Employment and Training from April 2004 to February 2005, and for more than four years prior to that time, was Senior Vice President — Human Resources at The Elder-Beerman Stores Corp.

Ms. Derry was appointed Senior Vice President — General Merchandise Manager in February 2001. For more than two years prior to that time, Ms. Derry was a Divisional Merchandise Manager for Bon-Ton.

Mr. Farrell was appointed Senior Vice President — Stores in June 2000. Prior to that time, Mr. Farrell was Vice President — Stores for Bon-Ton.

Mr. Geisenberger was appointed Senior Vice President — Marketing and Sales Promotion in May 2004. From July 2000 to May 2004, he was Senior Vice President — General Merchandise Manager. Prior to that time, Mr. Geisenberger was a Divisional Merchandise Manager for Bon-Ton.

Mr. Gleason was appointed Senior Vice President — Credit in May 2004. For more than four years prior to that time, he was Vice President — Credit.

Mr. Lance was named Senior Vice President — Chief Information Officer in November 2003. For more than five years prior to that time, he served as Senior Vice President — Information Systems at The Elder-Beerman Stores Corp.

Mr. Plowman was appointed Senior Vice President — Finance in September 2001 and, in June 2003, was named Principal Accounting Officer. From May 1999 to September 2001, he was Vice President — Controller, and prior to that time he was Divisional Vice President — Controller, of the Company.

Ms. Rivera was named Senior Vice President — General Merchandise Manager in February 2004. From March 2003 to February 2004, she was Vice President — Merchandising, and for more than five years prior to that time, Ms. Rivera was a Divisional Merchandise Manager for Bon-Ton.

Mr. Sears was named Senior Vice President — General Merchandise Manager in March 2005. From December 1999 to March 2005, he was Senior Vice President — General Merchandise Manager for the Proffitts Division of Saks Incorporated.

Messrs. Grumbacher, Baireuther, McIntyre and Sattler have been executive officers of the Company for more than five years.

Cautionary Statements Relating to Forward-Looking Information and Risk Factors

The Company has made, in this Form 10-K, forward-looking statements relating to developments, results, conditions or other events the Company expects or anticipates will occur. These statements may relate to revenues, earnings, store openings, market conditions and the competitive environment. The words "believe," "may," "will," "estimate," "intend," "expect," "anticipate" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Forward-looking statements are based on management's then-current views and assumptions and are subject to risks and uncertainties that could cause actual results to differ materially from those projected.

An investment in the Company's common stock carries certain risks. Investors should carefully consider the risks described below and other risks which may be disclosed in the Company's filings with the SEC before investing in the Company's common stock.

Risks Related to Our Business, Finances and Operations

If we are unable to achieve additional synergies related to our acquisition of The Elder-Beerman Stores Corp., our results of operations could be adversely affected.

On October 24, 2003, we acquired all of the issued and outstanding capital stock of The Elder-Beerman Stores Corp. ("Elder-Beerman"). Failure to achieve additional synergies related to the acquisition of Elder-Beerman may cause significant operating inefficiencies and could adversely affect our profitability and the price of our stock.

We may not be able to accurately predict customer-based trends, which could reduce our revenues and adversely affect our results of operations.

It is difficult to predict what merchandise consumers will want. A substantial part of our business is dependent on our ability to make correct trend decisions for a wide variety of goods and services. Failure to accurately predict constantly changing consumer tastes, preferences, spending patterns and other lifestyle decisions could adversely affect short-term results and long-term relationships with our customers.

If we are unable to effectively manage our inventory levels, our business could be adversely affected.

Our merchants focus on inventory levels and balance these levels with plans and trends. If our inventories become too large, we may have to "mark down," or decrease the sales price of, significant amounts of our inventory, which could reduce our revenues.

If we are unable to keep our expenses at an appropriate level, our results of operations could be adversely affected.

Our performance depends on appropriate management of our expense structure, including our selling, general and administrative costs. If we fail to meet our expense budget or to appropriately reduce expenses during a weak sales season, our results of operations could be adversely affected.

We incurred significant debt in connection with our acquisition of Elder-Beerman. The failure to satisfy our debt obligations could adversely affect our ability to operate our business and adversely impact our results.

As of January 29, 2005, we had total debt of $179.1 million. We will have significant debt service obligations, consisting of required cash payments of principal and interest, for the foreseeable future. Our ability to service our indebtedness will depend upon, among other things, our ability to replenish inventory, generate sales and maintain our stores. In the event we are unable to meet our debt service obligations or in the event we default in some other manner under our credit agreements, the lenders thereunder could elect to declare all borrowings outstanding, together with accrued and unpaid interest and other fees, immediately due and payable.

Our discretion in some matters is limited by restrictions contained in our credit agreements and any default on our debt agreements could harm our business, profitability and growth prospects.

Our primary credit agreement contains a number of covenants that limit the discretion of our management with respect to certain business matters. The credit facility agreement, among other things, restricts our ability to:

- incur additional indebtedness;
- declare or pay dividends or other distributions;
- create liens;
- make certain investments or acquisitions;
- enter into mergers and consolidations;
- make sales of assets; and
- engage in certain transactions with affiliates.

The occurrence of an event of default under the agreements governing our debt would permit acceleration of the related debt, which could harm our business, profitability and growth prospects.

We have grown significantly through our acquisition of Elder-Beerman, and our plans for the future assume additional growth. If we do not manage our past growth and planned future growth effectively, our results of operations may be adversely affected.

Our operating challenges and management responsibilities have increased as we have grown and will continue to increase if we grow as planned. Successful future growth will require that we continue to expand and improve our internal systems and our operations. Our business plan depends on our ability to operate new retail stores and to convert, where applicable, the formats of existing stores on a profitable basis. In addition, we will need to identify, hire and retain a sufficient number of qualified personnel to work in our new stores. These objectives have created and may continue to create additional pressure on our staff and on our operating systems. We cannot assure you that our business plan will be successful, or that we will achieve our objectives as quickly or as effectively as we hope.

Our credit card operations are an integral component of our sales and marketing efforts. The inability to continue our credit card operations or the failure to collect payments for charges made on existing credit cards could reduce our revenues and adversely affect our results of operations.

Sales of merchandise and services are facilitated by our credit card operations. These credit card operations also generate additional revenue from fees related to extending credit. Our ability to extend credit to our customers depends on many factors, including compliance with federal and state laws which may change from time to time. In addition, changes in credit card use, payment patterns and default rates may result from a variety of economic, legal, social and other factors that we cannot control or predict with certainty. Changes that adversely affect our ability to extend credit and collect payments could negatively affect our results of operations and financial condition.

An inability to find qualified domestic and international vendors and fluctuations in the exchange rate with countries in which our international vendors are located could adversely affect our business.

The products we sell are sourced from a wide variety of domestic and international vendors. Our ability to find qualified vendors and source products in a timely and cost-effective manner, including obtaining vendor allowances in support of the Company’s advertising and promotional programs, represent a significant challenge. The availability of products and the ultimate costs of buying and selling these products, including advertising and promotional costs, are not completely within our control and could increase our merchandise and operating costs and adversely affect our business. Additionally, costs and other factors specific to imported merchandise, such as trade restrictions, tariffs, currency exchange rates and transport capacity and costs are beyond our control and could restrict the availability of imported merchandise or significantly increase the costs of our merchandise sales and adversely affect our business.

Our business could be significantly disrupted if we cannot replace members of our management team.

We believe that our success depends to a significant degree upon the continued contributions of our executive officers and other key personnel, both individually and as a group. Our future performance will be substantially dependent on our ability to retain or replace such key personnel and the inability to retain or replace such personnel could prevent us from executing our business strategy.

If we are unable to effectively market our business or if our advertising campaigns are ineffective, our revenues may decline and our results of operations could be adversely affected.

We spend extensively on advertising and marketing. Our business depends on effective marketing to generate high customer traffic in our stores. If our advertising and marketing efforts are not effective, our results could be negatively affected.

If we have difficulty consummating and integrating any future acquisitions, our ability to grow or efficiently operate our business could be adversely affected.

If we are unable to successfully complete acquisitions or to effectively integrate acquired businesses, our ability to grow our business or to operate our business effectively could be reduced, and our financial condition and operating results could suffer. The consummation and integration of acquisitions involve many risks, including the risk of:

- diverting management’s attention from our ongoing business concerns;
- obtaining financing on terms unfavorable to us;
- diluting our shareholders’ equity;
- entering markets in which we have no direct prior experience;
- improperly evaluating new services, products and markets;
- being unable to maintain uniform standards, controls, procedures and policies; and
- being unable to integrate new technologies or personnel.

Our failure to effectively consummate acquisitions and integrate newly acquired businesses could have a material adverse effect on our financial condition and results of operations.

Tim Grumbacher beneficially owns shares of our capital stock giving him voting control over matters submitted to a vote of the shareholders, and his interests may differ from those of other investors.

Tim Grumbacher, trusts for the benefit of members of Mr. Grumbacher’s family and The Grumbacher Family Foundation, collectively, currently beneficially own shares of our outstanding common stock (which is entitled to one vote per share) and shares of our Class A common stock (which is entitled to ten votes per share) representing approximately 64% of the votes eligible to be cast by shareholders in the election of directors and generally. Accordingly, Mr. Grumbacher has the power to control all matters requiring the approval of our shareholders, including the election of directors and the approval of mergers and other significant corporate transactions, which may also have the effect of delaying, preventing or expediting, as the case may be, a change in control of the Company.

Risks Related to our Industry

We may not be able to attract or retain a sufficient number of customers in a highly competitive retail environment, which would have an adverse effect on our business.

We compete primarily with other department stores, many of which are units of national or regional chains that have significant financial and marketing resources. The principal competitive factors in our business are price, quality, selection of merchandise, reputation, store location, advertising and customer service. We cannot assure you that we will be able to compete successfully against existing or future competitors. Our expansion into new markets served by our competitors and the entry of new competitors into, or expansion of existing competitors in, our markets could have a material adverse effect on our business, financial condition and results of operations.

An increase in internet-based sales could adversely affect our results of operations.

We rely on in-store sales for a substantial majority of our revenues. Internet retailing is extremely competitive and could result in fewer sales and lower margins. A significant shift in customer buying patterns from in-store purchases to purchases via the Internet could have a material adverse effect on our business and results of operations.

Our operating results fluctuate from season to season.

Our stores experience seasonal fluctuations in net sales and consequently in operating income, with peak sales occurring during the back-to-school and holiday seasons. In addition, extreme or unseasonable weather can affect our sales. Any decrease in net sales or margins during our peak selling periods, decrease in the availability of working capital needed in the months before these periods or reduction in vendor allowances could have a material adverse effect on our business, financial condition and results of operations. We usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the peak selling periods. If we are not successful in selling our inventory, especially during our peak selling periods, we may be forced to rely on markdowns or promotional sales to dispose of the inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition and results of operations.

Our results of operations may be subject to significant fluctuations.

General economic factors that are beyond our control influence our forecasts and directly affect performance. These factors include interest rates, recession, inflation, deflation, consumer credit availability, consumer debt levels, tax rates and policy, unemployment trends and other matters that can adversely influence consumer confidence and spending and, in turn, our sales. Increasing volatility in financial markets may cause these factors to change with a greater degree of frequency and magnitude.

Our stock price has been and may continue to be volatile.

The market price of our common stock has been and may continue to be volatile and may be significantly affected by:

- actual or anticipated fluctuations in our operating results;
- announcements of new services by us or our competitors;

- developments with respect to conditions and trends in our industry;
- governmental regulation;
- general market conditions; and
- other factors, many of which are beyond our control.

In addition, the stock market has, recently and from time to time, experienced significant price and volume fluctuations that have adversely affected the market prices of securities of companies without regard to their operating performances.

In addition to Mr. Grumbacher's voting control, certain provisions of our charter documents and Pennsylvania law could discourage potential acquisition proposals and could deter, delay or prevent a change in control of our company that our shareholders consider favorable and could depress the market value of our common stock.

Certain provisions of our articles of incorporation and by-laws, as well as provisions of the Pennsylvania Business Corporation Law, could have the effect of deterring takeovers or delaying or preventing changes in control or management of the Company that our shareholders consider favorable and could depress the market value of our common stock.

Subchapter F of Chapter 25 of the Pennsylvania Business Corporation Law of 1988, which is applicable to us, may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders. In general, Subchapter F of Chapter 25 of the Pennsylvania Business Corporation Law delays for five years and imposes conditions upon "business combinations" between an "interested shareholder" and us, unless prior approval by our board of directors is given. The term "business combination" is defined broadly to include various merger, consolidation, division, exchange or sale transactions, including transactions using our assets for purchase price amortization or refinancing purposes. An "interested shareholder," in general, would be a beneficial owner of shares entitling that person to cast at least 20% of the votes that all shareholders would be entitled to cast in an election of directors.

Weather conditions could adversely affect our results of operations.

Because a significant portion of our business is apparel and subject to weather conditions in our markets, our operating results may be unexpectedly and adversely affected by inclement weather. Frequent or unusually heavy snow, ice or rain storms or extended periods of unseasonable temperatures in our markets could adversely affect our performance.

Labor conditions could adversely affect our results of operations.

Our performance is dependent on attracting and retaining a large and growing number of quality associates. Many of those associates are in entry level or part time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation and changing demographics. Changes that adversely impact our ability to attract and retain quality associates could adversely affect our performance.

Regulatory and litigation developments could adversely affect our results of operations.

Various aspects of our operations are subject to federal, state or local laws, rules and regulations, any of which may change from time to time. Additionally, we are regularly involved in various litigation matters that arise in the ordinary course of business. Litigation or regulatory developments could adversely affect our business operations and financial performance.

Other factors could adversely affect our results of operations and our ability to grow.

Other factors that could cause actual results to differ materially from those predicted and that may adversely affect our ability to grow include: changes in the availability or cost of capital, the availability of suitable new store locations on acceptable terms, shifts in seasonality of shopping patterns, work interruptions, the effect of excess retail capacity in our markets and material acquisitions or dispositions.

The Company does not undertake to revise any forward-looking statement to reflect events or circumstances that occur after the date the statement is made.

Item 2. Properties.

The properties of the Company consist primarily of stores and related facilities, including distribution centers. The Company also leases other properties, including corporate office space in York, Pennsylvania. As of January 29, 2005, the Company operated 141 stores in sixteen states in the Northeast and Midwest, comprising a total of approximately 11,900,000 square feet. Of such stores, ten were owned, 129 were leased and two stores were operated under arrangements where the Company owned the building and leased the land. Pursuant to various leases or shopping center agreements, the Company is obligated to operate certain stores for periods of up to twenty years. Some of these agreements require that the stores be operated under a particular name. Most leases require the Company pay real estate taxes, maintenance and other costs; some also require additional payments based on percentages of sales. Certain of the Company's real estate leases have terms that extend for a significant number of years and provide for rental rates that increase or decrease over time.

Item 3. Legal Proceedings.

We are a party to legal proceedings and claims which arise during the ordinary course of business. We do not expect the ultimate outcome of any of such litigation and claims will have a material adverse effect on our financial position, results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the Nasdaq Stock Market (symbol: BONT). There is no established public trading market for the Class A common stock. The Class A common stock is convertible on a share-for-share basis into common stock at the option of the holder. The following table sets forth the high and low sales price of the common stock for the periods indicated as furnished by Nasdaq:

	2004		2003	
	High	Low	High	Low
1st Quarter	$ 17.95	$ 10.57	$ 4.35	$ 3.58
2nd Quarter	16.93	9.62	6.50	3.76
3rd Quarter	14.19	10.62	14.59	5.38
4th Quarter	16.48	11.12	14.44	10.25

On April 8, 2005, there were approximately 229 shareholders of record of common stock and five shareholders of record of Class A common stock.

The Company paid quarterly cash dividends, each at $0.025 per share, on Class A common stock and common stock on July 15, 2003; October 15, 2003; January 15, 2004; April 15, 2004; July 15, 2004; October 15, 2004 and January 15, 2005. Pursuant to the Company's revolving credit facility agreement, dividends paid by the Company may not exceed $7.5 million over the life of the agreement, which expires October 2007, or $4.0 million in any single year. The Company's Board of Directors will consider dividends in subsequent periods as it deems appropriate.

Item 6. Selected Financial Data.

Fiscal Year, Ended	2004 Jan. 29, 2005		2003 Jan. 31, 2004(1)		2002 Feb. 1, 2003		2001 Feb. 2, 2002		2000 Feb. 3, 2001	
	(In thousands except share, per share and store data)									
Statement of Operations Data(2)(7):		%		%		%		%		%
Net sales	$ 1,310,372	100.0	$ 926,409	100.0	$ 713,230	100.0	$ 721,777	100.0	$ 749,816	100.0
Other income	9,251	0.7	5,917	0.6	3,805	0.5	3,621	0.5	3,804	0.5
Gross profit	479,958	36.6	335,153	36.2	261,158	36.6	260,797	36.1	274,697	36.6
Selling, general and administrative expenses	415,921	31.7	273,426	29.5	217,375	30.5	221,822	30.7	229,904	30.7
Depreciation and amortization	27,809	2.1	25,634	2.8	22,783	3.2	21,373	3.0	18,263	2.4
Unusual expense(3)	—	—	—	—	—	—	916	0.1	6,485	0.9
Income from operations	45,479	3.5	42,010	4.5	24,805	3.5	20,307	2.8	23,849	3.2
Interest expense, net	13,437	1.0	9,049	1.0	9,436	1.3	10,265	1.4	11,679	1.6
Income before taxes	32,042	2.4	32,961	3.6	15,369	2.2	10,042	1.4	12,170	1.6
Income tax provision	11,880	0.9	12,360	1.3	5,764	0.8	3,816	0.5	4,622	0.6
Net income	$ 20,162	1.5	$ 20,601	2.2	$ 9,605	1.3	$ 6,226	0.9	$ 7,548	1.0
Per Share Amounts										
Basic:										
Net income	$ 1.27		$ 1.36		$ 0.63		$ 0.41		$ 0.50	
Weighted average shares outstanding	15,918,650		15,161,406		15,192,471		15,200,154		14,952,985	
Diluted:										
Net income	$ 1.24		$ 1.33		$ 0.62		$ 0.41		$ 0.50	
Weighted average shares outstanding	16,253,254		15,508,560		15,394,231		15,214,145		14,952,985	
Cash dividends declared per share	$ 0.100		$ 0.075		$ —		$ —		$ —	
Balance Sheet Data (at end of period):										
Working capital	$ 251,122		$ 221,497		$ 127,618		$ 115,623		$ 140,794	
Total assets	648,402		629,900		400,817		405,921		424,497	
Long-term debt, including capital leases	178,355		171,716		64,662		67,929		98,758	
Shareholders' equity	262,557		239,484		212,346		203,261		198,862	
Selected Operating Data:										
Total sales change	41.4%		29.9%		(1.2)%		(3.7)%		5.5%	
Comparable stores sales change(4)(5)	0.9%		(2.0)%		(1.2)%		(3.3)%		0.7%	
Comparable stores data (4)(5):										
Sales per selling square foot	$ 135		$ 132		$ 133		$ 134		$ 143	
Selling square footage	5,155,000		5,278,000		5,382,000		5,339,000		4,792,000	
Capital expenditures	$ 31,523		$ 20,257		$ 14,806		$ 15,550		$ 34,351	
Number of stores:										
Beginning of year	142		72		73		73		72	
Additions(6)	—		70		—		—		1	
Closings	(1)		—		(1)		—		—	
End of year	141		142		72		73		73	

(1) Fiscal 2003 includes operations of The Elder-Beerman Stores Corp. for the period from October 24, 2003 through January 31, 2004.

(2) Fiscal 2000 reflects the 53 weeks ended February 3, 2001. All other periods presented include 52 weeks.

(3) Reflects expense recognized for workforce reductions and realignment and elimination of certain senior management positions in fiscal 2001; and expense recognized for workforce reductions, the early retirement of Heywood Wilansky and realignment and elimination of certain senior management positions in fiscal 2000.

(4) Fiscal 2000 reflects the 52 weeks ended January 27, 2001.

(5) Comparable stores data (sales per selling square foot and selling square footage) reflects stores open for the entire current and prior fiscal year. Comparable stores data does not include stores of The Elder-Beerman Stores Corp.

(6) Includes the addition of 69 stores pursuant to the acquisition of The Elder-Beerman Stores Corp. during fiscal 2003.

(7) Certain prior year balances have been reclassified to conform to the current year presentation. These reclassifications did not impact the Company's net income for any of the years presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For purposes of the following discussions, all references to "fiscal 2004," "fiscal 2003" and "fiscal 2002" are to the fifty-two weeks ending January 29, 2005, January 31, 2004 and February 1, 2003, respectively.

Overview

The Company is a traditional department store retailer with a 107-year history of providing quality merchandise to its customers in secondary markets. In October 2003, the Company acquired Elder-Beerman, nearly doubling its number of stores and adding 5.7 million square feet of retail space. The Company currently operates 139 department stores and two furniture stores in sixteen states, from the Northeast to the Midwest, under the Bon-Ton and Elder-Beerman names. The stores carry a broad assortment of quality brand-name and private label fashion apparel and accessories for women, men and children, as well as distinctive cosmetics and home furnishings. The Company's strategy is to profitably sell merchandise by providing its customers with differentiated fashion merchandise at compelling value in the markets the Company serves.

The Company's revenues are generated through sales in existing stores and new stores opened through expansion and acquisition. During fiscal 2004, the Company's total sales increased 41.4% to $1,310.4 million, including $607.0 million from the acquired Elder-Beerman stores, compared to $926.4 million in fiscal 2003. Fiscal 2003 included sales of $229.9 million from the Elder-Beerman stores. Comparable store sales for fiscal 2004, which do not include Elder-Beerman stores, increased 0.9% from fiscal 2003.

The retail industry is highly competitive, as evidenced by the Company's marginal performance in comparable store sales over the past several years. The Company anticipates these competitive pressures and challenges will continue. As a result, the Company plans to continue its highly promotional posture and emphasis on offering a wide range of value. Additionally, expansion of the Company's private labels and growth of exclusive brands support its strategy of product differentiation and provide the opportunity for increased sales at a higher gross margin.

In light of continued economic uncertainty, the Company is focusing its efforts on asset and overhead cost management to improve its financial position. The Company is focused on improving its return on inventory investment. Additionally, through the continuing comprehensive review of store and corporate operating expenses, the Company looks for meaningful ways to improve its ratio of expenses to sales. Execution of these initiatives is necessary to achieve earnings growth in light of the minimal comparable store sales growth.

In October 2003, the Company added sixty-seven department stores and two furniture stores as a result of its acquisition of Elder-Beerman. The Company's consolidated balance sheet and consolidated statement of income for fiscal 2003 include Elder-Beerman operations for the period from October 24, 2003 through January 31, 2004. The Company believes that its fiscal 2003 operating results are not comparable to results for fiscal 2004 due to the timing of the Elder-Beerman acquisition. Specifically, the Company included Elder-Beerman's most profitable quarter in the Company's fiscal 2003 operating results without having to recognize the first three quarters of the year, which traditionally reflect a net loss.

During fiscal 2004, the Company successfully merged the merchandising, credit and store operations of the combined companies. Decreased sales volume at Elder-Beerman and a highly promotional retail environment were addressed with the finalization of the Company's vendor matrix, product assortment and inventory levels, supported by strong Company-wide marketing efforts. Results for fiscal 2004 were positively impacted by synergies realized, which exceeded the integration expenses incurred during the period; achieving additional synergies in 2005 will be critical to the Company's success. Of equal importance was completing the Company's systems integration efforts; the majority of the Company's capital expenditures in fiscal 2004 were directed towards strategic systems improvements.

As a result of the acquisition, the Company has increased its debt levels and, accordingly, its exposure to interest rate fluctuations.

In 2004 the Company closed its Pottstown, Pennsylvania store. The pre-tax cost of closing this location was $1.8 million. The Company previously identified this store as under-performing and, in fiscal 2002, recorded an impairment charge related to long-lived assets at this location.

In a February 2005 letter to the American Institute of Certified Public Accountants, the Securities and Exchange Commission (the "SEC") clarified its position regarding certain lease accounting practices. The SEC's letter specifically addressed the depreciable life of leasehold improvements, rent holidays and landlord-tenant incentives. Similar to other retailers, the Company reviewed its historical treatment of these lease issues. After assessing its findings using the guidelines in SEC Staff Accounting Bulletin No. 99, the Company recorded a cumulative pre-tax expense of $0.5 million in the fourth quarter of fiscal 2004 and concluded that restatement of the Company's financial statements for prior years would not be required.

Results of Operations

The following table summarizes changes in selected operating indicators, illustrating the relationship of various income and expense items to net sales for each fiscal year presented (components may not add or subtract to totals due to rounding):

	Percent of Net Sales Fiscal Year		
	2004	2003	2002
Net sales	100.0%	100.0%	100.0%
Other income	0.7	0.6	0.5
	100.7	100.6	100.5
Costs and expenses:			
Costs of merchandise sold	63.4	63.8	63.4
Selling, general and administrative	31.7	29.5	30.5
Depreciation and amortization	2.1	2.8	3.2
Income from operations	3.5	4.5	3.5
Interest expense, net	1.0	1.0	1.3
Income before income taxes	2.4	3.6	2.2
Income tax provision	0.9	1.3	0.8
Net income	1.5%	2.2%	1.3%

Fiscal 2004 Compared to Fiscal 2003

Net sales: Net sales were $1,310.4 million for fiscal 2004, an increase of $384.0 million, or 41.4%, compared to fiscal 2003. Net sales include $607.0 million and $229.9 million from Elder-Beerman operations for fiscal 2004 and for the period from October 24, 2003 through January 31, 2004, respectively. Comparable store sales, which exclude the impact of Elder-Beerman, increased 0.9% in fiscal 2004. Merchandise departments recording comparable store sales increases were Home, Misses Sportswear (included in Women's Clothing), Shoes, Accessories, and Cosmetics. Home sales significantly increased due to the opening of five furniture galleries in fiscal 2004 and adopting Elder-Beerman's practice of item intensification. Increased sales in Misses Sportswear reflect a positive customer response to improved fashion offerings. Shoe sales increased as customers responded favorably to an open-selling layout in the stores, which was initiated in fiscal 2003 and finalized in fiscal 2004. The Accessories sales increase was driven by growth in the Company's private label costume jewelry and cold weather fashion items. Cosmetics benefited from the new product launch of the anti-aging cream Strivectin. Merchandise categories reflecting the sharpest declines were Juniors', Children's, Men's, and Dresses, Petites and Coats (included in Women's Clothing). These merchandise departments, with the exception of Petites and Coats, have experienced an overall sales decline in each of the last three years. The Company is addressing this trend by focusing on increased product differentiation and improved merchandise assortments in these areas.

Elder-Beerman sales were not included in comparable store sales. For informational purposes only, Elder-Beerman comparable store sales for the fifty-two weeks ended January 31, 2004 decreased 2.4%. On a combined basis, Bon-Ton and Elder-Beerman comparable store sales for fiscal 2004 decreased 0.6%.

Other income: Other income, which contains net income from leased departments and other customer revenues, increased $3.3 million in fiscal 2004 over fiscal 2003 primarily due to the impact of Elder-Beerman leased departments and expanded furniture operations.

Costs and expenses: Gross margin dollars for fiscal 2004 increased $144.8 million, or 43.2%, over fiscal 2003, primarily due to the addition of Elder-Beerman operations. Gross margin as a percentage of net sales was 36.6% in fiscal 2004, an increase of 0.4 percentage point from 36.2% in fiscal 2003. The increase in gross margin rate reflects an increased markup rate.

Selling, general and administrative expenses for fiscal 2004 were $415.9 million, or 31.7% of net sales, compared to $273.4 million, or 29.5% of net sales, in fiscal 2003. This increase was largely due to an additional $118.7 million from Elder-Beerman operations. Additional increases in integration expenses, advertising expenses, accounts receivable facility expenses, store closing expenses and a prior year gain on the sale of the Harrisburg distribution center were partially offset by a decrease in store payroll expenses and an increase in securitization income.

Depreciation and amortization increased $2.2 million, to $27.8 million, in fiscal 2004 from $25.6 million in fiscal 2003. The increase principally reflects the impact of Elder-Beerman depreciation and amortization of $3.7 million, asset impairment charges on long-lived assets of certain stores of $0.9 million and a $0.5 million cumulative charge pursuant to a review of the Company's historical lease accounting. In fiscal 2003 the Company recorded a charge of $2.4 million for the write-off of duplicate information systems software due to the acquisition of Elder-Beerman. Additionally, the Company recognized approximately $0.8 million of impairment charges on the long-lived assets of certain stores during fiscal 2003.

Income from operations: Income from operations in fiscal 2004 was $45.5 million, or 3.5% of net sales, compared to $42.0 million, or 4.5% of net sales, in fiscal 2003. The decrease in rate is principally attributable to the timing of the Elder-Beerman acquisition, which resulted in the inclusion of only its most profitable quarter in fiscal 2003.

Interest expense, net: Net interest expense in fiscal 2004 increased $4.4 million to $13.4 million, or 1.0% of net sales, from $9.0 million, or 1.0% of net sales, in fiscal 2003. The increase in net interest expense was primarily due to increased borrowings and financing fees on the revolving credit agreement to finance the Elder-Beerman acquisition.

Income taxes: The effective tax rate for fiscal 2004 was 37.1% compared to 37.5% for fiscal 2003.

Net income: Net income in fiscal 2004 was $20.2 million, or 1.5% of net sales, compared to $20.6 million, or 2.2% of net sales, in fiscal 2003.

Fiscal 2003 Compared to Fiscal 2002

Net sales: Net sales were $926.4 million for fiscal 2003, an increase of $213.2 million, or 29.9%, compared to fiscal 2002. Net sales include $229.9 million from Elder-Beerman operations for the period from October 24, 2003 through January 31, 2004. Comparable store sales, which exclude the impact of Elder-Beerman, decreased 2.0% in fiscal 2003. The decrease in the Company’s comparable store sales coincided with a general economic decline and deteriorating consumer confidence. Merchandise departments recording comparable store sales increases were Shoes, Intimate Apparel and Accessories. The favorable results in these departments were driven by fresh inventories, intensification of key vendors and compelling values. Additionally, the customer responded favorably to open-selling in the Company’s Shoe departments. Merchandise departments reflecting the sharpest comparable store sales declines were Dresses and Special Sizes (included in Women’s Clothing), Men’s Sportswear (included in Men’s Clothing) and Children’s.

Elder-Beerman sales were not included in comparable store sales. For informational purposes only, Elder-Beerman comparable store sales for the fifty-two weeks ended January 31, 2004 decreased 2.5%. On a combined basis, Bon-Ton and Elder-Beerman comparable store sales for fiscal 2003 decreased 2.2%.

Other income: Other income, which contains net income from leased departments and other customer revenues, increased $2.1 million in fiscal 2003 over fiscal 2002 primarily due to the impact of Elder-Beerman leased departments and larger furniture operations.

Costs and expenses: Gross margin dollars for fiscal 2003 increased $74.0 million, or 28.3% over fiscal 2002, primarily due to the impact of Elder-Beerman operations. Gross margin as a percentage of net sales was 36.2% in fiscal 2003, a decrease of 0.4 percentage point from 36.6% in fiscal 2002. The decrease in gross margin rate reflects the inclusion of Elder-Beerman sales at lower gross margin, offset in part by increased vendor support, reduced seasonal carry-over merchandise and increased markup rate for comparable store sales.

Selling, general and administrative expenses for fiscal 2003 were $273.4 million, or 29.5% of net sales, compared to $217.4 million, or 30.5% of net sales, in fiscal 2002. This increase was largely due to the additional $56.2 million from Elder-Beerman operations, while the rate was positively impacted by the inclusion of Elder-Beerman net sales. Increases in advertising expense, rent expense, distribution expense, store pre-opening expense and financing fees were offset by a decrease in store payroll, a gain on the sale of the Harrisburg distribution center and reduced bad debt expense.

Depreciation and amortization increased $2.9 million, to $25.6 million, in fiscal 2003 from $22.8 million in fiscal 2002. The increase principally reflects the impact of Elder-Beerman depreciation and amortization of $2.0 million, asset impairment losses on long-lived assets of certain stores of $0.8 million, and a charge of $2.4 million for the write-off of duplicate information systems software due to the acquisition of Elder-Beerman. In fiscal 2002, the Company recognized approximately $2.0 million of impairment losses on the long-lived assets of certain stores.

Income from operations: Income from operations in fiscal 2003 was $42.0 million, or 4.5% of net sales, compared to $24.8 million, or 3.5% of net sales, in fiscal 2002. The increase in income from operations is principally attributable to the timing of the Elder-Beerman acquisition, which resulted in the inclusion of only its most profitable quarter.

Interest expense, net: Net interest expense in fiscal 2003 decreased $0.4 million to $9.0 million, or 1.0% of net sales, from $9.4 million, or 1.3% of net sales, in fiscal 2002. The decrease in net interest expense was primarily due to fair market value adjustments on interest rate swap agreements. Interest expense in fiscal 2003 and 2002 included a reduction of interest expense of $1.7 million and an increase in interest expense of $1.4 million, respectively, related to fair market value adjustments on interest rate swaps. This decrease in interest expense was largely offset by increased interest expense and financing fees expense on borrowings incurred to finance the Elder-Beerman acquisition.

Income taxes: The effective tax rate remained constant at 37.5% in fiscal 2003 and fiscal 2002.

Net income: Net income in fiscal 2003 was $20.6 million, or 2.2% of net sales, compared to $9.6 million, or 1.3% of net sales, in fiscal 2002.

Liquidity and Capital Resources

The following table summarizes material measures of the Company's liquidity and capital resources:

(Dollars in millions)	January 29, 2005	January 31, 2004	February 1, 2003
Working capital	$ 251.1	$ 221.5	$ 127.6
Current ratio	2.38:1	2.20:1	2.27:1
Debt to total capitalization (debt plus equity)	0.41:1	0.42:1	0.23:1
Unused availability under lines of credit (subject to the minimum borrowing availability covenant of $10)	$ 64.3	$ 50.7	$ 43.1

The Company's primary sources of working capital are cash flows from operations, borrowings under its revolving credit facility and proceeds from its accounts receivable facility. The Company's business follows a seasonal pattern and working capital fluctuates with seasonal variations, reaching its highest level in October or November. Fiscal years ended January 29, 2005 and January 31, 2004 include Elder-Beerman operations. Increases in working capital and the current ratio for fiscal 2004, as compared to fiscal 2003, principally reflect an increase in merchandise inventories. The increase in working capital for fiscal 2003 as compared to fiscal 2002 was principally due to the acquisition of Elder-Beerman working capital, which was funded with long-term debt. The debt to total capitalization ratio increased in fiscal 2003 over fiscal 2002 due to the additional long-term debt assumed to fund the Elder-Beerman acquisition in October 2003.

Net cash provided by operating activities amounted to $28.9 million in fiscal 2004, $155.9 million in fiscal 2003 and $28.4 million in fiscal 2002. The decrease in net cash provided by operating activities in fiscal 2004 compared to fiscal 2003 primarily reflects increases in inventories in fiscal 2004 and the timing of the acquisition of Elder-Beerman in fiscal 2003. Fiscal 2003 cash flows reflect the net cash used in operating activities for only a partial year of the acquired Elder-Beerman operations and the sale of Elder-Beerman accounts receivable.

Net cash used in investing activities amounted to $31.4 million, $116.6 million and $14.8 million in fiscal 2004, 2003 and 2002, respectively. Capital expenditures in fiscal 2004 were $11.3 million higher than in fiscal 2003 due to integrating the point-of-sale system, other information system enhancements and a full year of Elder-Beerman operations. Fiscal 2003 includes

$97.6 million used for the acquisition of Elder-Beerman and receipt of $1.3 million from the sale of the Harrisburg distribution center.

Net cash provided by financing activities amounted to $7.9 million in fiscal 2004 versus net cash used of $36.3 million and $6.6 million in fiscal 2003 and 2002, respectively. The fiscal 2004 increase in net cash provided by financing activities principally reflects additional borrowings to fund working capital increases, partially offset by lower finance fees paid. Fiscal 2003 includes finance fees paid in connection with the acquisition of Elder-Beerman.

In October 2003, the Company amended and restated its revolving credit facility agreement (the “credit agreement”). The credit agreement provides a revolving line of credit of $300.0 million and a term loan in the amount of $25.0 million. The Company reduced the term loan to $19.0 million in June 2004. The current credit agreement expires in October 2007. The revolving credit line interest rate, based on LIBOR or an index rate plus an applicable margin, and fee charges are determined by a formula based upon the Company’s borrowing availability. Under the credit agreement, the Company incurs fees at a rate of 0.375 percentage point on unused lines of credit. The term loan interest rate is based on LIBOR plus an applicable margin. Financial covenants contained in the credit agreement include the following: A limitation on fiscal 2005 capital expenditures of $53.5 million, minimum borrowing availability of $10.0 million and a fixed charge coverage ratio of 1.0-to-1. The fixed charge coverage ratio is defined as earnings before interest, taxes, depreciation and amortization divided by interest expense, capital expenditures, tax payments and scheduled debt payments — measured at fiscal quarter-end based on the immediately preceding four fiscal quarters. Total borrowings under the credit agreement were $160.4 million and $152.0 million at January 29, 2005 and January 31, 2004, respectively.

In January 2004, the Company entered into a new off-balance-sheet accounts receivable facility. This agreement has a funding limit of $250.0 million and was scheduled to expire in October 2004. During October 2004, this agreement was amended to extend the expiration date from October 2004 to October 2005. Availability under the accounts receivable facility is calculated based on the dollar balance and performance of the Company’s proprietary credit card portfolio. At January 29, 2005 and January 31, 2004, accounts receivable totaling $244.0 million and $228.5 million, respectively, were sold under the accounts receivable facility.

Aside from planned capital expenditures, the Company’s primary cash requirements will be to service debt and finance working capital increases during peak selling seasons.

The Company is exposed to market risk associated with changes in interest rates. To provide some protection against potential rate increases associated with its variable-rate facilities, the Company has entered into a derivative financial transaction in the form of an interest rate swap. This interest rate swap, used to hedge a portion of the underlying variable-rate facilities, matures in February 2006.

The accounts receivable facility and credit agreement expire in October 2005 and October 2007, respectively. The Company anticipates that it will be able to renew or replace these agreements with agreements on substantially comparable terms. Failure to renew or replace these agreements on substantially comparable terms would have a material adverse effect on the Company’s financial condition.

The Company paid a quarterly cash dividend of $0.025 per share on shares of Class A common stock and common stock to shareholders on each of July 15, 2003; October 15, 2003; January 15, 2004; April 15, 2004; July 15, 2004; October 15, 2004 and January 15, 2005 to shareholders of record as of July 1, 2003; October 1, 2003; January 1, 2004; April 1, 2004; July 1, 2004; October 1, 2004 and January 1, 2005, respectively. Additionally, the Company declared a quarterly cash dividend of $0.025 per share, payable April 15, 2005 to shareholders of record as of April 1, 2005. The Company’s Board of Directors will consider dividends in subsequent periods as it deems appropriate.

Capital expenditures for fiscal 2004 totaled $31.5 million. Of this amount, approximately $18.5 million was spent for the integration of the Elder-Beerman point-of-sale system into Bon-Ton stores and information system enhancements.

Capital expenditures for fiscal 2005 are planned at a range of $28.0 million to $32.0 million. The Company anticipates increasing store selling space in fiscal 2005 by expanding existing store locations.

The Company anticipates its cash flows from operations, supplemented by borrowings under its credit agreement and proceeds from its accounts receivable facility, will be sufficient to satisfy its operating cash requirements for at least the next twelve months.

Cash flows from operations are impacted by consumer confidence, weather in the geographic markets served by the Company, and economic and competitive conditions existing in the retail industry. A downturn in any single factor or a combination of factors could have a material adverse impact upon the Company's ability to generate sufficient cash flows to operate its business.

The Company has not identified any probable circumstances that would likely impair its ability to meet its cash requirements or trigger a default or acceleration of payment of the Company's debt.

Contractual Obligations and Commitments

The following tables reflect the Company's contractual obligations and commitments:

Contractual Obligations

		Payment due by period			
(Dollars in thousands)	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Debt principal	$179,126	$ 869	$ 162,376	$ 2,481	$ 13,400
Capital leases	1,116	1,013	103	—	—
Building maintenance	3,730	2,487	1,243	—	—
Operating leases	389,402	47,025	84,599	73,507	184,271
Totals	$573,374	$ 51,394	$ 248,321	$ 75,988	$ 197,671

Debt within the "2-3 Years" category includes $160.4 million of amounts currently outstanding under the revolving credit agreement, which expires in 2007.

In addition, the Company expects to make cash contributions to its supplementary pension plans in the amount of $0.2 million, $0.3 million, $0.3 million, $0.3 million and $0.3 million for fiscal 2005, 2006, 2007, 2008 and 2009, respectively, and $1.7 million in the aggregate for the five fiscal years thereafter. Note 13 in the Notes to Consolidated Financial Statements provides a more complete description of the Company's supplementary pension plans.

Commitments

	Amount of expiration per period				
(Dollars in thousands)	Total	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Import merchandise letters of credit	$ 9,692	$ 9,692	$ —	$ —	$ —
Standby letters of credit	2,897	2,897	—	—	—
Surety bonds	2,917	2,917	—	—	—
Totals	$ 15,506	$ 15,506	$ —	$ —	$ —

Import letters of credit are primarily issued to support the importing of merchandise, which includes the Company's private brand goods. Standby letters of credit are primarily issued as collateral for obligations related to general liability and workers' compensation insurance. Surety bonds are primarily for previously incurred and expensed obligations related to workers' compensation.

In the ordinary course of business, the Company enters into arrangements with vendors to purchase merchandise up to twelve months in advance of expected delivery. These purchase orders do not contain any significant termination payments or other penalties if cancelled.

Off-Balance Sheet Arrangements

The Company engages in securitization activities involving the Company's proprietary credit card portfolio as a source of funding. Off-balance sheet proprietary credit card securitizations provide a significant portion of the Company's funding and are one of its primary sources of liquidity. At January 29, 2005, off-balance sheet securitized receivables represented 57.7% of the Company's funding. Gains and losses from securitizations are recognized in the Consolidated Statements of Income when the Company relinquishes control of the transferred financial assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a Replacement of FASB Statement No. 125" ("SFAS No. 140"), and other related pronouncements. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale. Based on the term of the securitization agreement (less than one year) and the fact that the credit card receivables that comprise the retained interests are short-term in nature, the Company has classified its retained interests as a current asset.

The Company sells undivided percentage ownership interests in certain of its credit card accounts receivable to unrelated third-parties under a $250.0 million accounts receivable facility, which is described in further detail below and in Note 8 of the Notes to Consolidated Financial Statements. The unrelated third-parties, referred to as the conduit, have purchased a $244.0 million interest in the accounts receivable under this facility at January 29, 2005. The Company is responsible for servicing these accounts, retains a servicing fee and bears the risk of non-collection (limited to its retained interests in the accounts receivable). Associated off-balance-sheet assets and related debt were $244.0 million at January 29, 2005 and $228.5 million at January 31, 2004. Upon the facility's termination, the conduit would be entitled to all cash collections on the accounts receivable until its investment ($244.0 million at January 29, 2005) and accrued discounts are repaid. Accordingly, upon termination of the facility, the assets of the facility would not be available to the Company until all amounts due to the conduit have been paid in full.

Based upon the terms of the accounts receivable facility, the accounts receivable transactions qualify for "sale treatment" under generally accepted accounting principles. This treatment requires the Company to account for transactions with the conduit as a sale of accounts receivable instead of reflecting the conduit's net investment as debt with a pledge of accounts receivable as collateral. Absent this "sale treatment," the Company's balance sheet would reflect additional accounts receivable and debt, which could be a factor in the Company's ability to raise capital; however, results of operations would not be significantly impacted. See Note 8 in the Notes to Consolidated Financial Statements.

Critical Accounting Policies

The Company's discussion and analysis of financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles. Preparation of these financial statements requires the Company to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of its financial statements. On an ongoing basis, the Company evaluates its estimates, including those related to merchandise returns, bad debts, inventories, intangible assets, income taxes, financings, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially lead to materially different results under different assumptions and conditions. The Company believes its critical accounting policies are described below. For a discussion of the application of these and other accounting policies, see Notes to Consolidated Financial Statements.

Allowance for Doubtful Accounts

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit-worthiness. The Company continually monitors collections and payments from customers and maintains an allowance for estimated credit losses based upon its historical experience, how delinquent accounts ultimately charge-off, aging of accounts and any specific customer collection issues identified (e.g., bankruptcy). While such credit losses have historically been within expectations and provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates as in the past. If circumstances change (e.g., higher than expected defaults or bankruptcies), the Company's estimates of the recoverability of amounts due the Company could be materially reduced. The allowance for doubtful accounts and sales returns was $6.4 million and $6.3 million at January 29, 2005 and January 31, 2004, respectively.

Inventory Valuation

As discussed in Note 1 of the Notes to Consolidated Financial Statements, inventories are stated at the lower of cost or market with cost determined by the retail inventory method using a last-in, first-out ("LIFO") cost basis. Under the retail inventory method, the valuation of inventories at cost and resulting gross margin is derived by applying a calculated cost-to-retail ratio to the retail value of inventories. The retail inventory method is an averaging method that has been widely used in the retail industry. Use of the retail inventory method will result in valuing inventories at the lower of cost or market if markdowns are taken timely as a reduction of the retail value of inventories.

Inherent in the retail inventory method calculation are certain significant management judgments and estimates including, among others, merchandise markups, markdowns and shrinkage, which significantly impact both the ending inventory valuation at cost and resulting gross margin. These significant estimates, coupled with the fact that the retail inventory method is an averaging process, can, under certain circumstances, result in individual inventory components with cost above related net realizable value. Factors that can lead to this result include applying the retail inventory method to a group of products that is not fairly uniform in terms of its cost, selling price relationship and turnover; or applying the retail inventory method to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise. In addition, failure to take timely markdowns can result in an overstatement of cost under the lower of cost or market principle. Management believes that the Company's retail inventory method provides an inventory valuation that approximates cost and results in carrying inventory in the aggregate at the lower of cost or market.

The Company regularly reviews inventory quantities on-hand and records an adjustment for excess or old inventory based primarily on an estimated forecast of merchandise demand for the selling season. Demand for merchandise can fluctuate greatly. A significant increase in the demand for merchandise could result in a short-term increase in the cost of inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. Additionally, estimates of future merchandise demand may prove to be inaccurate, in which case the Company may have understated or overstated the adjustment required for excess or old inventory. If the Company's inventory is determined to be overvalued in the future, the Company would be required to recognize such costs in costs of goods sold and reduce operating income at the time of such determination. Likewise, if inventory is later determined to be undervalued, the Company may have overstated the costs of goods sold in previous periods and would recognize additional operating income when such inventory is sold. Therefore, although every effort is made to ensure the accuracy of forecasts of future merchandise demand, any significant unanticipated changes in demand or in economic conditions within the Company's markets could have a significant impact on the value of the Company's inventory and reported operating results.

As is currently the case with many companies in the retail industry, the Company's LIFO calculations have yielded inventory increases in recent years due to deflation reflected in price indices used. This is the result of the LIFO method whereby merchandise sold is valued at the cost of more recent inventory purchases (which the deflationary indices indicate to be lower), resulting in the general inventory on-hand being carried at the older, higher costs. Given these higher values and the promotional retail environment, the Company reduced the carrying value of its LIFO inventories to a net realizable value ("NRV"). These reductions totaled \$20.2 million and \$16.1 million at January 29, 2005 and January 31, 2004, respectively. Inherent in these NRV assessments are significant management judgments and estimates regarding future merchandise selling costs and pricing. Should these estimates prove to be inaccurate, the Company may have overstated or understated its inventory carrying value. In such cases, the Company's operating results would ultimately be impacted.

Vendor Allowances

As is standard industry practice, the Company receives allowances from merchandise vendors as reimbursement for charges incurred on marked-down merchandise. Vendor allowances are generally credited to costs of goods sold, provided the allowance is: (1) collectable, (2) for merchandise either permanently marked down or sold, (3) not predicated on a future purchase, (4) not predicated on a future increase in the purchase price from the vendor, and (5) authorized by internal management. If the aforementioned criteria are not met, the Company reflects the allowances as an adjustment to the cost of merchandise capitalized in inventory.

Additionally, the Company receives allowances from vendors in connection with cooperative advertising programs. The Company reviews advertising allowances received from each vendor to ensure reimbursements are for specific, incremental and identifiable advertising costs incurred by the Company to sell the vendor's products. If a vendor reimbursement exceeds the costs incurred by the Company, the excess reimbursement is recorded as a reduction of cost purchases from the vendor and reflected as a reduction of costs of merchandise sold when the related merchandise is sold. All other amounts are recognized by the Company as a reduction of the related advertising costs that have been incurred and reflected in selling, general and administrative expenses.

Income Taxes

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, and the valuation allowance recorded against net deferred tax assets. The process involves the Company summarizing temporary differences resulting from differing treatment of items (e.g., allowance for doubtful accounts) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. The Company must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent the Company does not believe recovery of the deferred tax asset is more-likely-than-not, a valuation allowance must be established. To the extent the Company establishes a valuation allowance in a period, an expense must be recorded within the income tax provision in the statement of income.

Net deferred tax assets were $29.7 million and $33.1 million at January 29, 2005 and January 31, 2004, respectively. In assessing the realizability of the deferred tax assets, the Company considered whether it was more-likely-than-not that the deferred tax assets, or a portion thereof, will not be realized. The Company considered the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and limitations pursuant to Section 382 of the Internal Revenue Code (“Section 382”). As a result, the Company concluded that a valuation allowance against a portion of the net deferred tax assets was appropriate. A total valuation allowance of $58.1 million and $56.6 million was recorded at January 29, 2005 and January 31, 2004, respectively. The valuation allowance increase was due to final purchase accounting adjustments during the third quarter of fiscal 2004 and the impact of general operations and tax deductions in fiscal 2004. If actual results differ from these estimates or these estimates are adjusted in future periods, the Company may need to adjust its valuation allowance, which could materially impact its financial position and results of operations.

The Company recorded $86.6 million of net deferred tax assets in connection with the October 24, 2003 acquisition of Elder-Beerman; a valuation allowance of $47.7 million was established against these deferred tax assets. Any future reduction to the valuation allowance established against deferred tax assets acquired in connection with the acquisition of Elder-Beerman would first reduce intangible assets and then, to the extent the valuation allowance reduction exceeds the current book value of intangible assets (approximately $3.8 million at January 29, 2005), would reduce the current income tax provision.

As of January 29, 2005, the Company had federal and state net operating loss carry-forwards of $75.6 million and $358.3 million, respectively, which are available to offset future federal and state taxable income — subject to certain limitations imposed by Section 382. These net operating losses will expire at various dates beginning in fiscal 2009 through fiscal 2023. The Company acquired federal and state net operating loss carry-forwards of $76.0 million and $195.8 million, respectively, in connection with the acquisition of Elder-Beerman.

As of January 29, 2005, the Company had alternative minimum tax credits and general business credits in the amount of $2.1 million and $0.6 million, respectively. Both credits are also subject to the limitations imposed by Section 382. The alternative minimum tax credits are available indefinitely, and the general business credits expire in fiscal 2007 and fiscal 2008. The Company acquired these alternative minimum tax credits and general business credits in connection with the acquisition of Elder-Beerman.

Legislative changes currently proposed by certain states in which the Company operates could have a materially adverse impact on future operating results of the Company. These legislative changes principally involve state income tax laws.

Long-lived Assets

Property, fixtures and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in the Company's business model or capital strategy can result in the actual useful lives differing from the Company's estimates. In cases where the Company determines that the useful life of property, fixtures and equipment should be shortened, the Company depreciates the net book value in excess of the salvage value over its revised remaining useful life, thereby increasing depreciation expense. Factors such as changes in the planned use of fixtures or leasehold improvements could also result in shortened useful lives. Net property, fixtures and equipment amounted to $168.3 million and $177.6 million at January 29, 2005 and January 31, 2004, respectively.

The Company assesses, on a store-by-store basis, the impairment of identifiable long-lived assets — primarily property, fixtures and equipment — whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include the following:

- Significant under-performance of stores relative to historical or projected future operating results,
- Significant changes in the manner of the Company's use of assets or overall business strategy, and
- Significant negative industry or economic trends for a sustained period.

SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), requires the Company to recognize an impairment loss if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows. The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Cash flow estimates are based on historical results adjusted to reflect the Company's best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Estimates of fair value represent the Company's best estimate based on industry trends and reference to market rates and transactions. Should cash flow estimates differ significantly from actual results, an impairment could arise and materially impact the Company's financial position and results of operations. Given the seasonality of operations, impairment is not conclusive, in many cases, until after the holiday period in the fourth quarter is concluded.

Newly opened stores may take time to generate positive operating and cash flow results. Factors such as store type, store location, current marketplace awareness of the Company's private label brands, local customer demographic data and current fashion trends are all considered in determining the time-frame required for a store to achieve positive financial results. If conditions prove to be substantially different from the Company's expectations, the carrying value of new stores' long-lived assets may ultimately become impaired.

In fiscal 2004 and 2003, the Company evaluated the recoverability of its long-lived assets in accordance with SFAS No. 144. As a result, impairment losses of approximately $0.9 million and $0.8 million were recorded in depreciation and amortization expense in fiscal 2004 and 2003, respectively. Included in the impairment loss in fiscal 2004 is $0.3 million related to the write-down of an intangible asset at one store location.

In fiscal 2003, a charge of $2.4 million was recorded in depreciation and amortization expense for the write-off of duplicate information systems software due to the acquisition of Elder-Beerman. This charge arose due to the decision to use Elder-Beerman's point-of-sale system in all of the Company's stores.

Goodwill and Intangible Assets

Goodwill was $3.0 million at January 29, 2005 and January 31, 2004. Intangible assets are principally comprised of lease interests that relate to below-market-rate leases acquired in store acquisitions completed in fiscal years 1992 through 2003, which were adjusted to reflect fair market value. These lease-related interests are being amortized on a straight-line method. At January 29, 2005, these lease-related interests had average remaining lives of seventeen years for amortization purposes. Net intangible assets totaled $9.4 million and $6.4 million at January 29, 2005 and January 31, 2004, respectively.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Company reviews goodwill and other intangible assets that have indefinite lives for impairment at least annually or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. The Company determines fair value using a discounted cash flow analysis methodology, which requires certain assumptions and estimates regarding industry economic factors and future profitability of acquired businesses. It is the Company's policy to conduct impairment testing based on its most current business plans, which reflect anticipated changes in the economy and the industry. If actual results prove inconsistent with Company assumptions and judgments, the Company could be exposed to a material impairment charge. The Company completed a review of the carrying value of goodwill, in accordance with SFAS No. 142, at January 29, 2005 and determined that goodwill was not impaired.

Securitizations

A significant portion of the Company's funding is through off-balance-sheet credit card securitizations via sales of certain accounts receivable through an accounts receivable facility (the "facility"). The sale of receivables is to The Bon-Ton Receivables Partnership, LP ("BTRLP"), a special purpose entity as defined by SFAS No. 140. BTRLP is a wholly owned subsidiary of the Company. BTRLP may sell accounts receivable with a purchase price up to $250.0 million through the facility to a conduit on a revolving basis.

The Company sells accounts receivable through securitizations with servicing retained. When the Company securitizes, it surrenders control over the transferred assets and accounts for the transaction as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The Company allocates the previous carrying amount of the securitized receivables between the assets sold and retained interests, based on their relative estimated fair values at the date of sale. Securitization income is recognized at the time of the sale, and is equal to the excess of the fair value of the assets obtained (principally cash) over the allocated cost of the assets sold and transaction costs. During the revolving period of each accounts receivable securitization, securitization income is recorded representing estimated gains on the sale of new receivables to the conduit on a continuous basis to replenish the investors' interest in securitized receivables that have been repaid by the credit card account holders. Fair value estimates used in the recognition of securitization income require certain assumptions of payment, default, servicing costs (direct and indirect) and interest rates. To the extent actual results differ from those estimates, the impact is recognized as a component of securitization income.

The Company estimates the fair value of retained interests in securitizations based on a discounted cash flow analysis. The cash flows of the interest-only strip are estimated as the excess of the weighted average finance charge yield on each pool of receivables sold over the sum of the interest rate paid to the note holder, the servicing fee and an estimate of future credit losses over the life of the receivables. Cash flows are discounted from the date the cash is expected to become available to the Company. These cash flows are projected over the life of the receivables using payment, default, and interest rate assumptions that the Company believes would be used by market participants for similar financial instruments subject to prepayment, credit and interest rate risk. The cash flows are discounted using an interest rate that the Company believes a purchaser unrelated to the seller of the financial instrument would demand. As all estimates used are influenced by factors outside the Company's control, there is uncertainty inherent in these estimates, making it reasonably possible that they could change in the near term. Any adverse change in the Company's assumptions could materially impact securitization income.

The Company recognized securitization income of $9.1 million, $8.0 million and $8.9 million for fiscal 2004, 2003, and 2002, respectively. The increase in income in fiscal 2004 relative to fiscal 2003 was principally due to increased sales of accounts receivable through the facility, resulting in a $13.6 million finance charge income increase, largely offset by higher interest costs, credit losses, and servicing fees. The decreased securitization income in fiscal 2003 relative to fiscal 2002 was principally a reflection of decreased sales of accounts receivable, resulting in a $1.9 million decrease in finance charge income, partially offset by a $1.0 million reduction in interest costs.

Operating Leases

The Company leases a majority of its retail stores under operating leases. Many of the lease agreements contain rent holidays, rent escalation clauses and contingent rent provisions — or some combination of these items. The Company recognizes rent expense on a straight-line basis over the accounting lease term, which includes cancelable option periods where failure to exercise such options would result in an economic penalty. In calculating straight-line rent expense, the Company utilizes an accounting lease term that equals or exceeds the time period used for depreciation. Additionally, the commencement date of the accounting lease term reflects the earlier of the date the Company becomes legally obligated for the rent payments or the date the Company takes possession of the building for initial construction and setup.

In a February 2005 letter to the American Institute of Certified Public Accountants, the SEC clarified its position regarding certain lease accounting practices. The SEC's letter specifically addressed the depreciable life of leasehold improvements, rent holidays and landlord-tenant incentives. Similar to other retailers, the Company reviewed its historical treatment of these lease issues. After assessing its findings using the guidelines in SEC Staff Accounting Bulletin No. 99, the Company recorded a cumulative pre-tax expense of $0.5 million in the fourth quarter of fiscal 2004 and concluded that restatement of the Company's financial statements for prior years would not be required.

Future Accounting Changes

In December 2004, the Financial Accounting Standards Board issued SFAS 123R, "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R revises SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), and it supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS No. 123R will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123R is effective as of the beginning of the Company's third quarter of fiscal 2005. The full impact of SFAS No. 123R adoption cannot be predicted at this time as it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 of the Notes to Consolidated Financial Statements. SFAS No. 123R also requires that benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company is unable to estimate what those amounts will be in the future as they depend on, among other things, when employees exercise stock options.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk and Financial Instruments

The Company is exposed to market risk associated with changes in interest rates. Based on the variable-rate facilities outstanding at January 29, 2005, a 100 basis-point increase in interest rates would result in an approximate $1.3 million charge to interest expense. To provide some protection against potential rate increases associated with its variable-rate facilities, the Company entered into a derivative financial transaction in the form of an interest rate swap. The interest rate swap is used to hedge a portion of the underlying variable-rate facilities. The swap is a qualifying hedge and the interest rate differential is reflected as an adjustment to interest expense over the life of the swap. The Company currently holds a “variable-to-fixed” rate swap with a notional amount of $30.0 million with one financial institution. The notional amount does not represent amounts exchanged by the parties; rather, it is used as the basis to calculate amounts due and to be received under the rate swap. During fiscal 2004 and 2003, the Company did not enter into or hold derivative financial instruments for trading purposes.

The following table provides information about the Company’s derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates at January 29, 2005. For interest rate swaps, the table presents notional amounts and weighted average pay and receive interest rates by expected maturity date. For additional discussion of the Company’s interest rate swap, see Note 6 in the Notes to Consolidated Financial Statements.

	Expected Maturity Date By Fiscal Year							
(Dollars in thousands)	2005	2006	2007	2008	2009	There-after	Total	Fair Value
Debt:								
Fixed-rate debt	$ 869	$ 961	$ 1,065	$1,178	$1,303	$ 13,400	$ 18,776	$ 21,980
Average fixed rate	9.62%	9.62%	9.62%	9.62%	9.62%	9.28%	9.37%	
Variable-rate debt	—	—	$ 160,350	—	—	—	$ 160,350	$ 160,350
Average variable rate	—	—	3.96%	—	—	—	3.96%	
Interest Rate Derivatives:								
Interest rate swap								
Variable-to-fixed	—	$30,000	—	—	—	—	$ 30,000	$ (689)
Average pay rate	—	5.43%	—	—	—	—	5.43%	
Average receive rate	—	1.54%	—	—	—	—	1.54%	

Seasonality and Inflation

The Company’s business, like that of most retailers, is subject to seasonal fluctuations, with the major portion of sales and income realized during the second half of each fiscal year, which includes the back-to-school and holiday seasons. See Note 15 in the Notes to Consolidated Financial Statements for the Company’s quarterly results for fiscal 2004 and 2003. Due to the fixed nature of certain costs, selling, general and administrative expenses are typically higher as a percentage of net sales during the first half of each fiscal year.

Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of results that may be achieved for a full fiscal year. In addition, quarterly operating results are impacted by the timing and amount of revenues and costs associated with the opening of new stores and the closing and remodeling of existing stores.

The Company does not believe inflation had a material effect on operating results during the past three years. However, there can be no assurance that the Company's business will not be affected by inflationary adjustments in the future.

Item 8. Consolidated Financial Statements and Supplementary Data.

Information called for by this item is set forth in the Company's Consolidated Financial Statements and Financial Statement Schedule contained in this report and is incorporated herein by this reference. See index at page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Attached as exhibits to this Form 10-K are certifications of the Company's Chief Executive Officer and Chief Financial Officer, which are required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. This section should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report and, based on this evaluation, concluded that the Company's disclosure controls and procedures are effective.

Management Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the Company's internal control over financial reporting as of January 29, 2005, the end of the Company's fiscal year. Management based its assessment on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results of management's assessment were reviewed with the Audit Committee of the Company's Board of Directors.

KPMG LLP audited management's assessment and independently assessed the effectiveness of the Company's internal control over financial reporting. KPMG LLP has issued an attestation report concurring with management's assessment, which is included below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
The Bon-Ton Stores, Inc.:

We have audited management's assessment, included in the Management Report on Internal Control over Financial Reporting presented above, that The Bon-Ton Stores, Inc. maintained effective internal control over financial reporting as of January 29, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bon-Ton Stores, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that The Bon-Ton Stores, Inc. maintained effective internal control over financial reporting as of January 29, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, The Bon-Ton Stores, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Bon-Ton Stores, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 29, 2005, and the related financial statement schedule, and our report dated April 12, 2005 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 12, 2005

Inherent Limitations on Effectiveness of Controls

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls or internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

Other than as described below, there has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Throughout the fourth quarter of fiscal 2004, the Company was in the process of integrating the operations of Elder-Beerman. As part of the integration, the Company modified the functional areas or locations responsible for certain transaction processing and certain processes over financial data collection, consolidation and reporting. As a result, the Company modified the design and operation of certain elements of its internal control over financial reporting. Integration efforts and related modifications, as described above, continued into the first quarter of fiscal 2005, including certain changes to merchandise inventory tracking and costing systems, merchandise sales price management systems and general ledger interfaces. The Company believes it has taken the necessary steps to monitor and maintain appropriate internal control over financial reporting during this period of change.

Item 9B. Other Information.

The Company inadvertently failed to file a Report on Form 8-K in October 2003 in connection with a blackout period on participants in the Company's 401(k) plan from October 13, 2003 to October 17, 2003 resulting from a change in the funds available to participants in the 401(k) plan.

PART III

Item 10. Directors and Executive Officers of the Registrant.

As part of our system of corporate governance, our Board of Directors has adopted a Code of Ethical Standards and Business Practices applicable to all directors, officers and associates. This Code is available on our website at www.bonton.com.

The information regarding executive officers is included in Part I under the heading "Executive Officers." The remainder of the information called for by this Item will be contained in the Company's Proxy Statement and is hereby incorporated by reference thereto.

Item 11. Executive Compensation.

The information called for by this Item will be contained in the Company's Proxy Statement and is hereby incorporated by reference thereto (other than the information called for by Items 402(k) and (l) of Regulation S-K, which is not incorporated herein by reference).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information called for by this Item will be contained in the Company's Proxy Statement and is hereby incorporated by reference thereto.

Item 13. Certain Relationships and Related Transactions.

The information called for by this Item will be contained in the Company's Proxy Statement and is hereby incorporated by reference thereto.

Item 14. Principal Accountant Fees and Services.

The information called for by this Item will be contained in the Company's Proxy Statement and is hereby incorporated by reference thereto.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements — See the Index to Consolidated Financial Statements and Financial Statement Schedule on page F-1.

2. Financial Statement Schedule — See the Index to Consolidated Financial Statements and Financial Statement Schedule on page F-1.

(b) The following are exhibits to this Form 10-K and, if incorporated by reference, the Company has indicated the document previously filed with the Commission in which the exhibit was included.

Exhibit No.		Description	Document if Incorporated by Reference
3.1		Articles of Incorporation	Exhibit 3.1 to the Report on Form 8-B, File No. 0-19517 (“Form 8-B”)
3.2		Bylaws	Exhibit 3.2 to Form 8-B
10.1		Shareholders’ Agreement among the Company and the shareholders named therein	Exhibit 10.3 to Amendment No. 2 to the Registration Statement on Form S-1, File No. 33-42142 (“1991 Form S-1”)
*10.2 **		Employment Agreement with David B. Zant	
*10.3 **		Employment Agreement with James M. Zamberlan	
*10.4	(a)	Employment Agreement with James H. Baireuther	Exhibit 10.4 to the Annual Report on Form 10-K for the fiscal year ended February 2, 2002 (“2001 Form 10-K”)
*	(b)	Amendment to Employment Agreement with James H. Baireuther	Exhibit 10.3(b) to the Annual Report on Form 10-K for the fiscal year ended January 31, 2004 (“2003 Form 10-K”)
*10.5	(a)	Employment Agreement with Byron L. Bergren	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended July 31, 2004 (“7/31/04 10-Q”)
*	** (b)	Amendment No. 1 to Employment Agreement with Byron L. Bergren	
*10.6		Executive Transition Agreement with M. Thomas Grumbacher	Exhibit 10.1 to the Form 8-K filed on March 11, 2005
*10.7		Form of severance agreement with certain executive officers	Exhibit 10.14 to Form 8-B
*10.8		Supplemental Executive Retirement Plan	Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended August 4, 2001
*10.9		Amended and Restated 1991 Stock Option and Restricted Stock Plan	Exhibit 4.1 to the Registration Statement on Form S-8, File No. 333-36633

Exhibit No.		Description	Document if Incorporated by Reference
*10.10		Amended and Restated 2000 Stock Incentive Plan	Exhibit 99.1 to the 7/31/04 10-Q
*10.11		Phantom Equity Replacement Stock Option Plan	Exhibit 10.18 to the 1991 Form S-1
10.12	(a)	Sublease of Oil City, Pennsylvania store between the Company and Nancy T. Grumbacher, Trustee	Exhibit 10.16 to the 1991 Form S-1
	(b)	First Amendment to Oil City, Pennsylvania sublease	Exhibit 10.22 to Amendment No. 1 to the 1991 Form S-1
	(c)	Corporate Guarantee with respect to Oil City, Pennsylvania lease	Exhibit 10.26 to Amendment No. 1 to the 1991 Form S-1
10.13	(a)	Second Amended and Restated Credit Agreement dated as of October 24, 2003 among General Electric Capital Corporation, The Bon-Ton Department Stores, Inc., The Elder-Beerman Stores Corp. and the other credit parties and lenders parties thereto.	Exhibit 99.1 to the Form 8-K filed on November 7, 2003 ("11/7/03 8-K")
	(b)	First Amendment to Credit Agreement	Exhibit 10.13(b) to the 2003 Form 10-K
	(c)	Credit Agreement Consent and Amendment No. 2	Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended October 30, 2004 ("10/30/04 10-Q")
	(d)	Credit Agreement Amendment No. 3	Exhibit 10.3 to the 10/30/04 10-Q
10.14		Stock Purchase Agreement dated as of October 23, 2003 between The Bon-Ton Stores, Inc. and Tim Grumbacher	Exhibit 99.2 to the 11/7/03 8-K
10.15		Registration Rights Agreement dated as of October 31, 2003 between The Bon- Ton Stores, Inc. and Tim Grumbacher	Exhibit 99.3 to the 11/7/03 8-K
10.16		Master Amendment to Receivables Purchase Agreement dated as of October 24, 2003 among The Bon-Ton Receivables Partnership, L.P., BTRGP, Inc., Falcon Asset Securitization Corporation, Charta, LLC and EagleFunding Corporation, certain financial institutions party thereto as investors, Bank One, N.A., Citicorp North America, Inc. and Fleet Securities, Inc.	Exhibit 99.4 to the 11/7/03 8-K
10.17		Amendment No. 1 to Transfer Agreement dated as of October 24, 2003 by and between The Bon-Ton Department Stores, Inc. and The Bon-Ton Receivables Partnership, L.P.	Exhibit 99.5 to the 11/7/03 8-K

Exhibit No.		Description	Document if Incorporated by Reference
10.18		Omnibus Amendment No. 1 dated as of October 24, 2003 among The El-Bee Receivables Corporation, The El-Bee Chargit Corp., Deutsche Bank Trust Company Americas, Citicorp North America, Inc., Citibank, N.A., CRC Funding, LLC, Fleet Securities, Inc., Fleet National Bank, EagleFunding Corporation, Bank One, NA and Falcon Asset Securitization Corporation.	Exhibit 99.6 to the 11/7/03 8-K
10.19		Waiver Letter dated as of October 24, 2003 among The El-Bee Receivables Corporation, The El-Bee Chargit Corp., Citicorp North America, Inc., Fleet Securities, Inc., CRC Funding, LLC, EagleFunding Corporation, Citibank, NA, Fleet National Bank and Deutsche Bank Trust Company Americas.	Exhibit 99.7 to the 11/7/03 8-K
10.20	(a)	Bon-Ton Receivable Master Note Trust as of January 30, 2004 among The Bon-Ton Stores, Inc., The Bon-Ton Corp., The Bon-Ton Department Stores, Inc., The Elder-Beerman Stores, Corp., The Bon-Ton Receivables Partnership, L.P., Wachovia Bank, N.A., Wilmington Trust Company, Bank One, N.A., Citicorp North America, Inc., Citibank, N.A., Falcon Asset Securitization Corporation, Charta, LLC and General Electric Capital Corporation.	Exhibit 10.20 to the 2003 Form 10-K
	(b)	Amendment No. 1 to Note Purchase Agreement	Exhibit 10.2 to the 10/30/04 10-Q
**	(c)	Master Amendment Agreement No. 1 to Transfer and Servicing Agreement, Performance Undertaking, Note Purchase Agreement, Administration Agreement, Indenture Supplement, Master Indenture	
21**		Subsidiaries of The Bon-Ton	
23**		Consent of KPMG LLP	
31.1**		Certification of Byron L. Bergren	
31.2**		Certification of James H. Baireuther	
32**		Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

* Constitutes a management contract or compensatory plan or arrangement.

** Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 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.

THE BON-TON STORES, INC.

By: /s/ BYRON L. BERGREN

Byron L. Bergren
President and Chief Executive Officer
and Director

Dated: April 12, 2005

Pursuant to the requirements 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.

Signature	Capacity	Date
/s/ TIM GRUMBACHER Tim Grumbacher	Executive Chairman of the Board	April 12, 2005
/s/ BYRON L. BERGREN Byron L. Bergren	President and Chief Executive Officer and Director	April 12, 2005
/s/ JAMES H. BAIREUTHER James H. Baireuther	Vice Chairman, Chief Administrative Officer and Chief Financial Officer (Principal Financial Officer)	April 12, 2005
/s/ KEITH E. PLOWMAN Keith E. Plowman	Senior Vice President, Finance (Principal Accounting Officer)	April 12, 2005
/s/ ROBERT B. BANK Robert B. Bank	Director	April 12, 2005
/s/ PHILIP M. BROWNE Philip M. Browne	Director	April 12, 2005
/s/ SHIRLEY A. DAWE Shirley A. Dawe	Director	April 12, 2005
/s/ MARSHA M. EVERTON Marsha M. Everton	Director	April 12, 2005
/s/ MICHAEL L. GLEIM Michael L. Gleim	Director	April 12, 2005

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Signature	Capacity	Date
/s/ ROBERT E. SALERNO Robert E. Salerno	Director	April 12, 2005
/s/ THOMAS W. WOLF Thomas W. Wolf	Director	April 12, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
The Bon-Ton Stores, Inc.:

We have audited the accompanying consolidated balance sheets of The Bon-Ton Stores, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 29, 2005. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule, Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bon-Ton Stores, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended January 29, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The Bon-Ton Stores, Inc.'s internal control over financial reporting as of January 29, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 12, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 12, 2005

THE BON-TON STORES, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)	January 29, 2005	January 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 25,222	$ 19,890
Retained interest in trade receivables and other, net of allowance for doubtful accounts and sales returns of $6,416 and $6,299 at January 29, 2005 and January 31, 2004, respectively	94,475	104,679
Merchandise inventories	294,152	257,372
Prepaid expenses and other current assets	14,483	14,683
Deferred income taxes	4,819	8,825
Total current assets	433,151	405,449
Property, fixtures and equipment at cost, net of accumulated depreciation and amortization of $198,974 and $172,500 at January 29, 2005 and January 31, 2004, respectively	168,304	177,610
Deferred income taxes	24,908	24,252
Goodwill and intangible assets, net of accumulated amortization of $5,364 and $4,672 at January 29, 2005 and January 31, 2004, respectively	12,365	9,316
Other assets	9,674	13,273
Total assets	$ 648,402	$ 629,900
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 103,397	$ 88,118
Accrued payroll and benefits	25,361	35,328
Accrued expenses	46,646	44,065
Current maturities of long-term debt	869	1,113
Current maturities of obligations under capital leases	939	1,797
Income taxes payable	4,817	13,531
Total current liabilities	182,029	183,952
Long-term debt, less current maturities	178,257	170,703
Obligations under capital leases, less current maturities	98	1,013
Other long-term liabilities	25,461	34,748
Total liabilities	385,845	390,416
Commitments and contingencies (Note 10)		
Shareholders' equity		
Preferred Stock — authorized 5,000,000 shares at $0.01 par value; no shares issued	—	—
Common Stock — authorized 40,000,000 shares at $0.01 par value; issued shares of 13,568,977 and 13,055,740 at January 29, 2005 and January 31, 2004, respectively	136	131
Class A Common Stock — authorized 20,000,000 shares at $0.01 par value; issued and outstanding shares of 2,951,490 and 2,989,853 at January 29, 2005 and January 31, 2004, respectively	30	30
Treasury stock, at cost — shares of 337,800 at January 29, 2005 and January 31, 2004, respectively	(1,387)	(1,387)
Additional paid-in capital	119,284	114,687
Deferred compensation	(1,096)	(136)
Accumulated other comprehensive loss	(427)	(1,298)
Retained earnings	146,017	127,457
Total shareholders' equity	262,557	239,484
Total liabilities and shareholders' equity	$ 648,402	$ 629,900

The accompanying notes are an integral part of these consolidated financial statements.

THE BON-TON STORES, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands except share and per share data)	Fiscal Year Ended January 29, 2005	Fiscal Year Ended January 31, 2004	Fiscal Year Ended February 1, 2003
Net sales	$ 1,310,372	$ 926,409	$ 713,230
Other income	9,251	5,917	3,805
	1,319,623	932,326	717,035
Costs and expenses:			
Costs of merchandise sold	830,414	591,256	452,072
Selling, general and administrative	415,921	273,426	217,375
Depreciation and amortization	27,809	25,634	22,783
Income from operations	45,479	42,010	24,805
Interest expense, net	13,437	9,049	9,436
Income before income taxes	32,042	32,961	15,369
Income tax provision	11,880	12,360	5,764
Net income	$ 20,162	$ 20,601	$ 9,605
Per share amounts —			
Basic:			
Net income	$ 1.27	$ 1.36	$ 0.63
Basic weighted average shares outstanding	15,918,650	15,161,406	15,192,471
Diluted:			
Net income	$ 1.24	$ 1.33	$ 0.62
Diluted weighted average shares outstanding	16,253,254	15,508,560	15,394,231

The accompanying notes are an integral part of these consolidated financial statements.

THE BON-TON STORES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Stock	Class A Common Stock	Treasury Stock	Additional Paid-in Capital	Deferred Compen-sation	Accumulated Other Compre-hensive Loss	Retained Earnings	Total
BALANCE AT FEBRUARY 2, 2002	$ 125	$ 30	$ —	$ 107,467	$ (408)	$ (2,354)	$ 98,401	$203,261
Comprehensive income:								
Net income	—	—	—	—	—	—	9,605	9,605
Amounts amortized into interest expense from accumulated other comprehensive loss, net of $627 tax effect	—	—	—	—	—	1,045	—	1,045
Change in fair value of cash flow hedges, net of $340 tax effect	—	—	—	—	—	(567)	—	(567)
Total comprehensive income	—	—	—	—	—	478	9,605	10,083
Common shares repurchased	—	—	(1,132)	—	—	—	—	(1,132)
Deferred compensation amortization	—	—	—	—	160	—	—	160
Tax impact of restricted shares	—	—	—	(8)	—	—	—	(8)
Cancellation of restricted shares	—	—	—	(44)	26	—	—	(18)
BALANCE AT FEBRUARY 1, 2003	125	30	(1,132)	107,415	(222)	(1,876)	108,006	212,346
Comprehensive income:								
Net income	—	—	—	—	—	—	20,601	20,601
Change in fair value of cash flow hedges, net of $347 tax effect	—	—	—	—	—	578	—	578
Total comprehensive income	—	—	—	—	—	578	20,601	21,179
Dividends to shareholders, $0.075 per share	—	—	—	—	—	—	(1,150)	(1,150)
Stock options exercised	1	—	—	510	—	—	—	511
Common shares issued	5	—	—	6,495	—	—	—	6,500
Common shares repurchased	—	—	(255)	—	—	—	—	(255)
Issuance of stock under stock award plans	—	—	—	123	(123)	—	—	—
Deferred compensation amortization	—	—	—	—	209	—	—	209
Tax impact of stock options and restricted shares	—	—	—	186	—	—	—	186
Cancellation of restricted shares	—	—	—	(42)	—	—	—	(42)
BALANCE AT JANUARY 31, 2004	131	30	(1,387)	114,687	(136)	(1,298)	127,457	239,484
Comprehensive income:								
Net income	—	—	—	—	—	—	20,162	20,162
Amounts amortized into interest expense from accumulated other comprehensive loss, net of $33 tax effect	—	—	—	—	—	53	—	53
Change in fair value of cash flow hedges, net of $503 tax effect	—	—	—	—	—	818	—	818
Total comprehensive income	—	—	—	—	—	871	20,162	21,033
Dividends to shareholders, $0.10 per share	—	—	—	—	—	—	(1,602)	(1,602)
Stock options exercised	4	—	—	2,308	—	—	—	2,312
Issuance of stock under stock award plans	1	—	—	1,540	(1,541)	—	—	—
Deferred compensation amortization	—	—	—	—	450	—	—	450
Tax impact of stock options and restricted shares	—	—	—	889	—	—	—	889
Cancellation of restricted shares	—	—	—	(140)	131	—	—	(9)
BALANCE AT JANUARY 29, 2005	$ 136	$ 30	$ (1,387)	$ 119,284	$ (1,096)	$ (427)	$146,017	$262,557

The accompanying notes are an integral part of these consolidated financial statements.

THE BON-TON STORES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
(In thousands)	January 29, 2005	January 31, 2004	February 1, 2003
Cash flows from operating activities:			
Net income	$ 20,162	$ 20,601	$ 9,605
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	27,809	25,634	22,783
Bad debt provision	3,339	3,825	1,357
Stock compensation expense	450	209	160
Gain on sale of property, fixtures and equipment	(148)	(913)	(2)
Cancellation of restricted shares	(9)	(42)	(18)
Decrease in other long-term assets	2,084	3,147	470
Decrease in deferred income tax assets	7,315	994	2,286
(Decrease) increase in other long-term liabilities	(582)	2,453	(1,446)
Net transfers of receivables to accounts receivable facility	15,512	83,488	(5,000)
Changes in operating assets and liabilities:			
Increase in retained interest in trade receivables and other	(8,647)	(33,411)	(11,185)
(Increase) decrease in merchandise inventories	(36,244)	58,313	17,425
Decrease (increase) in prepaid expenses and other current assets	528	4,461	(2,416)
Increase (decrease) in accounts payable	12,443	(34,420)	(1,718)
(Decrease) increase in accrued expenses	(5,237)	3,871	2,420
(Decrease) increase in income taxes payable	(9,877)	17,728	(6,293)
Total adjustments	8,736	135,337	18,823
Net cash provided by operating activities	28,898	155,938	28,428
Cash flows from investing activities:			
Capital expenditures	(31,523)	(20,257)	(14,806)
Acquisition, net of cash acquired	(185)	(97,644)	—
Proceeds from sale of property, fixtures and equipment	290	1,310	31
Net cash used in investing activities	(31,418)	(116,591)	(14,775)
Cash flows from financing activities:			
Payments on long-term debt and capital lease obligations	(383,364)	(453,052)	(174,030)
Proceeds from issuance of long-term debt	388,900	415,635	170,850
Issuance of common stock	—	6,500	—
Common stock repurchased	—	(255)	(1,132)
Cash dividends paid	(1,602)	(1,150)	—
Stock options exercised	2,312	511	—
Deferred financing costs paid	(512)	(7,874)	(336)
Increase (decrease) in bank overdraft balances	2,118	3,432	(1,961)
Net cash provided by (used in) financing activities	7,852	(36,253)	(6,609)
Net increase in cash and cash equivalents	5,332	3,094	7,044
Cash and cash equivalents at beginning of period	19,890	16,796	9,752
Cash and cash equivalents at end of period	$ 25,222	$ 19,890	$ 16,796

The accompanying notes are an integral part of these consolidated financial statements.

THE BON-TON STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except share and per share data)

The Bon-Ton Stores, Inc., a Pennsylvania corporation, was incorporated on January 31, 1996 as the successor of a company incorporated on January 31, 1929, and currently operates, through its subsidiaries, 139 department stores and two furniture stores in sixteen states from the Northeast to the Midwest under the names “Bon-Ton” and “Elder-Beerman.” The Bon-Ton Stores, Inc. conducts its operations through one business segment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of The Bon-Ton Stores, Inc. and its wholly owned subsidiaries (the “Company”). All intercompany transactions have been eliminated in consolidation. Results of operations for the year ended January 29, 2005 include The Elder-Beerman Stores Corp. operations for the entire fiscal year. Results of operations for the year ended January 31, 2004 include The Elder-Beerman Stores Corp. operations for the period from the acquisition date, October 24, 2003, through January 31, 2004 (see Note 2).

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions which affect the reported amounts of assets and liabilities, the 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 ends on the Saturday nearer January 31, and consisted of fifty-two weeks for fiscal 2004, 2003 and 2002. Fiscal 2004, 2003 and 2002 ended on January 29, 2005, January 31, 2004 and February 1, 2003, respectively.

Reclassifications

Certain prior year balances presented in the consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. These reclassifications did not impact the Company’s net income for fiscal 2004, 2003 or 2002.

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents are generally overnight money market investments.

Allowance for Doubtful Accounts

The Company owns and administers two proprietary credit card programs. The Company performs ongoing credit evaluations of its customers who hold the Company’s proprietary credit cards, and adjusts credit limits based upon payment history and the customer’s current credit-worthiness. The Company continually monitors collections and payments from customers and maintains an allowance for estimated credit losses based upon its historical experience and any specific customer collection issues identified (e.g., bankruptcy). While such credit losses have historically been within expectations and provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates as in the past. If circumstances change (e.g., higher than expected defaults or bankruptcies), the Company's estimates of the recoverability of amounts due the Company could be reduced by a material amount. The Company's policy is to write-off receivables that have gone 180 days without a payment or for which the Company received notification of a customer bankruptcy; however, the Company may write-off certain receivables earlier as warranted by specific circumstances. The allowance for doubtful accounts and sales returns amounted to $6,416 and $6,299 at January 29, 2005 and January 31, 2004, respectively.

(In thousands except share and per share data)

Merchandise Inventories

For financial reporting and tax purposes, merchandise inventories are determined by the retail method using a LIFO (last-in, first-out) cost basis. Fiscal 2004 reflects income of $200 for LIFO valuations, after net realizable value assessments. There was no adjustment to costs of merchandise sold for LIFO valuations in fiscal 2003. Fiscal 2002 reflects a charge of $712 for LIFO valuations, after net realizable value assessments. If the first-in, first-out (FIFO) method of inventory valuation had been used instead of the LIFO method, merchandise inventories would have been lower by $6,837 and $6,637 at January 29, 2005 and January 31, 2004, respectively.

Costs for merchandise purchases, product development and distribution are included in costs of merchandise sold. Inventories are pledged as collateral under certain debt agreements (see Note 5).

Property, Fixtures and Equipment: Depreciation and Amortization

Depreciation and amortization of property, fixtures and equipment is computed using the straight-line method based upon the shorter of the remaining accounting lease term, if applicable, or the economic life which is reflected in the following average lives:

Buildings	20 to 40 years
Leasehold improvements	2 to 15 years
Fixtures and equipment	3 to 10 years

No depreciation is recorded until property, fixtures and equipment are placed into service. The Company capitalizes interest incurred during the construction of new facilities or major improvements to existing facilities. The amount of interest costs capitalized is limited to the costs incurred during the construction period. Interest of $7, $1 and $3 was capitalized in fiscal years 2004, 2003 and 2002, respectively.

Repair and maintenance costs are charged to operations as incurred. Property retired or sold is removed from asset and accumulated depreciation accounts and the resulting gain or loss is reflected in selling, general and administrative expense.

Costs of major remodeling and improvements on leased stores are capitalized as leasehold improvements. Leasehold improvements are amortized over the shorter of the accounting lease term or the useful life of the asset. Capital leases are recorded at the lower of fair market value or the present value of future minimum lease payments. Capital leases are amortized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases."

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), the Company assesses the impairment of property, fixtures and equipment whenever events or changes in circumstances indicate that the carrying value may not

THE BON-TON STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except share and per share data)

be recoverable. An impairment loss of approximately $900, $800 and $2,000 for certain store assets was recorded and is included as part of depreciation and amortization expense in fiscal 2004, 2003 and 2002, respectively (see Note 3). Included in the impairment loss in fiscal 2004 is $295 related to the write-down of an intangible asset at one store location. In addition, charges of $2,378 were recorded within depreciation and amortization expense in fiscal 2003 for the write-off of duplicate information systems software due to the acquisition of Elder-Beerman.

Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following:

	January 29, 2005	January 31, 2004
Goodwill	$ 2,965	$ 2,965
Lease-related interests	$ 13,976	$ 10,828
Less: Accumulated amortization	(5,203)	(4,672)
Net lease-related interests	8,773	6,156
Trademarks	456	—
Less: Accumulated amortization	(132)	—
Net trademarks	324	—
Other intangibles	332	195
Less: Accumulated amortization	(29)	—
Net other intangibles	303	195
Total intangible assets	$ 9,400	$ 6,351

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”), the Company periodically reviews goodwill for impairment. This review is performed at least annually and may be performed more frequently if events or changes in circumstances indicate the carrying value of goodwill might exceed fair value. The Company determines fair value using discounted cash flow analysis, which requires certain assumptions and estimates regarding industry economic factors and future profitability. It is the Company’s policy to conduct impairment testing based on its most current business plans and forecasts, which reflect anticipated changes in the economy and the industry. The Company completed a review of the carrying value of goodwill, in accordance with SFAS No. 142, at January 29, 2005 and determined that goodwill was not impaired.

Lease-related interests reflect below-market-rate leases purchased in store acquisitions completed in fiscal 1992 through 2003, which were adjusted to reflect fair market value. The lease-related interests are being amortized on a straight-line method. At January 29, 2005, these lease-related interests have average remaining lives of seventeen years for amortization purposes.

THE BON-TON STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except share and per share data)

Amortization of $692 and $390 was recorded on total intangible assets during fiscal 2004 and 2003, respectively. The Company anticipates amortization on total intangible assets of approximately $1,033, $791, $674, $672 and $639 for fiscal 2005, 2006, 2007, 2008 and 2009, respectively.

Deferred Financing Fees

Amounts paid by the Company to lenders to secure credit and accounts receivable securitization facilities are reflected in non-current other assets and are amortized over the term of the related facility. Amortization of credit facility costs and accounts receivable securitization facility costs are classified as interest expense and selling, general and administrative expense, respectively. Unamortized amounts at January 29, 2005 and January 31, 2004 were $4,574 and $7,494, respectively. Deferred financing fees amortized to expense for fiscal 2004, 2003 and 2002 were $3,432, $1,635 and $296, respectively.

Accrued Expenses

Accrued expenses at January 29, 2005 and January 31, 2004 were comprised of the following:

	January 29, 2005	January 31, 2004
Customer liabilities	$ 12,865	$ 10,178
Taxes	9,484	8,016
Rent	3,284	5,239
Capital expenditures	2,706	3,949
Elder-Beerman shares not tendered	2,059	2,716
Interest and cash flow hedges	2,702	2,678
Advertising	2,014	2,119
Other	11,532	9,170
Total	$ 46,646	$ 44,065

Income Taxes

The Company accounts for income taxes according to SFAS No. 109, “Accounting for Income Taxes” (“SFAS No. 109”). Under SFAS No. 109, deferred tax assets and liabilities are recognized for the expected future tax consequences of the difference between the financial statement and income tax basis of assets and liabilities and from net operating losses and credit carryforwards (see Note 12).

Revenue Recognition

The Company recognizes revenue at either the point-of-sale or at the time merchandise is delivered to the customer and all significant obligations have been satisfied. Sales are net of returns and exclude sales tax. The Company has a customer return policy allowing customers to return merchandise with proper documentation. A reserve is provided for estimated merchandise returns, based on historical returns experience, and is reflected as an adjustment to sales and costs of merchandise sold.

Other Income

Other income represents several items that produce revenue for the Company.

The Company leases space to third parties in its stores and receives compensation based on a percentage of sales made in these departments. Leased department revenue was $5,192, $3,854 and $2,903 in fiscal 2004, 2003 and 2002, respectively.

The Company receives revenues from customers for delivery of certain items and services (primarily associated with its furniture operations). In addition, the Company recovers a portion of its cost from the disposal of damaged or otherwise distressed merchandise. This revenue totaled $4,059, $2,063 and $902 in fiscal 2004, 2003 and 2002, respectively.

Advertising

Advertising production costs are expensed the first time the advertisement is run. Media placement costs are expensed in the period the advertising appears. Total advertising expenses, net of vendor allowances, included in selling, general and administrative expenses for fiscal 2004, 2003 and 2002 were $63,496, $34,270 and $25,694, respectively. Prepaid expenses and other current assets include prepaid advertising costs of $1,250 and $1,032 at January 29, 2005 and January 31, 2004, respectively.

Vendor Allowances

As is standard industry practice, the Company receives allowances from merchandise vendors as reimbursement for charges incurred on marked-down merchandise. Vendor allowances are credited to costs of goods sold, provided the allowance is: (1) collectable, (2) for merchandise either permanently marked down or sold, (3) not predicated on a future purchase, (4) not predicated on a future increase in the purchase price from the vendor, and (5) authorized by internal management. If the aforementioned criteria are not met, the Company reflects the allowance dollars as an adjustment to the cost of merchandise capitalized in inventory.

Additionally, the Company receives allowances from vendors in connection with cooperative advertising programs. These amounts are recognized by the Company as a reduction of the related advertising costs that have been incurred and reflected in selling, general and administrative expenses. The Company reviews advertising allowances received from each vendor to ensure reimbursements are for specific, incremental and identifiable advertising costs incurred by the Company to sell the vendor’s products. If a vendor reimbursement exceeds the costs incurred by the Company, the excess reimbursement is recorded as a reduction of cost purchases from the vendor and reflected as a reduction of costs of merchandise sold when the related merchandise is sold.

Purchase Order Violations

The Company, consistent with industry practice, mandates that vendor merchandise shipments conform to certain standards. These standards are usually defined in the purchase order and include items such as proper ticketing, security tagging, quantity, packaging, on-time delivery, etc. Failure by vendors to conform to these standards increases the Company’s merchandise handling costs. Accordingly, various purchase order violation charges are billed to vendors; these charges are reflected by the Company as a reduction of cost of sales in the period in which the respective violations occur. The Company establishes reserves for purchase order violations that may become uncollectable.

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Self-Insurance Liabilities

The Company is self-insured for certain losses related to workers' compensation and health insurance, although it maintains stop-loss coverage with third party insurers to limit exposures. The estimate of its self-insurance liability contains uncertainty since the Company must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and claims for incidents incurred but not reported as of the balance sheet date. When estimating its self- insurance liability, the Company considers a number of factors which include, but are not limited to, historical claim experience, demographic factors, severity factors and information provided by independent third-party advisors. The Company has not made any material changes in the accounting methodology used to establish its self-insurance liabilities during the past three fiscal years.

Revolving Charge Accounts

Finance charge income and late fees on customer revolving charge accounts are reflected as a reduction of selling, general and administrative expenses. Finance charge income and late fees earned by the Company for fiscal 2004, 2003 and 2002, before considering costs of administering and servicing revolving charge accounts, were $59,491, $41,586 and $34,732, respectively. Finance charge income is a component of securitization income but is also recognized on retained interests in the securitized receivables (see Note 8). Late fees are not considered when calculating the gain on the sale of receivables; rather, they are recognized when earned.

Receivable Sales

When the Company sells receivables in securitizations of credit card loans, it retains interest-only strips, subordinated interests and servicing rights, all of which are retained interests in the securitized receivables. Gain or loss on sale of the receivables depends in part on the previous carrying amount of financial assets involved in the transfer, allocated between the assets sold and retained interests, based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are generally not available for retained interests and the Company estimates fair value based on the present value of future expected cash flows using management's best estimates of key assumptions — credit losses, prepayment impact and an appropriate discount rate commensurate with the risks involved. Factors impacting this estimate of fair value are updated each quarter based on the historical performance of the Company's credit card portfolio. Similar to other estimates used that are influenced by factors outside the Company's control, uncertainty is inherent in these estimates, making it reasonably possible that they could change in the near term.

Fair Value of Financial Instruments

The carrying value of the Company's cash and cash equivalents, retained interest in trade and other receivables, short-term debt and obligations under capital leases, approximate fair value. The Company discloses the fair value of its long-term debt and derivative financial instrument in Note 5 and Note 6, respectively. Fair value estimates for the Company's long-term debt and derivative financial instrument are based on market prices, when available, or are derived from discounted cash flow analyses.

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Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company manages the credit risk associated with cash and cash equivalents by maintaining cash accounts and investing with high-quality institutions. The Company maintains cash accounts, primarily on an overnight basis, which may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. The Company believes that it is not exposed to any significant risks related to its cash accounts.

Operating Leases

The Company leases a majority of its retail stores under operating leases. Many of the lease agreements contain rent holidays, rent escalation clauses and contingent rent provisions — or some combination of these items. The Company recognizes rent expense on a straight-line basis over the accounting lease term, which includes cancelable option periods where failure to exercise such options would result in an economic penalty. In calculating straight-line rent expense, the Company utilizes an accounting lease term that equals or exceeds the time period used for depreciation. Additionally, the commencement date of the accounting lease term reflects the earlier of the date the Company becomes legally obligated for the rent payments or the date the Company takes possession of the building for initial construction and setup. The excess of rent expense over the actual cash paid is recorded as deferred rent.

In a February 2005 letter to the American Institute of Certified Public Accountants, the Securities and Exchange Commission (the “SEC”) clarified its position regarding certain lease accounting practices. The SEC’s letter specifically addressed the depreciable life of leasehold improvements, rent holidays and landlord-tenant incentives. Similar to other retailers, the Company reviewed its historical treatment of these lease issues. After assessing its findings using the guidelines in SEC Staff Accounting Bulletin No. 99, the Company recorded a cumulative pre-tax expense of $465 in the fourth quarter of fiscal 2004 and concluded that restatement of the Company’s financial statements for prior years would not be required.

Stock-Based Compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”), and related interpretations including Financial Accounting Standards Board (“FASB”) Interpretation No. 44, “Accounting for Certain Transactions involving Stock Compensation” issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded only if the current market price of the underlying stock on the date of the grant exceeded the exercise price. SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclo-

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sure." The following table illustrates the effect on net income if the fair-value-based method had been applied to all unvested awards in each period:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Net income, as reported	$ 20,162	$ 20,601	$ 9,605
Add: Total stock-based employee compensation included in net income	450	209	160
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(758)	(385)	(492)
Pro forma net income	$ 19,854	$ 20,425	$ 9,273
Earnings per share			
Basic — As reported	$ 1.27	$ 1.36	$ 0.63
Basic — Pro forma	1.25	1.35	0.61
Diluted — As reported	$ 1.24	$ 1.33	$ 0.62
Diluted — Pro forma	1.22	1.32	0.61

All stock options impacting the periods in the above table were issued with an option exercise price equal to the per-share market price at the date of grant. The Company used the Black-Scholes option pricing model to calculate the fair value of all stock options at the grant date. The following assumptions were used:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Expected option term in years	7.7	7.7	7.7
Stock price volatility factor	52.4%	68.9%	68.9%
Dividend yield	0.7%	0.0%	0.0%
Risk-free interest rate	3.9%	3.0%	3.7%

Earnings Per Share

The presentation of earnings per share ("EPS") requires a reconciliation of the numerators and denominators used in basic and diluted EPS calculations. The numerator, net income, is identical in both calculations. The following table presents a reconciliation of the weighted average shares outstanding used in EPS calculations for each of fiscal 2004, 2003 and 2002:

	Fiscal 2004		Fiscal 2003		Fiscal 2002	
	Shares	EPS	Shares	EPS	Shares	EPS
Basic Calculation	15,918,650	$1.27	15,161,406	$1.36	15,192,471	$ 0.63
Effect of dilutive shares —						
Restricted shares	63,170		110,679		103,274	
Options	271,434		236,475		98,486	
Diluted Calculation	16,253,254	$1.24	15,508,560	$1.33	15,394,231	$ 0.62

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Options to purchase shares with exercise prices greater than average market price were excluded from the EPS calculations for fiscal 2004, 2003 and 2002 in the amounts of 72,790, 341,042 and 620,000, respectively, as they would have been antidilutive.

Future Accounting Changes

In December 2004, the FASB issued SFAS 123R, "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R revises SFAS No. 123 and it supersedes APB No. 25 and its related implementation guidance. SFAS No. 123R will require compensation costs related to share-based payment transactions to be recognized in the financial statements (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123R is effective as of the beginning of the Company's third quarter of fiscal 2005. The full impact of SFAS No. 123R adoption cannot be predicted at this time as it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share within the "Stock-Based Compensation" section, above. SFAS No. 123R also requires that benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The Company is unable to estimate what those amounts will be in the future as they depend on, among other things, when employees exercise stock options.

2. ACQUISITION

Effective October 24, 2003, pursuant to the Agreement and Plan of Merger dated as of September 15, 2003, among the Company, The Elder-Beerman Stores Corp. ("Elder-Beerman") and Elder Acquisition Corp., an indirect wholly owned subsidiary of the Company ("Merger Sub"), Merger Sub was merged with and into Elder-Beerman with Elder-Beerman continuing as the surviving corporation and as an indirect wholly owned subsidiary of the Company (the "Merger"). Elder-Beerman was headquartered in Dayton, Ohio and operated sixty-seven department stores and two home furniture stores in Illinois, Indiana, Iowa, Kentucky, Michigan, Ohio, Pennsylvania, West Virginia and Wisconsin.

Prior to the Merger, Merger Sub had acquired 10,892,494 shares of Elder-Beerman common stock, representing approximately 94% of the outstanding Elder-Beerman common stock, pursuant to a tender offer for all of the outstanding shares of Elder-Beerman common stock. The consideration paid pursuant to the tender offer was $8.00 per share. As a result of the Merger, each share of Elder-Beerman common stock outstanding at the effective time of the Merger was converted into the right to receive $8.00. On October 23, 2003, there were 11,585,457 shares of Elder-Beerman common stock outstanding. Following consummation of the Merger, the Elder-Beerman common stock was delisted from Nasdaq. As of January 29, 2005, the consolidated balance sheet of the Company includes a liability of $2,059 for Elder-Beerman common stock not yet tendered.

The Company financed the Elder-Beerman acquisition by amending and restating its revolving credit facility agreement and accounts receivable facility agreements (see Note 5 and Note 8). In addition, the Company obtained equity financing in an aggregate amount of $6,500 from the then Chairman and Chief Executive Officer of the Company pursuant to a Stock Purchase Agreement dated as of October 23, 2003 under which the Company issued 476,890 shares, at fair market value, of the Company's common stock.

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The primary reason for the acquisition was the addition of the Elder-Beerman stores and the corresponding increase in geographic presence as well as the Company's belief in the opportunity for enhanced growth and profitability.

The Company's consolidated balance sheet and consolidated statement of income for fiscal 2003 include Elder-Beerman operations for the period from October 24, 2003 through January 31, 2004. Elder-Beerman operations for fiscal 2003 reflected preliminary purchase accounting in accordance with SFAS No. 141, "Business Combinations" ("SFAS No. 141"), whereby the total purchase price was preliminarily allocated to the assets acquired and liabilities assumed based upon their estimated fair values at acquisition date:

Preliminary Purchase Price		
Purchase of common stock	$	92,684
Settlement of stock options		7,436
Professional fees incurred		9,350
Total	$	109,470

Preliminary Purchase Accounting		
Cash and cash equivalents	$	11,826
Trade and other accounts receivable		111,847
Merchandise inventories		167,068
Deferred income taxes		36,495
Property, fixtures and equipment		30,575
Other assets		9,474
Accounts payable		(65,831)
Debt		(143,501)
Obligations under capital leases		(2,914)
Other liabilities		(45,569)
Preliminary purchase price	$	109,470

During fiscal 2004, additional professional fees increased the total purchase price by $185, from $109,470 to $109,655. Additionally, the Company completed its final purchase accounting allocations during fiscal 2004 in accordance with SFAS No. 141. The Company obtained third party appraisals in order to determine the valuation of lease-related interests, trademarks and customer lists, which resulted in intangible assets of $4,096. There was a reduction in other assets of $1,699 related primarily to the write-off of capitalized costs relative to certain Elder-Beerman leases. Accrued expenses and other long-term liabilities decreased by $6,924, primarily due to the elimination of deferred rent associated with certain Elder-Beerman leases. Property, fixtures and equipment decreased by $12,101, largely as a result of the impact of the other final purchase price allocation adjustments based on the negative goodwill associated with the Elder-Beerman acquisition. In addition, deferred income tax assets increased by $2,429 based on the tax effect of the final allocation adjustments noted above.

Intangible assets of $4,096 are comprised of the following items: Lease-related interests that relate to below-market-rate leases of $3,494 and trademarks and customer lists totaling $602.

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The lease interests, trademarks and customer lists were assigned amortization lives of five to twenty years, three years and three years, respectively.

In connection with the acquisition of Elder-Beerman, the Company developed integration plans resulting in involuntary terminations, employee relocations, and lease and other contract terminations. The liability for involuntary termination benefits covers approximately three hundred employees, primarily in general and administrative and merchandising functions. The Company expects to pay the balance of involuntary termination benefits and employee relocations in fiscal 2005, while the liability for terminated leases will be paid over the remaining contract periods (through 2030). Other contract terminations have been fully paid as of January 29, 2005. Liabilities recognized in connection with the acquisition and integration activity to date are as follows:

	Involuntary Termination Benefits	Employee Relocation	Lease and Other Contract Termination	Total
Liability established in preliminary purchase accounting	$ 5,571	$ 1,637	$ 3,053	$ 10,261
Payments during fiscal 2003	—	(26)	—	(26)
Balance at January 31, 2004	5,571	1,611	3,053	10,235
Final purchase accounting adjustments	(698)	290	—	(408)
Payments during fiscal 2004	(3,352)	(1,513)	(1,895)	(6,760)
Balance at January 29, 2005	$ 1,521	$ 388	$ 1,158	$ 3,067

3. LONG-LIVED ASSET IMPAIRMENT

SFAS No. 144 requires the Company to recognize an impairment loss if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows and to measure an impairment loss as the difference between the carrying amount and the fair value of the asset. The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144 whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount of the long-lived asset exceeds its estimated cash flows, the carrying amount is written-down to a value established by a present value technique or a quoted market price. As a result of this evaluation, impairment losses of approximately $900, $800 and $2,000 were recorded in fiscal 2004, 2003 and 2002, respectively, and are included in depreciation and amortization expense. Included in the impairment loss in fiscal 2004 is $295 related to the write-down of an intangible asset at one store location.

In fiscal 2003, the Company recorded charges totaling $2,378 for the write-off of duplicate information systems software due to the acquisition of Elder-Beerman.

4. EXIT OR DISPOSAL ACTIVITIES

Effective July 31, 2004, the Company closed its Pottstown, Pennsylvania store. Pre-tax charges related to this store closure of $1,756, reflected within selling, general and administrative expenses, were recorded during fiscal 2004. An agreement was entered into amending the lease termination date to July 31, 2004 from January 28, 2012, requiring the Company to pay a fee of $1,600. The remaining costs related to severance and logistics.

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In October 2002, the Company announced it would discontinue its York, Pennsylvania distribution operations in April 2003 and that all merchandise processing functions would be consolidated into the Company's existing Allentown, Pennsylvania distribution center. In addition, the Company announced it would close its Red Bank, New Jersey store in January 2003. The activities were completed as scheduled. The Company elected early adoption of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," for these exit activities and, in fiscal 2003 and 2002, recorded a net expense reduction of $4 and charges of $696, respectively, relating to the closures. These expenses related primarily to termination benefits for affected associates and other costs to consolidate the distribution centers. All reduction of expenses and charges were included within selling, general and administrative expense.

Following is a reconciliation of accruals related to the Company's closing activities:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Provisions:			
Lease termination fee	$ 1,600	$ —	$ —
Associate termination benefits	29	58	346
Other closing costs	127	(62)	350
Total	1,756	(4)	696
Payments:			
Lease termination fee	(1,600)	—	—
Associate termination benefits	(29)	(278)	(126)
Other closing costs	(127)	(193)	(95)
Total	(1,756)	(471)	(221)
Balance at fiscal year-end	$ —	$ —	$ 475

At January 29, 2005, the remaining York, Pennsylvania distribution center rental obligation through lease expiration in December 2020 is $8,963. The Company continues to utilize a portion of this facility for its data processing operations center and storage for records, materials and supplies. The Company intends to assign the distribution center lease. The Company anticipates that the fair market value of any income received from such assignment will approximate the remaining rent obligation.

During fiscal 2003, the Company sold its Harrisburg, Pennsylvania distribution center, resulting in a gain of $933 classified within selling, general and administrative expenses.

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5. DEBT

Debt consisted of the following:

	January 29, 2005	January 31, 2004
Revolving credit agreement — expires October 24, 2007; interest payable periodically at varying rates (3.33% for fiscal 2004)	$ 141,350	$ 127,000
Term Loan — principal payable October 24, 2007; interest payable periodically at varying rates (8.62% for fiscal 2004)	19,000	25,000
Mortgage notes payable — principal payable in varying monthly installments through June 2016; interest payable monthly at 9.62%; secured by land and buildings	17,776	18,494
Mortgage note payable — principal payable January 1, 2011; interest payable monthly at 5.00% beginning February 1, 2006; secured by a building and fixtures	1,000	1,000
Installment note payable — principal payable in monthly installments through March 1, 2004	—	322
Total debt	179,126	171,816
Less: current maturities	(869)	(1,113)
Long-term debt	$ 178,257	$ 170,703

Effective October 24, 2003, in connection with the acquisition of Elder-Beerman, the Company amended and restated its revolving credit facility agreement (the “credit agreement”). The amendment increased the revolving credit line from $150,000 to $300,000 and provided a term loan in the amount of $25,000. The Company reduced the term loan to $19,000 in June 2004. Borrowing availability is calculated based on eligible inventories, fixed assets and real estate. The revolving credit line interest rate, based on LIBOR or an index rate plus an applicable margin, and fee charges are determined by a formula based upon the Company’s borrowing availability. Under the credit agreement, the Company incurs fees at a rate of 0.375 percentage point on the unused line of credit. The term loan interest rate is based on LIBOR plus an applicable margin. The credit agreement contains restrictions against the incurrence of additional indebtedness, pledge or sale of assets, payment of dividends and other similar restrictions. Pursuant to the credit agreement, dividends paid by the Company may not exceed $7,500 over the life of the agreement, or $4,000 in any single year. Financial covenants contained in the credit agreement include the following: A limitation on fiscal 2005 capital expenditures of $53,477, minimum borrowing availability of $10,000 and a fixed charge coverage ratio of 1.0-to-1. The fixed charge coverage ratio is defined as earnings before interest, taxes, depreciation and amortization divided by interest expense, capital expenditures, tax payments and scheduled debt payments — measured at fiscal quarter-end based on the immediately preceding four fiscal quarters. As of January 29, 2005, the Company had borrowings of $160,350 and letter-of-credit commitments of $12,589, with $64,328 of borrowing availability (which is subject to the minimum borrowing availability covenant of $10,000).

On May 17, 1996, the Company entered into a $23,400, twenty-year mortgage agreement secured by its four stores in Rochester, New York.

The Company entered into a loan agreement with the City of Scranton, Pennsylvania on July 5, 2000. The loan provided $1,000 to be used in certain store renovations. The loan agreement

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provides for interest payments beginning February 1, 2006 at a rate of 5.0% per annum. The principal balance is to be paid in full by January 1, 2011.

The installment note payable, assumed through the acquisition of Elder-Beerman on October 24, 2003, relates to point-of-sale computer equipment. The installment note was fully paid in March 2004.

The Company was in compliance with all loan agreement restrictions and covenants during fiscal 2004.

The fair value of the Company's debt, excluding interest rate swaps, was estimated at $182,330 and $174,769 at January 29, 2005 and January 31, 2004, respectively, and is based on an estimate of rates available to the Company for debt with similar features.

Debt maturities by fiscal year as of January 29, 2005, are as follows:

2005	$	869
2006		961
2007		161,415
2008		1,178
2009		1,303
2010 and thereafter		13,400
	$	179,126

6. INTEREST RATE DERIVATIVES

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," the Company recognizes all derivatives on the balance sheet at fair value. On the date the derivative instrument is entered into, the Company generally designates the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). Changes in the fair value of a derivative that is designated as, and meets all required criteria for, a cash flow hedge are recorded in accumulated other comprehensive loss and reclassified into earnings as the underlying hedged item affects earnings. The portion of the change in fair value of a derivative associated with hedge ineffectiveness or the component of a derivative instrument excluded from the assessment of hedge effectiveness is recorded in current earnings. Also, changes in the entire fair value of a derivative that is not designated as a hedge are recorded in earnings. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes relating all derivatives that are designated as cash flow hedges to specific balance sheet liabilities.

The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively for the respective derivative. In addition, if the forecasted transaction is no longer likely to occur, any amounts in accumulated other comprehensive loss related to the derivative are recorded in the statement of income for the current period.

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It is the policy of the Company to identify on a continuing basis the need for debt capital and evaluate financial risks inherent in funding the Company with debt capital. Reflecting the result of this ongoing review, the debt portfolio and hedging program of the Company is managed to (1) reduce funding risk with respect to borrowings made or to be made by the Company to preserve the Company's access to debt capital and provide debt capital as required for funding and liquidity purposes, and (2) reduce the aggregate interest rate risk of the debt portfolio in accordance with certain debt management parameters. The Company enters into interest rate swap agreements to change the fixed/variable interest rate mix of the debt portfolio in order to maintain the percentage of fixed-rate and variable-rate debt within parameters set by management. In accordance with these parameters, swap agreements are used to reduce interest rate risks and costs inherent in the Company's debt portfolio. The Company currently has an interest rate swap contract outstanding to effectively convert a portion of its variable-rate debt to fixed-rate debt. This contract entails the exchange of fixed-rate and floating-rate interest payments periodically over the agreement life. The following table indicates the notional amounts as of January 29, 2005 and January 31, 2004 and the range of interest rates paid and received by the Company during the fiscal years ended on those respective dates:

	January 29, 2005	January 31, 2004
Fixed swaps (notional amount)	$ 30,000	$ 30,000
Range of receive rate	1.13%-2.20%	1.11%-1.66%
Range of pay rate	5.43%	5.43%-5.88%

The $30,000 interest rate swap held at January 29, 2005 will expire February 6, 2006. The net income or expense from the exchange of interest rate payments is included in interest expense. The estimated fair value of the interest rate swap agreement, based on dealer quotes, at January 29, 2005 and January 31, 2004, was an unrealized loss of $689 and $1,991, respectively, and represents the amount the Company would pay if the agreement was terminated as of said dates.

Changes in the fair value of derivatives qualifying as cash flow hedges are reported in accumulated other comprehensive loss. Gains and losses are reclassified into earnings as the underlying hedged item affects earnings, such as when quarterly settlements are made on the hedged forecasted transaction.

In fiscal 2002, the Company discontinued cash flow hedge accounting for swaps with a notional amount of $40,000. As these swaps were no longer considered highly effective under SFAS No. 133, they were then marked-to-market through earnings each reporting period. For fiscal 2002, a reduction in interest expense of $225 was recorded related to the mark-to-market adjustment for these swaps. In addition, $1,672 related to these swaps was released from accumulated other comprehensive loss to interest expense during fiscal 2002.

Interest expense for fiscal 2004 includes losses related to interest rate hedges of $86, for fiscal 2003 includes net gains related to interest rate hedges of $1,714, and for fiscal 2002 includes net losses related to interest rate hedges of $1,395. As of January 29, 2005, the Company reflected accrued expenses of $689 to recognize the fair value of its interest rate swaps. All charges recorded pursuant to SFAS No. 133 are considered non-cash items in the Consolidated Statements of Cash Flows.

As of January 29, 2005, it is expected that approximately $427 of net-of-tax losses in accumulated other comprehensive loss will be reclassified into earnings within the next twelve months. As of January 29, 2005, the maximum time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is twelve months.

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7. INTEREST COSTS

Interest and debt costs were:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Interest costs incurred	$ 13,539	$ 9,159	$ 9,526
Interest income	(95)	(109)	(87)
Capitalized interest, net	(7)	(1)	(3)
Interest expense, net	$ 13,437	$ 9,049	$ 9,436
Interest paid	$ 12,506	$ 10,414	$ 8,478

8. SALE OF RECEIVABLES

The Company securitizes its proprietary credit card portfolio through an accounts receivable facility (the “Facility”). The Facility agreement was amended and restated in October 2003 to extend the term through October 2004, modify the pricing and increase subordinated interest requirements. The Company entered into a new Facility agreement in January 2004 to increase the funding capacity while retaining all other material terms of the previous agreement. During October 2004, this agreement was amended to extend the expiration date from October 2004 to October 2005. Availability under the Facility is calculated based on the dollar balance and performance of the Company’s proprietary credit card portfolio. Financial covenants contained in the Facility agreement include the following: A limitation on fiscal 2005 capital expenditures of $53,477 and a fixed charge coverage ratio of 1.0-to-1. The fixed charge coverage ratio is defined as earnings before interest, taxes, depreciation and amortization divided by interest expense, capital expenditures, tax payments and scheduled debt payments — measured at fiscal quarter-end based on the immediately preceding four fiscal quarters.

Under the Facility agreement, which is contingent upon receivables meeting certain performance criteria, the Company sells through The Bon-Ton Receivables Partnership, LP (“BTRLP”), a wholly owned subsidiary of the Company and qualifying special purpose entity under SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” up to $250,000 of an undivided percentage interest in the receivables on a limited recourse basis. In connection with the Facility agreement, the Company retains servicing responsibilities, subordinated interests and an interest-only strip, all of which are retained interests in the securitized receivables. The Company retains annual servicing fees of 2.0% of the outstanding securitized accounts receivable balance and rights to future cash flows arising after investors in the securitization have received the return for which they contracted. The investors have no recourse to the Company’s other assets for failure of debtors to pay when due. The Company’s retained interests are subordinate to the investors’ interests. The value of the retained interest is subject to credit, prepayment and interest rate risks. The Company does not recognize a servicing asset or liability, as the amount received for servicing the receivables is a reasonable approximation of market rates and servicing costs.

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As of January 29, 2005 and January 31, 2004, credit card receivables were sold under the Facility in the amount of $244,000 and $228,488, respectively, and the Company had subordinated interests of $84,821 and $96,755, respectively, related to the amounts sold that are included in the accompanying Consolidated Balance Sheets as retained interest in trade receivables. The Company accounts for its subordinated interest in the receivables in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company has not recognized any unrealized gains or losses on its subordinated interest, as the current carrying value of customer revolving charge accounts receivable is a reasonable estimate of fair value and average interest rates approximate current market origination rates. Subordinated interests as of January 29, 2005 and January 31, 2004 included restricted cash of $1,998 and $5,998, respectively, required pursuant to the terms of the Company's Facility agreement.

New receivables are sold on a continual basis to replenish each investor's respective level of participation in receivables that have been repaid by credit card holders.

During fiscal 2004, 2003 and 2002, the Company recognized securitization income of $9,146, $8,008, and $8,860, respectively, on securitization of credit card receivables. This income is reported as a component of selling, general and administrative expenses.

Key economic assumptions used in measuring retained interests during the year were as follows:

	Fiscal Year Ended	
	January 29, 2005	January 31, 2004
Yield on credit cards	16.4% - 17.5%	16.1% - 16.4%
Payment rate	19.6% - 20.9%	18.9% - 19.5%
Interest rate on variable funding	4.2% - 4.7%	3.5% - 4.0%
Net charge-off rate	7.4% - 7.9%	7.3% - 7.9%
Residual cash flows discount rate	7.0%	7.0%

The interest-only strip was recorded at its fair value of $1,220 and $1,325 at January 29, 2005 and January 31, 2004, respectively, and is included in retained interest in trade receivables on the Consolidated Balance Sheets. The following table shows key economic assumptions used in measuring the interest-only strip for fiscal 2004. The table also displays the sensitivity of the current fair value of residual cash flows in fiscal 2004 to immediate 10% and 20% adverse changes in assumptions:

		Decrease in Value Due to Adverse Changes	
	Assumptions	10%	20%
Yield (annual rate)	16.7%	$954	$ 1,908
Payment rate	20.9%	142	284
Interest rate on variable and adjusted contracts	4.7%	268	536
Net charge-off rate	7.8%	449	898
Residual cash flows discount rate (annual rate)	7.0%	2	3

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a 10% variation in an assumption generally cannot be extrapolated because the relationship of the change in an assumption to the change in fair value may not be linear. Also, in this table

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the effect of a variation in a particular assumption on the fair value of retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

The Company recognized servicing fees, which it reported as a component of selling, general and administrative expenses, of $4,415, $2,734 and $2,890 for fiscal 2004, 2003 and 2002, respectively. At January 29, 2005, $8,053 of the total managed credit card receivables were 61 days or more past due. Net credit losses on the total managed credit card receivables were $13,480, $7,575, and $7,364 for fiscal 2004, 2003 and 2002, respectively.

9. PROPERTY, FIXTURES AND EQUIPMENT

At January 29, 2005 and January 31, 2004, property, fixtures and equipment and related accumulated depreciation and amortization consisted of:

	January 29, 2005	January 31, 2004
Land and improvements	$ 2,801	$ 2,931
Buildings and leasehold improvements	193,829	189,383
Furniture and equipment	167,104	152,965
Buildings and equipment under capital leases	3,544	4,831
	367,278	350,110
Less: Accumulated depreciation and amortization	(198,974)	(172,500)
Net property, fixtures and equipment	$ 168,304	$ 177,610

Property, fixtures and equipment with a net book value of $24,414 and $26,096 were pledged as collateral for secured loans at January 29, 2005 and January 31, 2004, respectively.

10. COMMITMENTS AND CONTINGENCIES

Leases

The Company is obligated under capital and operating leases for a major portion of its store properties. Certain leases provide for additional rental payments based on a percentage of sales in excess of a specified base (contingent rentals) and for payment by the Company of operating costs (taxes, maintenance and insurance), both of which vary by lease. Also, selling space has been licensed to other retailers (leased departments) in many of the Company’s facilities.

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At January 29, 2005, future minimum lease payments for the fixed noncancelable terms of operating leases and the present value of net minimum lease payments under capital leases are as follows:

Fiscal Year	Capital Leases	Operating Leases
2005	$ 1,013	$ 47,025
2006	79	44,508
2007	24	40,091
2008	—	37,968
2009	—	35,539
2010 and thereafter	—	184,271
Total net minimum rentals	1,116	$ 389,402
Less: Amount representing interest	(79)	
Present value of net minimum lease payments, of which $939 is due within one year	$ 1,037	

Minimum rental commitments under operating leases are reflected without reduction for rental income due in future years under non-cancelable subleases since income under these subleases is immaterial. Some of the store leases contain renewal options ranging from three to fifty-nine years. Included in the minimum lease payments under operating leases are leased vehicles, copiers, fax machines, computer equipment, and a related-party commitment with an entity associated with the Company's majority shareholder of $224 and $112 for fiscal 2005 and 2006, respectively.

Rental expense consisted of the following:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Operating leases:			
Buildings:			
Minimum rentals	$ 43,491	$ 26,451	$ 18,403
Contingent rentals	3,019	2,798	2,383
Fixtures and equipment	1,252	804	669
Contingent rentals on capital leases	15	23	40
Totals	$ 47,777	$ 30,076	$ 21,495

Rental expense includes amounts paid to an entity related to the Company's majority shareholder of $224 for each of fiscal 2004, 2003 and 2002.

Contingencies

The Company is party to legal proceedings and claims that arise during the ordinary course of business. In the opinion of management, the ultimate outcome of any such litigation and claims will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

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11. SHAREHOLDERS' EQUITY

The Company's capital structure consists of Common Stock with one vote per share and Class A Common Stock with ten votes per share. Transfers of the Company's Class A Common Stock are restricted. Upon sale or transfer of ownership or voting rights of Class A Common Stock to other than permitted transferees, such shares will convert to an equal number of Common Stock shares. Additionally, the Company has authorized 5,000,000 shares of preferred stock; however, no preferred shares have been issued.

12. INCOME TAXES

The Company accounts for income taxes according to SFAS No. 109. Under SFAS No. 109, deferred tax assets and liabilities are recognized for the expected future tax consequences of the difference between the financial statement and income tax basis of assets and liabilities and from net operating losses and credit carry-forwards.

Components of the income tax provision are as follows:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Current:			
Federal	$ 3,300	$ 10,799	$ 3,128
State	1,265	567	350
Total current	4,565	11,366	3,478
Deferred:			
Federal	7,591	650	2,133
State	(276)	344	153
Total deferred	7,315	994	2,286
Income tax provision	$ 11,880	$ 12,360	$ 5,764

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Components of gross deferred tax assets and liabilities were comprised of the following:

	January 29, 2005	January 31, 2004
Deferred tax assets:		
Net operating losses	$ 49,488	$ 41,369
Property, fixtures and equipment	13,023	18,221
Accrued expenses	9,873	11,039
Inventories	4,439	8,925
Minimum tax and business credits	2,696	2,696
Rent amortization	6,437	1,828
Bad debt reserve	819	1,569
Asset write-down	1,236	1,307
Sale and leaseback	705	865
SFAS No. 133 — Interest rate swaps	263	747
Other	1,514	2,217
Gross deferred tax assets	90,493	90,783
Less: Valuation allowance	(58,069)	(56,607)
Total gross deferred tax assets	32,424	34,176
Deferred tax liabilities:		
Intangible Assets	1,436	—
Other	1,261	1,099
Total gross deferred tax liabilities	2,697	1,099
Net deferred tax assets	$ 29,727	$ 33,077

In assessing the realizability of the deferred tax assets, the Company considered whether it was more-likely-than-not that the deferred tax assets, or a portion thereof, will not be realized. The Company considered the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies and limitations pursuant to Section 382 of the Internal Revenue Code ("Section 382"). As a result, the Company concluded that a valuation allowance against a portion of the net deferred tax assets was appropriate. A total valuation allowance of $58,069 and $56,607 was recorded at January 29, 2005 and January 31, 2004, respectively. The valuation allowance increase was due to final purchase accounting adjustments during the third quarter of fiscal 2004 and the impact of general operations and tax deductions in fiscal 2004. If actual results differ from these estimates or these estimates are adjusted in future periods, the Company may need to adjust its valuation allowance, which could materially impact its financial position and results of operations.

The Company recorded $86,593 of net deferred tax assets in connection with the October 24, 2003 acquisition of Elder-Beerman; a valuation allowance of $47,669 was established against these deferred tax assets. Any future reduction to the valuation allowance established against deferred tax assets acquired in connection with the acquisition of Elder-Beerman would first reduce intangible assets and then, to the extent the valuation allowance reduction exceeds the current book value of intangible assets (approximately $3,800 at January 29, 2005), would reduce the current income tax provision.

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As of January 29, 2005, the Company had federal and state net operating loss carry-forwards of $75,635 and $358,339, respectively, which are available to offset future federal and state taxable income — subject to certain limitations imposed by Section 382. These net operating losses will expire at various dates beginning in fiscal 2009 through fiscal 2023. The Company acquired federal and state net operating loss carry-forwards of $75,995 and $195,802, respectively, in connection with the acquisition of Elder-Beerman.

As of January 29, 2005, the Company had alternative minimum tax credits and general business credits in the amount of $2,064 and $633, respectively. Both credits are also subject to the limitations imposed by Section 382. The alternative minimum tax credits are available indefinitely, and the general business credits expire in fiscal 2007 and fiscal 2008. The Company acquired these alternative minimum tax credits and general business credits in connection with the acquisition of Elder-Beerman.

A reconciliation of the statutory federal income tax rate to the effective tax rate is presented below:

	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Tax at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.1	2.2	2.5
Impact of increased effective income tax rate on deferred taxes	(2.3)	—	—
Other, net	1.3	0.3	—
Total	37.1%	37.5%	37.5%

In fiscal 2004, 2003 and 2002, the Company made income tax payments (net of refunds) of $14,442, $(6,363) and $9,430, respectively.

13. EMPLOYEE BENEFIT PLANS

The Company provides eligible employees with retirement benefits under a 401(k) salary reduction and retirement contribution plan (the “Plan”). Employees are eligible to receive a company contribution in the Plan after they reach the age of 18, complete one year of service and work at least 1,000 hours in any calendar year. Under the 401(k) provisions of the Plan, the majority of eligible employees are permitted to contribute up to 50% of their compensation to the Plan. Company matching contributions, not to exceed 6% of eligible employees’ compensation, are at the discretion of the Company’s board of directors. Company matching contributions under the 401(k) provisions of the Plan become fully vested for eligible employees after three years of service. Contributions to the Plan under the retirement contribution provisions are at the discretion of the Company’s board of directors. These retirement contributions become fully vested after five years of service.

Elder-Beerman provided eligible employees with a defined contribution employee benefit plan (the “Elder-Beerman Plan”). Comparable plans in design, eligibility and company contribution were operated by the Company and Elder-Beerman during fiscal 2004. On January 1, 2005, the Company's Plan and the Elder-Beerman Plan were combined into a single plan. The Company's fiscal 2004, 2003 and 2002 expense under both the Plan and the Elder-Beerman Plan was $4,525, $2,483 and $2,545, respectively.

The Company provides a supplementary pension plan to certain key executives. Employees become 100% vested in the plan benefits after achieving a specific age as defined in each employee's agreement. The benefits from this unfunded plan are paid upon retirement, providing the employee is age 60.

In addition, as a result of the acquisition of Elder-Beerman, the Company assumed a liability for a supplementary pension plan that covers one current and twelve former employees. The benefits from this unfunded plan are paid upon retirement, provided that the employee is age 65. All participants in this plan are fully vested.

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Summary information for the supplementary pension plans is as follows:

	Fiscal Year Ended	
	January 29, 2005	January 31, 2004
Change in the projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 4,415	$ 1,184
Service cost	66	168
Interest cost	211	118
Benefits paid	(254)	(113)
Change due to change in assumptions	19	121
Change due to plan amendment	—	116
Acquisition	—	2,817
Experience (gain) loss	(452)	4
Projected benefit obligation at end of year	$ 4,005	$ 4,415
Change in the fair value of plan assets:		
Plan assets at beginning of year	$ —	$ —
Company contributions	254	113
Benefits paid	(254)	(113)
Plan assets at end of year	$ —	$ —
Funded status of the plans	$ (4,005)	$ (4,415)
Unrecognized (gain) loss or prior service cost	—	—
Net amount recognized	$ (4,005)	$ (4,415)
Amounts recognized in Consolidated Balance Sheets consist of:		
Accrued expenses	$ (241)	$ (254)
Other long-term liabilities	(3,764)	(4,161)
Net amount recognized	$ (4,005)	$ (4,415)
Weighted average assumptions used to determine projected benefit obligation and net periodic benefit expense (income) are as follows:		
Discount rate	5.5%	5.3%

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	Fiscal Year Ended		
	January 29, 2005	January 31, 2004	February 1, 2003
Components of net periodic benefit expense (income):			
Service cost	$ 66	$ 168	$ 128
Interest cost	211	118	70
Recognized prior service cost	—	116	—
Recognized (gain) or loss	(433)	125	521
Net periodic benefit expense (income)	$ (156)	$ 527	$ 719

The Company uses its fiscal year-end as the measurement date for determining obligations, plan assets and experience gains or losses. The Company records the impact of gains and losses in the current period. The Company expects benefits to be paid in the amount of $241, $278, $300, $300 and $286 for fiscal 2005, 2006, 2007, 2008 and 2009, respectively, and $1,723 to be paid in aggregate for the next five fiscal years thereafter. The Company expects its contributions to the supplementary pension plans for fiscal 2005 to be $241.

In connection with its acquisition of Elder-Beerman, the Company assumed a liability for a defined benefit pension plan in which accrued benefits were frozen and the plan approved for termination. During fiscal 2003, the plan was terminated and the Company made payments totaling $4,484 to satisfy this liability.

14. STOCK AWARD PLANS

The Company's Amended and Restated 1991 Stock Option and Restricted Stock Plan ("1991 Stock Plan"), as amended through June 17, 1997, provided for the granting of the following options and awards to certain associates, officers and directors: Common Stock options, performance-based Common Stock options as part of a long-term incentive plan for selected officers, and Common Stock awards subject to substantial risk of forfeiture ("Restricted Shares"). A maximum of 1,900,000 shares were available under the 1991 Stock Plan. Options granted under the 1991 Stock Plan were generally issued at the market price of the Company's stock on the date of grant, vested over three to five years and had a ten-year term. No options or awards may be granted under the 1991 Stock Plan after September 30, 2001.

During 1991, the Board of Directors approved a Phantom Equity Replacement Plan ("Replacement Plan") to replace the Company's previous deferred compensation arrangement that was structured as a phantom stock program. Grants under the Replacement Plan generally vested over one to six years and had a thirty-year term. No options may be granted under the Replacement Plan after December 31, 1991. As of January 29, 2005, options for 30,000 shares remain outstanding at an exercise price of $3.25 with a remaining contractual life of four years (all such shares are exercisable as of January 29, 2005).

The Company amended its Management Incentive Plan ("MIP Plan") in 1997 to provide, at the election of each participant, for bonus awards to be received in vested Restricted Shares in lieu of cash on the satisfaction of applicable performance goals. The maximum number of shares to be granted under the MIP Plan was 300,000, with no shares to be granted after July 1998.

The Company's Amended and Restated 2000 Stock Incentive Plan ("2000 Stock Plan"), as amended through August 24, 2004, provides for the granting of Common Stock options and

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Restricted Shares (including Restricted Stock Units) to certain associates, officers, directors, consultants and advisors. A maximum of 1,900,000 shares may be granted under the 2000 Stock Plan. Grant vesting periods are at the discretion of the Company's board of directors. No options or awards may be granted under the 2000 Stock Plan after March 2, 2010. All options and awards granted pursuant to the 2000 Stock Plan through January 29, 2005 have been to Company associates, officers and directors.

A summary of the options and Restricted Shares under the 1991 Stock Plan follows:

	Common Stock Options		Restricted Shares
	Number of Options	Weighted Average Price	Number of Shares
Fiscal 2002			
February 2, 2002	837,598	$ 6.27	150,035
Exercised	—	—	(27,685)
Forfeited	(38,750)	$ 3.77	(3,333)
February 1, 2003	798,848	$ 6.38	119,017
Options exercisable at February 1, 2003	640,098	$ 7.24	—
Fiscal 2003			
Exercised	(70,906)	$ 6.61	(47,017)
Forfeited	(28,400)	$ 6.91	—
January 31, 2004	699,542	$ 6.34	72,000
Options exercisable at January 31, 2004	550,958	$ 7.26	—
Fiscal 2004			
Exercised	(330,887)	$ 6.26	(31,000)
Forfeited	(14,300)	$ 4.27	(20,000)
January 29, 2005	354,355	$ 6.50	21,000
Options exercisable at January 29, 2005	217,271	$ 8.74	—

The exercised Restricted Shares in the above summary represent shares for which the restrictions have lapsed.

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The range of exercise prices for the 1991 Stock Plan options outstanding as of January 29, 2005 follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.94	140,084	6.1 years	$ 2.94	3,000	$ 2.94
$3.38 - $6.44	93,004	1.2 years	$ 6.11	93,004	$ 6.11
$7.25 - $11.25	63,567	2.3 years	$ 7.76	63,567	$ 7.76
$13.75 - $17.00	57,700	3.1 years	$ 14.38	57,700	$ 14.38
Total	354,355		$ 6.50	217,271	$ 8.74

A summary of the Replacement Plan follows:

	Common Stock Options
Fiscal 2002	
February 1, 2003	42,598
Fiscal 2003	
Exercised	(12,598)
January 31, 2004	30,000
Fiscal 2004	
January 29, 2005	30,000

A summary of the MIP Plan follows:

	Shares
Fiscal 2002	
February 2, 2002	36,612
Restriction lapsed	(6,762)
Forfeited	(3,323)
February 1, 2003	26,527
Fiscal 2003	
Restriction lapsed	(12,826)
Forfeited	(6,753)
January 31, 2004	6,948
Fiscal 2004	
Restriction lapsed	(2,642)
Forfeited	(1,471)
January 29, 2005	2,835

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A summary of the options and Restricted Shares under the 2000 Stock Plan follows:

	Common Stock Options		Restricted Shares
	Number of Options	Weighted Average Price	Number of Shares
Fiscal 2002			
February 1, 2003	100,000	$ 2.39	—
Options exercisable at February 1, 2003	33,334	$ 2.39	—
Fiscal 2003			
Granted	20,000	$ 4.03	24,814
January 31, 2004	120,000	$ 2.66	24,814
Options exercisable at January 31, 2004	66,667	$ 2.39	—
Weighted average fair value of options granted during fiscal 2003		$ 2.81	
Fiscal 2004			
Granted	190,000	$ 13.95	108,817
Exercised	(100,000)	$ 2.39	(8,272)
Forfeited	—	—	(16,542)
January 29, 2005	210,000	$ 13.01	108,817
Options exercisable at January 29, 2005	—	—	—
Weighted average fair value of options granted during fiscal 2004		$ 7.76	

Restricted Shares within the 2000 Stock Plan include 26,817 Restricted Stock Units granted to Company directors during fiscal 2004. Each Restricted Stock Unit represents rights to one share of the Company's Common Stock, subject to grant vesting periods.

The range of exercise prices for the 2000 Stock Plan options outstanding as of January 29, 2005 follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.03	20,000	8.1 years	$ 4.03	—	—
$13.05 - $15.75	190,000	9.7 years	$ 13.95	—	—
Total	210,000		$ 13.01	—	—

Forfeiture of options and Restricted Shares in the above plans resulted primarily from employment termination and voluntary forfeitures.

Amortization of Restricted Shares, charged to compensation expense, was $450, $209 and $160 in fiscal 2004, 2003 and 2002, respectively.

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15. QUARTERLY RESULTS (UNAUDITED)

	Fiscal Quarter Ended			
Fiscal 2004:	May 1, 2004	July 31, 2004	October 30, 2004	January 29, 2005
Net sales	$ 265,083	$ 284,198	$ 297,798	$ 463,293
Other income	1,978	2,221	2,012	3,040
	267,061	286,419	299,810	466,333
Costs and expenses:				
Costs of merchandise sold	169,660	178,009	186,180	296,565
Selling, general and administrative	96,111	98,048	105,232	116,530
Depreciation and amortization(1)	6,969	7,617	6,101	7,122
Income (loss) from operations	(5,679)	2,745	2,297	46,116
Interest expense, net	3,204	3,364	3,489	3,380
Income (loss) before income taxes	(8,883)	(619)	(1,192)	42,736
Income tax provision (benefit)	(3,332)	(231)	(447)	15,890
Net income (loss)	$ (5,551)	$ (388)	$ (745)	$ 26,846
Per Share Amounts —				
Basic:				
Net income (loss)	$ (0.35)	$ (0.02)	$ (0.05)	$ 1.68
Basic weighted average shares outstanding	15,686,415	15,975,641	15,999,908	16,012,637
Diluted:				
Net income (loss)	$ (0.35)	$ (0.02)	$ (0.05)	$ 1.65
Diluted weighted average shares outstanding	15,686,415	15,975,641	15,999,908	16,314,534

(1) In the fiscal quarter ended January 29, 2005, the Company recorded an impairment charge of approximately $900 for certain store assets, inclusive of $295 for the write-down of an intangible asset at one store location.

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	Fiscal Quarter Ended			
Fiscal 2003:	May 3, 2003	August 2, 2003	November 1, 2003	January 31, 2004
Net sales	$ 141,111	$ 153,128	$ 180,417	$ 451,753
Other income	859	989	1,092	2,977
	141,970	154,117	181,509	454,730
Costs and expenses:				
Costs of merchandise sold	89,311	96,788	113,844	291,313
Selling, general and administrative	50,959	49,172	61,296	111,999
Depreciation and amortization(1)	5,134	5,493	7,666	7,341
Income (loss) from operations	(3,434)	2,664	(1,297)	44,077
Interest expense, net	1,244	1,302	1,437	5,066
Income (loss) before income taxes	(4,678)	1,362	(2,734)	39,011
Income tax provision (benefit)	(1,730)	504	(1,032)	14,618
Net income (loss)	$ (2,948)	$ 858	$ (1,702)	$ 24,393
Per Share Amounts —				
Basic:				
Net income (loss)	$ (0.20)	$ 0.06	$ (0.11)	$ 1.57
Basic weighted average shares outstanding	15,033,345	14,997,502	15,062,566	15,552,210
Diluted:				
Net income (loss)	$ (0.20)	$ 0.06	$ (0.11)	$ 1.52
Diluted weighted average shares outstanding	15,033,345	15,222,031	15,062,566	16,075,396

(1) In the fiscal quarters ended November 1, 2003 and January 31, 2004, the Company recorded a charge of $2,318 and $60, respectively, for the write-off of duplicate information systems software due to the acquisition of Elder-Beerman. Additionally, in the fiscal quarter ended January 31, 2004, the Company recorded an impairment charge of approximately $800 for certain store assets.

16. STOCK REPURCHASES

On February 7, 2002, the Company announced a stock repurchase program authorizing the purchase of up to $2,500 of the Company’s Common Stock from time to time. During fiscal 2003, the Company purchased 60,800 Common Stock shares at a cost of $255. During fiscal 2002, the Company purchased 277,000 Common Stock shares at a cost of $1,132. Treasury stock is accounted for by the cost method.

THE BON-TON STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands except share and per share data)

17. SUBSEQUENT EVENT

On March 17, 2005 the Company announced a quarterly cash dividend of $0.025 per share on Class A Common Stock and Common Stock, payable April 15, 2005 to shareholders of record as of April 1, 2005.

Schedule II: VALUATION AND QUALIFYING ACCOUNTS
THE BON-TON STORES, INC. AND SUBSIDIARIES

Classification	Balance at Beginning of Period	Charged to Costs & Expenses	Deductions	Other	Balance at End of Period
Year ended February 1, 2003:					
Allowances for doubtful accounts and sales returns	$ 3,758,000	$ 8,321,000(1)	$ (8,539,000)(2)	—	$ 3,540,000
Year ended January 31, 2004:					
Allowances for doubtful accounts and sales returns	$ 3,540,000	$ 9,244,000(1)	$ (11,041,000)(2)	$ 4,556,000(3)	$ 6,299,000
Year ended January 29, 2005:					
Allowances for doubtful accounts and sales returns	$ 6,299,000	$ 13,815,000(1)	$ (13,698,000)(2)	—	$ 6,416,000

NOTES:

(1) Provision for merchandise returns and loss on credit sales.

(2) Uncollectible accounts written off, net of recoveries.

(3) Based upon preliminary purchase accounting pursuant to the acquisition of The Elder-Beerman Stores Corp.

EXHIBIT INDEX

Exhibit	Description
10.2	Employment Agreement with David B. Zant
10.3	Employment Agreement with James M. Zamberlan
10.5(b)	Amendment No. 1 to Employment Agreement with Byron L. Bergren
10.20(c)	Master Amendment Agreement No. 1 to Transfer and Servicing Agreement, Performance Undertaking, Note Purchase Agreement, Administration Agreement, Indenture Supplement, Master Indenture
21	Subsidiaries of the Registrant
23	Consent of KPMG LLP
31.1	Certification of Byron L. Bergren
31.2	Certification of James H. Baireuther
32	Certification Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934

EXHIBIT 10.2

EMPLOYMENT AGREEMENT

THIS AGREEMENT made as of this 13th day of December 2004, by and between THE BON-TON STORES, INC., a Pennsylvania corporation (the "Company"), and DAVID ZANT ("Employee").

W I T N E S S E T H:

In consideration of the mutual promises and covenants contained herein and intending to be legally bound hereby, the Company and Employee agree as follows:

1. Position and Responsibilities

(a) The Company hereby employs Employee and Employee hereby accepts employment by the Company as the Company's Vice Chairman and Chief Merchandising Officer. Employee shall have all the duties and responsibilities normally attendant to the position of Chief Merchandising Officer of a retail department store business and shall report directly to the Chief Executive Officer of the Company or the person performing the duties of the Chief Executive Officer.

(b) Throughout the term of this Agreement, Employee shall devote his entire working time, energy, attention, skill and best efforts to the affairs of the Company and to the performance of his duties hereunder in a manner which will faithfully and diligently further the business and interests of the Company. Employee may not, directly or indirectly, do any work for or on behalf of a competitor or any other company while employed by the Company. However, nothing herein contained shall be deemed to prevent or limit the right of Employee to invest any of his personal funds in less than one percent of the capital stock or other securities of any corporation whose stock or securities are publicly owned or are regularly traded on any public exchange, nor shall this clause be construed as preventing Employee from investing his assets in such other form or manner as will not require any services on the part of the Employee in the operation or the affairs of entities in which such investments are made. Approval of board memberships and participation in lectures and teaching activities will be at the discretion of the Chief Executive Officer, however, such approval will not be unreasonably withheld, provided that such activities do not significantly interfere with Employee's duties under this Agreement.

(c) Employee shall not obtain goods or services or otherwise deal on behalf of the Company with any business or entity in which Employee or a member of his family has a financial interest or from which Employee or a member of his immediate family may derive a financial benefit as a result of such transaction, except that this prohibition shall not apply to any public company in which Employee or a member of his immediate family owns less than one percent of the outstanding stock.

2. Term of Agreement Employee's employment hereunder, shall commence as of January 1, 2005 (the "Effective Date"), and shall continue through and terminate on January 31, 2008, unless sooner terminated in accordance with Paragraph 10 below.

3. Place of Performance Employee shall be based at the regular executive offices of the Company in York, PA., except for travel required for Company business. Employee's cost of relocation to York, PA. shall be fully reimbursed in accordance with the Company's relocation policy. In the event of a relocation of the Company's executive offices in the future requiring Employee to relocate his residence, Employee shall relocate subject to reimbursement for

relocation expenses on the same basis and to the same extent as other similarly situated Company executives.

4. Compensation

(a) Salary Employee shall receive a base salary at the annual rate of $500,000. This base salary, less taxes and normal deductions, shall be paid to Employee in substantially equal installments in accordance with the Company's regular executive payroll practices in effect from time to time. The annual base salary may be reviewed from time to time during the term of this Agreement by the Chief Executive Officer (subject to review by the Compensation Committee of the Board of Directors) to ascertain whether, in the Company's sole discretion, such base salary should be increased, and once increased, such base salary shall not be decreased. The first such salary review occur in 2006.

(b) Signing Bonus Employee will receive a bonus of $225,000 in the first payroll period following the Effective Date to compensate him for his lost bonus opportunity at his prior employer.

(c) Annual Bonus Employee will participate in the Company's bonus plan for senior executives in accordance with its terms and conditions. Employee shall be eligible to earn an annual target bonus of 50% of his base salary and a maximum bonus of 100% of his base salary in accordance with objectives to be determined by the Company. To the extent reasonably practicable, the annual bonus shall be computed within 90 days following the close of the Company's fiscal year and paid within 30 days of its computation. Employee's first year of participation in the bonus plan shall be in the fiscal year ending January 31, 2006. For the first year of participation only, Employee shall be guaranteed a minimum bonus payment of $125,000 provided he is employed by the Company on the date that bonus payments are made in 2006.

(d) Stock Options On the Effective Date, Employee shall receive a one time grant of options to purchase 60,000 shares of the Company's Common Stock at a purchase price equal to the fair market value of the stock on the date of grant ("Options"). The Options will be granted pursuant to the terms of the Company's 2000 Stock Incentive Plan or a similar plan ("the Plan"). The Options shall vest in three annual equal installments on January 31, 2006, January 31, 2007 and January 31, 2008.

(e) Restricted Shares On the Effective Date, Employee will be granted 40,000 restricted shares of the Company's Common Stock pursuant to the terms of the Plan. Employee's ownership of 15,000 of these shares will vest on August 31, 2005, provided he is still employed on that date. Employee's ownership of 10,000 of these shares will vest on August 31, 2007, provided he is still employed on that date. Employee's ownership of 15,000 of these shares will vest on August 31, 2008, provided he is still employed on that date.

5. Allowances The Company shall provide Employee with $9,500 per year, payable monthly, as an automobile allowance. The Company shall also provide Employee with an annual perquisite allowance of up to $5,000 per year to reimburse Employee for expenses associated with membership in a private country club of his choice.

6. Medical Insurance Employee and his eligible dependents shall be eligible to participate in the Company's group medical plans in accordance with the terms of such plans and, subject to the restrictions and limitations contained in the insurance agreement or

agreements. The Company shall pay Employee up to $2,300 per year for medical expenses which are not covered by the Company's medical plan.

7. Other Benefits Employee shall be eligible to participate in the Company's profit sharing plan, deferred compensation plan, discount program, vacation plan, long-term disability plan and employee benefit programs generally made available to other executives of the Company, subject to their respective generally applicable eligibility requirements, terms, conditions and restrictions; provided however, that payments under this Agreement shall be in lieu of any severance benefits otherwise provided by the Company. However, nothing in this Agreement shall preclude the Company from amending or terminating any such insurance, benefit, program or plan so long as the amendment or termination is applicable to the Company's executives generally. Moreover, the Company's obligations under this provision shall not apply to any insurance, benefit, program or plan made available on an individual basis to one or more select executive employees by contract if such insurance, benefit, program or plan is not made available to all executive employees. With respect to Employee's participation in the Company's vacation plan, Employee shall be eligible for four weeks vacation per calendar year, which vacation entitlement shall be pro-rated in any calendar year in which the Employee does not work the entire calendar year. Employee shall also be entitled to the one-time transitional benefits provided for in his offer letter, and payment of his reasonable legal fees incurred in connection with this Agreement up to a maximum of $3,000. In addition, Employee shall be entitled to participate in the Bon-Ton Stores, Inc. Supplemental Executive Retirement Plan (the "SERP") pursuant to all terms and conditions set forth therein, and as further provided in Exhibit A hereto, providing specific terms and conditions regarding Employee's participation in the SERP.

8. Business Expenses The Company shall pay or reimburse Employee for reasonable entertainment and other expenses incurred by Employee in connection with the performance of Employee's duties under this Agreement upon receipt of vouchers therefor and in accordance with the Company's regular reimbursement procedures and practices in effect from time to time.

9. Termination of Employment Notwithstanding any other provision of this Agreement, Employee's employment and all of the Company's obligations or liabilities under this Agreement may be terminated immediately, excluding any obligations the Company may have under Paragraph 10 below in any of the following circumstances:

(a) Disability or Incapacity In the event of Employee's physical or mental inability to perform his essential duties hereunder, with or without reasonable accommodation, for a period of 13 consecutive weeks or for a cumulative period of 26 weeks during the term of this Agreement.

(b) Death of Employee In the event of Employee's death.

(c) Resignation for Good Reason Employee may resign for "Good Reason," defined below, upon 30 days' written notice by Employee to the Company except as set forth in paragraph 10(d) below. The Company may waive Employee's obligation to work during this 30 day notice period and terminate his employment immediately, but if the Company takes this action in the absence of agreement by Employee, Employee shall receive the salary which otherwise would be due through the end of the notice period. For purposes of this Agreement, "Good Reason" shall mean any of the following violations of this Agreement by the Company:
causing Employee to cease to be Vice Chairman and Chief Merchandising Officer with

commensurate duties and responsibilities without Employee's consent; any reduction in the Employee's base salary; any reduction in the Employee's potential bonus eligibility amount; and any substantial breach of any material provision of this Agreement. Notwithstanding the foregoing, the acts or omissions described above shall not constitute "Good Reason" unless the Employee provides the Company with written notice detailing the matters he asserts to be "Good Reason" which the Company does not cure within thirty (30) days of receiving the notice.

(d) Change in Control In the event of a Change of Control, the Employee shall be prohibited from resigning for Good Reason for a period of three months following the Change of Control. For purposes of this Agreement, a Change of Control shall be deemed to occur if:

(i) any "person," as such term is defined under Sections 3(a)(9) and 13(d) of the Exchange Act, who is not an Affiliate of Company on the date hereof, becomes a "beneficial owner," as such term is used in Rule 13d-3 under the Exchange Act, of a majority of the Company's Voting Stock;

(ii) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets;

(iii) the Company is party to a merger, consolidation, other form of business combination or a sale of all or substantially all of its assets, unless the business of Company is continued following any such transaction by a resulting entity (which may be, but need not be, Company) and the shareholders of Company immediately prior to such transaction (the "Prior Shareholders") hold, directly or indirectly, a majority of the voting power of the resulting entity; or

(iv) if any shareholder owns stock possessing a greater voting power than held by M. Thomas Grumbacher and his family, or if M. Thomas Grumbacher and his family control less than 20% of the Voting Stock.

(e) Discharge for Cause Company may discharge Employee at any time for "Cause," which shall be limited to: willful and proven violation of reasonable directives from either the Board or CEO or of standards of conduct established by law; fraud, willful misconduct, misappropriation of funds or other dishonesty; conviction of a crime of moral turpitude; any misrepresentation made in this Agreement; or any material breach of any provision of this Agreement (including, without limitation, acceptance of employment with another company or performing work or providing advice to another company, as an employee, consultant or in any other similar capacity while still an Employee of the Company).

(f) Discharge without Cause Notwithstanding any other provision of this Agreement, Employee's employment and any and all of the Company's obligations under this Agreement (excluding any obligations the Company may have under Paragraph 10 below) may be terminated by the Company at any time without Cause.

10. Payments Upon Termination

(a) Discharge Without Cause or Resignation for Good Reason. If Employee is discharged without Cause or resigns for Good Reason, other than following a Change in Control, Employee shall receive his base salary (paid in monthly installments) for twelve (12) months plus continuation of the Company contribution towards his Company group medical benefits (but not the allowances referred to in paragraph 5 of this Agreement) for up to twelve (12) months or until Employee becomes eligible for comparable benefits at a new employer. In addition, if Employee resigns for Good Reason after having completed at least three (3) months of employment in the Company's fiscal year, Employee shall be entitled to a pro-rata bonus for that year (based on the number of days employed in the fiscal year) based on the Company's full year performance. The bonus, if any, will be paid as soon as practicable after the end of the fiscal year in which the termination occurs. The Employee's right to any payments or benefits under this paragraph shall be contingent upon (i) execution by the Employee at or about the time of termination of his employment of a general release of claims (including without limitation contractual, common law and statutory claims) in a form satisfactory to the Company in favor of the Company and its officers, directors, executives and agents substantially; and (ii) compliance by the Employee with all of the terms of this Agreement including without limitation paragraphs 11 and 12 hereof.

(b) Death or Disability/Incapacity

(i) On death, Employee's estate's sole entitlement will be to base salary for any days worked prior to his death, amounts payable on account of Employee's death under any insurance or benefit plans or policies maintained by the Company, and any vested benefits to which Employee is entitled under the Company's stock option and employee benefit plans in accordance with, to the extent provided in, and subject to the restrictions and payout schedules contained in those plans.

(ii) On termination for disability or incapacity, Employee's sole entitlement will be to base salary for any days worked prior to the date of termination, amounts payable on account of disability or incapacity under any insurance or benefit plans or policies maintained and any vested benefits to which Employee is entitled under the Company's stock option and employee benefit plans in accordance with, to the extent provided in, and subject to the restrictions and payout schedules contained in those plans.

(c) Discharge for Cause If Employee is discharged for Cause or resigns without Good Reason, Employee's sole entitlement will be the receipt of base salary for any days worked through the date of termination and any vested benefits to which Employee is entitled under the Company's stock option and employee benefit plans in accordance with, to the extent provided in, and subject to the restrictions and payout schedules contained in those plans.

(d) Change in Control

(i) Notwithstanding the foregoing, upon a Change in Control as defined in Paragraph 9(d) while Employee is employed pursuant to this Agreement Employee's Options and Restricted Shares shall immediately vest. In addition, if either (x) the Employee's employment ceases for any reason after the expiration of three months following the Change in Control; or (y) during the three months immediately following the Change in Control he is terminated other than for Cause, Employee shall receive a "Change of Control Payment" equal to the lesser of 2.99 time his base salary (at the salary level immediately preceding the Change in Control) or, if applicable, the "280G Permitted Payment" (as defined below).

(ii) Notwithstanding any other provision of this Agreement, if the aggregate present value of the "parachute payments" to the Employee, determined under Section 280G(b) of the Internal Revenue Code of 1986, as amended (the "Code"), would be at least three times the "base amount" determined under Code Section 280G, then the "280G Permitted Payment" shall be the maximum amount that may be paid as a Change of Control Payment under this Section 10(d) such that the aggregate present value of such "parachute payments" to the

Employee is less than three times his "base amount." In addition, in the event the aggregate present value of the parachute payments to the Employee would be at least three times his base amount even after a reduction of the Change of Control Payment to $0 (all as determined for purposes of Code Section 280G), compensation otherwise payable under this Agreement and any other amount payable hereunder or any other severance plan, program, policy or obligation of the Company or any other affiliate thereof shall be reduced so that the aggregate present value of such parachute payments to the Employee, as determined under Code Section 280G(b) is less than three times his base amount. Any decisions regarding the requirement or implementation of such reductions shall be made by such tax counsel as may be selected by the Company and acceptable to the Employee.

11. Company Property All advertising, sales, manufacturers' and other materials or articles or information, including without limitation data processing reports, customer sales analyses, invoices, price lists or information or any other materials or data of any kind furnished to Employee by the Company or developed by Employee on behalf of the Company or at the Company's direction or for the Company's use or otherwise in connection with Employee's employment with the Company, are and shall remain the sole and confidential property of the Company.

12. Non-Competition and Confidentiality To the maximum extent permissible by law:

(a) During his employment with the Company and for a period of one year after the termination of his employment with the Company for any reason whatsoever, whether by Employee or by the Company and whether during the term of this Agreement or subsequent to the expiration of this Agreement, Employee shall not, directly or indirectly:

(i) Induce or intentionally influence any customer, employee, consultant, independent contractor or supplier of the Company to change its business relationship with or terminate employment with the Company.

(ii) After the cessation of his employment, engage in (as a principal, partner, director, officer, agent, employee, consultant, owner, independent contractor or otherwise) or be financially interested in the retail department store business of Boscov's (or any successor or purchaser of Boscov's retail department store business) or any department store business which competes with stores of the Company which in the aggregate contribute to at least 50% of the volume of the Company as of the date of Employee's termination of employment.

(b) During his employment with the Company and at all times thereafter, and except as required by law, Employee shall not use for his personal benefit, or disclose, communicate or divulge to, or use for the direct or indirect benefit of, any person, firm, association or company other than the Company, any confidential information of the Company which Employee acquires in the course of his employment, which is not otherwise lawfully known by and readily available to the general public. This confidential information includes, but is not limited to: any material referred to in Paragraph 11 or any non-public information regarding the business, marketing, legal or accounting methods, policies, plans, procedures, strategies or techniques; research or development projects or results; trade secrets or other knowledge or processes of or developed by the Company; names and addresses of employees, suppliers or customers. Employee confirms that such information is confidential and constitutes the exclusive property of the Company, and agrees that, immediately upon his termination, whether by Employee or by the Company and whether during the term of this Agreement or subsequent to the expiration of this Agreement, Employee shall deliver to Company all correspondence, documents, books, records, lists, computer programs and other writings relating to Company's business; and Employee shall retain no copies, regardless of where or by whom said writings were kept or prepared.

(c) Both during his employment with the Company and following his termination for any reason, whether by Employee or by the Company and whether during the term of this Agreement or following the expiration of the Agreement, Employee shall, upon reasonable notice, furnish to the Company such information pertaining to his employment with the Company as may be in his possession. The Company shall reimburse Employee for all reasonable expenses incurred by him in fulfilling his obligation under this subparagraph (c).

(d) The provisions of subparagraphs (a), (b) and (c) shall survive the cessation of Employee's employment for any reason, as well as the expiration of this Agreement at the end of its term or at any time prior thereto.

(e) Employee acknowledges that the restrictions contained in this Paragraph 11, in view of the nature of the business in which the Company is engaged and the Employee's position with the Company, are reasonable and necessary to protect the legitimate interests of the Company, and that any violation of those restrictions would result in irreparable injury to the Company. Employee therefore agrees that, in the event of his violation of any of those restrictions, the Company shall be entitled to obtain from any court of competent jurisdiction preliminary and permanent injunctive relief against Employee, in addition to damages from Employee and an equitable accounting of all commissions, earnings, profits and other benefits arising from such violation, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled.

(f) Employee agrees that if any or any portion of the foregoing covenants, or the application thereof, is construed to be invalid or unenforceable, the remainder of such covenant or covenants or the application thereof shall not be affected and the remaining covenant or covenants will then be given full force and effect without regard to the invalid or unenforceable portions. If any covenant is held to be unenforceable because of the area covered, the duration thereof, or the scope thereof, Employee agrees that the Court making such determination shall have the power to reduce the area and/or the duration, and/or limit the scope thereof, and the covenant shall then be enforceable in its reduced form. If Employee violates any of the restrictions contained in subparagraph (a), the period of such violation (from the commencement of any such violation until such time as such violation shall be cured by Employee to the satisfaction of the Company) shall not count toward or be included in the one year (or such longer period as may be prescribed by such section) restrictive period contained in subparagraph (a).

(g) Employee represents and warrants that the knowledge, skill and abilities he possesses at the time of his execution of this Agreement are sufficient to permit him to earn a living by working for a non-competitor of the Company for the restrictive period set forth in subparagraph (a) above.

(h) For purposes of Paragraphs 11 and 12 of this Agreement, the term "Company" shall include not only The Bon-Ton Stores, Inc., but also any of its successors, assigns, subsidiaries or affiliates. Employee consents to the Assignment of this Agreement to any purchaser of the Company or its assets.

13. Taxes Employee agrees that he is responsible for paying any and all federal, state and local income taxes assessed with respect to any money, benefits or other consideration received from the Company and that the Company is entitled to withhold any tax payments from amounts otherwise due Employee to the extent required by applicable statutes, rulings or regulations.

14. Prior Agreements

(a) Employee represents that there are no restrictions, agreements or understandings whatsoever to which Employee is a party which could impact upon his employment under the Agreement or would prevent or make unlawful his execution of this Agreement or his employment hereunder.

(b) Employee agrees that he will not use or disclose any confidential or proprietary information of any of his prior employers during the course of his employment under this Agreement.

15. Entire Understanding This Agreement contains the entire understanding between the Company and Employee with respect to the subject matter hereof and supersedes all prior and contemporary agreements and understandings, inducements or conditions, express or implied, written or oral, between the Company and Employee except as herein contained. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

16. Modifications This Agreement may not be modified orally but only by written agreement signed by Employee and the Company's Chief Executive Officer or such other person as the Board may designate specifically for this purpose.

17. Provisions Separable The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

18. Consolidation, Merger or Sale of Assets Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another entity which assumes this Agreement and all obligations and undertakings of the Company hereunder. Under such a consolidation, merger or transfer of assets and assumption, the term "the Company" as used herein, shall mean such other entity and this Agreement shall continue in full force and effect.

19. Notices All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered (personally, by courier service such as Federal Express, or by messenger) or when deposited in the United States mails, registered or certified mail, postage pre-paid, return receipt requested, addressed as set forth below:

(a) If to the Company:

The Bon-Ton Stores, Inc. 2801 East Market Street York, PA 17402
Attention: Chief Executive Officer

with a copy to:

Henry F. Miller, Esquire Wolf, Block, Schorr and Solis-Cohen LLP 1650 Arch Street
22nd Floor
Philadelphia, PA 19103-2097

(b) If to Employee:

David Zant
8934 Challis Hill Lane Charlotte, NC 28226

with a copy to:

William J. Keating, Jr., Esquire Keating, Muething & Klekamp, P.L.L.

1400 Provident Tower

One East Fourth Street Cincinnati, OH 45202

In addition, notice by mail shall be by air mail if posted outside of the continental United States. Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this paragraph for the giving of notice.

20. No Attachment Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect.

21. Binding Agreement This Agreement shall be binding upon, and shall inure to the benefit of the Company and its successors, representatives, and assigns and shall be binding upon Employee, his heirs, executors and legal representatives.

22. No Assignment by Employee Employee acknowledges that the services to be rendered by him are unique and personal. Accordingly, Employee may not assign or delegate any of his rights or obligations hereunder, except that he may assign certain rights hereunder if agreed to in writing by the Chief Executive Officer.

23. Indulgences Neither the failure nor any delay on the part of either party to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

24. Paragraph Headings The paragraph headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

25. Controlling Law This Agreement and all questions relating to its validity, interpretation, performance and enforcement (including, without limitation, provisions concerning limitations of actions), shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, notwithstanding any conflict-of-laws doctrines of such state or any other jurisdiction to the contrary, and without the aid of any canon, custom or rule of law requiring construction against the draftsman.

26. Chief Employee Officer In the absence of the Chief Executive Officer, the decisions of the Chief Executive Officer may be made by such other person as designated by the Board.

27. Execution in Counterparts This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties hereto.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have duly executed and delivered, in Pennsylvania, this Agreement as of the date first above written.

THE BON-TON STORES, INC.

By: /s/ Byron Bergren
Byron Bergren
Chief Executive Officer

EMPLOYEE

/s/ David Zant
David Zant

EXHIBIT A - TERMS OF PARTICIPATION IN THE SERP

Amount of Supplemental Benefit Payable to Employee under SERP:

Employee shall be entitled to a benefit under the SERP equal to $50,000 annually, payable at the time and in the manner provided for under the SERP.

Vesting:

Employee shall become vested in his SERP benefit if he remains continuously employed with the Company through the date that he attains sixty
(60) years of age.

Significance of Terms Set Forth Herein:

The terms of Employee's participation in the SERP, as set forth in this Exhibit A, are intended to establish the amount of the SERP annual benefit payment and the conditions for vesting. All terms and provisions of the SERP, as that may be amended from time to time, shall be applicable, which provisions may include, without limitation, provisions intended to ensure that the SERP complies with applicable provisions of Section 409A of the Code (relating to the inclusion in gross income of deferred compensation under nonqualified deferred compensation plans).

EXHIBIT 10.3

AMENDMENT AND EXTENSION OF EMPLOYMENT AGREEMENT

THIS AMENDMENT AND EXTENSION OF EMPLOYMENT AGREEMENT ("Amendment") is made on November 29, 2004, ("Effective Date") by and between THE BON-TON STORES, INC., a Pennsylvania corporation (the "Company"), and JAMES M. ZAMBERLAN ("Employee").

W I T N E S S E T H:

WHEREAS, Elder-Beerman Stores Corp. ("Elder-Beerman") and the Employee are parties to an Employment Agreement dated December 30, 1997, as modified June 15, 2001 ("Prior Agreement"); and

WHEREAS, there has been a Change in Ownership of Elder-Beerman; and

WHEREAS, the Company wishes to fully preserve certain rights of Employee under the Prior Agreement while at the same time offering Employee a promotion and continuing employment beyond the term of the Prior Agreement.

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein and intending to be legally bound hereby, the Company and Employee agree as follows:

1. Assumption of Prior Employment Agreement. The Company assumes and agrees to perform the Prior Agreement pursuant to Section 5.2(a) thereof. Employee agrees that the Prior Agreement shall inure to the benefit of the Company. All terms of the Prior Agreement shall remain in effect except as modified by paragraphs 2 through 10 below.

2. Duties. Section 2.3 of the Prior Agreement is amended to provide as follows: Employee will serve as the Company's Executive Vice President, Stores. Employee shall have

all the duties and responsibilities normally attendant to the position of Executive Vice President, Stores or such other executive duties as may from time to time reasonably be assigned to Employee and shall report directly to the Chief Executive Officer of the Company. Employee will be required to perform his duties at the principal offices of the Company located in York, Pennsylvania. In lieu of relocation, the Company will make available to Employee upon request an allowance of $130,000 (based on estimated cost of full relocation, subject to deductions for taxes) to be used by Employee for expenses associated with maintaining a temporary residence in York. Employee's acceptance of this allowance shall make him ineligible for reimbursement of expenses associated with relocation to York under the Company's relocation policy either now or in the future; provided, however, that Employee's expenses of reasonable business travel between either his permanent residence in Ohio or his temporary residence in York and other Company locations (including locations in Ohio) shall be reimbursed pursuant to the Company's business expense policy. In the event that the Employee voluntarily terminates his employment prior to January 28, 2006, he shall be obligated to repay the allowance on a pro-rated basis, according to the following formula: the amount of $7142.86 shall be repaid for each full or partial month from December 2004 through January 2006 that remains in the term of this Agreement as of the date of the Employee's termination.

3. Term of Agreement; Extension. Section 2.2 of the Prior Agreement is amended to provide that the Prior Agreement shall be extended to January 28, 2006 ("the Term"), unless sooner terminated in accordance with Section 2.7 of the Prior Agreement and Paragraph 6 below. Thereafter, the Term shall be indefinitely extended until either party provides notice of termination to the other pursuant to Section 2.7 of the Prior Agreement and Paragraph 6 below.

4. Compensation.

Section 2.4 of the Prior Agreement is amended as follows:

Salary. Employee's base salary shall be increased to $400,000 per year effective November 21, 2004.

Bonus. Commencing January 30, 2005, Employee shall be eligible to earn an annual bonus of up to 80% (40% target) of his base salary for each full fiscal year during which Employee continues to be the Executive Vice President, in accordance with objectives to be determined by the Company. To the extent reasonably practicable, the annual bonus shall be computed within 90 days following the close of the Company's fiscal year and paid within 30 days of its computation.

5. Restricted Shares and Options. On the Effective Date, Employee shall be granted 7,000 restricted shares of the Company's Common Stock ("Restricted Shares") and an option to purchase 5,000 shares of the Company's Common Stock at the fair market value on the date of grant ("Options"). The Options and Restricted Shares will be granted pursuant to the terms of the Company's 2000 Stock Incentive Plan or a similar plan. Employee's ownership of all Restricted Shares and the Options will both vest on January 28, 2006, provided that Employee is continuously employed by the Company from the Effective Date through January 28, 2006, provided that in the event that the Company terminates this Agreement and the Employee's employment without "Cause" as defined in the Prior Agreement after October 24, 2005 but prior to January 28, 2006, Employee's ownership of all Restricted Shares and Options will vest as of the date of termination.

6. (a) Termination of Employment Prior to Second Anniversary Date.
Section 2.7 of the Prior Employment Agreement shall remain in effect until the second anniversary of the

Change of Ownership resulting from the Company's acquisition of the stock of Elder-Beerman, October 24, 2005. The Company agrees that "Good Reason" now exists for Employee to terminate his employment by virtue of the relocation of his principal executive office, and will exist until January 28, 2006.

(b) Termination of Employment Due to Death or Disability. In the event of Employee's death at any time during his employment by Company during the Term of this Agreement, a payment of $1,039,367 will be made to his Estate. In the event of the termination of Employee's employment by the Company at any time during the Term of this Agreement due to his disability, a termination payment of $1,039,367 will be made to Employee.

(c) Termination of Employment On or After Second Anniversary Date. On or after the second anniversary of the Change of Ownership resulting from the Company's acquisition of the stock of Elder-Beerman, Section 2.7(a) of the Prior Agreement shall be amended to provide in its entirety as follows: In the event that Employee's employment is terminated by the Company without Cause after the Second Anniversary of a Change of Ownership or at the end of the Term, or by the Employee for any reason, or without reason, Employee shall be entitled to a termination payment equal to $1,039,367. Sections 2.7(b), (c) and (d) of the Prior Agreement shall remain in effect after the Second Anniversary of the Change of Ownership.

(d) Release. The Employee's right to commencement and continuation of payments and continued benefits or a termination payment under paragraph
6(a), 6(b) or 6(c) above shall be contingent upon execution and delivery of a release pursuant to Section 5.1 of the Prior Agreement by Employee and/or his Estate.

7. Notices. Paragraph 5.6 of the Prior Agreement is amended to provide:
All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered (personally, by courier service such as Federal Express, or by messenger) or when deposited in the United States mails, registered or certified mail, postage pre-paid, return receipt requested, addressed as set forth below:

If to the Company:

The Bon-Ton Stores, Inc.
2801 East Market Street
York, PA 17402
Attention: Chief Executive Officer

with a copy to:

Henry F. Miller, Esquire
Wolf, Block, Schorr and Solis-Cohen LLP
1650 Arch Street
22nd Floor
Philadelphia, PA 19103-2097

If to Employee:

James M. Zamberlan
5746 Chestnut Ridge Drive
Cincinnati, OH 45401

In addition, notice by mail shall be by air mail if posted outside of the continental United States. Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this paragraph for the giving of notice.

8. Controlling Law. Paragraph 5.3 of the Prior Agreement is amended to provide in its entirety as follows: This Agreement and all questions relating to its validity, interpretation, performance and enforcement (including, without limitation, provisions concerning limitations

of actions), shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, notwithstanding any conflict-of-laws doctrines of such state or any other jurisdiction to the contrary, and without the aid of any canon, custom or rule of law requiring construction against the draftsman.

9. Legal Fees. The Company agrees to pay Employee's reasonable legal expenses and costs in connection with this Agreement up to a maximum of $7,500.00.

10. Deductions for Taxes. Employee agrees that the Company may withhold and deduct from any payment due to him under this Agreement such amounts as may be required to comply with all applicable federal, state and local laws.

11. Execution in Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Amendment shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties hereto.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have duly executed and delivered, in Pennsylvania, this Agreement as of the date first above written.

THE BON-TON STORES, INC.

By: /s/ Byron Bergren
Byron Bergren
Chief Executive Officer

JAMES M. ZAMBERLAN

/s/ James M. Zamberlan

EXHIBIT 10.5(b)

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This FIRST AMENDMENT TO EMPLOYMENT AGREEMENT, dated as of May 1, 2005 ("First Amendment"), is by and between THE BON-TON STORES, INC., a Pennsylvania corporation (the "Company"), and BYRON L. BERGREN ("Employee").

W I T N E S S E T H:

WHEREAS, the Company and Employee entered into an Agreement dated as of August 24, 2004 (the "Agreement") with respect to the employment of Employee as the President and Chief Executive Officer of the Company; and

WHEREAS, the Board of Directors of the Company has approved an increase in the annual base salary payable to Employee under the Agreement.

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein and intending to be legally bound hereby, the Company and Employee agree as follows:

1. Amendment of Section 4(a) of the Agreement. Section 4(a) of the Agreement is hereby amended and restated in its entirety to read as follows:

(a) Salary. Employee shall receive a base salary at the annual rate of $750,000 ("Base Salary"). This Base Salary, less taxes and normal deductions, shall be paid to Employee in substantially equal installments in accordance with the Company's regular executive payroll practices in effect from time to time. During the Term, the annual Base Salary shall not be less than the initial Base Salary and may be reviewed from time to time during the Term by the Compensation Committee of the Board to ascertain whether, in the sole discretion of the Compensation Committee, such Base Salary should be increased.

2. Controlling Law. This First Amendment and all questions relating to its validity, interpretation, performance and enforcement (including, without limitation, provisions concerning limitations of actions), shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, notwithstanding any conflict-of-laws doctrines of such state or any other jurisdiction to the contrary, and without the aid of any canon, custom or rule of law requiring construction against the draftsman.

3. Execution in Counterparts. This First Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This First Amendment shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties hereto.

4. Effect of Amendment. Except as may be affected by this First Amendment, all of the provisions of the Agreement, as amended hereby, shall continue in full force and effect. The provisions of this First Amendment shall not constitute a waiver or modification of any terms or conditions of the Agreement other than as expressly set forth herein.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have duly executed and delivered, in Pennsylvania, this Agreement as of the date first above written.

THE BON-TON STORES, INC.

By: /s/ Tim Grumbacher
Tim Grumbacher
Chairman of the Board

/s/ Byron L. Bergren
Byron L. Bergren

EXHIBIT 10.20(c)

EXECUTION COPY

MASTER AMENDMENT AGREEMENT NO. 1
to
TRANSFER AND SERVICING AGREEMENT
PERFORMANCE UNDERTAKING
NOTE PURCHASE AGREEMENT
ADMINISTRATION AGREEMENT
INDENTURE SUPPLEMENT
MASTER INDENTURE

THIS MASTER AMENDMENT AGREEMENT ("Amendment") is entered into as of January 30, 2005 by and among The Bon-Ton Department Stores, Inc. ("Bon-Ton DSI"), as the existing Servicer, The Bon-Ton Operations, Inc. ("Bon-Ton Operations", as the new Servicer, The Bon-Ton Receivables Partnership, L.P. (the "Transferor"), the Bon-Ton Receivables Master Note Trust (the "Issuer"), The Bon-Ton Stores, Inc. and The Bon-Ton Corp., (collectively, the "Performance Guarantors" and together with Bon-Ton DSI, Newco, the Transferor and the Issuer, the "Bon-Ton Parties"), Wilmington Trust Company, as owner trustee (the "Owner Trustee"), Wachovia Bank, N.A., as indenture trustee (the "Indenture Trustee"), Falcon Asset Securitization Corporation and CHARTA, LLC, as "Conduit Purchasers", JPMorgan Chase Bank, National Association (successor by merger to Bank One, N.A. (Main Office Chicago)) ("JPMorgan Chase") and Citicorp North America, Inc. ("CNAI"), as Managing Agents, JPMorgan Chase and Citibank, N.A., as Committed Purchasers and JPMorgan Chase, as Class A Agent. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Master Indenture referred to below, or if not defined in such Master Indenture, in the other applicable Transaction Documents.

PRELIMINARY STATEMENTS

A. Each of Bon-Ton DSI and The Elder-Beerman Stores Corp. ("Elder-Beerman" and together with Bon-Ton DSI in such capacity, the "Sellers") agreed to sell, transfer and assign to the Transferor, and the Transferor agreed to purchase from Bon-Ton DSI and Elder-Beerman, all of the respective right, title and interest of Bon-Ton DSI and Elder-Beerman in and to the Transferred Receivables (as defined in the Receivables Purchase Agreement) and certain related property pursuant to that certain Receivables Purchase Agreement dated as of January 30, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Receivables Purchase Agreement"), by and among Bon-Ton DSI, Elder-Beerman and the Transferor.

B. The Transferor agreed to sell, transfer and assign to the Issuer, and the Issuer agreed to purchase from the Transferor, all of the right, title and interest of the Transferor in and to the Transferred Receivables and the related property pursuant to that certain Transfer and Servicing Agreement dated as of January 30, 2004 (as amended, restated, supplemented or other otherwise modified from time to time, the "Transfer and Servicing Agreement"), by and among the Transferor, the Issuer, the Indenture Trustee, and Bon-Ton DSI, as servicer.

C. The Performance Guarantors executed a Performance Undertaking dated as of January 30, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Performance Undertaking") pursuant to which the Performance Guarantors guarantee the due and punctual performance of (i) the Sellers' obligations to the Transferor under or in respect of the Receivables Purchase Agreement and (ii) Bon-Ton DSI's obligation under or in respect of the Transfer and Servicing Agreement and the Note Purchase Agreement.

D. The Transferor and the Indenture Trustee are parties to that certain Master Indenture dated as of January 30, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Master Indenture") pursuant to which the Issuer has agreed to pledge the Issuer Collateral to the Indenture Trustee for the benefit of the Noteholders.

E. The Transferor and the Indenture Trustee are parties to that certain Indenture Supplement dated as of January 30, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Indenture Supplement") supplementing the Master Indenture pursuant to which the Issuer issued the Series 2004-1 Floating Rate Asset Backed Variable Funding Notes (the "Class A Notes").

F. The Transferor, Bon-Ton DSI, as Servicer, Falcon Asset Securitization Corporation and Charta, LLC, as Conduit Purchasers, JPMorgan Chase and CNAI, as Managing Agents, JPMorgan Chase and Citibank, N.A., as Committed Purchasers and JPMorgan Chase, as Class A Agent are parties to that certain Note Purchase Agreement dated as of January 30, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Note Purchase Agreement") pursuant to which the "Purchasers" thereunder agreed to acquire and fund the Class A Notes.

G. The Issuer and Bon-Ton DSI are parties to that certain Administration Agreement dated as of January 30, 2004 (as amended, restated, supplemented or otherwise modified from time to time, the "Administration Agreement") pursuant to which Bon-Ton DSI agreed to perform, as the "Administrator", certain of the duties of the Issuer and the Owner Trustee under certain Transaction Documents and to provide such additional services consistent with the terms of such Transaction Documents as the Issuer and the Owner Trustee may from time to time request.

H. The parties hereto desire to appoint (or consent to the appointment) of Bon-Ton Operations as "Servicer" and "Administrator" in replacement of Bon-Ton DSI and to amend (or consent to the amendment) of the Transfer and Servicing Agreement, the Performance Undertaking, the Note Purchase Agreement, the Administration Agreement, the Master Indenture and the Indenture Supplement (collectively, the "Applicable Agreements") to, among other things, reflect such appointment and replacement.

NOW, THEREFORE, in consideration of the premises set forth above, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Replacement of Servicer and Administrator; Other Consents Subject to the satisfaction of the conditions precedents set forth in Section 3 below:

(a) Effective as of the date hereof, Bon-Ton DSI shall cease to act as Servicer and shall be released from all the responsibilities, duties and liabilities relating thereto placed on the Servicer by the terms and provisions of the Transfer and Servicing Agreement or any other Transaction Document (other than any such liabilities arising or relating to the period prior to such date) and Bon-Ton Operations is appointed Servicer in its stead and Bon-Ton Operations shall be the successor in all respects to Bon-Ton DSI with respect to servicing functions under the Transfer and Servicing Agreement and each of the other Transaction Documents and shall be subject to all the responsibilities, duties and liabilities relating thereto placed on the Servicer by the terms and provisions of the Transfer and Servicing Agreement and the other Transaction Documents, and all references in under the Transfer and Servicing Agreement and each of the other Transaction Documents to the Servicer shall be deemed to refer to Bon-Ton Operations in such capacity.

(b) Effective as of the date hereof, Bon-Ton DSI shall cease to act as Administrator and shall be released from all the responsibilities, duties and liabilities relating thereto placed on the Administrator by the terms and provisions of the Administration Agreement or any other Transaction Document (other than any such liabilities arising or relating to the period prior to such date) and Bon-Ton Operations is appointed Administrator in its stead and Bon-Ton Operations shall be the successor in all respects to Bon-Ton DSI with respect to the administration functions under the Administration Agreement and each of the other Transaction Documents and shall be subject to all the responsibilities, duties and liabilities relating thereto placed on the Administrator by the terms and provisions of the Administration Agreement and the other Transaction Documents, and all references in under the Administration and each of the other Transaction Documents to the Administrator shall be deemed to refer to Bon-Ton Operations in such capacity.

(c) Effective as of the date hereof, the parties hereto consent to the transfer of all of the limited partnership interests in the Transferor held by Bon-Ton DSI to Bon-Ton Operations.

SECTION 2. Amendments. Subject to the satisfaction of the condition precedents set forth in Section 3 below, (a) each of the parties hereto agrees that each of the Applicable Agreements is hereby amended to incorporate solely the blacklined changes to such Applicable Agreement shown on the marked pages attached hereto as Exhibit A and each other party hereto that is not a party thereto hereby consents to such amendment to the extent such consent is required pursuant to the Transaction Documents and (b) the Issuer and the Transferor hereby direct the Owner Trustee, on the Issuer's behalf, to execute and deliver to Bon-Ton Operations and its agents, as the new "Administrator" one or more powers of attorney substantially in the form of Exhibit A to the Administration Agreement, appointing Bon-Ton Operations as the Administrator the attorney-in-fact of the Issuer. The Issuer and the Transferor hereby direct the Indenture Trustee and the Owner Trustee to execute this Amendment and each of the other parties hereto (other than the Indenture Trustee and Owner Trustee) consents to such direction to the extent such consent is required by any of the Transaction Documents.

SECTION 3. Conditions Precedent. This Amendment shall become effective and be deemed effective upon (a) receipt by the Indenture Trustee of (i) one copy of this Amendment duly executed by each of the parties hereto, (ii) one copy of a Remittance Services Agreement, dated as of January 30, 2005 among Regulus West LLC, Bon-Ton Operations, the Transferor and the Indenture Trustee and Bon-Ton DSI executed by each of the parties thereto and (iii) a copy of a signed legal opinion of Wolf Block with respect to due authorization, execution and delivery, enforceability of the Amendment as against the Bon-Ton Parties and (b) receipt by each Managing Agent of certain Fee Letters of even date herewith duly executed by the Transferor and confirmation that any fees payable thereunder on the date hereof have been received by each Managing Agent. This Amendment shall become effective notwithstanding the failure to satisfy any condition or requirement for the replacement of the Servicer and the Administrator or for the amendment of any of the Applicable Agreements set forth in any of the Transaction Documents (other than this Amendment) and each of the parties hereto agrees that any such condition or requirement is hereby waived.

SECTION 4. Covenants, Representations and Warranties.

(a) Upon the effectiveness of this Amendment, each of Bon-Ton Parties hereby reaffirms all covenants, representations and warranties made by it, to the extent the same are not amended hereby, in the Transaction Documents and agrees that all such covenants, representations and warranties (except to the extent such representations and warranties related to a specific date) shall be deemed to have been re-made as of the date of this Amendment (it being understood that any representations and warranties of the Servicer are re-made solely by Newco).

(b) Each of the Bon-Ton Parties hereby represents and warrants as to itself (i) that this Amendment constitutes the legal, valid and binding obligation of such party enforceable against such party in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general principles of equity which may limit the availability of equitable remedies and (ii) upon the effectiveness of this Amendment, no event shall have occurred and be continuing which constitutes a Pay Out Event or an Event of Default.

[(c) Bon-Ton Operations agrees to arrange for the delivery of a non-consolidation opinion covering Bon-Ton Operations and the Transferor in form and substance satisfactory to the Managing Agents no later than _____, 2005.](1)

SECTION 5. Reference to and Effect on the Transaction Documents.

(a) Upon the effectiveness of this Amendment, each reference in each Applicable Agreement to "this Agreement," "hereunder," "hereof," "herein," "hereby" or words

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(1) Note: Bracketed as this opinion may be delivered in connection with the January 30 closing of the amendment.

of like import shall mean and be a reference to such Applicable Agreement as amended hereby, and each reference to one Applicable Agreement in any other Transaction Document shall mean and be a reference to such Applicable Agreement as amended hereby.

(b) Except as specifically amended hereby, the Transaction Documents shall remain in full force and effect and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Issuer or the Indenture Trustee under any of the Transaction Documents, nor constitute a waiver of any provision contained therein, except as specifically set forth herein.

SECTION 6. GOVERNING LAW. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CHOICE OF LAW PRINCIPLES THEREOF (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAWS) AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

SECTION 7. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

SECTION 8. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

SECTION 9. Limitation of Owner Trustee and Indenture Trustee Liability. It is expressly understood and agreed by the parties that with respect to the execution of this Amendment by Wilmington Trust Company for the Issuer (a) this Amendment is executed and delivered by Wilmington Trust Company, not individually or personally, but solely as Owner Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Trust Agreement, (b) each of the representations, under-takings and agreements herein made on the part of the Issuer is made and intended not as personal representations, undertakings and agreements by Wilmington Trust Company but is made and intended for the purpose for binding only the Issuer, (c) nothing herein contained shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto, and (d) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

It is expressly understood and agreed by the parties that with respect to the execution of this Amendment by Wachovia Bank, N.A. (a) this Amendment is executed and delivered by Wachovia Bank, N.A., not individually or personally, but solely as Indenture

Trustee, in the exercise of the powers and authority conferred and vested in it, pursuant to the Master Indenture, (b) nothing herein contained shall be construed as creating any liability on Wachovia Bank, N.A., individually or personally, to perform any covenant either expressed or implied contained herein, all such liability, if any, being expressly waived by the parties hereto and by any person claiming by, through or under the parties hereto, and (c) under no circumstances shall Wachovia Bank, N.A. be personally liable for the payment of any indebtedness or expenses of the Issuer or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Issuer under this Amendment or any other related documents.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Master Amendment Agreement No. 1 to be executed on the date first set forth above by their respective officers thereto duly authorized, to be effective as hereinabove provided.

THE BON-TON DEPARTMENT STORES, INC.,

By: /s/ H. Todd Dissinger
Name: H. Todd Dissinger
Title: Treasurer

THE BON-TON OPERATIONS, INC.

By: /s/ H. Todd Dissinger
Name: H. Todd Dissinger
Title: Vice President and Treasurer

THE BON-TON RECEIVABLES PARTNERSHIP, L.P., as Transferor

By: BTRGP, INC., its General Partner

By: H. Todd Dissinger
Name: H. Todd Dissinger
Title: Treasurer

THE BON-TON STORES, INC.

By: /s/ H. Todd Dissinger
Name: H. Todd Dissinger
Title: Treasurer

THE BON-TON CORP.

By: /s/ Keith E. Plowman
Name: Keith E. Plowman
Title: Treasurer

BON-TON RECEIVABLES MASTER NOTE TRUST,
as Issuer

By: WILMINGTON TRUST COMPANY
not in its individual capacity but
solely as Owner Trustee of the Trust,

By: /s/ Erwin M. Soriano
Name: Erwin M. Soriano
Title: Assistant Vice President

WILMINGTON TRUST COMPANY,
as Owner Trustee

By: /s/ Erwin M. Soriano
Name: Erwin M. Soriano
Title: Assistant Vice President

WACHOVIA BANK, N.A., as Indenture Trustee

By: /s/ Patricia O'Neill Manella
Name: Patricia O'Neill Manella
Title:

FALCON ASSET SECURITIZATION CORPORATION, as Conduit Purchaser

By: /s/ William Hendricks
Name: William Hendricks
Title: Authorized Signer

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION (successor by merger to Bank One, N.A. (Main Office Chicago), as Class A Agent and as a Managing Agent and as a Committed Purchaser

By: /s/ William Hendricks
Name: William Hendricks
Title: Vice President

CHARTA, LLC, as a Conduit Purchaser

By: Citicorp North America, Inc.,
as Attorney-in-Fact

By: /s/ Kimberly A. Conyngham
Name: Kimberly A. Conyngham
Title: Vice President

CITICORP NORTH AMERICA, INC.,
as a Managing Agent

By: /s/ Kimberly A. Conyngham
Name: Kimberly A. Conyngham
Title: Vice President

CITIBANK, N.A.,
as a Committed Purchaser

By: /s/ Kimberly A. Conyngham
Name: Kimberly A. Conyngham
Title: Vice President

EXHIBIT A

Applicable Agreements (as amended)

Attached

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

The Bon-Ton Department Stores, Inc., a Pennsylvania corporation The Elder-Beerman Stores Corp., an Ohio corporation The Bon-Ton Corp., a Delaware corporation The Bon-Ton Stores of Lancaster, Inc., a Pennsylvania corporation Elder-Beerman West Virginia, Inc., a West Virginia corporation The Bon-Ton Trade Corp., a Delaware corporation BTRGP, Inc., a Pennsylvania corporation
The Bon-Ton Receivables Partnership, L. P., a Pennsylvania limited partnership The El-Bee Chargit Corp., an Ohio corporation The El-Bee Receivables Corporation, a Delaware corporation Elder-Beerman Holdings, Inc., an Ohio corporation Elder-Beerman Indiana, L.P., an Indiana limited partnership Elder-Beerman Operations, LLC, an Ohio limited liability company The Bon-Ton Properties -- Greece Ridge G. P., Inc., a New York corporation The Bon-Ton Properties -- Greece Ridge L. P., a Delaware limited partnership The Bon-Ton Properties -- Irondequoit G. P., Inc., a New York corporation The Bon-Ton Properties -- Irondequoit L. P., a Delaware limited partnership The Bon-Ton Properties -- Marketplace G. P., Inc., a New York corporation The Bon-Ton Properties -- Marketplace L. P., a Delaware limited partnership The Bon-Ton Properties -- Eastview G. P., Inc., a New York corporation The Bon-Ton Properties -- Eastview L. P., a Delaware limited partnership Capital City Commons Realty, Inc., a Pennsylvania corporation CROP Reinsurance, Ltd., a Turks and Caicos Islands corporation The Bon-Ton Giftco, Inc., a Florida corporation The Bon-Ton Operations, Inc., a Pennsylvania corporation

All subsidiaries are wholly owned

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
The Bon-Ton Stores, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (File Nos. 33-43105, 33-51954, 333-36633, 333-36661, 333-36725, 333-46974, 333-65120, and 333-118700) and Form S-3 (File No. 333-112425) of The Bon-Ton Stores, Inc. of our reports dated April 12, 2005, with respect to the consolidated balance sheets of The Bon-Ton Stores, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 29, 2005, and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of January 29, 2005 and the effectiveness of internal control over financial reporting as of January 29, 2005, which reports appear in the January 29, 2005 annual report on Form 10-K of The Bon-Ton Stores, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania
April 12, 2005

EXHIBIT 31.1

CERTIFICATION OF BYRON L. BERGREN

I, Byron L. Bergren, President and Chief Executive Officer of The Bon-Ton Stores, Inc., certify that:

1) I have reviewed this Annual Report on Form 10-K of The Bon-Ton Stores, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Byron L. Bergren

Byron L. Bergren
President and Chief
Executive Officer and Director

DATE: April 12, 2005

EXHIBIT 31.2

CERTIFICATION OF JAMES H. BAIREUTHER

I, James H. Baireuther, Vice Chairman, Chief Administrative Officer and Chief Financial Officer of The Bon-Ton Stores, Inc., certify that:

1) I have reviewed this Annual Report on Form 10-K of The Bon-Ton Stores, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ James H. Baireuther

James H. Baireuther
Vice Chairman, Chief Administrative
Officer and Chief Financial Officer

DATE: April 12, 2005

EXHIBIT 32

CERTIFICATIONS PURSUANT TO RULES 13a-14(b) and 15d-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934

In connection with the Report of The Bon-Ton Stores, Inc. on Form 10-K for the period ending January 29, 2005, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned officers of The Bon-Ton Stores, Inc., certifies pursuant to 18 U.S.C. Section 1350, that, to his respective knowledge:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of The Bon-Ton Stores, Inc.

By: /s/ Byron L. Bergren

Byron L. Bergren
President and Chief
Executive Officer and Director

By: /s/ James H. Baireuther

James H. Baireuther
Vice Chairman, Chief
Administrative Officer and
Chief Financial Officer

DATE: April 12, 2005

A signed original of this written statement has been provided to The Bon-Ton Stores, Inc. and will be retained by The Bon-Ton Stores, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.