BON TON STORES INC

FORM 10-Q
(Quarterly Report)

Filed 12/16/1996 For Period Ending 11/2/1996

Address	2801 E MARKET ST
	YORK, Pennsylvania 17402-2406
Telephone	717-757-7660
CIK	0000878079
Industry	Retail (Department & Discount)
Sector	Services
Fiscal Year	01/31

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter ended November 2, 1996

Commission File Number
0-19517

THE BON-TON STORES, INC.

2801 East Market Street
York, Pennsylvania, 17402
(717) 757-7660

Incorporated in Pennsylvania
IRS No. 23-2835229

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

As of November 29, 1996 there were 8,348,923 shares of Common Stock, $0.01 par value, and 2,989,853 shares of Class A Common Stock, $0.01 par value, outstanding.

THE BON-TON STORES, INC. AND SUBSIDIARIES

PART I: FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Dollars in thousands except per share amounts)

	November 2, 1996 (Unaudited)	February 3, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,797	$ 6,941
Trade and other accounts receivable, net of allowance for doubtful accounts of $2,735 and $3,113 in fiscal 1996 and 1995, respectively	19,764	17,445
Merchandise inventories	216,816	141,741
Prepaid expenses and other current assets	18,040	13,562
Income taxes receivable	---	8,549
Total current assets	263,417	188,238
PROPERTY, FIXTURES AND EQUIPMENT at cost, less accumulated depreciation and amortization	118,516	120,874
OTHER ASSETS	21,117	22,061
DEFERRED INCOME TAXES	1,124	---
Total assets	$ 404,174	$ 331,173
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 77,514	$ 55,168
Accrued payroll and benefits	5,649	7,954
Accrued expenses	22,398	32,969
Current portion of long-term debt	726	295
Current portion of obligations under capital leases	344	325
Deferred income taxes	3,996	769
Total current liabilities	110,627	97,480
LONG-TERM DEBT, less current maturities	189,637	125,069
OBLIGATIONS UNDER CAPITAL LEASES, less current maturities	2,565	2,824
OTHER LONG-TERM LIABILITIES	1,183	1,206
DEFERRED INCOME TAXES	---	420
Total liabilities	304,012	226,999
SHAREHOLDERS' EQUITY:		
Common Stock-authorized 40,000,000 shares at $.01 par value; issued and outstanding shares of 8,348,923 and 8,351,083 in 1996 and 1995, respectively	83	83
Class A Common Stock-authorized 20,000,000 shares at $.01 par value; issued and outstanding shares of 2,989,853	30	30
Additional paid-in capital	58,184	58,197
Deferred compensation	(1,384)	(1,774)
Retained earnings	43,249	47,638
Total shareholders' equity	100,162	104,174
Total liabilities and shareholders' equity	$ 404,174	$ 331,173

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

THE BON-TON STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)

(Unaudited)

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	November 2, 1996	October 28, 1995	November 2, 1996	October 28, 1995
NET SALES	$ 148,374	$ 138,927	$ 408,434	$ 393,442
OTHER INCOME, NET	497	427	1,519	1,245
	148,871	139,354	409,953	394,687
COSTS AND EXPENSES:				
Costs of merchandise sold	93,514	86,172	255,308	241,788
Selling, general and administrative	48,497	48,499	141,284	145,463
Depreciation and amortization	3,256	2,308	9,329	7,948
Unusual expenses	---	5,471	---	5,471
	145,267	142,450	405,921	400,670
Income (loss) from operations	3,604	(3,096)	4,032	(5,983)
INTEREST EXPENSE, NET	3,979	2,075	10,877	5,701
LOSS BEFORE INCOME TAXES	(375)	(5,171)	(6,845)	(11,684)
INCOME TAX BENEFIT	(133)	(1,862)	(2,458)	(4,205)
NET LOSS	$ (242)	$ (3,309)	$ (4,387)	$ (7,479)
Net loss per share	$ (.02)	$ (.30)	$ (.40)	$ (.68)
WEIGHTED AVERAGE SHARES OUTSTANDING	11,064	11,059	11,063	11,038

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

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

(Dollars in thousands)

(Unaudited)

	THIRTY-NINE WEEKS ENDED	
	November 2, 1996	October 28, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,387)	$ (7,479)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,329	7,948
Changes in operating assets and liabilities, net	(43,250)	(35,602)
Net cash used in operating activities	(38,308)	(35,133)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, net	(7,112)	(32,876)
Proceeds from sale of property, fixtures and equip.	17	247
Purchase of accounts receivable	---	(30,138)
Net proceeds from Accounts Receivable Facility	(17,500)	15,000
Net cash used in investing activities	(24,595)	(47,767)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations	(143,141)	(207,551)
Proceeds from issuance of long-term debt	184,500	294,000
Proceeds from mortgages on Rochester properties	23,400	---
Exercised stock options	---	646
Net cash provided by financing activities	64,759	87,095
Net increase in cash equivalents	1,856	4,195
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,941	1,732
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,797	$ 5,927

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

THE BON-TON STORES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share amounts)

The Bon-Ton Stores, Inc., a Pennsylvania corporation, was incorporated on January 31, 1996 as a result of the Company's Plan of Division and currently operates 69 retail department stores primarily located in Pennsylvania, New York, Maryland, West Virginia, New Jersey and Georgia.

1. BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements include accounts of The Bon-Ton Stores, Inc., and its wholly-owned subsidiaries (the "Company"). All intercompany transactions and balances have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and do not include all the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair presentation for interim periods have been included. The Company's business is seasonal in nature and the results of operations for the interim periods presented are not necessarily indicative of the results for the full fiscal year. It is suggested these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report.

Certain reclassifications have been made in the 1995 financial statements to conform to current accounting classifications.

2. PER SHARE AMOUNTS:

Per share amounts were computed by dividing the corresponding net income or loss amounts by the weighted average number of common shares and common share equivalents outstanding. Common share equivalents represent stock options and restricted stock grants computed using the treasury stock method and are included in the weighted average shares reported on the income statement when the effect is dilutive.

3. INTEREST COSTS:

Interest and debt costs were:

	THIRTY-NINE WEEKS ENDED	
	November 2, 1996	October 28, 1995
Interest cost incurred	$ 11,054	$ 6,694
Interest income	(87)	(332)
Capitalized interest, net	(90)	(661)
Interest expense, net	$ 10,877	$ 5,701
Interest paid	$ 9,673	$ 6,639

4. UNUSUAL EXPENSES:

In October 1995, the Company recorded unusual expenses of $5,471, before taxes, and is stated separately as a component of income (loss) from operations in the Consolidated Statements of Operations. Of this expense, $2.2 million relates to pre-opening costs incurred for three stores opened in Rochester, New York and one store in Elmira, New York and the remainder relates to costs incurred in the hiring of the Chief Executive Officer in August, 1995 and the cost of litigation associated with such hiring.

5. SUBSEQUENT EVENT:

On November 20, 1996, the Company completed the announcements pertaining to the closure of five underperforming stores which are located in Pennsylvania, New York and West Virginia. Store closing reserves were previously established as part of the January 1996 restructuring charges and are considered adequate to cover the closing costs. The store closure review is now complete and there are no plans to close additional stores in fiscal 1996.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table summarizes the changes in selected operating indicators, illustrating the relationships of various income and expense items to net sales for each period presented:

	PERCENT OF NET SALES			
	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	November 2, 1996	October 28, 1995	November 2, 1996	October 28, 1995
Net sales	100.0%	100.0%	100.0%	100.0%
Other income, net	0.3	0.3	0.4	0.3
	100.3	100.3	100.4	100.3
Costs and expenses:				
Costs and merchandise sold	63.0	62.0	62.5	61.4
Selling, general and administrative	32.7	34.9	34.6	37.0
Depreciation and amortization	2.2	1.7	2.3	2.0
Unusual expenses	---	3.9	---	1.4
Income (loss) from operations	2.4	(2.2)	1.0	(1.5)
Interest expense, net	2.7	1.5	2.7	1.5
Loss before income taxes	(0.3)	(3.7)	(1.7)	(3.0)
Income tax benefit	(0.1)	(1.3)	(0.6)	(1.1)
Net loss	(0.2)%	(2.4)%	(1.1)%	(1.9)%

THE BON-TON STORES, INC. AND SUBSIDIARIES

Thirteen Weeks Ended November 2, 1996 Compared to Thirteen Weeks Ended October 28, 1995

NET SALES. Net sales were $148.4 million for the thirteen weeks ended November 2, 1996, an increase of 6.8% over the same period last year. Comparable store sales increased 3.2% for the period, with the shoes and total sportswear categories having achieved sales increases greater than Company average.

OTHER INCOME, NET. Net other income, which consisted mainly of income from leased departments, remained at 0.3% of net sales in the third quarter of 1996.

COSTS AND EXPENSES. Gross profit dollars increased $2.1 million over the third quarter of 1995, due primarily to the increased sales base. Gross profit as a percentage of net sales decreased by 1.0 percentage points to 37.0% for the thirteen weeks ended November 2, 1996 from 38.0% for the comparable period last year. The decline in the margin rate was mostly attributable to increased promotional activity reflecting the Company's response to competitive pricing, and the liquidation of seasonal inventory.

Selling, general and administrative expenses for the third quarter were lower as a percent of net sales, decreasing to 32.7% from 34.9% reported in the third quarter of 1995, while remaining constant when expressed in dollars. The rate decrease principally reflected expense control efforts of the Company at both the store and corporate levels.

Depreciation and amortization increased to 2.2% of net sales for the thirteen weeks ended November 2, 1996 from 1.7% in the comparable period last year. The increase was primarily a result of the addition of four stores in late 1995 and a new store opened in August, 1996.

INCOME (LOSS) FROM OPERATIONS. Income from operations for the third quarter of 1996 was $3.6 million or 2.4% of net sales compared to a loss from operations of $3.1 million or 2.2% of net sales in the comparable period last year. The improvement for the period was largely attributable to the continued control of selling, general and administrative expenses, increased margin dollars and the comparison to last year's unusual expenses discussed in Note 4.

The Company sells receivables through its accounts receivable purchase facility to provide additional working capital. The pro-forma effects, as if the Company had on-balance sheet financing, would have reduced selling, general and administrative expenses by $1.3 million in the third quarter of 1996 and by $1.5 million in the third quarter of 1995. The lower selling general and administrative expenses would have been offset by a corresponding increase in interest expense for both periods. The net result of the pro-forma reclassification would reflect income from operations of $5.0 million in the third quarter of 1996 and a loss from operations of $1.6 million for the corresponding period last year.

INTEREST EXPENSE, NET. Net interest expense increased to 2.7% of net sales for the thirteen weeks ended November 2, 1996 compared to 1.5% of net sales for the thirteen weeks ended October 28, 1995. The increase reflected the additional borrowing needed to fund the Company's inventory intensification initiative.

THE BON-TON STORES, INC. AND SUBSIDIARIES

NET LOSS. The net loss for the third quarter of fiscal 1996 amounted to $242 thousand as compared to a net loss of $3.3 million for the comparable period last year. Due to the seasonal nature of the Company's business, the results for the current year third quarter are not necessarily indicative of the results that may be achieved for the full fiscal year of 1996.

Thirty-Nine Weeks Ended November 2, 1996 Compared to Thirty-Nine Weeks Ended October 28, 1995

NET SALES. Net sales increased 3.8% to $408.4 million for the thirty-nine week period ended November 2, 1996 from $393.4 million for the comparable period last year. Sales on a comparable store basis increased 1.6% during the period. Shoes, total sportswear, home and intimate apparel areas constituted a majority of the comparable store sales increase.

OTHER INCOME, NET. Net other income, which consisted primarily of income from leased departments, increased to 0.4% of net sales in the current year period from 0.3% for the comparable period last year. The increase was largely due to the expansion of our leased departments into additional existing locations and to the Rochester and Elmira openings in 1995.

COSTS AND EXPENSES. Gross profit dollars increased almost $1.5 million over the same period last year, due to the increased sales. Gross profit as a percent of net sales decreased by 1.1 percentage points to 37.5% for the thirty-nine weeks ended November 2, 1996 from 38.6% for the comparable period last year. The decrease in margin primarily reflected increased promotional activity, liquidation of seasonal inventory and an increase in the shrinkage reserve rate.

Selling, general and administrative expenses decreased by almost $4.2 million, to 34.6% of net sales for the current year from 37.0% for the comparable period last year. The rate decrease was predominantly attributable to expense control efforts at both store and corporate levels, which began in the first quarter of 1996.

Depreciation and amortization expense increased to 2.3% for the thirty-nine weeks ended November 2, 1996 from 2.0% for the comparable period last year. The increase was mostly due to the addition of the Rochester and Elmira stores in fiscal 1995.

INCOME (LOSS) FROM OPERATIONS. Income from operations for the thirty-nine weeks ended November 2, 1996 was $4.0 million or 1.0% of net sales compared to a loss from operations of $6.0 million or 1.5% of net sales in the same period last year. The improvement was primarily attributable to an increase in gross profit dollars, a decrease in selling, general and administrative expenses and the comparison to last year's unusual expenses discussed in Note 4.

The Company sells its receivables through its accounts receivable purchase facility to provide additional working capital. The pro-forma effects, as if the Company had on-balance sheet financing, would have reduced selling, general and administrative expenses by $4.8 million for the thirty-nine weeks ended November 2, 1996 and also for the comparable period last year. The lower selling general and administrative expenses would have been offset by a corresponding increase in interest expense for both periods. The pro-forma reclassification would have reflected income from operations of $8.9 million for the current year period and a loss from operations of $1.1 million for the comparable period last year.

INTEREST EXPENSE, NET. Net interest expense increased to 2.7% of net sales for the thirty-nine week period ended November 2, 1996 from 1.5% of net sales for the comparable period last year. The increase reflected the additional borrowing needed to fund the Company's continued growth, including the inventory intensification initiative.

NET LOSS. The net loss for the thirty-nine weeks ended November 2, 1996 amounted to $4.4 million or 1.1% of net sales as compared to a net loss of $7,5 million or 1.9% of net sales for the comparable period last year. Due to the seasonality of the Company's business, the results of the current period are not necessarily indicative of the results that may be achieved for the full fiscal year of 1996.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes material measures of the Company's liquidity and capital resources (dollars in tenths of millions):

	November 2, 1996	October 28, 1995
Working Capital	$ 152.8	$ 119.3
Current Ratio	2.38:1	1.94:1
Total Debt to Total Capitalization	.66:1	.58:1
Available Lines of Credit	$ 12.5	$ 32.0

For the thirty-nine weeks ended November 2, 1996, net cash used in operating activities amounted to $38.3 million as compared to $35.1 million for the comparable period last year. The net operating cash outflows for the thirty-nine weeks ended November 2, 1996 primarily reflected the increase in working capital over year end levels. The major cause for the increase in working capital was higher levels of merchandise inventories needed to support the inventory intensification initiative. The increased level of merchandise inventories was partially offset by an increase in accounts payable as well as a decrease in accounts receivable excluding the effect of reduced proceeds from the accounts receivable facility mentioned below. Additional working capital requirements also included a decrease in accrued expenses.

Net cash used in investing activities amounted to $24.6 million for the thirty-nine weeks ended November 2, 1996, compared to cash used in investing activities of $47.8 million for the comparable period last year. The net outflow in the thirty-nine week period ended November 2, 1996 was basically due to reduced proceeds from the sale of proprietary credit card receivables.

Net cash provided by financing activities amounted to $64.8 million for the thirty-nine week period ended November 2, 1996 as compared to cash provided by financing activities of $87.1 million for the comparable period last year. The net increase in the current year predominantly reflected the net borrowings under the Company's revolving credit facility and completion of mortgage financing on the Rochester properties.

The Company anticipates that its cash flow from operations, supplemented by borrowings under its revolving credit facility, will be sufficient to satisfy its operating cash requirements.

THE BON-TON STORES, INC. AND SUBSIDIARIES

"Safe Harbor" Statement

Certain information included in this 10-Q contains statements that are forward looking. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future, including, but not limited to, uncertainties affecting retail in general, such as consumer confidence and demand for soft goods; risks relating to leverage and debt service; competition within primary markets in which the Company's stores are located; and the need for, and costs associated with, store renovations and other capital expenditures.

Pursuant to the requirements of the Securities and 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.

DATE: December 13, 1996

BY: /s/ Michael L. Gleim
Michael L. Gleim
Vice Chairman &
Chief Operating Officer

DATE: December 13, 1996

BY: /s/ James H. Baireuther
James H. Baireuther
Senior Vice President,
Chief Financial Officer and
Principal Accounting Officer

ARTICLE 5

This schedule contains summary financial information extracted from the Condensed Consolidated Statement of Financial Position as of November 2, 1996 and the Condensed Consolidated Statement of Operations for the thirty-nine weeks ended November 2, 1996 (Unaudited) and is qualified in its entirety by reference to such financial statements.

CIK: 0000878079

NAME: BON TON STORES INC

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	FEB 01 1997
PERIOD END	NOV 02 1996
CASH	8,797
SECURITIES	0
RECEIVABLES	22,499
ALLOWANCES	2,735
INVENTORY	216,816
CURRENT ASSETS	263,417
PP&E	185,680
DEPRECIATION	67,164
TOTAL ASSETS	404,174
CURRENT LIABILITIES	110,627
BONDS	192,202
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	113
OTHER SE	100,049
TOTAL LIABILITY AND EQUITY	404,174
SALES	408,434
TOTAL REVENUES	409,953
CGS	255,308
TOTAL COSTS	405,921
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	10,877
INCOME PRETAX	(6,845)
INCOME TAX	(2,458)
INCOME CONTINUING	(4,387)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(4,387)
EPS PRIMARY	(.40)
EPS DILUTED	(.40)

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