

BON TON STORES INC

FORM 10-Q (Quarterly Report)

Filed 9/12/2007 For Period Ending 8/4/2007

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

Powered By **EDGAR**Online

<http://www.edgar-online.com/>

© Copyright 2006. All Rights Reserved.

Distribution and use of this document restricted under EDGAR Onlines Terms of Use.

UNITED STATES
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 August 4, 2007

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 4, 2007, there were 14,256,944 shares of Common Stock, \$.01 par value, and 2,951,490 shares of Class A Common Stock, \$.01 par value, outstanding.

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II: OTHER INFORMATION

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

ITEM 6. EXHIBITS

SIGNATURES

Restricted Stock Agreement

Restricted Stock Agreement

Certification of Byron L. Bergren

Certification of Keith E. Plowman

Certification Pursuant to Rules 13a-14(b) and 15d-14(b)

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE BON-TON STORES, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)
(Unaudited)

	August 4, 2007	February 3, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,901	\$ 24,733
Merchandise inventories	757,294	787,487
Prepaid expenses and other current assets	108,685	84,731
Deferred income taxes	17,858	17,858
Total current assets	905,738	914,809
Property, fixtures and equipment at cost, net of accumulated depreciation and amortization of \$360,263 and \$311,160 at August 4, 2007 and February 3, 2007, respectively	877,457	897,886
Deferred income taxes	79,338	76,586
Goodwill	27,824	27,377
Intangible assets, net of accumulated amortization of \$16,991 and \$12,087 at August 4, 2007 and February 3, 2007, respectively	171,796	176,700
Other long-term assets	38,304	41,441
Total assets	\$2,100,457	\$2,134,799
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 235,608	\$ 209,742
Accrued payroll and benefits	46,322	68,434
Accrued expenses	141,705	178,642
Current maturities of long-term debt	5,463	5,555
Current maturities of obligations under capital leases	2,010	1,936
Income taxes payable	—	48,086
Total current liabilities	431,108	512,395
Long-term debt, less current maturities	1,194,500	1,120,169
Obligations under capital leases, less current maturities	68,420	69,456
Other long-term liabilities	102,100	86,383
Total liabilities	1,796,128	1,788,403
Contingencies (Note 8)		
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 14,564,744 and 14,469,196 shares at August 4, 2007 and February 3, 2007, respectively	146	145
Class A Common Stock — authorized 20,000,000 shares at \$0.01 par value; issued and outstanding shares of 2,951,490 at August 4, 2007 and February 3, 2007	30	30
Treasury stock, at cost - 337,800 shares at August 4, 2007 and February 3, 2007	(1,387)	(1,387)
Additional paid-in-capital	134,869	130,875
Accumulated other comprehensive income	1,115	1,189
Retained earnings	169,556	215,544
Total shareholders' equity	304,329	346,396
Total liabilities and shareholders' equity	\$2,100,457	\$2,134,799

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

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

<i>(In thousands except share and per share data)</i> <i>(Unaudited)</i>	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Net sales	\$ 708,620	\$ 746,772	\$ 1,446,181	\$ 1,308,546
Other income	22,117	19,974	44,763	34,787
	730,737	766,746	1,490,944	1,343,333
Costs and expenses:				
Costs of merchandise sold	439,198	485,933	929,870	837,513
Selling, general and administrative	255,480	258,361	515,612	458,141
Depreciation and amortization	30,239	26,823	57,199	45,337
Amortization of lease-related interests	1,332	1,046	2,561	1,748
Income (loss) from operations	4,488	(5,417)	(14,298)	594
Interest expense, net	27,429	27,285	54,898	51,153
Loss before income taxes	(22,941)	(32,702)	(69,196)	(50,559)
Income tax benefit	(7,966)	(12,927)	(24,922)	(19,949)
Net loss	\$ (14,975)	\$ (19,775)	\$ (44,274)	\$ (30,610)
Per share amounts –				
Basic:				
Net loss	\$ (0.91)	\$ (1.20)	\$ (2.68)	\$ (1.87)
Basic weighted average shares outstanding	16,498,320	16,430,971	16,490,038	16,410,467
Diluted:				
Net loss	\$ (0.91)	\$ (1.20)	\$ (2.68)	\$ (1.87)
Diluted weighted average shares outstanding	16,498,320	16,430,971	16,490,038	16,410,467

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

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

(In thousands) (Unaudited)	TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006
Cash flows from operating activities:		
Net loss	\$ (44,274)	\$ (30,610)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	57,199	45,337
Amortization of lease-related interests	2,561	1,748
Share-based compensation expense	3,320	2,078
Excess tax benefit from share-based compensation	(289)	(840)
Loss (gain) on sale of property, fixtures and equipment	552	(700)
Amortization of deferred financing costs	1,958	4,325
Amortization of deferred gain on sale of proprietary credit card portfolio	(1,207)	(1,207)
Changes in operating assets and liabilities, net of effect of acquisition:		
Decrease in merchandise inventories	30,194	64,861
Increase in prepaid expenses and other current assets	(23,666)	(41,044)
Decrease (increase) in other long-term assets	1,444	(6,072)
Increase (decrease) in accounts payable	29,125	(35,323)
(Decrease) increase in accrued payroll and benefits and accrued expenses	(58,346)	39,104
Decrease in income taxes payable	(48,086)	(15,200)
Increase in other long-term liabilities	14,974	522
Net cash (used in) provided by operating activities	(34,541)	26,979
Cash flows from investing activities:		
Capital expenditures	(38,913)	(48,124)
Acquisition, net of cash acquired	(61)	(1,047,054)
Proceeds from sale of property, fixtures and equipment	2,708	1,544
Net cash used in investing activities	(36,266)	(1,093,634)
Cash flows from financing activities:		
Payments on long-term debt and capital lease obligations	(368,012)	(424,298)
Proceeds from issuance of long-term debt	441,287	1,530,500
Cash dividends paid	(1,714)	(497)
Proceeds from stock options exercised	386	550
Excess tax benefit from share-based compensation	289	840
Deferred financing costs paid	(266)	(27,622)
Decrease in bank overdraft balances	(3,995)	(2,977)
Net cash provided by financing activities	67,975	1,076,496
Net (decrease) increase in cash and cash equivalents	(2,832)	9,841
Cash and cash equivalents at beginning of period	24,733	9,771
Cash and cash equivalents at end of period	\$ 21,901	\$ 19,612
Supplemental Cash Flow Information:		
Interest paid	\$ 53,132	\$ 23,113
Net income taxes paid	\$ 39,642	\$ 15,998

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

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

<i>(In thousands except per share data)</i> <i>(Unaudited)</i>	Common Stock	Class A Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Compre- hensive Income	Retained Earnings	Total
BALANCE AT FEBRUARY 3, 2007	\$145	\$30	\$(1,387)	\$130,875	\$1,189	\$215,544	\$346,396
Comprehensive loss (Note 9):							
Net loss	—	—	—	—	—	(44,274)	(44,274)
Pension plan, net of \$59 tax effect					101		101
Change in fair value of cash flow hedges, net of \$125 tax effect	—	—	—	—	(175)	—	(175)
Total comprehensive loss							(44,348)
Dividends to shareholders, \$0.10 per share	—	—	—	—	—	(1,714)	(1,714)
Stock options exercised	—	—	—	386	—	—	386
Share-based compensation expense	1	—	—	3,319	—	—	3,320
Excess tax benefit from share-based compensation	—	—	—	289	—	—	289
BALANCE AT AUGUST 4, 2007	\$146	\$30	\$(1,387)	\$134,869	\$1,115	\$169,556	\$304,329

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)

1. BASIS OF PRESENTATION

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. The Bon-Ton Stores, Inc. operates, through its subsidiaries, 278 stores, which includes nine furniture galleries, in 23 states in the Northeast, Midwest and upper Great Plains under the Bon-Ton, Bergner's, Boston Store, Carson Pirie Scott, Elder-Beerman, Herberger's and Younkers nameplates and, under the Parisian nameplate, two stores in the Detroit, Michigan area. The Bon-Ton Stores, Inc. conducts its operations through one business segment.

The accompanying unaudited consolidated financial statements include the accounts of The Bon-Ton Stores, Inc. and its wholly owned subsidiaries (collectively, 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 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 of interim periods have been included. The Company's business is seasonal in nature and results of operations for the interim periods presented are not necessarily indicative of results for the full fiscal year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

All references in these footnotes to the "first quarter of 2007" are to the thirteen weeks ended May 5, 2007. All references to the "second quarter of 2007" and the "second quarter of 2006" are to the thirteen weeks ended August 4, 2007 and July 29, 2006, respectively. All references to "2007" and "2006" are to the fifty-two weeks ending February 2, 2008 and the fifty-three weeks ended February 3, 2007, respectively. References to "Bon-Ton" refer to the Company's stores operating under the Bon-Ton and Elder-Beerman nameplates.

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.

Adoption of New Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 prescribes a recognition and derecognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 requires the Company recognize, in the financial statements, the impact of a tax position if that position is more likely than not of being sustained under audit, based on the technical merits of the position.

The Company adopted FIN No. 48 effective February 4, 2007, and, as a result, was not required to adjust its existing reserves for uncertain tax positions. As of the date of adoption, the Company had \$18,275 of gross unrecognized tax benefits and \$1,332 of interest reserves on those unrecognized benefits. The amount of unrecognized tax benefits that would impact the Company's effective tax rate if recognized, inclusive of the related interest, is \$12,377. Over the next twelve months, it is reasonably possible that the gross unrecognized tax benefits could potentially decrease

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

by up to \$3,000 (\$1,500 of which would affect the effective tax rate) for federal and state tax positions related to both the expiration of the statute of limitations and expected settlements.

It is the Company’s policy to record interest on unrecognized tax benefits and assessments as income tax expense. Management is of the opinion that penalties are not applicable on any of the Company’s uncertain tax positions. The tax years ended January 31, 2004 through the present are open to examination by taxing jurisdictions to which the Company is subject.

Future Accounting Changes

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for years beginning after November 15, 2007. The Company is in the process of evaluating what effect, if any, adoption of SFAS No. 157 may have on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”). SFAS No. 159 permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. SFAS No. 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that select different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for years beginning after November 15, 2007. The Company is in the process of evaluating what effect, if any, adoption of SFAS No. 159 may have on the consolidated financial statements.

2. PER-SHARE AMOUNTS

The presentation of earnings per share (“EPS”) requires a reconciliation of numerators and denominators used in basic and diluted EPS calculations. The numerator, net loss, is identical in both calculations. The following table presents a reconciliation of weighted average shares outstanding for the respective calculations for each period presented in the accompanying consolidated statements of operations:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Basic calculation	16,498,320	16,430,971	16,490,038	16,410,467
Effect of dilutive shares –				
Restricted shares and restricted stock units	—	—	—	—
Options	—	—	—	—
Diluted calculation	16,498,320	16,430,971	16,490,038	16,410,467

The following securities were antidilutive and, therefore, were not included in the computation of diluted EPS for the periods indicated:

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

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Antidilutive shares –				
Restricted shares and restricted stock units	728,289	631,496	715,091	578,831
Options	731,953	577,674	684,790	544,297

Certain of the securities noted above were excluded from the computation of dilutive shares solely due to the Company's net loss position in the thirteen and twenty-six weeks ended August 4, 2007 and July 29, 2006. The following table shows the approximate effect of dilutive securities had the Company reported a profit for these periods:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Effect of dilutive securities –				
Restricted shares and restricted stock units	412,470	236,494	408,311	219,027
Options	212,911	34,649	226,197	49,724

3. CARSON'S ACQUISITION

Effective March 5, 2006, pursuant to the October 29, 2005 purchase agreement with Saks Incorporated ("Saks"), as amended, the Company acquired all of the outstanding securities of two subsidiaries of Saks that were solely related to the business of owning and operating the 142 retail department stores that operated under the names Carson Pirie Scott, Younkers, Herberger's, Boston Store and Bergner's (collectively, "Carson's").

During the first quarter of 2007, the Company made its final purchase accounting allocations in accordance with SFAS No. 141, "Business Combinations." Additional professional fees increased the total purchase price by \$51, property, fixtures and equipment was reduced by \$397 due to a valuation adjustment, and, as a result of those adjustments, goodwill increased by \$448. The final purchase price and purchase price allocation is reflected in the following table:

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

Final Purchase Price

Cash purchase	\$1,040,188
Carson's severance	514
Professional fees incurred	11,863
Total	\$1,052,565

Final Purchase Price Allocation

Cash and cash equivalents	\$ 3,110
Merchandise inventories	455,207
Prepaid expenses	33,687
Property, fixtures and equipment	724,447
Deferred income taxes	21,951
Goodwill	24,860
Intangible assets	178,180
Other assets	9,040
Total assets acquired	1,450,482

Accounts payable	(158,860)
Accrued payroll and benefits	(34,560)
Other accrued expenses	(79,088)
Obligations under capital leases	(73,000)
Other liabilities	(52,409)
Total liabilities assumed	(397,917)

Net assets acquired	\$1,052,565
---------------------	-------------

4. SUPPLEMENTAL BALANCE SHEET INFORMATION

Prepaid expenses and other current assets were comprised of the following:

	August 4, 2007	February 3, 2007
Landlord receivables	\$ 1,050	\$15,000
Prepaid expenses	39,097	29,527
Other	68,538	40,204
Total	\$108,685	\$84,731

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

5. INTEGRATION ACTIVITIES

In connection with the acquisition of Carson's in March 2006, the Company developed integration plans, including the transfer of Bon-Ton's existing merchandising and marketing functions to Carson's former headquarters in Milwaukee, Wisconsin, resulting in involuntary terminations. The Company expects to pay the balance of the involuntary termination costs by November 3, 2007.

In connection with the acquisition of The Elder-Beerman Stores Corp. in October 2003, the Company developed integration plans resulting in lease terminations. The liability balance for lease terminations will be paid over the remaining contract periods ending in 2030.

Activities during the twenty-six weeks ended August 4, 2007 related to these integration activities are as follows:

	Termination Benefits	Lease Termination	Total
Balance as of February 3, 2007	\$ 333	\$987	\$1,320
Provision:			
Thirteen weeks ended May 5, 2007	24	—	24
Payments:			
Thirteen weeks ended May 5, 2007	(205)	(20)	(225)
Thirteen weeks ended August 4, 2007	(94)	(33)	(127)
Balance as of August 4, 2007	\$ 58	\$934	\$ 992

The above provision was included within selling, general and administrative ("SG&A") expense.

6. EXIT OR DISPOSAL ACTIVITIES

On February 24, 2007, the Company closed its Carson Pirie Scott store at One South State Street in Chicago, Illinois. In connection with the closing of this store, the Company developed plans resulting in involuntary associate termination benefits and other closing costs of \$2,934 and \$1,355, respectively. During 2006, the Company recognized \$2,436 and \$273 of the total expected termination benefits and other costs, respectively. Activities during the twenty-six weeks ended August 4, 2007 related to these costs are as follows:

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

	Termination Benefits	Other Costs	Total
Balance as of February 3, 2007	\$ 2,436	\$ —	\$ 2,436
Provision:			
Thirteen weeks ended May 5, 2007	498	1,159	1,657
Thirteen weeks ended August 4, 2007	—	(77)	(77)
Payments:			
Thirteen weeks ended May 5, 2007	(2,914)	(831)	(3,745)
Thirteen weeks ended August 4, 2007	—	(251)	(251)
Balance as of August 4, 2007	\$ 20	\$ —	\$ 20

The Company expects to pay the balance of the termination benefits during the thirteen weeks ending November 3, 2007. The above provisions and other adjustment were included in SG&A expense.

The following table summarizes other exit or disposal activities during the twenty-six weeks ended August 4, 2007 related to the closing of three stores and a distribution center in the first quarter of 2007, accrued transition services agreement costs related to the Carson's acquisition in March 2006, accrued lease termination costs related to a store closed in January 2006 and accrued costs related to the sale of the Company's credit card accounts in July 2005:

	Termination Benefits	Lease Termination	Contract Termination	Other Costs	Total
Balance as of February 3, 2007	\$ 341	\$344	\$ 32	\$ 231	\$ 948
Provision:					
Thirteen weeks ended May 5, 2007	664	—	—	189	853
Thirteen weeks ended August 4, 2007	(55)	—	(11)	186	120
Payments:					
Thirteen weeks ended May 5, 2007	(639)	(90)	(21)	(420)	(1,170)
Thirteen weeks ended August 4, 2007	(311)	(90)	—	(186)	(587)
Balance as of August 4, 2007	\$ —	\$164	\$ —	\$ —	\$ 164

The above provisions and other adjustments were included in SG&A expense. The Company expects to pay the balance of the lease termination fee through February 1, 2008. Additionally, during the first quarter of 2007, the Company sold an owned property related to a closed store and paid, in full, the related mortgage. The Company recognized a \$510 gain on the building sale within SG&A expense and a \$1,019 loss on the mortgage payoff within interest expense, net.

7. EMPLOYEE BENEFIT PLANS

The Company provides eligible employees with retirement benefits under a 401(k) salary reduction and retirement contribution plan (the "Plan"). The Company made an annual contribution

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

of \$10,090 to the Plan during the first quarter of 2007. The Company recorded expense related to the Plan of \$2,750 and \$2,876 during the second quarter of each of 2007 and 2006, respectively, and expense of \$5,558 and \$4,819 during the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

The Company provides benefits to certain current and former associates who are eligible under a defined benefit pension plan and various supplemental pension plans (collectively, the "Pension Plans"). Net periodic benefit income for the Pension Plans includes the following components:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Service cost	\$ 33	\$ 50	\$ 65	\$ 84
Interest cost	3,041	4,781	6,083	4,898
Expected return on plan assets	(3,669)	(5,629)	(7,337)	(5,629)
Recognition of prior service cost	1	—	2	—
Recognition of net actuarial loss	79	—	158	—
Net periodic benefit income	\$ (515)	\$ (798)	\$(1,029)	\$ (647)

During the twenty-six weeks ended August 4, 2007, contributions of \$400 were made to the Pension Plans. The Company anticipates contributing an additional \$564 to fund the Pension Plans in 2007 for an annual total of \$964.

The Company provides medical and life insurance benefits to certain former associates under a postretirement benefit plan. Net periodic benefit interest expense of \$102 and \$92 was recorded in the second quarter of each of 2007 and 2006, respectively. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, the Company recorded net periodic benefit interest expense of \$205 and \$139, respectively. During the twenty-six weeks ended August 4, 2007, participant premiums received exceeded payments under the plan by \$106. The Company anticipates contributing \$1,019 to fund this plan in 2007 for a net annual total of \$913.

8. CONTINGENCIES

In connection with the acquisition of Carson's, the Company assumed liability for the following matter but only to the extent it applies to the entities acquired from Saks: On October 25, 2005, the Chapter 7 trustee for the bankruptcy estate of Kleinert's Inc. filed a complaint against Saks and several of its subsidiaries in the United States Bankruptcy Court for the Southern District of New York. In its initial complaint the plaintiff, as assignee, alleged breach of contract, fraud, and unjust enrichment, among other causes of action, and seeks compensatory and punitive damages due to Saks' assessment of alleged improper chargebacks against Kleinert's Inc. totaling approximately \$4,000 which wrongful acts the plaintiff alleges caused the insolvency and bankruptcy of Kleinert's Inc. On August 15, 2006, the plaintiff, as assignee, filed an amended complaint in which it asserts the following claims, among others: (1) defendants applied improper chargebacks to the accounts payable of Kleinert's, which led to the extreme financial distress and Kleinert's eventual bankruptcy and Kleinert's incurred liabilities and lost profits of at least \$100,000 and plaintiff requests punitive damages of no less than \$50,000 (conversion claim); (2) from 1998-2003 defendants charged back an amount not less than \$4,000 to Kleinert's and these chargebacks improperly benefited the defendants, and plaintiff requests \$4,000 on this claim (unjust enrichment claim); (3) defendants

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

falsely represented that its \$4,000 in chargebacks were proper and Kleinert's reliance on defendants' misrepresentations caused Kleinert's to lose not less than \$4,000 and caused it to file for bankruptcy resulting in liabilities and lost profits of \$100,000, and plaintiff requests punitive damages of no less than \$50,000 (fraud claim); (4) defendants wrongfully charged back at least \$4,000 and these unwarranted chargebacks assisted Kleinert's officers and directors in booking fictitious sales revenue and accounts receivable and perpetrating a fraud on Kleinert's lenders in excess of \$25,000, and plaintiff requests punitive damages of no less than \$50,000 (fraud claim); (5) defendants used dishonest, improper and unfair means in conducting business with Kleinert's and interfered with Kleinert's relationship with its lenders (tortious interference with prospective economic advantage claim); (6) defendants assisted officers of Kleinert's in breaching their fiduciary duties to Kleinert's and to its creditors by falsifying borrowing base certificates given to the lenders, and defendants knew that their improper chargeback scheme was assisting these breaches of fiduciary duty by Kleinert's officers, with respect to which plaintiff requests \$100,000 plus \$50,000 in punitive damages (aiding and abetting breach of fiduciary duty claim); (7) defendants knew that their improper chargeback scheme was assisting the perpetration of fraud by Kleinert's officers, and plaintiff requests \$100,000 plus \$50,000 in punitive damages (aiding and abetting fraud claim); and (8) various fraudulent conveyance claims with respect to which plaintiff requests damages of \$4,000.

On December 8, 2005, Adamson Apparel, Inc. filed a purported class action lawsuit against Saks in the United States District Court for the Northern District of Alabama. In its complaint the plaintiff asserts breach of contract claims and alleges that Saks improperly assessed chargebacks, timely payment discounts, and deductions for merchandise returns against members of the plaintiff class. The lawsuit seeks compensatory and incidental damages and restitution. Under the terms of the purchase agreement relating to the acquisition of Carson's from Saks, the Company may have an obligation to indemnify Saks for any damages incurred by Saks under this lawsuit by Adamson Apparel solely to the extent that such damages relate to the business acquired from Saks.

In addition, 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, including the two matters detailed above, will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

9. COMPREHENSIVE LOSS

Comprehensive loss was determined as follows:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Net loss	\$(14,975)	\$(19,775)	\$(44,274)	\$(30,610)
Other comprehensive income (loss):				
Amortization of pension plan amounts, net of tax	50	—	101	—
Cash flow hedge derivative income (loss), net of tax	267	(442)	(175)	(437)
Comprehensive loss	\$(14,658)	\$(20,217)	\$(44,348)	\$(31,047)

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

10. SUBSEQUENT EVENT

On August 21, 2007, the Company's Board of Directors declared a quarterly cash dividend of \$0.05 per share on Class A Common Stock and Common Stock, payable October 15, 2007 to shareholders of record as of October 1, 2007.

11. GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

On March 6, 2006, The Bon-Ton Department Stores, Inc. (the "Issuer"), a wholly owned subsidiary of the Company, entered into an Indenture with The Bank of New York, as trustee, under which the Issuer issued \$510,000 aggregate principal amount of its 10-1/4% Senior Notes due 2014. The Notes are guaranteed on a senior unsecured basis by the Company and by each of the Company's subsidiaries, other than the Issuer, that is an obligor under the Company's senior secured credit facility. The guarantees are full and unconditional and joint and several.

The condensed consolidating financial information for the Company, the Issuer and the Company's guarantor and non-guarantor subsidiaries as of August 4, 2007 and February 3, 2007 and for the second quarter of each of 2007 and 2006 and the twenty-six weeks ended August 4, 2007 and July 29, 2006 as presented below has been prepared from the books and records maintained by the Company, the Issuer and the guarantor and non-guarantor subsidiaries. The condensed financial information may not necessarily be indicative of the results of operations or financial position had the guarantor and non-guarantor subsidiaries operated as independent entities. Certain intercompany revenues and expenses included in the subsidiary records are eliminated in consolidation. As a result of this activity, an amount due to/due from affiliates will exist at any time.

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Balance Sheet
August 4, 2007

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ 1	\$ 6,465	\$ 15,435	\$ —	\$ —	\$ 21,901
Merchandise inventories	—	260,137	497,157	—	—	757,294
Prepaid expenses and other current assets	—	66,549	41,413	723	—	108,685
Deferred income taxes	—	2,038	15,820	—	—	17,858
Total current assets	1	335,189	569,825	723	—	905,738
Property, fixtures and equipment at cost, net	—	177,802	377,641	322,014	—	877,457
Deferred income taxes	—	15,393	63,945	—	—	79,338
Goodwill	—	2,965	24,859	—	—	27,824
Intangible assets, net	—	2,373	169,423	—	—	171,796
Investment in and advances to affiliates	305,764	1,001,041	281,042	558	(1,588,405)	—
Other long-term assets	—	25,926	9,425	2,953	—	38,304
Total assets	\$305,765	\$1,560,689	\$1,496,160	\$326,248	\$(1,588,405)	\$2,100,457
Liabilities and Shareholders' Equity						
Current liabilities:						
Accounts payable	\$ —	\$ 235,608	\$ —	\$ —	\$ —	\$ 235,608
Accrued payroll and benefits	—	7,846	38,476	—	—	46,322
Accrued expenses	—	54,050	87,480	175	—	141,705
Current maturities of long-term debt and obligations under capital leases	—	—	2,010	5,463	—	7,473
Total current liabilities	—	297,504	127,966	5,638	—	431,108
Long-term debt and obligations under capital leases, less current maturities	—	933,669	68,421	260,830	—	1,262,920
Other long-term liabilities	1,436	34,286	65,311	1,067	—	102,100
Total liabilities	1,436	1,265,459	261,698	267,535	—	1,796,128
Shareholders' equity	304,329	295,230	1,234,462	58,713	(1,588,405)	304,329
Total liabilities and shareholders' equity	\$305,765	\$1,560,689	\$1,496,160	\$326,248	\$(1,588,405)	\$2,100,457

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Balance Sheet
February 3, 2007

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ 1	\$ 7,384	\$ 17,348	\$ —	\$ —	\$ 24,733
Merchandise inventories	—	264,832	522,655	—	—	787,487
Prepaid expenses and other current assets	—	37,746	46,334	651	—	84,731
Deferred income taxes	—	2,038	15,820	—	—	17,858
Total current assets	1	312,000	602,157	651	—	914,809
Property, fixtures and equipment at cost, net						
	—	168,419	397,655	331,812	—	897,886
Deferred income taxes	—	13,526	63,060	—	—	76,586
Goodwill	—	2,965	24,412	—	—	27,377
Intangible assets, net	—	2,599	174,101	—	—	176,700
Investment in and advances to affiliates	348,426	984,789	320,982	345	(1,654,542)	—
Other long-term assets	—	26,875	11,324	3,242	—	41,441
Total assets	\$348,427	\$1,511,173	\$1,593,691	\$336,050	\$(1,654,542)	\$2,134,799
Liabilities and Shareholders' Equity						
Current liabilities:						
Accounts payable	\$ —	\$ 209,742	\$ —	\$ —	\$ —	\$ 209,742
Accrued payroll and benefits	—	14,112	54,322	—	—	68,434
Accrued expenses	—	68,486	110,023	133	—	178,642
Current maturities of long-term debt and obligations under capital leases	—	—	1,936	5,555	—	7,491
Income taxes payable	2,031	(6,520)	52,575	—	—	48,086
Total current liabilities	2,031	285,820	218,856	5,688	—	512,395
Long-term debt and obligations under capital leases,						
less current maturities	—	853,300	69,456	266,869	—	1,189,625
Other long-term liabilities	—	31,436	53,918	1,029	—	86,383
Total liabilities	2,031	1,170,556	342,230	273,586	—	1,788,403
Shareholders' equity	346,396	340,617	1,251,461	62,464	(1,654,542)	346,396
Total liabilities and shareholders' equity	\$348,427	\$1,511,173	\$1,593,691	\$336,050	\$(1,654,542)	\$2,134,799

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Thirteen Weeks Ended August 4, 2007

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	\$ —	\$140,069	\$568,551	\$ —	\$ —	\$708,620
Other income	—	4,260	17,857	—	—	22,117
	—	144,329	586,408	—	—	730,737
Costs and expenses:						
Costs of merchandise sold	—	84,688	354,510	—	—	439,198
Selling, general and administrative	—	56,219	208,287	19	(9,045)	255,480
Depreciation and amortization	—	8,977	18,316	2,946	—	30,239
Amortization of lease-related interests	—	168	1,164	—	—	1,332
(Loss) income from operations	—	(5,723)	4,131	(2,965)	9,045	4,488
Other income (expense):						
Intercompany rental and royalty income	—	—	1,929	7,116	(9,045)	—
Equity in (losses) earnings of subsidiaries	(22,941)	1,514	—	—	21,427	—
Interest expense, net	—	(18,732)	(4,312)	(4,385)	—	(27,429)
(Loss) income before income taxes	(22,941)	(22,941)	1,748	(234)	21,427	(22,941)
Income tax (benefit) provision	(7,966)	(7,966)	651	—	7,315	(7,966)
Net (loss) income	\$(14,975)	\$(14,975)	\$ 1,097	\$ (234)	\$14,112	\$(14,975)

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Thirteen Weeks Ended July 29, 2006

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	\$ —	\$147,841	\$598,931	\$ —	\$ —	\$746,772
Other income	—	5,137	14,837	—	—	19,974
	—	152,978	613,768	—	—	766,746
Costs and expenses:						
Costs of merchandise sold	—	104,162	381,771	—	—	485,933
Selling, general and administrative	—	59,683	208,250	1	(9,573)	258,361
Depreciation and amortization	—	5,916	17,067	3,840	—	26,823
Amortization of lease-related interests	—	117	929	—	—	1,046
(Loss) income from operations	—	(16,900)	5,751	(3,841)	9,573	(5,417)
Other income (expense):						
Intercompany rental and royalty income	—	—	2,313	7,260	(9,573)	—
Equity in (losses) earnings of subsidiaries	(32,702)	3,200	—	—	29,502	—
Interest expense, net	—	(19,002)	(3,747)	(4,536)	—	(27,285)
(Loss) income before income taxes	(32,702)	(32,702)	4,317	(1,117)	29,502	(32,702)
Income tax (benefit) provision	(12,927)	(12,927)	1,706	—	11,221	(12,927)
Net (loss) income	\$(19,775)	\$(19,775)	\$ 2,611	\$(1,117)	\$18,281	\$(19,775)

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Twenty-Six Weeks Ended August 4, 2007

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	\$ —	\$280,620	\$1,165,561	\$ —	\$ —	\$1,446,181
Other income	—	8,557	36,206	—	—	44,763
	—	289,177	1,201,767	—	—	1,490,944
Costs and expenses:						
Costs of merchandise sold	—	180,361	749,509	—	—	929,870
Selling, general and administrative	—	106,600	427,893	(635)	(18,246)	515,612
Depreciation and amortization	—	14,636	36,636	5,927	—	57,199
Amortization of lease-related interests	—	226	2,335	—	—	2,561
Loss from operations	—	(12,646)	(14,606)	(5,292)	18,246	(14,298)
Other income (expense):						
Intercompany rental and royalty income	—	—	3,895	14,351	(18,246)	—
Equity in losses of subsidiaries	(69,196)	(19,111)	—	—	88,307	—
Interest expense, net	—	(37,439)	(7,591)	(9,868)	—	(54,898)
Loss before income taxes	(69,196)	(69,196)	(18,302)	(809)	88,307	(69,196)
Income tax benefit	(24,922)	(24,922)	(6,808)	—	31,730	(24,922)
Net loss	\$(44,274)	\$(44,274)	\$ (11,494)	\$ (809)	\$ 56,577	\$ (44,274)

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Twenty-Six Weeks Ended July 29, 2006

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	\$ —	\$276,426	\$1,032,120	\$ —	\$ —	\$1,308,546
Other income	—	9,581	25,206	—	—	34,787
	—	286,007	1,057,326	—	—	1,343,333
Costs and expenses:						
Costs of merchandise sold	—	192,186	645,327	—	—	837,513
Selling, general and administrative	2	115,932	358,625	6	(16,424)	458,141
Depreciation and amortization	—	11,114	27,723	6,500	—	45,337
Amortization of lease-related interests	—	235	1,513	—	—	1,748
(Loss) income from operations	(2)	(33,460)	24,138	(6,506)	16,424	594
Other income (expense):						
Intercompany interest income	1,700	—	—	—	(1,700)	—
Intercompany rental and royalty income	—	—	4,828	11,596	(16,424)	—
Equity in (losses) earnings of subsidiaries	(52,257)	20,679	—	—	31,578	—
Interest expense, net	—	(39,476)	(5,913)	(7,464)	1,700	(51,153)
(Loss) income before income taxes	(50,559)	(52,257)	23,053	(2,374)	31,578	(50,559)
Income tax (benefit) provision	(19,949)	(20,617)	9,096	—	11,521	(19,949)
Net (loss) income	\$(30,610)	\$(31,640)	\$ 13,957	\$ (2,374)	\$ 20,057	\$ (30,610)

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Cash Flows
Twenty-Six Weeks Ended August 4, 2007

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Cash flows from operating activities:	\$ 1,328	\$ (53,593)	\$ 21,069	\$ 6,582	\$(9,927)	\$ (34,541)
Cash flows from investing activities:						
Capital expenditures	—	(22,390)	(16,523)	—	—	(38,913)
Acquisition, net of cash acquired	—	(61)	—	—	—	(61)
Proceeds from sale of property, fixtures and equipment	—	53	160	2,495	—	2,708
Net cash (used in) provided by investing activities	—	(22,398)	(16,363)	2,495	—	(36,266)
Cash flows from financing activities:						
Payments on long-term debt and capital lease obligations	—	(360,918)	(962)	(6,132)	—	(368,012)
Proceeds from issuance of long-term debt	—	441,287	—	—	—	441,287
Intercompany financing activity	—	(1,328)	(5,657)	(2,942)	9,927	—
Cash dividends paid	(1,714)	—	—	—	—	(1,714)
Proceeds from stock options exercised	386	—	—	—	—	386
Excess tax benefit from share-based compensation	—	289	—	—	—	289
Deferred financing costs paid	—	(263)	—	(3)	—	(266)
Decrease in bank overdraft balances	—	(3,995)	—	—	—	(3,995)
Net cash (used in) provided by financing activities	(1,328)	75,072	(6,619)	(9,077)	9,927	67,975
Net decrease in cash and cash equivalents	—	(919)	(1,913)	—	—	(2,832)
Cash and cash equivalents at beginning of period	1	7,384	17,348	—	—	24,733
Cash and cash equivalents at end of period	\$ 1	\$ 6,465	\$ 15,435	\$ —	\$ —	\$ 21,901

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

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Cash Flows
Twenty-Six Weeks Ended July 29, 2006

	Bon-Ton (Parent Company)	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Cash flows from operating activities:	\$ (62)	\$ 255,119	\$ 32,918	\$ 3,393	\$(264,389)	\$ 26,979
Cash flows from investing activities:						
Capital expenditures	—	(31,486)	(16,638)	—	—	(48,124)
Acquisition, net of cash acquired	—	(1,047,054)	—	—	—	(1,047,054)
Proceeds from sale of property, fixtures and equipment	—	1,026	518	—	—	1,544
Net cash used in investing activities	—	(1,077,514)	(16,120)	—	—	(1,093,634)
Cash flows from financing activities:						
Payments on long-term debt and capital lease obligations	—	(422,131)	(619)	(1,548)	—	(424,298)
Proceeds from issuance of long-term debt	—	1,270,500	—	260,000	—	1,530,500
Intercompany financing activity	—	53	(5,405)	(259,037)	264,389	—
Cash dividends paid	(497)	—	—	—	—	(497)
Proceeds from stock options exercised	550	—	—	—	—	550
Excess tax benefit from share-based compensation	—	840	—	—	—	840
Deferred financing costs paid	—	(24,814)	—	(2,808)	—	(27,622)
(Decrease) increase in bank overdraft balances	—	(4,617)	1,640	—	—	(2,977)
Net cash provided by (used in) financing activities	53	819,831	(4,384)	(3,393)	264,389	1,076,496
Net (decrease) increase in cash and cash equivalents	(9)	(2,564)	12,414	—	—	9,841
Cash and cash equivalents at beginning of period	10	7,453	2,308	—	—	9,771
Cash and cash equivalents at end of period	\$ 1	\$ 4,889	\$ 14,722	\$ —	\$ —	\$ 19,612

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

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

For purposes of the following discussion, references to "first quarter of 2007" are to the thirteen-week period ended May 5, 2007. References to "second quarter of 2007" and "second quarter of 2006" are to the thirteen-week periods ended August 4, 2007 and July 29, 2006, respectively. References to "2007" and "2006" are to the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively. References to the "Company," "we," "us," and "our" refer to The Bon-Ton Stores, Inc. and its subsidiaries. References to "Carson's" are to the Northern Department Store Group acquired by the Company from Saks Incorporated ("Saks") in March 2006. References to "Bon-Ton" refer to the Company's stores operating under the Bon-Ton and Elder-Beerman nameplates. References to "Parisian" refer to the stores acquired from Belk, Inc. ("Belk") in October 2006.

Overview

We are one of the largest regional department store operators (in terms of sales) in the United States, offering a broad assortment of brand-name fashion apparel and accessories for women, men and children. Our merchandise offerings also include cosmetics, home furnishings and other goods. We operate 278 stores, which includes nine furniture galleries, in 23 states in the Northeast, Midwest and upper Great Plains under the Bon-Ton, Bergner's, Boston Store, Carson Pirie Scott, Elder-Beerman, Herberger's and Younkers nameplates and, under the Parisian nameplate, two stores in the Detroit, Michigan area, encompassing a total of approximately 26 million square feet. Our management believes we hold the #1 or #2 market position among traditional department stores in most of the markets in which we operate.

Effective March 5, 2006, we purchased all of the outstanding securities of two subsidiaries of Saks that were solely related to the business of owning and operating Carson's, which was comprised of 142 retail department stores. The stores were located in 12 states in the Midwest and upper Great Plains regions and operated under the names Carson Pirie Scott, Younkers, Herberger's, Boston Store and Bergner's. Under the terms of the purchase agreement, we paid approximately \$1.0 billion in cash for Carson's. Carson's stores encompass a total of approximately 15 million square feet in mid-size and metropolitan markets.

On October 25, 2006, we entered into an asset purchase agreement with Belk pursuant to which we agreed to purchase assets in connection with four department stores, all operated under the Parisian nameplate, and the rights to construct a new Parisian store. The purchase price was \$22.0 million in cash, subject to certain closing revisions. In addition, we agreed to assume specific liabilities and obligations of Belk and its affiliates with respect to the acquired Parisian stores. The acquisition of Parisian was effective as of October 29, 2006.

We compete in the department store segment of the U.S. retail industry. The department store industry continues to evolve in response to ongoing consolidation among merchandise vendors as well as the evolution of competitive retail formats — mass merchandisers, national chain retailers, specialty retailers and online retailers. Our segment of the retail industry is highly competitive, and we foresee competitive pressures and challenges continuing in the future. As such, we anticipate reduced comparable store sales in the range of 1.0% to 1.5% and a 0.1 percentage point reduction in the gross margin rate in fiscal 2007 (fifty-two weeks ending February 2, 2008).

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Results of Operations

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

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Other income	3.1	2.7	3.1	2.7
	103.1	102.7	103.1	102.7
Costs and expenses:				
Costs of merchandise sold	62.0	65.1	64.3	64.0
Selling, general and administrative	36.1	34.6	35.7	35.0
Depreciation and amortization	4.3	3.6	4.0	3.5
Amortization of lease-related interests	0.2	0.1	0.2	0.1
Income (loss) from operations	0.6	(0.7)	(1.0)	—
Interest expense, net	3.9	3.7	3.8	3.9
Loss before income taxes	(3.2)	(4.4)	(4.8)	(3.9)
Income tax benefit	(1.1)	(1.7)	(1.7)	(1.5)
Net loss	(2.1)%	(2.6)%	(3.1)%	(2.3)%

Thirteen Weeks Ended August 4, 2007 Compared to Thirteen Weeks Ended July 29, 2006

Net sales : Net sales in the second quarter of 2007 were \$708.6 million, compared to \$746.8 million in the second quarter of 2006, a decrease of \$38.2 million, or 5.1%. The Company's comparable store sales decreased 5.0%.

The comparable store net sales decline reflects the prior year liquidation of non-go-forward merchandise in Bon-Ton stores; these low-margin liquidation sales were not repeated in the current year. The quantifiable impact of the liquidation sales in the prior year second quarter was approximately \$17.5 million in the Home area alone. We believe there were incremental sales generated in the prior year from increased customer traffic as a result of the liquidation event, the effect of which cannot be discretely quantified. We also believe our sales shortfall is reflective of a challenging retail environment.

Merchandise categories with sales increases in the period included Children's Apparel, Juniors' Apparel and Better Sportswear (included in Women's Apparel). Children's Apparel benefited from increased inventory investment in the period and favorable customer response to new vendors. The introduction of new fashion silhouettes in tops and active wear fueled the favorable sales performance in Juniors' Apparel. Better Sportswear sales increased as customers responded favorably to our new and expanded offerings of private brand merchandise. The poorest performing categories in the period were Home (which includes Furniture), Accessories and Moderate Sportswear and Women's Special Size (both included in Women's Apparel). The sales performance in the Home area reflects the prior year liquidation event and what we believe is the continuation of a

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

national trend reflective of the downturn in the housing market. Accessories sales reflect a downtrend in fashion jewelry. Sales in Moderate Sportswear and Women's Special Size were adversely impacted by the elimination of the prior year liquidation of non-go-forward merchandise.

Other income : Other income, which includes income from revenues received under the Credit Card Program Agreement ("CCPA") with HSBC Bank Nevada, N.A., leased departments and other customer revenues, was \$22.1 million, or 3.1% of net sales, in the second quarter of 2007 as compared to \$20.0 million, or 2.7% of net sales, in the second quarter of 2006. The increase was due to the program revenue received under the CCPA.

Costs and expenses : Gross margin in the second quarter of 2007 increased \$8.6 million to \$269.4 million as compared to \$260.8 million in the comparable prior year period. The increase in gross margin dollars is attributable to an increased gross margin rate. Gross margin as a percentage of net sales increased 3.1 percentage points to 38.0% in the second quarter of 2007 from 34.9% in the same period last year, primarily due to an increased cumulative markup and a decreased net markdown rate, reflecting the elimination of low-margin sales associated with the inventory liquidation event at Bon-Ton stores in the second quarter of 2006.

Selling, general and administrative ("SG&A") expense in the second quarter of 2007 was \$255.5 million as compared to \$258.4 million in the second quarter of 2006, a decrease of \$2.9 million. The primary factors in the decrease in SG&A expense were reductions in integration expenses and increased efficiencies in operations in the current year, partially offset by increased store closing expenses and increases in those costs affected by normal inflationary adjustments. The current year expense rate increased 1.5 percentage points to 36.1% of net sales, compared to 34.6% for the same period last year, as we were unable to leverage our expense savings due to the shortfall in sales.

Depreciation and amortization expense and amortization of lease-related interests increased \$3.7 million, to \$31.6 million, in the second quarter of 2007 from \$27.9 million in the second quarter of 2006, primarily reflecting the increased expense associated with prior year capital expenditures.

Income (loss) from operations : Income from operations in the second quarter of 2007 was \$4.5 million, or 0.6% of net sales, as compared to a loss from operations of \$5.4 million, or 0.7% of net sales, in the comparable prior year period.

Interest expense, net : Net interest expense was \$27.4 million, or 3.9% of net sales, in the second quarter of 2007 as compared to \$27.3 million, or 3.7% of net sales, in the second quarter of 2006.

Income tax benefit : The income tax benefit reflects an effective tax rate of 34.7% in the second quarter of 2007 as compared to 39.5% in the comparable prior year period. The current year decrease reflects the effect of the changing mix of actual and projected taxable income and recognized taxable losses within various subsidiaries of the Company.

Net loss : Net loss in the second quarter of 2007 was \$15.0 million, or 2.1% of net sales, compared to a net loss of \$19.8 million, or 2.6% of net sales, in the second quarter of 2006.

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Twenty-Six Weeks Ended August 4, 2007 Compared to Twenty-Six Weeks Ended July 29, 2006

Net sales : Net sales in 2007 increased 10.5% to \$1,446.2 million from \$1,308.5 million in 2006. Sales in 2007 include Carson's operations for the twenty-six-week period; the prior year period included Carson's operations for the twenty-one weeks following the acquisition. The total sales increase reflects the inclusion of the additional five weeks of sales from Carson's as well as sales at the acquired Parisian stores, partially offset by a reduction for closed stores. The balance of sales in 2007 reflects a Bon-Ton comparable store net sales decrease of 9.0% and a Carson's comparable store net sales decrease of 0.2%, which, in total, approximates \$48 million.

We believe that the comparable store net sales decrease in 2007 was due to unseasonably cold and inclement weather in our geographic regions in April, the elimination of the prior year liquidation of non-go-forward merchandise in Bon-Ton stores and a challenging retail environment.

The best performing merchandise categories in the period were Children's Apparel and Better Sportswear (included in Women's Apparel). Children's Apparel benefited from increased inventory investment in the period, a promotional event in the first quarter of 2007 and the introduction of new vendors. Better Sportswear sales increased as customers responded favorably to our new and expanded offerings of private brand merchandise. Conversely, the poorest performing categories in the period were Home (which includes furniture) and Moderate Sportswear and Women's Special Size (both included in Women's Apparel). The sales performance in the Home area reflects the prior year liquidation event and what we believe is the continuation of a national trend reflective of the downturn in the housing market. Sales in Moderate Sportswear and Women's Special Size were adversely impacted by the unseasonable weather in April and the elimination of the prior year liquidation of non-go-forward merchandise.

Other income : Other income was \$44.8 million, or 3.1% of net sales, in 2007 as compared to \$34.8 million, or 2.7% of net sales, in 2006. The increase was primarily due to the inclusion of twenty-six weeks of Carson's operations in the current year as compared to twenty-one weeks in the prior year and the program revenue received under the CCPA.

Costs and expenses : Gross margin in 2007 was \$516.3 million as compared to \$471.0 million in 2006, an increase of \$45.3 million. The increase in gross margin dollars is primarily attributable to the inclusion of twenty-six weeks of Carson's operations in the current year as compared to twenty-one weeks of Carson's operations in the prior year. Gross margin as a percentage of net sales decreased 0.3 percentage point to 35.7% in 2007 from 36.0% in 2006. The decrease in the gross margin rate primarily reflects the inclusion of Carson's sales and markdowns for the first five weeks of the current year, a historically clearance-driven period with reduced margins. Carson's operations for the first five weeks were not included in 2006 results.

SG&A expense in 2007 was \$515.6 million compared to \$458.1 million in 2006, an increase of \$57.5 million. The primary factors in the increase in SG&A expense were the inclusion of twenty-six weeks of Carson's operations in the current year as compared to twenty-one weeks of Carson's operations in the prior year period and increases in those costs affected by normal inflationary adjustments. These increases were partially offset by a reduction in integration expenses and increased efficiencies in operations in 2007. The current year expense rate increased 0.6 percentage point to 35.7% of net sales.

Depreciation and amortization expense and amortization of lease-related interests increased \$12.7 million, to \$59.8 million, in 2007 from \$47.1 million in 2006, primarily the result of including twenty-six weeks of Carson's operations in the current year expense as compared to twenty-one

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

weeks of Carson's operations in the prior year period as well as the increased expense associated with prior year asset additions.

(Loss) income from operations : The loss from operations in 2007 was \$14.3 million as compared to income from operations of \$0.6 million in 2006.

Interest expense, net : Net interest expense was \$54.9 million, or 3.8% of net sales, in 2007 as compared to \$51.2 million, or 3.9% of net sales, in 2006. The \$3.7 million net increase is principally due to twenty-six weeks of interest expense on debt incurred in connection with the acquisition of Carson's as compared to twenty-one weeks of such interest expense in the prior year, partially offset by a nonrecurrent prior year charge of \$6.8 million for the write-off of fees associated with a bridge facility and the early extinguishment of previous debt.

Income tax benefit : The income tax benefit reflects an effective tax rate of 36.0% in 2007 as compared to 39.5% in 2006. The current year decrease reflects the effect of the changing mix of taxable income and recognized taxable losses within various subsidiaries of the Company.

Net loss : Net loss in 2007 was \$44.3 million, or 3.1% of net sales, compared to a net loss of \$30.6 million, or 2.3% of net sales, in 2006.

Seasonality and Inflation

Our 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 back-to-school and the holiday season. Due to the fixed nature of certain costs, SG&A expense is typically higher as a percentage of net sales during the first half of each fiscal year. We typically finance working capital increases in the second half of each fiscal year through additional borrowings under our revolving credit facility.

Because of the seasonality of our business, results for any quarter are not necessarily indicative of results that may be achieved for a full fiscal year.

We do not believe inflation had a material effect on operating results during the first twenty-six weeks of 2007 or 2006. However, there can be no assurance that our business will not be affected by material inflationary adjustments in the future.

Liquidity and Capital Resources

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

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

<i>(Dollars in millions)</i>	August 4, 2007	July 29, 2006
Working capital	\$ 474.6	\$ 347.4
Current ratio	2.10:1	1.79:1
Debt to total capitalization ⁽¹⁾	0.81:1	0.82:1
Unused availability under lines of credit ⁽²⁾	\$ 229.0	\$ 247.6

(1) Debt includes obligations under capital leases. Total capitalization includes shareholders' equity, debt and obligations under capital leases.

(2) Subject to a minimum borrowing covenant of \$75 as of August 4, 2007 and July 29, 2006.

Our primary sources of working capital are cash flows from operations and borrowings under our revolving credit facility, which provides for up to \$1.0 billion in borrowings.

Increases in working capital and the current ratio are primarily due to increased levels of merchandise inventories, reflecting higher planned ending inventory balances. The decrease in unused availability under lines of credit as compared to the prior year reflects an increase in standby letters of credit to support the importing of merchandise and as collateral for obligations related to general liability and workers' compensation insurance.

Net cash used in operating activities amounted to \$34.5 million in 2007 as compared to \$27.0 million of net cash provided by operating activities in 2006. The increase in net cash used in the current year primarily reflects the inclusion of Carson's operations for the full twenty-six weeks of the period; an increased net loss; increased cash outlays for income taxes, bonus and profit sharing and higher merchandise inventories, the effect of which was partially offset by an increase in accounts payable.

Net cash used in investing activities amounted to \$36.3 million in 2007, as compared to \$1,093.6 million in 2006. The prior year cash outflow reflects the acquisition cost of Carson's.

Net cash provided by financing activities amounted to \$68.0 million in 2007, as compared to \$1,076.5 million in the prior year. The change primarily reflects prior year borrowings to fund the acquisition of Carson's, partially offset by increased cash requirements for current year operating activities.

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

We paid a quarterly cash dividend of \$0.05 per share on shares of Class A Common Stock and Common Stock on May 1, 2007 and August 1, 2007 to shareholders of record as of April 16, 2007 and July 16, 2007, respectively. Additionally, a quarterly cash dividend of \$0.05 per share was declared on August 21, 2007, payable October 15, 2007 to shareholders of record as of October 1, 2007. Our Board of Directors will consider dividends in subsequent periods as it deems appropriate.

Our capital expenditures in 2007 totaled \$38.9 million. Capital expenditures for the full fiscal year 2007 (fifty-two weeks ending February 2, 2008), net of landlord contributions, are planned at approximately \$106 million. Included in these planned amounts are expenditures relating to the opening of two new stores, expansions of three stores and the renovation and reconfiguration of several existing stores.

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

We anticipate that our cash flows from operations, supplemented by borrowings under our revolving credit facility, will be sufficient to satisfy our 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 our ability to generate sufficient cash flows to operate our business.

We have not identified any probable circumstances that would likely impair our ability to meet our cash requirements or trigger a default or acceleration of payment of our debt.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. Preparation of these financial statements required us to make estimates and judgments that affected reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. On an ongoing basis, we evaluate our estimates, including those related to merchandise returns, bad debts, inventories, goodwill, intangible assets, income taxes, financings, contingencies, insurance reserves and litigation. We base our estimates on historical experience and on various other assumptions that we believe 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. We believe our critical accounting policies are as described below:

Inventory Valuation

Inventories are stated at the lower of cost or market with cost determined by the retail inventory method. Under the retail inventory method, the valuation of inventories at cost and the 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 is 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 the 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

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

addition, failure to take timely markdowns can result in an overstatement of inventory under the lower of cost or market principle. We believe that the retail inventory method we use provides an inventory valuation that approximates cost and results in carrying inventory in the aggregate at the lower of cost or market.

We regularly review inventory quantities on-hand and record 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 we may have understated or overstated the adjustment required for excess or old inventory. If our inventory is determined to be overvalued in the future, we 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, we 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 our markets could have a significant impact on the value of our inventory and reported operating results.

Prior to the Carson's acquisition, we utilized the last-in, first-out ("LIFO") cost basis for all of our inventories. In connection with the Carson's acquisition, we evaluated the inventory costing for the acquired inventories and elected the first-in, first-out ("FIFO") cost basis for certain of the acquired Carson's locations. As of February 3, 2007, approximately 30% of our inventories were valued using a FIFO cost basis and approximately 70% of our inventories were valued using a LIFO cost basis. As is currently the case with many companies in the retail industry, our LIFO calculations have yielded inventory increases in recent years due to deflation reflected in price indices used. The LIFO method values merchandise sold 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, we have reduced the carrying value of our LIFO inventories to a net realizable value. These reductions totaled \$38.9 million as of August 4, 2007 and February 3, 2007. Inherent in the valuation of inventories are significant management judgments and estimates regarding future merchandise selling costs and pricing. Should these estimates prove to be inaccurate, we may have overstated or understated our inventory carrying value. In such cases, operating results would ultimately be impacted.

Vendor Allowances

As is standard industry practice, allowances from merchandise vendors are received 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 allowances are reflected as an adjustment to the cost of merchandise capitalized in inventory.

Additionally, allowances are received from vendors in connection with cooperative advertising programs and for reimbursement of certain payroll expenses. These allowances received from each vendor are reviewed to ensure reimbursements are for specific, incremental and identifiable advertising or payroll costs incurred to sell the vendor's products. If a vendor reimbursement exceeds the costs incurred, the excess reimbursement is recorded as a reduction of cost purchases

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

from the vendor and reflected as a reduction of costs of merchandise sold when the related merchandise is sold. All other amounts are recognized as a reduction of the related advertising or payroll costs that have been incurred and reflected in SG&A expense.

Income Taxes

Effective February 4, 2007, we adopted the provisions of the Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). FIN No. 48 prescribes a recognition and derecognition threshold and measurement element for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interpretations and guidance surrounding income tax laws and regulations change over time. We establish reserves for certain tax positions that we believe are supportable, but are potentially subject to successful challenge by the applicable taxing authority. Consequently, changes in our assumptions and judgments can materially affect amounts recognized related to income tax uncertainties and may affect our financial position and results of operations.

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 summarizing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. We 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 we do not believe recovery of the deferred tax asset is more likely than not, a valuation allowance must be established. To the extent a valuation allowance is established in a period, an expense must be recorded within the income tax provision in the statement of income.

Our net deferred tax assets were \$97.2 million and \$94.4 million at August 4, 2007 and February 3, 2007, respectively. In assessing the realizability of the deferred tax assets, we considered whether it was more likely than not that the deferred tax assets, or a portion thereof, will not be realized. We 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. As a result, we concluded that a valuation allowance against a portion of the net deferred tax assets was appropriate. A total valuation allowance of \$25.4 million was recorded at August 4, 2007 and February 3, 2007. If actual results differ from these estimates or these estimates are adjusted in future periods, the valuation allowance may need to be adjusted, which could materially impact our financial position and results of operations.

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 our business model or capital strategy can result in the actual useful lives differing from estimates. In cases where we determined that the useful life of property, fixtures and equipment should be shortened, we depreciated the net book value in excess of the salvage value over the 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. Our net property, fixtures and equipment amounted to \$877.5 million and \$897.9 million at August 4, 2007 and February 3, 2007, respectively.

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," requires us to test a long-lived asset for recoverability whenever events or changes in circumstances indicate that its 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 our use of assets or overall business strategy, and
- Significant negative industry or economic trends for a sustained period.

If the undiscounted cash flows associated with the asset are insufficient to support the recorded asset, an impairment loss is recognized for the amount (if any) by which the carrying amount of the asset exceeds the fair value of the asset. Cash flow estimates are based on historical results, adjusted to reflect our best estimate of future market and operating conditions. Estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions, if available. Should cash flow estimates differ significantly from actual results, an impairment could arise and materially impact our 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 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 expectations, the carrying value of new stores' long-lived assets may ultimately become impaired.

Goodwill and Intangible Assets

Our goodwill was \$27.8 million and \$27.4 million at August 4, 2007 and February 3, 2007, respectively. The increase in goodwill reflects the final purchase accounting adjustments recorded in the first quarter of 2007 associated with the acquisition of Carson's.

Net intangible assets totaled \$171.8 million and \$176.7 million at August 4, 2007 and February 3, 2007, respectively. Our intangible assets are principally comprised of \$87.6 million of lease interests that relate to below-market-rate leases and \$84.2 million associated with trade names, private label brand names and customer lists. The lease-related interests and the portion of private label brand names subject to amortization are being amortized using a straight-line method. The customer lists are being amortized using a declining-balance method. Trade names and private label brand names of \$63.5 million have been deemed as having indefinite lives.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and other intangible assets that have indefinite lives are reviewed 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. Fair value is determined using a discounted cash flow analysis, which requires certain assumptions and estimates regarding industry economic factors and future profitability of acquired businesses. Our policy is to conduct impairment testing based on our most current business plans, which reflect anticipated changes in the economy and the industry. If actual results

THE BON-TON STORES, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

prove inconsistent with our assumptions and judgments, we could be exposed to a material impairment charge.

Insurance Reserve Estimates

We use a combination of insurance and self-insurance for a number of risks, including workers' compensation, general liability and employee-related health care benefits, a portion of which is paid by our associates. We determine the estimates for the liabilities associated with these risks by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. A change in claims frequency and severity of claims from historical experience as well as changes in state statutes and the mix of states in which we operate could result in a change to the required reserve levels.

Future Accounting Changes

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 is effective for years beginning after November 15, 2007. We are in the process of evaluating what effect, if any, adoption of SFAS No. 157 may have on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. SFAS No. 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that select different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for years beginning after November 15, 2007. We are in the process of evaluating what effect, if any, adoption of SFAS No. 159 may have on the consolidated financial statements.

Forward-Looking Statements

Certain information included in this report and other materials filed or to be filed by the Company with the Securities and Exchange Commission contain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which may be identified by words such as "may," "could," "will," "plan," "expect," "anticipate," "estimate," "project," "intend" or other similar expressions, involve important risks and uncertainties that could significantly affect results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. Factors that could cause such differences include, but are not limited to, risks related to retail businesses generally, deterioration in consumer confidence, additional competition from existing and new competitors, weather conditions that could negatively impact sales, uncertainties associated with opening new stores or expanding or remodeling existing stores, risks related to the Company's integration of the business and operations comprising the acquired Carson's and Parisian stores, the ability to attract and retain qualified management, the dependence upon key vendor relationships and the ability to obtain financing for working capital, capital expenditures and general corporate purposes. Additional factors that could cause the Company's actual results to differ from those contained in these forward-looking statements are discussed in greater detail under Item 1A of the Company's Form 10-K filed with the Securities and Exchange Commission.

THE BON-TON STORES, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk and Financial Instruments

Refer to disclosures contained on pages 31-32 of our 2006 Annual Report on Form 10-K. There have been no material changes in our exposures, risk management strategies, or hedging positions since February 3, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed pursuant to the Securities Exchange Act of 1934, as amended (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 our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our 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 our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal controls over financial reporting that occurred during the thirteen weeks ended August 4, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

THE BON-TON STORES, INC.

PART II: OTHER INFORMATION

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

On June 19, 2007, the Company held its Annual Meeting of Shareholders. The following matters were submitted for vote:

1. The following individuals were nominated and elected by the votes set forth opposite his or her name to serve as the directors of the Company:

Robert B. Bank	For:	41,995,885
	Withhold Authority:	107,637
Byron L. Bergren	For:	41,917,597
	Withhold Authority:	185,925
Philip M. Browne	For:	41,995,892
	Withhold Authority:	107,629
Shirley A. Dawe	For:	41,995,892
	Withhold Authority:	107,629
Marsha M. Everton	For:	41,956,062
	Withhold Authority:	147,459
Michael L. Gleim	For:	40,600,441
	Withhold Authority:	1,503,081
M. Thomas Grumbacher	For:	41,917,101
	Withhold Authority:	186,420
Robert E. Salerno	For:	41,995,783
	Withhold Authority:	107,739

2. With respect to the proposal to approve the amendment of The Bon-Ton Stores, Inc. Cash Bonus Plan, 39,974,383 votes were cast in favor, 241,365 votes were cast against and 17,339 votes abstained.
3. With respect to the proposal to ratify the appointment of KPMG LLP as the Company's independent registered accounting firm, 42,066,705 votes were cast in favor, 35,581 votes were cast against and 1,235 votes abstained.

THE BON-TON STORES, INC.

ITEM 6. EXHIBITS

(a) The following exhibits are filed pursuant to the requirements of Item 601 of Regulation S-K:

<u>Exhibit</u>	<u>Description</u>	<u>Document Location</u>
10.1	Third Amendment to Employment Agreement with Byron L. Bergren	Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on July 19, 2007
10.2	Restricted Stock Agreement with Byron L. Bergren dated July 19, 2007	Filed herewith.
10.3	Restricted Stock Agreement with Byron L. Bergren dated July 19, 2007	Filed herewith.
31.1	Certification of Byron L. Bergren	Filed herewith.
31.2	Certification of Keith E. Plowman	Filed herewith.
32.1	Certification Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934	Furnished herewith.

SIGNATURES

Pursuant to the requirements 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.

DATE: September 12, 2007

BY: /s/ Byron L. Bergren
 Byron L. Bergren
 President and
 Chief Executive Officer

DATE: September 12, 2007

BY: /s/ Keith E. Plowman
 Keith E. Plowman
 Executive Vice President,
 Chief Financial Officer and
 Principal Accounting Officer

THE BON-TON STORES, INC.
RESTRICTED STOCK AGREEMENT

This is a Restricted Stock Agreement dated as of July 19, 2007 (“Agreement”), between The Bon-Ton Stores, Inc. (the “Company”) and the undersigned (“Grantee”). This Agreement is entered into pursuant to the provisions of the Plan (as defined below) and in connection with a certain employment agreement entered into by and between the Grantee and the Company on August 24, 2004, and as such has been amended from time to time (including the Third Amendment to Employment Agreement, entered into in July, 2007) (the employment agreement, including all amendments thereto being referred to herein as the “Employment Agreement”). This Agreement is intended to be consistent with the Employment Agreement and specifically those provisions of the Employment Agreement regarding the grant of a “Time-Based Restricted Share Grant” to be made as soon as practicable after the effective date of the Third Amendment to the Employment Agreement, and shall be so interpreted. To the extent any provision hereof is inconsistent with the provisions of the Employment Agreement, the provisions of the Employment Agreement shall be given effect. To the extent the definition of any terms defined in the Employment Agreement is modified from time to time by amendments made to the Employment Agreement, the definition as in effect at the relevant time shall apply for purposes of this Agreement.

Definitions. As used herein:

“Date of Grant” means July 19, 2007, the date on which the Company awarded the Restricted Stock.

“Forfeiture Date” means any date as of which Grantee’s rights to all or any portion of the Restricted Stock are forfeited pursuant to applicable provisions of this Agreement.

“Plan” means The Bon-Ton Stores, Inc. Amended and Restated 2000 Stock Incentive and Performance-Based Award Plan.

“Restricted Period” with respect to any shares of Restricted Stock means the period beginning on the Date of Grant and ending on the Vesting Date applicable to such shares.

“Vesting Date” with respect to any shares of Restricted stock means the date set as a vesting date pursuant to Paragraph 2 hereof, or such earlier vesting date as is otherwise provided herein.

All other capitalized terms used herein shall have the meaning set forth in the Employment Agreement or in the Plan, as applicable. In the event of any inconsistency in the definition contained in the Employment Agreement and that contained in the Plan, the definition in the Employment Agreement shall control.

Grant of Restricted Stock. Subject to the terms and conditions set forth herein and in the Plan, the Company grants to Grantee 41,297 shares of the Company’s Common Stock, par value

\$.01 (the "Restricted Stock"). Except as otherwise provided herein, the Restricted Stock shall vest on the Vesting Dates as set forth in the following schedule provided that, on such applicable Vesting Date, Grantee is, and has continuously been, an employee of the Company or an Affiliate of the Company during such shares' Restricted Period:

Fifteen percent (15%) of the Restricted Stock vests on February 2, 2008;

An additional thirty-five percent (35%) of the Restricted Stock vests on January 31, 2009; and

The remainder of the Restricted Stock vests on February 5, 2010.

In lieu of vesting of the Restricted Stock on the Vesting Dates noted above, the Restricted Stock shall become fully vested: (i) if Grantee's employment is terminated by the Company without Cause (as that term is defined in the Employment Agreement) or if the Grantee resigns from his employment with the Company or an Affiliate of the Company for Good Reason (as that term is defined in the Employment Agreement), provided Grantee executes a general release as required under applicable provisions of the Employment Agreement; or (ii) in accordance with Paragraph 8 below in the event of a Change of Control of the Company.

Restrictions on Restricted Stock. Subject to the terms and conditions set forth herein and in the Plan, Grantee shall not be permitted to sell, transfer, pledge or assign any Restricted Stock during such shares' Restricted Period.

Lapse of Restrictions. Subject to the terms and conditions set forth herein and in the Plan, the restrictions on Restricted Stock set forth in Paragraph 3 shall lapse on the date such shares become vested.

Forfeiture of Restricted Stock. Subject to the terms and conditions set forth herein and in the Plan, if Grantee's employment with the Company or an Affiliate of the Company terminates during the Restricted Period for any reason, such date shall be the Forfeiture Date, and Grantee shall forfeit any Restricted Stock still subject to restrictions as of the Forfeiture Date; provided, however, that any shares required to be vested pursuant to the Employment Agreement by reason of the Grantee's termination of employment (i.e., discharge by the Company without Cause or resignation for Good Reason, provided Grantee executes a general release as required under applicable provisions of the Employment Agreement), shall be treated as vested as of such termination of employment and no Forfeiture Date shall be applicable to Grantee's Restricted Stock under such circumstances. Upon a forfeiture of any shares of Restricted Stock as provided in this Paragraph 5, the shares of Restricted Stock so forfeited shall be reacquired by the Company without consideration as of the Forfeiture Date.

Rights of Grantee. Except for the restrictions set forth in Paragraph 3 and the provisions respecting dividends on Restricted Stock set forth in Paragraph 7, during the Restricted Period Grantee shall have all of the rights of a shareholder with respect to the Restricted Stock, including the right to vote the Restricted Stock to the same extent that such shares could be voted if they were not subject to the restrictions set forth in this Agreement.

Dividends on Restricted Stock. Any cash dividends payable with respect to the Restricted Stock during the Restricted Period shall be paid to Grantee. Any extraordinary dividends or dividends that are in the nature of a distribution of shares or are otherwise equivalent to a stock split, shall be subject to the same restrictions as apply to the Restricted Stock with respect to which such extraordinary dividends or shares were issued and shall be forfeited in accordance with Paragraph 5 unless the restrictions lapse in accordance with Paragraph 4.

Change of Control of Company. In the event of a Change of Control (as defined, from time to time, in the Employment Agreement), the Restricted Stock shall immediately become fully vested.

Notices. Any notice to be given to the Company shall be addressed to the Controller of the Company at its principal executive office, and any notice to be given to the Grantee shall be addressed to the Grantee at the address then appearing on the personnel records of the Company or the Affiliate of the Company by which he or she is employed, or at such other address as either party hereafter may designate in writing to the other. Any such notice shall be deemed to have been duly given when personally delivered, by courier service such as Federal Express, or by other messenger, or when deposited in the United States mail, addressed as aforesaid, registered or certified mail, and with proper postage and registration or certification fees prepaid.

Securities Laws. The Committee may from time to time impose any conditions on the Restricted Stock as it deems necessary or advisable to ensure that all rights granted under the Plan satisfy the conditions of Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934, as amended.

Delivery of Shares. Upon a Vesting Date, the Company shall notify Grantee (or Grantee's personal representative, heir or legatee in the event of Grantee's death) that the restrictions on an installment of Restricted Stock have lapsed, and shall, without payment from Grantee for such Restricted Stock, upon such Grantee's request deliver a certificate for such Restricted Stock without any legend or restrictions, except for such restrictions as may be imposed by the Committee, in its sole judgment, under Paragraph 10, provided that no certificates for shares will be delivered to Grantee (or to his or her personal representative, heir or legatee) until appropriate arrangements have been made with the Company for the withholding of any taxes which may be due with respect to such shares. The Company may condition delivery of certificates for shares upon the prior receipt from Grantee of any undertakings which it may determine are required to assure that the certificates are being issued in compliance with federal and state securities laws. The right to payment of any fractional shares shall be satisfied in cash, measured by the product of the fractional amount times the Fair Market Value of a share on the Vesting Date.

Status of Restricted Stock. The Restricted Stock is intended to constitute property that is subject to a substantial risk of forfeiture during the Restricted Period, and subject to federal income tax in accordance with section 83 of the Internal Revenue Code of 1986, as amended (the "Code"). Section 83 generally provides that Grantee will recognize compensation income with respect to each installment of the Restricted Stock on such installment's Vesting Date in an amount equal to the then fair market value of the shares for which restrictions have lapsed.

Alternatively, Grantee may elect, pursuant to Section 83(b) of the Code, to recognize compensation income for all or any part of the Restricted Stock at the Date of Grant in an amount equal to the fair market value of the Restricted Stock subject to the election on the Date of Grant. Such election must be made within 30 days of the Date of Grant and Grantee shall immediately notify the Company if such an election is made. Grantee should consult his or her tax advisors to determine whether a Section 83(b) election is appropriate.

Administration. This Award has been granted pursuant to and is subject to the terms and provisions of the Plan. All questions of interpretation and application of the Plan and this Award shall be determined by the Committee. The Committee's determination shall be final, binding and conclusive.

Award Not to Affect Employment. Nothing herein contained shall affect the right of the Company or an Affiliate to terminate Grantee's employment, services, responsibilities, duties, or authority to represent the Company or an Affiliate at any time for any reason whatsoever.

Withholding of Taxes. Whenever the Company proposes or is required to deliver or transfer shares in connection with this Award, the Company shall have the right to (a) require the Grantee to remit to the Company an amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery or transfer of any certificate or certificates for such shares or (b) take whatever action it deems necessary to protect its interest with respect to tax liabilities. In addition, Grantee shall have the right to have such withholding tax requirements satisfied, either in whole or in part, by means of a relinquishment back to, the Company of a number of shares as to which Grantee's interest is fully vested having a Fair Market Value equal to the amount of such withholding tax requirements as Grantee indicates he wants to meet by such means.

Governing Law. The validity, performance, construction and effect of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of law.

Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter, except that the Employment Agreement shall control in the event of any inconsistencies between this Agreement and the Employment Agreement.

IN WITNESS WHEREOF, the parties, intending to be legally bound, have executed this Agreement as of the day and year first above written.

THE BON-TON STORES, INC.

By: /s/ Tim Grumbacher
Tim Grumbacher, Chairman

/s/ Byron Bergren
Byron Bergren

THE BON-TON STORES, INC.
RESTRICTED STOCK AGREEMENT

This is a Restricted Stock Agreement dated as of July 19, 2007 (“Agreement”), between The Bon-Ton Stores, Inc. (the “Company”) and the undersigned (“Grantee”). This Agreement is entered into pursuant to the provisions of the Plan (as defined below) and in connection with a certain employment agreement entered into by and between the Grantee and the Company on August 24, 2004, and as such has been amended from time to time (including the Third Amendment to Employment Agreement, entered into in July, 2007 (the employment agreement, including all amendments thereto being referred to herein as the “Employment Agreement”). This Agreement is intended to be consistent with the Employment Agreement and specifically those provisions of the Employment Agreement regarding the Fiscal Year 2007 “Performance-Based Restricted Share Grant” to be made as soon as practicable after the effective date of the Third Amendment to the Employment Agreement, and shall be so interpreted. To the extent any provision hereof is inconsistent with the provisions of the Employment Agreement, the provisions of the Employment Agreement shall be given effect. To the extent the definition of any terms defined in the Employment Agreement is modified from time to time by amendments made to the Employment Agreement, the definition as in effect at the relevant time shall apply for purposes of this Agreement. All determinations regarding the vesting of Restricted Stock hereunder shall be made by the Committee (as that term is defined in the Plan) consistent with the Plan’s provisions regarding performance-based compensation.

Definitions. As used herein:

“Date of Grant” means July 19, 2007, the date on which the Company awarded the Restricted Stock.

“Forfeiture Date” means any date as of which Grantee’s rights to all or any portion of the Restricted Stock are forfeited pursuant to applicable provisions of this Agreement.

“Plan” means The Bon-Ton Stores, Inc. Amended and Restated 2000 Stock Incentive and Performance-Based Award Plan.

“Restricted Period” with respect to any shares of Restricted Stock means the period beginning on the Date of Grant and ending on the Vesting Date applicable to such shares.

“Vesting Date” with respect to any shares of Restricted stock means the date set as a vesting date pursuant to Paragraph 2 hereof.

All other capitalized terms used herein shall have the meaning set forth in the Employment Agreement or in the Plan, as applicable. In the event of any inconsistency in the definition contained in the Employment Agreement and that contained in the Plan, the definition in the Employment Agreement shall control.

Grant of Restricted Stock. Subject to the terms and conditions set forth herein and in the Plan, the Company grants to Grantee 41,297 shares of the Company's Common Stock, par value \$.01 (the "Restricted Stock"). Of the Restricted Stock subject to this Agreement, fifty percent (50%) is subject to vesting (or forfeiture) on the basis of the achievement of certain performance goals established for the Company's 2007 fiscal year (i.e., the fiscal year ending on or about January 31, 2008), and the remaining fifty percent (50%) is subject to vesting (or forfeiture) on the basis of the achievement of performance goals to be established for the Company's 2008 fiscal year (i.e., the fiscal year ending on or about January 31, 2009). The two portions of the Restricted Stock are referred to herein as the "2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007" and the "2007 Performance Shares Based Upon Company Performance for Fiscal Year 2008," respectively. Except as otherwise provided herein, the Restricted Stock shall vest (or be forfeited) as follows:

2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 :

One hundred percent (100%) of the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall become vested in the event that the Company achieves the Net Income required for the target bonus as specified on the CEO 2007 Bonus Metrics Table (Net Income for these purposes shall be determined in a manner consistent with the determination of Net Income applicable to Grantee's bonus under Paragraph 5(a)(ii) of the Third Amendment to the Employment Agreement.)

Eighty-seven and one-half percent (87.5%) of the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall become vested in the event that the Company achieves ninety-five percent (95%) of the Net Income required for the target bonus as specified on the CEO 2007 Bonus Metrics Table, and the remaining 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall be forfeited as of the close of the Company's 2007 fiscal year.

Seventy-five percent (75%) of the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall become vested in the event that the Company achieves ninety percent (90%) of the Net Income required for the target bonus as specified on the CEO 2007 Bonus Metrics Table, and the remaining 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall be forfeited as of the close of the Company's 2007 fiscal year.

Achievement of Net Income below the Net Income required for the threshold bonus as specified on the CEO 2007 Bonus Metrics Table shall result in forfeiture of the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007.

The Vesting Date with respect to the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall be as of February 2, 2008, subject to the Committee's certification in writing of its determination of the level of achievement of the performance goals set forth above (without regard to whether Grantee has remained employed by the Company or an Affiliate of the Company after the Vesting Date). Any 2007 Performance Shares Based Upon

Company Performance For Fiscal Year 2007 not vested as a result of such determination shall be considered as having been forfeited as of February 2, 2008.

2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008. The 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008 shall become vested or shall be forfeited as a result of the achievement or non-achievement of performance targets for the selected performance metrics (among Net Income, GMROI Dollars (\$); Total Sales, and EBITDA) established for the Company's 2008 fiscal year by the Committee. These performance targets shall be in line with the respective targets under the Company Plan for its 2008 fiscal year as well as in line with the respective targets established with respect to bonuses payable under the Company's Cash Bonus Plan for the Company's 2008 fiscal year, all as determined by the Committee consistent with the Plan and in the normal course (i.e., in the first quarter of the Company's 2008 fiscal year).

The Vesting Date with respect to the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008 shall be as of January 31, 2009, subject to the Committee's certification in writing of its determination of the level of achievement of the performance goals established in connection with the vesting of such shares of Restricted Stock (without regard to whether Grantee has remained employed by the Company or an Affiliate of the Company after the Vesting Date). 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008 not vested as a result of such determination shall be considered as having been forfeited as of January 31, 2009.

Termination of Employment. Any Restricted Stock that is not earned and vested on the effective date of the Grantee's termination of employment for any reason shall be forfeited (if not already forfeited), subject to the following:

In the event that the Grantee, prior to February 2, 2008, is discharged without Cause or resigns for Good Reason, the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2007 shall become vested to the extent provided above based on attainment of the performance goals for the Company's 2007 fiscal year to the same extent such Restricted Stock would have become vested had the Grantee remained employed with the Company or an Affiliate of the Company through the date that the Committee makes a determination regarding the achievement of the performance targets described above for the Company's 2007 fiscal year; provided, however, that no portion of the 2007 Performance Shares Based Upon Company Performance for Fiscal Year 2007 shall be vested in such a situation unless the Grantee executes a general release as required under applicable provisions of the Employment Agreement; and

In the event that the Grantee, on or after February 3, 2008 and prior to January 31, 2009, is discharged without Cause or resigns for Good Reason, the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008 shall become vested to the same extent such Restricted Stock would have become vested had the Grantee remained employed with the Company or an Affiliate of the Company through the date that the Committee makes a determination regarding the achievement of the performance goals established for the Company's 2008 fiscal year; provided, however, that no portion of the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008 shall be vested in

such a situation unless the Grantee executes a general release of claims consistent with the release of claims as required under applicable provisions of the Employment Agreement.

Restrictions on Restricted Stock . Subject to the terms and conditions set forth herein and in the Plan, Grantee shall not be permitted to sell, transfer, pledge or assign any Restricted Stock during such shares' Restricted Period.

Lapse of Restrictions . Subject to the terms and conditions set forth herein and in the Plan, the restrictions on Restricted Stock set forth in Paragraph 3 shall lapse on the date such shares become vested.

Forfeiture Dates and Forfeiture of Restricted Stock . Subject to the terms and conditions set forth herein and in the Plan;

If Grantee's employment with the Company or an Affiliate of the Company terminates during the Restricted Period for any reason, such date shall be the Forfeiture Date, and Grantee shall forfeit any Restricted Stock still subject to restrictions as of such Forfeiture Date, except as provided above in Paragraph 2(c).

Any shares that may become vested or forfeited while Grantee remains employed by the Company or an Affiliate of the Company pursuant to Paragraph 2(a) or 2(b) above shall be forfeited, to the extent not vested as of the applicable date set forth in Paragraph 2(a) or 2(b), as the case may be (such date being the applicable Forfeiture Date).

Any shares that may become vested or forfeited after a termination of Grantee's employment in accordance with Paragraph 2(c) above shall be forfeited, to the extent not vested, as of the applicable date set forth in Paragraph 2(a) or 2(b), as the case may be (such date being the applicable Forfeiture Date).

Upon a forfeiture of any shares of Restricted Stock as provided in this Paragraph 5, the shares of Restricted Stock so forfeited shall be reacquired by the Company without consideration.

Rights of Grantee . Except for the restrictions set forth in Paragraph 3 and the provisions respecting dividends on Restricted Stock set forth in Paragraph 7, during the Restricted Period Grantee shall have all of the rights of a shareholder with respect to the Restricted Stock, including the right to vote the Restricted Stock to the same extent that such shares could be voted if they were not subject to the restrictions set forth in this Agreement.

Dividends on Restricted Stock . No dividends shall accrue or be paid to the Grantee with respect to any shares of Restricted Stock for any period prior to the date such shares become vested.

Change of Control of Company . In the event of a Change of Control (as defined, from time to time, in the Employment Agreement) prior to February 3, 2008, the Restricted Stock shall immediately become fully vested. In the event of a Change of Control on or after February 3, 2008 and on or before January 31, 2009, the 2007 Performance Shares Based Upon Company Performance For Fiscal Year 2008 shall become vested without regard to the

achievement of the goals established for the Company's 2008 fiscal year on the third month anniversary of the date of the Change of Control, provided the Grantee remains employed by the Company or an Affiliate of the Company or, if applicable, a successor company, through such date, or on such earlier date following the Change of Control if the Grantee is terminated by the Company or an Affiliate of the Company or, if applicable, a successor company, without Cause.

Notices. Any notice to be given to the Company shall be addressed to the Controller of the Company at its principal executive office, and any notice to be given to the Grantee shall be addressed to the Grantee at the address then appearing on the personnel records of the Company or the Affiliate of the Company by which he or she is employed, or at such other address as either party hereafter may designate in writing to the other. Any such notice shall be deemed to have been duly given when personally delivered, by courier service such as Federal Express, or by other messenger, or when deposited in the United States mail, addressed as aforesaid, registered or certified mail, and with proper postage and registration or certification fees prepaid.

Securities Laws. The Committee may from time to time impose any conditions on the Restricted Stock as it deems necessary or advisable to ensure that all rights granted under the Plan satisfy the conditions of Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934, as amended.

Delivery of Shares. Upon the determination that any portion of the Restricted Stock has become vested, the Company shall notify Grantee (or Grantee's personal representative, heir or legatee in the event of Grantee's death) that the restrictions on an installment of Restricted Stock have lapsed, and shall, without payment from Grantee for such Restricted Stock, upon such Grantee's request deliver a certificate for such Restricted Stock without any legend or restrictions, except for such restrictions as may be imposed by the Committee, in its sole judgment, under Paragraph 10, provided that no certificates for shares will be delivered to Grantee (or to his or her personal representative, heir or legatee) until appropriate arrangements have been made with the Company for the withholding of any taxes which may be due with respect to such shares. The Company may condition delivery of certificates for shares upon the prior receipt from Grantee of any undertakings which it may determine are required to assure that the certificates are being issued in compliance with federal and state securities laws. The right to payment of any fractional shares shall be satisfied in cash, measured by the product of the fractional amount times the Fair Market Value of a share on the Vesting Date.

Status of Restricted Stock. The Restricted Stock is intended to constitute property that is subject to a substantial risk of forfeiture during the Restricted Period, and subject to federal income tax in accordance with section 83 of the Internal Revenue Code of 1986, as amended (the "Code"). Section 83 generally provides that Grantee will recognize compensation income with respect to each installment of the Restricted Stock on the date such installment ceases to be subject to a substantial risk of forfeiture in an amount equal to the then fair market value of the shares for which restrictions have lapsed. Alternatively, Grantee may elect, pursuant to Section 83(b) of the Code, to recognize compensation income for all or any part of the Restricted Stock at the Date of Grant in an amount equal to the fair market value of the Restricted Stock subject to the election on the Date of Grant. Such election must be made within 30 days of the Date of Grant and Grantee shall immediately notify the Company if such an election is made. Grantee

should consult his or her tax advisors to determine whether a Section 83(b) election is appropriate.

Administration. This Award has been granted pursuant to and is subject to the terms and provisions of the Plan. All questions of interpretation and application of the Plan and this Award shall be determined by the Committee. The Committee's determination shall be final, binding and conclusive.

Award Not to Affect Employment. Nothing herein contained shall affect the right of the Company or an Affiliate of the Company to terminate Grantee's employment, services, responsibilities, duties, or authority to represent the Company or an Affiliate of the Company at any time for any reason whatsoever.

Withholding of Taxes. Whenever the Company proposes or is required to deliver or transfer shares in connection with this Award, the Company shall have the right to (a) require the Grantee to remit to the Company an amount sufficient to satisfy any federal, state and/or local withholding tax requirements prior to the delivery or transfer of any certificate or certificates for such shares or (b) take whatever action it deems necessary to protect its interest with respect to tax liabilities. In addition, Grantee shall have the right to have such withholding tax requirements satisfied, either in whole or in part, by means of a relinquishment back to, the Company of a number of shares as to which Grantee's interest is fully vested having a Fair Market Value equal to the amount of such withholding tax requirements as Grantee indicates he wants to meet by such means.

Governing Law. The validity, performance, construction and effect of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to principles of conflicts of law.

Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter, except that the Employment Agreement shall control in the event of any inconsistencies between this Agreement and the Employment Agreement.

IN WITNESS WHEREOF, the parties, intending to be legally bound, have executed this Agreement as of the day and year first above written.

THE BON-TON STORES, INC.

By: /s/ Tim Grumbacher
Tim Grumbacher, Chairman

/s/ Byron Bergren
Byron Bergren

EXHIBIT 31.1

CERTIFICATION OF BYRON L. BERGREN

I, Byron L. Bergren, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q 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.

DATE: September 12, 2007

By: /s/ Byron L. Bergren

Byron L. Bergren
President and Chief
Executive Officer

EXHIBIT 31.2

CERTIFICATION OF KEITH E. PLOWMAN

I, Keith E. Plowman, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q 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.

DATE: September 12, 2007

By: /s/ Keith E. Plowman

Keith E. Plowman
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

Exhibit 32.1

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

In connection with the Quarterly Report of The Bon-Ton Stores, Inc. on Form 10-Q for the period ended August 4, 2007, 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.

DATE: September 12, 2007

By: /s/ Byron L. Bergren
Byron L. Bergren
President and Chief
Executive Officer

By: /s/ Keith E. Plowman
Keith E. Plowman
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

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.