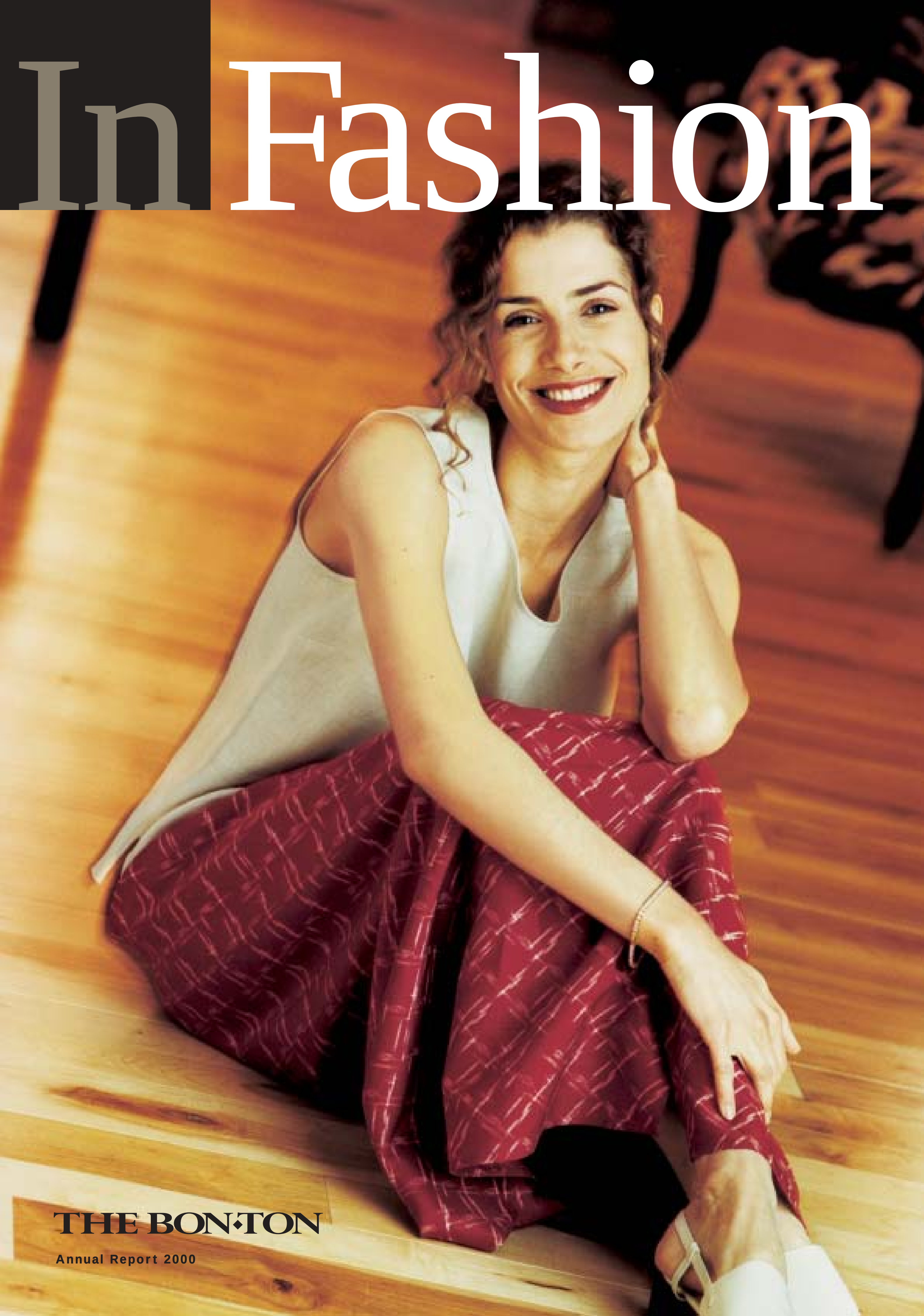
In Fashion

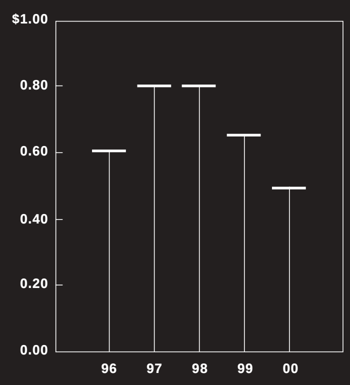


THE BON•TON

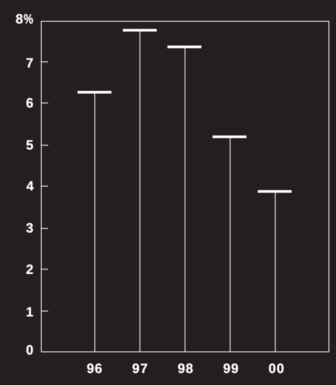
Annual Report 2000

Contents

Financial Highlights



Earnings per diluted share
(Dollars)



Return on average equity
(Percentage)

	Fiscal Year Ended				
	2000	1999	1998	1997	1996
(Dollars in thousands except per share data)	2/03/01	1/29/00	1/30/99	1/31/98	2/01/97
Financial Results:					
Net sales	$749,816(1)	$710,963	$674,871	$656,399	$626,482
Comparable store sales change	0.7%(2)	0.0%	1.4%	6.5%	4.2%(10)
Income from operations	23,076(3)	24,831(5)	27,803(7)	29,170	26,447(11)
Net income	7,548(4)	9,715(6)	11,211(8)	9,252(9)	6,811(12)
Earnings per diluted share	$ 0.50(4)	$ 0.66(6)	$ 0.81(8)	$ 0.81(9)	$ 0.61(12)
Other Financial Data:					
Total assets	$405,038	$417,492	$378,119	$352,686	$341,252
Long-term debt, including capital leases	98,758	107,678	76,255	123,384	128,098
Shareholders’ equity	198,862	190,691	180,211	124,394	111,485
Return on average shareholders’ equity	3.9%	5.2%	7.4%	7.8%	6.3%

(1) 53 weeks ended February 3, 2001.
(2) 52 weeks ended January 27, 2001.
(3) Includes an unusual expense related to workforce reductions and management changes of $6.5 million.
(4) Includes an unusual expense related to workforce reductions and management changes of $4.0 million, net of tax, or $0.27 per share.
(5) Includes an unusual expense for an asset write-down of $2.7 million and restructuring income of $2.5 million.
(6) Includes an extraordinary loss of $378,000, net of tax, or $0.02 per share, resulting from the early extinguishment of the Company's revolving credit facility, an unusual expense for an asset write-down of $1.7 million, net of tax, or $0.11 per share and restructuring income of $1.5 million, net of tax, or $0.10 per share.
(7) Includes the gain recognized on the sale of property of $1.4 million.
(8) Includes the gain recognized on the sale of property of $0.9 million, net of tax, or $0.06 per share.
(9) Includes an extraordinary loss of $446,000, net of tax, or $0.04 per share, resulting from the early extinguishment of the Company's term loan and revolving credit facility.
(10) Compared to the 52 weeks ended January 27, 1996.
(11) Includes the gain recognized on the pension termination of $3.2 million.
(12) Includes the gain recognized on the pension termination of $1.6 million, net of tax, or $0.14 per share.

Letter to Shareholders

This year has been one of challenge and change for The Bon-Ton. The Company experienced changes in focus, direction and leadership. In 2000, the economics of our business mandated we focus on asset management in order to increase our profitability, as we no longer enjoyed the accelerated comparable store sales growth experienced from 1996 to 1998. The trend of declining sales necessitated a review of our merchandise assortment and intensity. In response, we are refining our merchandise mix to achieve a more productive balance between moderate and better goods, focusing on the preferences of our core customers. We have formed a partnership with Federated Merchandising Group to provide an improved, more diverse assortment of private brand merchandise. We are reducing inventory per square foot in many of our families of business in order to meet our strategic objective of improved inventory turnover and gross margin.

Michael L. Gleim
Vice Chairman and
Chief Operating Officer

Tim Grumbacher
Chairman of the Board and
Chief Executive Officer

Frank Tworecke
Vice Chairman and
Chief Merchandising Officer

As part of this transition, we made changes in our senior management. I assumed the role of Chief Executive Officer in addition to my responsibility as Chairman of the Board. Unlike my previous role as CEO, I will focus my efforts on the strategic direction of the Company and the day to day responsibility for managing the business will reside with Michael Gleim, Vice Chairman and Chief Operating Officer and Frank Tworecke, Vice Chairman and Chief Merchandising Officer. The Board of Directors is confident we have the appropriate management structure and talent to realize the goals set forth in our strategic plan.

Despite having made substantial progress on a number of strategic initiatives, we were unable to achieve our planned earnings growth in 2000 as net income decreased to $7.5 million, compared to $9.7 million in 1999. Earnings per share in 2000 were $0.50 versus $0.66 in the prior year. The decline in earnings included an unusual pre-tax charge of $6.5 million, or $0.27 per share, related to changes in senior management and a workforce reduction. Sales for the fifty-three weeks ended February 3, 2001 increased 5.5% to $749.8 million from $711.0 million reported in the fifty-two week period ended January 29, 2000. Comparable store sales for the fifty-two weeks ended January 27, 2001 increased 0.7% over the prior fifty-two week period. Gross margin increased $14.4 million over the prior year period while the rate remained consistent with last year. Our selling, general and administrative expense rate improved by 0.6 percentage point to 30.9%. Financial results were mixed in 2000: Following a rather disappointing spring season, we experienced an improved fall season with increased profitability due to merchandising and operating initiatives. In fall 2000 we recorded a comparable store sales increase of 2.4%, a gross margin rate improvement of 0.5 percentage point, and a selling, general and administrative rate improvement of 1.2 percentage points as compared to the prior year. Earnings per share for the fall season of 2000 increased to $1.20 from $0.90 in the same period last year.

While pleased with the momentum generated in the third and fourth quarters of 2000, our transition is not complete. We remain focused on achieving financial targets which should drive the market valuation of our Company upward from its current level. Our failure to increase earnings has severely depressed the stock price. Most of the retail sector, in fact, is trading at historically low multiples. We believe by taking the necessary steps to strengthen operations and improve profitability, we will gain the attention of the market. We expect improvement in the gross margin rate as we continue to manage our inventory investment better and reap the benefits from the realignment of our merchandise mix and private brand expansion. Our expense control initiatives include improving productivity in our stores and support areas. Our credit operation will remain an important

contributor to earnings. In 2001, we expect to increase our proprietary credit card penetration with our Best of The Bon-Ton customer loyalty program, leveraging our credit operation to sustain its profitable growth. We expect a reduction in interest expense, as a result of both lower interest rates and the level of debt, which will contribute to improved profitability. We believe that executing all these initiatives will lead to a more appropriate market valuation of the Company.

During 2000, we expanded our store base, opening one new store. In addition, we relocated a store, expanded a store and remodeled two stores. We will continue to invest capital as the operating cash flows of the business allow. Although we do not anticipate opening any new stores in 2001, we will continue to explore opportunities to open stores in new markets for 2002 and beyond. We will remodel and upgrade several of our existing stores, making physical alterations in certain stores to improve customer service and speed transactions. In addition, we will continue to invest in our infrastructure, particularly information services. Priority will be given to business-critical applications that either provide a convenient, easy shopping experience or achieve operating leverage on incremental sales.

There is a lot going on at The Bon-Ton, and we have an exceptionally accomplished and motivated management team, both in our corporate and store organizations, to attain our goals. Recognizing that talented and dedicated people are the key to ongoing success, we look to promote and reward top performers, and keep them productive, challenged and energized for the long term. We're proud of our people and are committed to providing a working environment for all associates that is results oriented and maximizes opportunities for individual growth.

We begin 2001 with a more cohesive and focused organization, concentrating on key fundamentals of the business that will provide an improvement in earnings, cash flow and market valuation and position us for profitable growth in the years ahead. We are confident the changes we are making throughout our organization will further strengthen our competitiveness and reinforce our position as the premier provider of fashion merchandise in the secondary markets we serve.

Thank you for your continued support as we work to better serve our customers, associates, communities and shareholders.

Sincerely,

Tim Grumbacher
Chairman of the Board and
Chief Executive Officer
April 20, 2001

Today's Bon◆Ton

Today's Bon-Ton: Rethinking what was and what will be as we transition from an aggressive expansion strategy to a focus on current operations. What has not changed, however, is our strategy of exploiting niche-building opportunities in secondary markets, providing quality merchandise that fits our customer's lifestyle, along with the convenience of local department store shopping and a high level of service. We remain committed to being the neighborhood store known for total customer satisfaction.

We have renewed our focus on running our business better. In 2001, our management team is concentrating on delivering productivity gains and increased operating efficiencies. We will employ the following strategic initiatives: ◆ aligning our merchandise mix to achieve a healthier balance between better and moderate goods ◆ strengthening our private brand ◆ customizing our merchandise assortments by market ◆ improving our inventory management ◆ growing our credit card customer loyalty program ◆ making our customer's shopping experience convenient and easy ◆ persuasively marketing our message and ◆ improving productivity through technology.

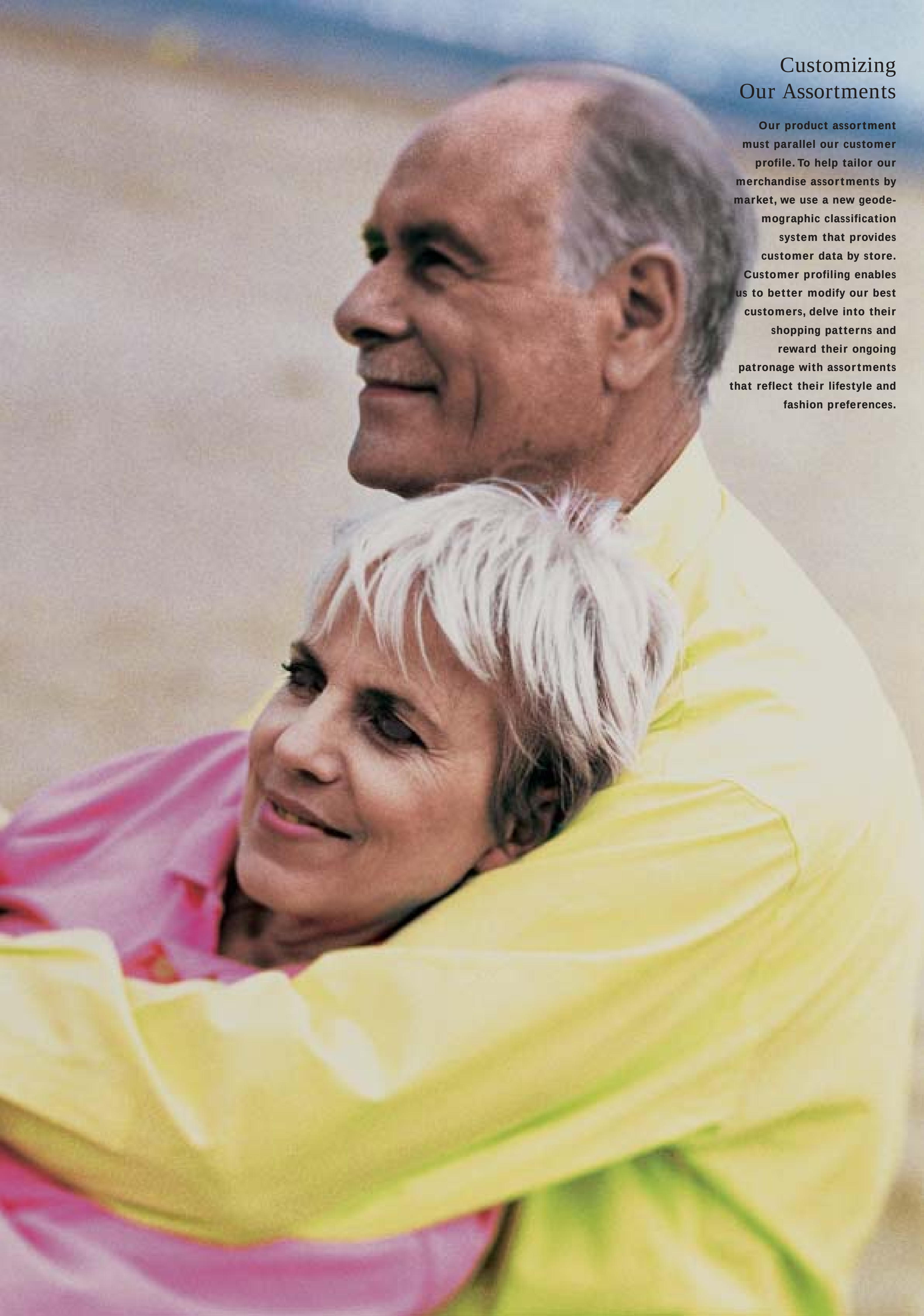
These initiatives are designed to make our stores more convenient, relevant and responsive to our customer's needs. This is The Bon-Ton of today – and tomorrow.

Fashioning Our Merchandise

Our merchandising objectives must be focused on the preferences of our core customer. As such, we are refining our merchandise mix to better reflect our customer's buying patterns relative to our moderate versus better goods. A healthier alignment of our assortment will positively impact both sales and profitability.

Strengthening Private Brand

In two-thirds of our markets we face competition that provides the same national brands as Bon-Ton. In these markets, our private brands must provide the customer with meaningful product differences. We have added Federated Merchandising Group as an additional sourcing arm for our private brand merchandise, furthering our commitment to strengthen this important segment of our business. Our current cadre of brands includes Andrea Viccaro, Jenny Buchanan, Stuart Hughes, Cuddle Bear and Jenny. Our new Madison & Max brand will be introduced this fall.



Customizing Our Assortments

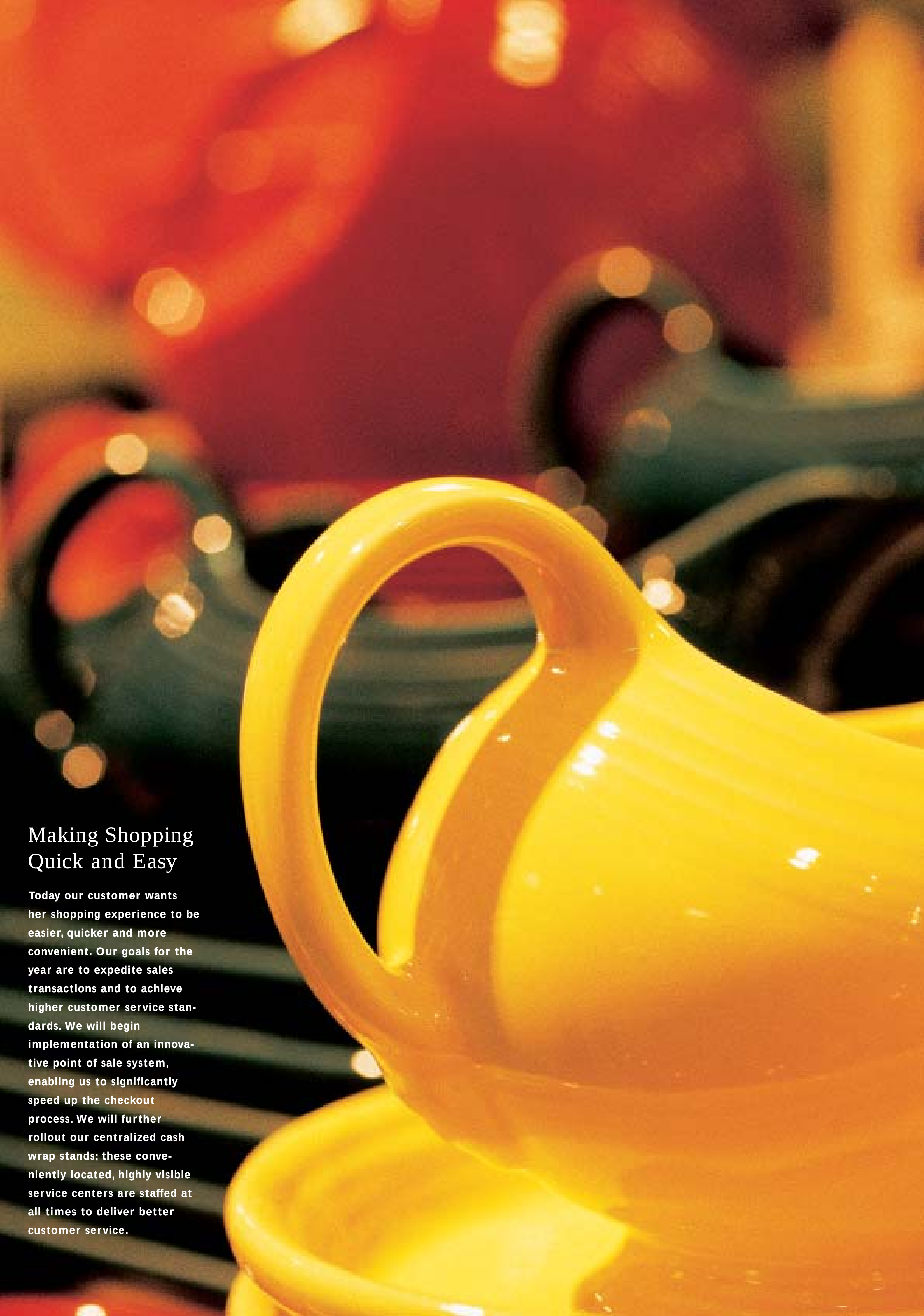
Our product assortment must parallel our customer profile. To help tailor our merchandise assortments by market, we use a new geode-mographic classification system that provides customer data by store. Customer profiling enables us to better modify our best customers, delve into their shopping patterns and reward their ongoing patronage with assortments that reflect their lifestyle and fashion preferences.

Improving Our Inventory Management

We are improving our inventory management and enhancing cash flow by buying in concert with a realistic sales plan. We began 2001 with our comparable store inventory down 5% from last year's levels, providing us a healthy base to continue to improve turnover and the gross margin rate. For our customer, this process will result in timely delivery of current fashions and more focused merchandise assortments, resulting in a more satisfying shopping experience.

Growing Our Customer Loyalty Program

Our customer has more shopping options today and expects more of us than ever. We have responded to this demand with our new Best of The Bon-Ton proprietary credit card customer loyalty program. This initiative is designed to increase store traffic and gain market share and allows us to focus our resources to reward and recognize our best and most loyal customers. Purchasing information from this program will be added to our credit card database, providing us additional tools to monitor and predict customer behavior.



Making Shopping Quick and Easy

Today our customer wants her shopping experience to be easier, quicker and more convenient. Our goals for the year are to expedite sales transactions and to achieve higher customer service standards. We will begin implementation of an innovative point of sale system, enabling us to significantly speed up the checkout process. We will further rollout our centralized cash wrap stands; these conveniently located, highly visible service centers are staffed at all times to deliver better customer service.

Marketing Our Message

To achieve our comparable store sales goal and increase market penetration, we are redefining The Bon-Ton positioning to convey our message of convenience: We provide easy, one-stop shopping for quality merchandise for your family's active lifestyle. Inventories will be focused and basics in-stock, making it easy for our customer to find the merchandise she wants. Our message will be clear and persuasively delivered in all we do.

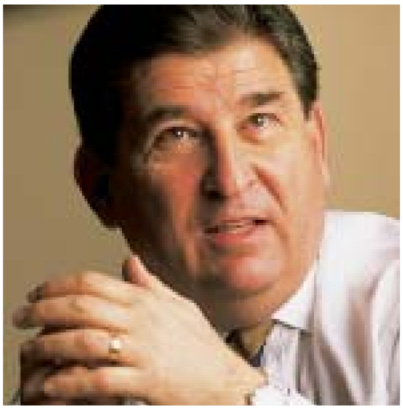
Improving Productivity

We constantly strive to leverage expenses and better serve our customers with more efficient operations. Technology upgrades have allowed us to expedite the flow of merchandise through our distribution centers, improving productivity, lowering labor costs and resulting in better in-stock availability. Our new point of sale system will simplify associate training, improve inventory management and further enhance the customer shopping experience.

Michael L. Gleim
Vice Chairman and
Chief Operating Officer

Frank Tworecke
Vice Chairman and
Chief Merchandising Officer

Jim Baireuther
Executive Vice President and
Chief Financial Officer



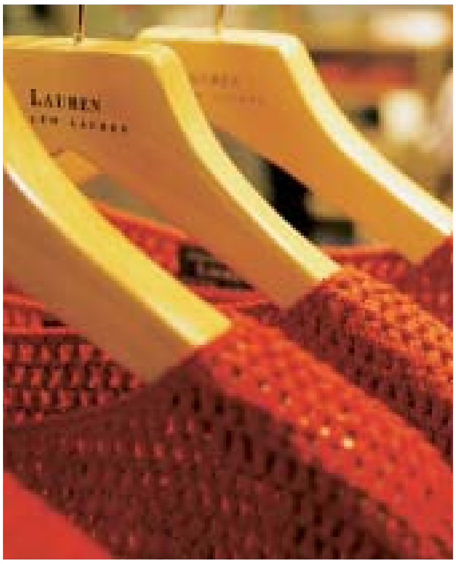
Management Q&A

In 2000, we began a comprehensive review of all aspects of our business. As a result, we are implementing a number of initiatives to manage our inventory more productively and leverage operating expenses. We believe we have the strategies and team in place to deliver quality growth in our operating performance.

Following is a candid conversation with three members of The Bon-Ton's executive committee, Mike Gleim, Vice Chairman and Chief Operating Officer, Frank Tworecke, Vice Chairman and Chief Merchandising Officer, and Jim Baireuther, Executive Vice President and Chief Financial Officer, which will clarify our strategic direction.

We look to be the primary provider of quality fashion goods in the secondary markets we serve. Our customers know exactly what to expect from us – the finest quality merchandise, delivered at exceptional value.

Our Best of The Bon-Ton customer loyalty program is designed to increase traffic, sales and credit card penetration. As a member, customers receive quarterly newsletters containing trend and lifestyle information and valuable coupons.



Q. What is the Company's niche? Do you anticipate it changing?

A. Mike – We position ourselves as the leading fashion retailer offering moderate and better brand name merchandise in secondary markets. We make a difference to our customer by providing the convenience of local shopping, an upscale presentation and a high level of service. This is what we know and what we do best; we look to build on our strengths.

Q. What is your growth strategy in these secondary markets?

A. Jim – Our new store location strategy will be more focused on tailoring the size of our store with the potential of the market. Attributes such as the competitive environment, sales potential and expected market share will weigh heavily in our decision to pursue a new store opportunity. Additionally, we feel we can better serve our customer in some markets by looking at alternatives to the typical enclosed regional mall, like community strip centers, streetscape retail centers and lifestyle centers. Our store economic model is changing as occupancy, payroll and advertising expenses have increased disproportionately with productivity increases; we anticipate reducing our capital invested per new store so as to provide an adequate return to our shareholders.

Q. Given a changing competitive environment, how will the Company maintain or increase market share?

A. Frank – To be successful, we must satisfy our core customer more often. Our number one objective is to be in step with our customer's preferences relative to fashion, price, quality and brand, which means we must continually reevaluate the assortment of merchandise offered in our stores. In fall 2000 we began realigning our price points, increasing the proportion of moderate priced product, and were very encouraged by the customer response. We also look to capitalize on a competitive advantage, our small size, which affords us the nimbleness to react quickly to emerging trends. Additionally, we compete by differentiating a portion of our merchandise assortment through our exclusive private brands; we look to strengthen this important segment of our business by partnering with Federated Merchandising Group.

Our customer seeks value and quality, and, in many instances, this means assortments that better address moderate price points. Jenny Buchanan, one of our private brands, delivers classic, traditional basics at value prices.

Ensuring timely delivery of current merchandise is essential to delivering customer service. We have made supply chain performance a top priority and invested significant capital in our Whitehall distribution center to improve our in-stock position.

Among our goals for the year is improving the shopping experience for our customer. We will aggressively market our message of convenience and value to build brand equity as the preferred provider of fashion in our markets. We are targeting our most desirable customer by using technology to demographically analyze our customer base by market. This information allows us to customize the merchandise mix accordingly and understand the lifestyle and demographic clusters of our customer mix. Direct communication with our customer is important to our continued success: Our new Best of The Bon-Ton proprietary credit card customer loyalty program is designed to increase store traffic and recognize and reward our best customers.

Q. How important is the penetration of private brand to your strategy?

A. Frank – Our partnership with Federated Merchandising Group is a testament to the growing importance private brands are playing in the department store sector and, specifically, in our merchandise mix. Nurturing proprietary brands builds customer loyalty and differentiates us from our competition. We look to provide a wide range of private brands that deliver value, newness and fashion across all families of business. Our goal is for these labels to be considered exclusive brands by our customers. We are very excited about the launch of our newest private brand, Madison & Max, in the fall of this year.

Q. What opportunities for increased profitability have you identified?

A. Frank – Our gross margin has benefited from three merchandising initiatives implemented last fall. First, we made the commitment to improve inventory management, and we ended the year with our comparable store inventory down 5% from last year's levels and the management and controls in place to execute our strategic objectives for improved inventory turnover and gross margin. Secondly, we are shifting our merchandising strategy to emphasize moderately priced, value driven assortments, which has positively impacted both sales and profitability. In fall 2000 we recorded a comparable store sales increase of 2.4% and a gross margin rate improvement of 0.5 percentage point. Finally, private

Time-strapped customers want to get in and out of the store quickly. We will continue to rollout our conveniently located, highly visible service centers to expedite customer purchases.

Our goals for the year include achieving higher customer service standards. Knowledgeable associates will be available to provide assistance, particuarly in specialized areas. Our associates receive ongoing training in both product and systems.

brands offer gross margin opportunities, making the growth of this category a key component of our strategy.

Mike — We need to improve the sales productivity of our underperforming stores. Our new stores have a higher fixed expense structure than core stores, resulting in a negative effect on our profitability. In these stores, in particular, and other stores as well, we look to change our space and inventory allocations, increasing funding in those categories which will drive sales and downsizing our investment in those categories not delivering an acceptable return. Our ability to improve sales per square foot and thereby leverage fixed expenses will largely determine whether we can drive profitability ratios higher. Additionally, we are forecasting lower interest expense for 2001 as a result of reduced interest rates and lower debt levels.

Q. How will you make the shopping experience easier for your customers?

A. Mike — Time-strapped customers want to get in and out of the store quickly. This means having the right assortments, with inventories focused, accessible and in-stock. Signing will be clear and informative and pricing easily understood. We will begin implementation of an innovative point of sale system, providing faster and more accurate transactions. We look to further the rollout of our centralized cash wrap stands; these conveniently located, highly visible service centers are staffed at all times to expedite customer purchases. Associates will be available to provide information, particularly in specialized areas, such as jewelry, cosmetics, intimate apparel and home. To deliver better customer service, our associates will receive ongoing training in both product and systems.

Q. What is your capital plan for 2001?

A. Mike — We have budgeted $19.0 million for capital expenditures. We will be investing in our infrastructure, particularly information services, focusing on business-critical applications that either provide a convenient, easy shopping experience or will achieve operating leverage on incremental sales. We do not anticipate opening any new stores, but will remodel and upgrade several of our existing stores.

We deliver fashion-right assortments for the junior and young men's customer, capitalizing on the hottest fashion trends and brands directed to teens. We emphasize both fun and fashion with music and visual excitement in these departments.

We look to aggressively market our message of convenience: The Bon-Ton is the one-stop shop for quality merchandise for the entire family. Inventories will be focused and basics in-stock, making it easy for our customer to find the merchandise she wants.

Q. Do you have adequate capital to achieve your growth initiatives?

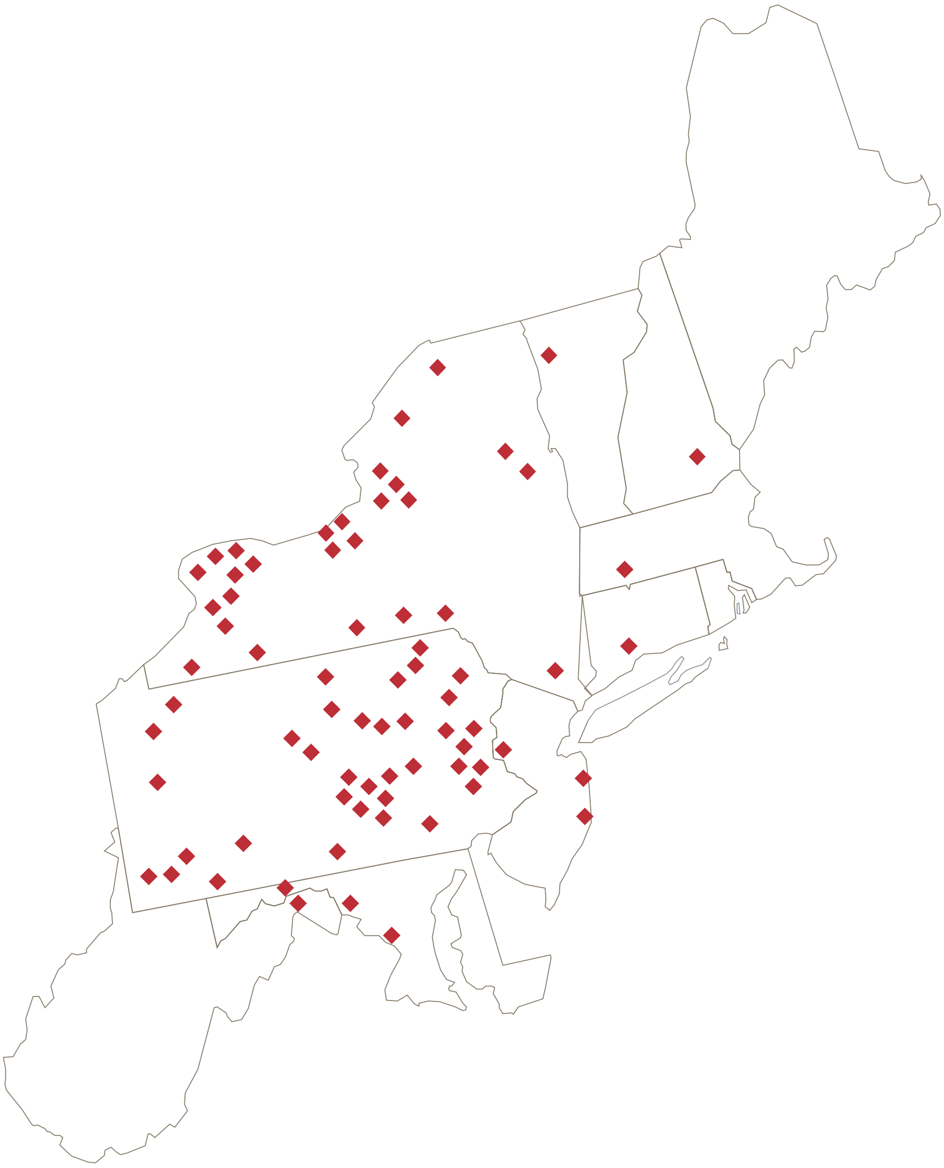
A. Jim – Our financial condition, coupled with the support of our business partners, including vendors and banking institutions, provides us the resources to maximize operations, as well as take advantage of selective real estate growth opportunities. We are positioned to facilitate enhancements to current operations, achieve the stated strategic merchandising refinements and, when appropriate, expand our presence. The Company's initiatives with respect to the new point of sale system and merchandise realignment are prime examples of the appropriate utilization of our capital resources to achieve growth. Our working capital facilities and current excess capacity position us well to support the strategic initiatives of the Company.

Q. How do you explain the disparity between your book value and the stock price?

A. Jim – Many retailers have experienced a significant drop in the trading price of their stock and are selling at a discount to their respective book values. Regarding The Bon-Ton specifically, our depressed stock price most likely reflects the fact that certain of the Company's business metrics are not as favorable as our competitors. These metrics include less float, geographic concentration, lower comparable store sales increases in recent years, lower sales per square foot, as well as less operating leverage. We do not believe the current disparity between the market price and book value represents a permanent or long-term situation.

Q. Do you anticipate any stock repurchase initiative in response to your assessment of the market valuation of your company?

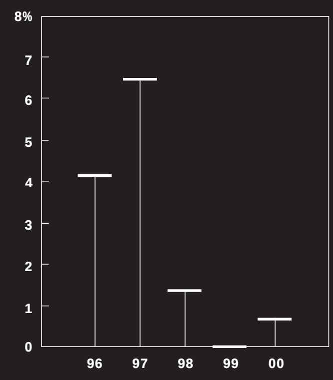
A. Jim – We manage our business from a long-term perspective and will not compromise the liquidity of our balance sheet in order to achieve what we consider to be a short-term benefit. Independent of our current market valuation, we believe our stock price will improve as we achieve earnings growth that is predictable, consistent and a function of improving the fundamental drivers of our business. In other words, we feel we can realize a better long-term return by investing our capital to support our strategic initiatives.



Store Locations

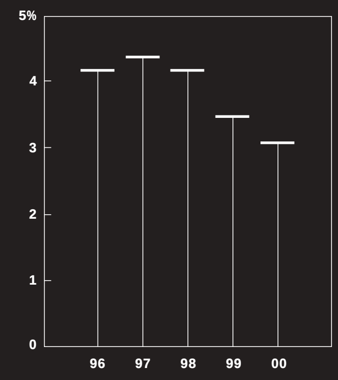
The Bon-Ton operates 73 department stores in secondary markets throughout the Northeast: 36 stores in Pennsylvania, 26 stores in New York, three stores in each of Maryland and New Jersey and one store in each of Connecticut, Massachusetts, New Hampshire, Vermont and West Virginia. Our stores vary in size from approximately 33,000 to 160,000 gross square feet, with 49 stores having less than 90,000 gross square feet. We approach our business with a smaller market focus, positioning ourselves as the leading fashion retailer offering moderate and better branded merchandise along with the convenience of local department store shopping.

Financial Review



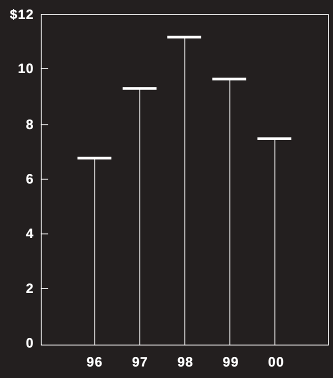
Comparable store sales

(Percentage increase over prior year)



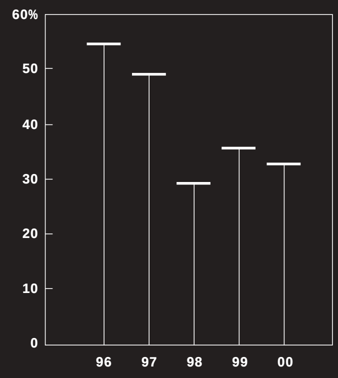
Income from operations

(Percent of sales)



Net income

(Dollars in millions)



Funded debt to total capitalization

(Percentage)

Selected Consolidated Financial and Operating Data

(In thousands except share, per share and store data)

Fiscal Year Ended	2000 Feb. 3, 2001		1999 Jan. 29, 2000		1998 Jan. 30, 1999		1997 Jan. 31, 1998		1996 Feb. 1, 1997	
Statement of Operations Data:		%		%		%		%		%
Net sales[1]	$749,816	100.0	$710,963	100.0	$674,871	100.0	$656,399	100.0	$626,482	100.0
Other income, net	2,715	0.4	2,651	0.4	2,350	0.3	2,349	0.4	2,430	0.4
Gross profit	275,790	36.8	261,367	36.8	248,141	36.8	242,553	37.0	230,919	36.9
Selling, general and administrative expenses	231,859	30.9	224,150	31.5	209,407	31.0	202,850	30.9	197,315	31.5
Depreciation and amortization	17,085	2.3	14,846	2.1	13,281	2.0	12,882	2.0	12,758	2.1
Unusual expense (income)[2]	6,485	0.9	2,683	0.4	—	—	—	—	(3,171)	(0.5)
Restructuring income[3]	—	—	(2,492)	(0.4)	—	—	—	—	—	—
Income from operations	23,076	3.1	24,831	3.5	27,803	4.1	29,170	4.4	26,447	4.2
Interest expense, net	10,906	1.5	8,552	1.2	9,396	1.4	13,202	2.0	14,687	2.3
Income before taxes	12,170	1.6	16,279	2.3	18,407	2.7	15,968	2.4	11,760	1.9
Income tax provision	4,622	0.6	6,186	0.9	7,196	1.1	6,270	1.0	4,949	0.8
Income before extraordinary item	7,548	1.0	10,093	1.4	11,211	1.7	9,698	1.5	6,811	1.1
Extraordinary item, net of tax[4]	—	—	(378)	(0.1)	—	—	(446)	(0.1)	—	—
Net income	$ 7,548	1.0	$ 9,715	1.4	$ 11,211	1.7	$ 9,252	1.4	$ 6,811	1.1

	2000	1999	1998	1997	1996
Per Share Amounts					
Basic:					
Net income before extraordinary item	$ 0.50	$ 0.68	$ 0.81	$ 0.87	$ 0.62
Effect of extraordinary item	—	(0.02)	—	(0.04)	—
Net income	$ 0.50	$ 0.66	$ 0.81	$ 0.83	$ 0.62
Basic shares outstanding	14,953,000	14,750,000	13,866,000	11,122,000	11,064,000
Diluted:					
Net income before extraordinary item	$ 0.50	$ 0.68	$ 0.81	$ 0.85	$ 0.61
Effect of extraordinary item	—	(0.02)	—	(0.04)	—
Net income	$ 0.50	$ 0.66	$ 0.81	$ 0.81	$ 0.61
Diluted shares outstanding	14,953,000	14,753,000	13,917,000	11,377,000	11,106,000
Balance Sheet Data (at end of period):					
Working capital	$142,311	$141,788	$128,977	$123,078	$102,853
Total assets	405,038	417,492	378,119	352,686	341,252
Long-term debt, including capital leases	98,758	107,678	76,255	123,384	128,098
Shareholders' equity	198,862	190,691	180,211	124,394	111,485
Selected Operating Data:					
Total sales growth[5]	5.5%	5.3%	2.8%	4.8%	4.1%
Comparable stores growth[5][6][7]	0.7%	0.0%	1.4%	6.5%	4.2%
Comparable stores data[6][7]:					
Sales per selling square foot	$ 143	$ 141	$ 143	$ 143	$ 138
Selling square footage	4,792,000	4,705,000	4,620,000	4,511,000	4,153,000
Capital expenditures	$ 29,577	$ 46,451	$ 19,418	$ 10,978	$ 9,730
Number of stores:					
Beginning of year	72	65	64	64	68
Additions	1	7	2	—	1
Closings	—	—	(1)	—	(5)
End of year	73	72	65	64	64

(1) Fiscal 2000 reflects the 53 weeks ended February 3, 2001.
(2) Reflects the expense recognized for workforce reductions, the early retirement of Heywood Wilansky and the realignment and the elimination of certain senior management positions in fiscal 2000 and the asset write-down and the gain recognized on the pension termination in fiscal years 1999 and 1996, respectively.
(3) Income recognized in fiscal 1999 as a result of a lease termination for a closed store.
(4) Expense resulting from the early extinguishment of the Company's revolving credit facility in fiscal 1999 and term loan and revolving credit facility in fiscal 1997.
(5) Fiscal 1996 sales compared to the 52 weeks ended January 27, 1996.
(6) Fiscal year 2000 reflects the 52 weeks ended January 27, 2001.
(7) Comparable stores data (sales and selling square footage) reflects stores open for the entire current year and prior fiscal year.

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

2000 OPERATIONS OVERVIEW

Sales Performance

In fiscal 2000, The Bon-Ton Stores, Inc. (the "Company") achieved a 5.5% increase in sales compared to fiscal 1999. The sales growth primarily reflects the timing impact of new stores opened during fiscal 1999 and 2000 and an additional week of sales in fiscal 2000 compared to a fifty-two week period in fiscal 1999. Comparable store sales for the fifty-two week period ended January 27, 2001 increased 0.7% over fiscal 1999. Sales productivity in the New York market improved in fiscal 2000 at a rate greater than the Company average, reflecting the initiatives implemented in fiscal 1999 and 2000. Although productivity improved in fiscal 2000, not all stores performed at or above the Company average. The Company will continue to monitor the performance of its stores and initiate operational improvements as necessary.

Non-comparable Items Review

Net income in fiscal 2000 totaled $7.5 million, or $0.50 per share on a diluted basis, a decrease of $2.2 million from $9.7 million, or $0.66 per share on a diluted basis, in fiscal 1999. The results for fiscal 2000 and 1999 were impacted by several non-comparable items. The primary non-comparable items impacting net income for fiscal 2000 and 1999 are set forth in the following table:

	Fiscal 2000		Fiscal 1999	
(In thousands except per share data)	After-tax Net Income	Diluted Earnings Per Share	After-tax Net Income	Diluted Earnings Per Share
Net income excluding non-comparable items	$12,337	$0.83	$12,583	$0.85
CEO retirement & headcount reduction	(4,021)		—	
Pre-opening expenses	(768)		(2,372)	
Asset write-down charge	—		(1,663)	
Restructuring income	—		1,545	
Extraordinary loss on debt	—		(378)	
Net income as reported	$ 7,548	$0.50	$ 9,715	$0.66

The Company recognized charges in the second quarter of 2000 related to the costs associated with the Company's workforce reduction. During the same period, the Company announced the early retirement of Heywood Wilansky as President and Chief Executive Officer and the realignment and elimination of certain senior management positions (see Note 14).

During fiscal 2000, one new store was opened and one store relocated, compared to fiscal 1999 when seven new stores were opened. Accordingly, pre-opening expenses were much lower in the current year.

The Company recorded a charge in the fourth quarter of 1999 to write down the value of assets associated with a cooperative buying group from which the Company purchased inventory. The cooperative buying group ceased its operations during fiscal 2000 (see Note 14).

In fiscal 1999, the Company negotiated the termination of a lease for a closed store located in Johnstown, Pennsylvania. The Company closed the store in 1995, but was obligated under the terms of its lease through fiscal 2005. The termination of this lease resulted in the Company reversing the remaining restructuring reserve established in fiscal 1995 and reporting restructuring income in fiscal 1999 (see Note 16).

The Company renegotiated the term of its revolving credit agreement in fiscal 1999. The agreement was amended to extend the term to April 15, 2004 and provides a more favorable interest rate pricing structure, with substantially all other terms and conditions remaining unchanged. This transaction created a one-time extraordinary charge in fiscal 1999.

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

	Percent of Net Sales		
	Fiscal Year		
	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Other income, net	0.4	0.4	0.3
	100.4	100.4	100.3
Costs and expenses:			
Costs of merchandise sold	63.2	63.2	63.2
Selling, general and administrative	30.9	31.5	31.0
Depreciation and amortization	2.3	2.1	2.0
Unusual expense	0.9	0.4	—
Restructuring income	—	(0.4)	—
Income from operations	3.1	3.5	4.1
Interest expense, net	1.5	1.2	1.4
Income before income taxes	1.6	2.3	2.7
Income tax provision	0.6	0.9	1.1
Income before extraordinary item	1.0	1.4	1.7
Extraordinary loss, net of tax	—	0.1	—
Net income	1.0%	1.4%	1.7%

FISCAL 2000 COMPARED TO FISCAL 1999

Net sales: Net sales were $749.8 million for the fifty-three weeks ended February 3, 2001, an increase of $38.9 million, or 5.5%, over the fifty-two week period ended January 29, 2000. The increase was primarily attributable to the one store opened in fiscal 2000 and seven stores opened for a portion of fiscal 1999 and an additional week of sales in fiscal 2000. Comparable store sales for the fifty-two week period ended January 27, 2001 increased 0.7% over the fifty-two week period in fiscal 1999. Solid sales performances were achieved in coats, ladies sportswear complex, cosmetics, accessories, shoes, home and intimate.

Other income, net: Net other income, which is comprised mainly of income from leased departments, remained constant at 0.4% of net sales for fiscal 2000 and fiscal 1999.

Costs and expenses: Gross margin dollars for fiscal 2000 increased $14.4 million, or 5.5% over fiscal 1999 as a result of the sales volume increase. Gross profit as a percentage of net sales was 36.8% in fiscal 2000 and fiscal 1999.

Selling, general and administrative expenses for fiscal 2000 were $231.9 million, or 30.9% of net sales, compared to $224.2 million, or 31.5% of net sales, in the prior year. The increase in dollars in fiscal 2000 is primarily attributable to the cost of operating eight new stores, including additional payroll costs; rent expense; utilities; advertising and insurance costs. The rate decrease in fiscal 2000 was primarily attributable to increased sales volume and cost reductions in the second half of the year from changes implemented in the second quarter of fiscal 2000 (see Note 14).

Depreciation and amortization increased to 2.3% of net sales in fiscal 2000 from 2.1% in fiscal 1999 as a result of capital expenditures in the amount of $29.6 million and $46.5 million in fiscal 2000 and 1999, respectively.

Unusual expense in fiscal 2000 of $6.5 million, or 0.9% of net sales, was incurred relating to the early retirement of Mr. Heywood Wilansky as President and Chief Executive Officer, the realignment and elimination of certain senior management positions and a workforce reduction (see Note 14).

Income from operations: Income from operations in fiscal 2000 amounted to $23.1 million, or 3.1% of net sales, compared to $24.8 million, or 3.5% of net sales, in fiscal 1999.

Interest expense, net: Net interest expense in fiscal 2000 increased $2.4 million to $10.9 million, or 1.5% of net sales, from $8.6 million, or 1.2% of net sales, in the prior fiscal year. The increase in interest expense was primarily attributable to an increase in average borrowing levels and an increase in rates.

Extraordinary item: The Company recorded an expense of $378,000, net of tax, related to the early extinguishment of the Company's revolving credit facility in fiscal 1999.

Net income: Net income in fiscal 2000 amounted to $7.5 million, or 1.0% of net sales, compared to $9.7 million, or 1.4% of net sales, in fiscal 1999.

The effective tax rate remained constant at 38.0% in fiscal 2000 and fiscal 1999.

FISCAL 1999 COMPARED TO FISCAL 1998

Net sales: Net sales were $711.0 million for the fifty-two weeks ended January 29, 2000, an increase of $36.1 million, or 5.3%, over the fifty-two week period ended January 30, 1999. The increase was attributable to the seven new stores opened in fiscal 1999 and two stores opened in fiscal 1998. Comparable store sales for the same period remained even with last year. Solid sales performances were achieved in home, cosmetics, shoes and accessories.

Other income, net: Net other income, which is comprised mainly of income from leased departments, increased to 0.4% of net sales for fiscal 1999 compared to 0.3% in fiscal 1998, as a result of the addition of certain leased departments in four of the Company's new stores.

Costs and expenses: Gross margin dollars for fiscal 1999 increased $13.2 million, or 5.3%, over fiscal 1998 as a result of the sales volume increase. Gross profit as a percentage of net sales was 36.8% in fiscal 1999 and fiscal 1998.

Selling, general and administrative expenses for fiscal 1999 were $224.2 million, or 31.5% of net sales, compared to $209.4 million, or 31.0% of net sales, in the prior year. The percentage increase in fiscal 1999 was primarily attributable to $3.8 million in expenses associated with the opening of seven new stores in fiscal 1999 versus $1.3 million for two stores in fiscal 1998, increased advertising costs and the gain recognized in fiscal 1998 on the sale of the Downtown Lancaster property (see Note 5). The increase was partially offset by an improvement in the credit operations and increased sales volume in fiscal 1999.

Depreciation and amortization increased to 2.1% of net sales in fiscal 1999 from 2.0% in fiscal 1998 as a result of $46.5 million of capital expenditures in fiscal 1999.

Unusual expense in fiscal 1999 of $2.7 million, or 0.4% of net sales, was incurred as a result of the write-down of certain assets related to a cooperative buying group in which the Company had an investment (see Note 14).

Restructuring income of $2.5 million, or 0.4% of net sales, was recognized as a result of the Company reaching an agreement in the fourth quarter of fiscal 1999 on the termination of a lease relating to a property in Johnstown, Pennsylvania. The Company established an accrual in fiscal 1995 relating to the costs associated with maintaining this property as part of its restructuring (see Note 16). The termination of this lease concludes the Company's actions under the 1995 restructuring plan.

Income from operations: Income from operations in fiscal 1999 amounted to $24.8 million, or 3.5% of net sales, compared to $27.8 million, or 4.1% of net sales, in fiscal 1998.

Interest expense, net: Net interest expense in fiscal 1999 decreased $0.8 million to $8.6 million, or 1.2% of net sales, from $9.4 million, or 1.4% of net sales, in the prior fiscal year. The decrease in interest expense was primarily attributable to lower borrowing rates under the amended credit facility, partially offset by increased average borrowing levels.

Extraordinary item: The Company recorded an expense of $378,000, net of tax, related to the early extinguishment of the Company's revolving credit facility in fiscal 1999 (see Note 2).

Net income: Net income in fiscal 1999 amounted to $9.7 million, or 1.4% of net sales, compared to $11.2 million, or 1.7% of net sales, in fiscal 1998.

The decrease in the effective tax rate to 38.0% in fiscal 1999 from 39.1% in fiscal 1998 primarily reflects closure of the Internal Revenue Service audit in fiscal 1998, partially offset by an increase in the effective state tax rate due to the Company's entry into three states during fiscal 1999.

Future Accounting Changes

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and for Hedging Activities" ("SFAS No. 133"). This statement requires every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires changes in the derivative's fair value be recognized currently in earnings unless specific hedge criteria are met. SFAS No. 133 also requires the Company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. By requiring greater use of fair value accounting, SFAS No. 133 has the potential to increase the volatility of earnings and other comprehensive income. The Company adopted SFAS No. 133 in fiscal 2001 and its effect was not material to the operating results of the Company as primarily cash flow hedges are utilized by the Company and their change is reported through comprehensive income.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140"). The guidance in SFAS No. 140 supersedes SFAS No. 125. Under SFAS No. 125, the Company's securitization transactions are accounted for as sales of receivables. SFAS No. 140 requires additional disclosures relating to securitized financial assets, retained interests in securitized financial assets and collateral for fiscal years ending after December 15, 2000. These disclosures are included in Note 4. In addition, SFAS No. 140 establishes new requirements for an entity to be a qualified special purpose entity and modifies under what conditions a transferor has retained effective control over transferred assets. The updated rules to determine the accounting for transfers of financial assets are effective for transfers occurring after March 31, 2001. Early adoption of the new rules is not permitted. We anticipate the adoption of the accounting provisions of SFAS No. 140 will not have a material impact on the operating results of the Company.

Market Risk and Financial Instruments

The Company is exposed to market risk associated with changes in interest rates. To provide some protection against potential rate increases associated with its variable rate facilities, the Company has entered into various derivative financial transactions in the form of interest rate swaps. The interest rate swaps are used to hedge underlying variable rate facilities. The swaps are qualifying hedges and the interest rate differential is reflected as an adjustment to interest expense over the life of the swaps. The Company currently holds "variable to fixed" rate swaps with a notional amount of $80.0 million with several different financial institutions for various terms. The notional amount does not represent amounts exchanged by the parties, but it is used as the basis to calculate the amounts due and to be received under the rate swaps. The Company believes the derivative financial instruments entered into provide protection from volatile upward swings in the interest rates associated with the Company's variable rate facilities. During fiscal 2000, the Company did not enter into or hold derivative financial instruments for trading purposes.

The following tabular disclosure provides information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates as of February 3, 2001. For interest rate swaps, the table presents notional amounts and weighted average pay and receive interest rates by expected maturity date.

	Expected Maturity Date							
(Dollars in thousands)	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
Liabilities:								
Long-term debt								
Fixed rate debt	$ 584	$ 646	$ 715	$ 792	$ 876	$17,826	$21,439	$23,638
Average fixed rate	9.62%	9.62%	9.62%	9.62%	9.62%	9.36%	9.40%	
Variable rate debt	—	—	—	$72,450	—	$ 4,500	$76,950	$75,309
Average variable rate	—	—	—	7.82%	—	4.40%	7.61%	
Interest Rate Derivatives:								
Interest rate swaps								
Variable to fixed	—	—	$50,000	$30,000	—	—	$80,000	$ (682)
Average pay rate	—	—	5.81%	5.58%	—	—	5.72%	
Average receive rate	—	—	6.54%	6.47%	—	—	6.51%	

Seasonality and Inflation

The Company's business, like that of most retailers, is subject to seasonal fluctuations, with the major portion of sales and income realized during the last half of each fiscal year, which includes the back-to-school and holiday seasons. See Note 11 of Notes to Consolidated Financial Statements for the Company's quarterly results for fiscal 2000 and 1999. Selling, general and administrative expenses are typically higher as a percentage of net sales during the first half of each fiscal year.

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

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

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

(Dollars in millions)	February 3, 2001	January 29, 2000	January 30, 1999
Working capital	$ 142.3	$ 141.8	$ 129.0
Current ratio	2.43:1	2.24:1	2.10:1
Funded debt to total capitalization	0.33:1	0.36:1	0.29:1
Unused availability under lines of credit	$ 37.4	$ 35.5	$ 69.7

The Company's primary sources of working capital are cash flows from operations, borrowings under its revolving credit facility and proceeds from its accounts receivable facility. The Company had working capital of $142.3 million, $141.8 million and $129.0 million at the end of fiscal 2000, 1999 and 1998, respectively. The Company's business follows a seasonal pattern and working capital fluctuates with seasonal variations, reaching its highest level in November.

Net cash provided by operating activities amounted to $30.8 million, $16.9 million and $20.8 million in fiscal 2000, 1999 and 1998, respectively. The $13.9 million increase in cash provided by operating activities in fiscal 2000 was primarily related to the reduction in merchandise inventories as a result of the Company's efforts to reduce inventory, partially offset by an increase in accounts receivable relating to increased sales.

Net cash used in investing activities amounted to $18.5 million, $48.2 million and $16.4 million in fiscal 2000, 1999 and 1998, respectively. The net cash outflow in fiscal 2000 was the result of capital expenditures in the amount of $29.6 million, which were primarily related to the construction of a new store in Newburgh, New York, the relocation of a store in Scranton, Pennsylvania and remodeling two stores, one of which was expanded. The capital expenditures were partially offset by the proceeds from a sale and leaseback arrangement of $11.0 million (see Note 15).

Net cash used in financing activities amounted to $9.0 million and $2.9 million in fiscal 2000 and fiscal 1998, respectively. Cash provided by financing activities amounted to $31.5 million in fiscal 1999. The net cash outflow in fiscal 2000 was attributable to payments on the Company's long-term debt.

The Company currently anticipates its capital expenditures for fiscal 2001 will approximate $19.0 million. The expenditures will be directed toward remodeling some of the Company's existing stores, information systems enhancements and general repairs and operations.

Aside from planned capital expenditures, the Company's primary cash requirements will be to service debt and finance working capital increases during peak selling seasons. The Company anticipates that its cash balances and cash flows from operations, supplemented by borrowings under the Credit Facility and proceeds from the accounts receivable facility, will be sufficient to satisfy its operating cash requirements.

Consolidated Balance Sheets

(In thousands except share and per share data)	February 3, 2001	January 29, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 14,067	$ 10,807
Trade and other accounts receivable, net of allowance for doubtful accounts of $3,445 and $3,167 in 2000 and 1999, respectively	24,052	27,782
Merchandise inventories	192,547	203,489
Prepaid expenses and other current assets	8,503	12,371
Deferred income taxes	2,318	1,926
Total current assets	241,487	256,375
Property, fixtures and equipment at cost, less accumulated depreciation and amortization	147,415	144,715
Deferred income taxes	1,163	—
Other assets	14,973	16,402
Total assets	$405,038	$417,492
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 57,184	$ 67,353
Accrued payroll and benefits	8,588	10,016
Accrued expenses	21,919	26,262
Current portion of long-term debt	584	682
Current portion of obligations under capital leases	479	442
Income taxes payable	10,422	9,832
Total current liabilities	99,176	114,587
Long-term debt, less current maturities	97,805	106,247
Obligations under capital leases, less current maturities	953	1,431
Deferred income taxes	—	1,362
Other long-term liabilities	8,242	3,174
Total liabilities	206,176	226,801
Commitments and contingencies (Note 6)		
Shareholders' equity		
Common Stock — authorized 40,000,000 shares at $0.01 par value; issued and outstanding shares of 12,225,501 and 12,276,860 in 2000 and 1999, respectively	122	123
Class A Common Stock — authorized 20,000,000 shares at $0.01 par value; issued and outstanding shares of 2,989,853 in 2000 and 1999	30	30
Additional paid-in capital	106,882	108,083
Deferred compensation	(347)	(2,172)
Retained earnings	92,175	84,627
Total shareholders' equity	198,862	190,691
Total liabilities and shareholders' equity	$405,038	$417,492

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

Consolidated Statements of Income

(In thousands except share and per share data)	Fiscal Year Ended February 3, 2001	January 29, 2000	January 30, 1999
Net sales	$749,816	$710,963	$674,871
Other income, net	2,715	2,651	2,350
	752,531	713,614	677,221
Costs and expenses:			
Costs of merchandise sold	474,026	449,596	426,730
Selling, general and administrative	231,859	224,150	209,407
Depreciation and amortization	17,085	14,846	13,281
Unusual expense	6,485	2,683	—
Restructuring income	—	(2,492)	—
Income from operations	23,076	24,831	27,803
Interest expense, net	10,906	8,552	9,396
Income before income taxes and extraordinary item	12,170	16,279	18,407
Income tax provision	4,622	6,186	7,196
Income before extraordinary item	7,548	10,093	11,211
Extraordinary item — loss on early extinguishment of debt, net of income tax benefit	—	(378)	—
Net income	$ 7,548	$ 9,715	$ 11,211
Per share amounts —			
Basic:			
Net income before extraordinary item	$ 0.50	$ 0.68	$ 0.81
Effect of extraordinary item	—	(0.02)	—
Net income	$ 0.50	$ 0.66	$ 0.81
Basic shares outstanding	14,953,000	14,750,000	13,866,000
Diluted:			
Net income before extraordinary item	$ 0.50	$ 0.68	$ 0.81
Effect of extraordinary item	—	(0.02)	—
Net income	$ 0.50	$ 0.66	$ 0.81
Diluted shares outstanding	14,953,000	14,753,000	13,917,000

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

Consolidated Statements of Shareholders' Equity

(In thousands)	Common Stock	Class A Common Stock	Additional Paid-in Capital	Deferred Compensation	Retained Earnings	Total
Balance at January 31, 1998	$ 88	$30	$ 62,585	$(2,010)	$63,701	$124,394
Net income	—	—	—	—	11,211	11,211
Secondary stock offering	31	—	43,386	—	—	43,417
Issuance of stock under Stock Award Plans	3	—	1,949	(2,262)	—	(310)
Deferred compensation amortization	—	—	—	943	—	943
Exercised stock options	1	—	732	—	—	733
Cancellation of Restricted Shares	—	—	(392)	215	—	(177)
Balance at January 30, 1999	123	30	108,260	(3,114)	74,912	180,211
Net income	—	—	—	—	9,715	9,715
Issuance of stock under Stock Award Plans	—	—	36	(22)	—	14
Deferred compensation amortization	—	—	(183)	933	—	750
Exercised stock options	—	—	16	—	—	16
Cancellation of Restricted Shares	—	—	(46)	31	—	(15)
Balance at January 29, 2000	123	30	108,083	(2,172)	84,627	190,691
Net income	—	—	—	—	7,548	7,548
Deferred compensation amortization	—	—	—	1,490	—	1,490
Tax impact on Restricted Shares	—	—	(655)	18	—	(637)
Cancellation of Restricted Shares	(1)	—	(546)	317	—	(230)
Balance at February 3, 2001	$122	$30	$106,882	$ (347)	$92,175	$198,862

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

Consolidated Statements of Cash Flows

(In thousands)	Fiscal Year Ended February 3, 2001	January 29, 2000	January 30, 1999
Cash flows from operating activities:			
Net income	$ 7,548	$ 9,715	$ 11,211
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,085	14,846	13,281
Bad debt	1,863	520	1,770
Stock compensation expense	833	750	441
Gain on sale of property, fixtures and equipment	(12)	(158)	(1,291)
Cancellation of Restricted Shares	(230)	(15)	(177)
Decrease (increase) in other long-term assets	634	(408)	143
Deferred income tax	(2,917)	(1,414)	(743)
Increase (decrease) in other long-term liabilities	4,650	(185)	(50)
Proceeds from sale of accounts receivable, net	12,000	11,000	(5,000)
Extraordinary loss on debt extinguishment	—	610	—
Asset write-down charge	—	2,683	—
Restructuring income	—	(2,492)	—
Restructuring payments	—	—	(449)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(10,133)	(4,625)	(2,961)
Decrease (increase) in merchandise inventories	10,942	(10,616)	(15,090)
Decrease (increase) in prepaid expenses and other current assets	3,868	(3,195)	543
(Decrease) increase in accounts payable	(10,169)	(4,093)	15,970
(Decrease) increase in accrued expenses	(5,754)	3,865	1,851
Increase in income taxes payable	590	91	1,352
Total adjustments	23,250	7,164	9,590
Net cash provided by operating activities	30,798	16,879	20,801
Cash flows from investing activities:			
Capital expenditures, net	(29,577)	(46,451)	(19,418)
Proceeds from sale of property, fixtures and equipment	12	426	3,004
Proceeds from sale and leaseback arrangement	11,046	—	—
Payment for the acquisition of businesses, net of cash received	—	(2,192)	—
Net cash used in investing activities	(18,519)	(48,217)	(16,414)
Cash flows from financing activities:			
Payments on long-term debt and capital lease obligations	(302,720)	(278,778)	(309,339)
Proceeds from issuance of long-term debt	293,700	310,300	262,300
Proceeds from equity offering	—	—	43,417
Exercised stock options	1	16	733
Net cash (used in) provided by financing activities	(9,019)	31,538	(2,889)
Net increase in cash and cash equivalents	3,260	200	1,498
Cash and cash equivalents at beginning of period	10,807	10,607	9,109
Cash and cash equivalents at end of period	$ 14,067	$ 10,807	$ 10,607

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

Notes to Consolidated Financial Statements

(In thousands except share and per share data)

The Bon-Ton Stores, Inc., a Pennsylvania corporation, was incorporated on January 31, 1996 as the successor of a company established on January 31, 1929, and currently operates as one business segment, through its subsidiaries, 73 retail department stores located in Pennsylvania, New York, New Jersey, Maryland, Connecticut, Massachusetts, New Hampshire, Vermont and West Virginia.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Fiscal Year

The Company's fiscal year ends on the Saturday nearer to January 31 of the following calendar year, and consisted of fifty-three weeks for fiscal year 2000 and fifty-two weeks for fiscal years 1999 and 1998. Fiscal years 2000, 1999 and 1998 ended on February 3, 2001, January 29, 2000 and January 30, 1999, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are generally overnight money market investments.

Merchandise Inventories

For financial reporting and tax purposes, merchandise inventories are determined by the retail method, using a LIFO (last-in, first-out) cost basis. The estimated cost to replace inventories was $193,876 and $203,756 as of February 3, 2001 and January 29, 2000, respectively.

Property, Fixtures and Equipment: Depreciation and Amortization

Depreciation and amortization of property, fixtures and equipment are computed using the straight-line method based upon the following average estimated service lives (or remaining lease terms):

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

No depreciation is recorded until property, fixtures and equipment are placed into service. Property, fixtures and equipment not placed into service are classified as construction in progress.

The Company capitalizes interest and lease costs incurred during the construction of any new facilities or major improvements. The amount of interest and lease costs capitalized is limited to that incurred during the construction period. Repair and maintenance costs are charged to operations as incurred. Property retired or sold is removed from the asset and accumulated depreciation accounts and the resulting gain or loss is reflected in income.

The costs of major remodeling and improvements on leased stores are capitalized as leasehold improvements. Leasehold improvements are generally amortized over the shorter of the lease term or the useful life of the asset. Capital leases are recorded at the lower of fair market value or the present value of future minimum lease payments. Capital leases are amortized over the primary term of the lease.

Store Opening and Closing Costs

The Company follows the practice of accounting for store opening costs incurred prior to opening a new retail unit as a current period expense. When the decision to close a retail unit is made, the Company provides for the estimated future net lease obligations after store operations cease; nonrecoverable investments in property, fixtures and equipment; and other expenses directly related to discontinuance of operations. The estimates are based upon historical information and certain assumptions about future events. Changes in the assumptions for store closing costs for such items as the estimated period of future lease obligations and the amounts actually realized relating to the carrying value of property, fixtures and equipment could cause these estimates to change.

Advertising

Advertising production costs are expensed the first time the advertisement is run. Media placement costs are expensed in the period the advertising appears. Total advertising expenses included in selling, general and administrative expenses for fiscal years 2000, 1999 and 1998 were $28,784, $28,795 and $27,569, respectively. Prepaid expenses and other current assets include prepaid advertising costs of $847 and $1,000 at February 3, 2001 and January 29, 2000, respectively.

Revenue Recognition

The Company recognizes revenue at either the point of sale or at the time merchandise is shipped to the customer. Sales are net of returns and exclude sales tax. A reserve is provided for estimated merchandise returns based on experience.

Leased Department Sales

The Company leases space to third parties in several of its stores and receives compensation based on a percentage of sales made in these departments. Other income, net, includes leased department rental income of approximately $3,001, $2,872 and $2,590 in fiscal 2000, 1999 and 1998, respectively.

Revolving Charge Accounts

Finance charge income on customers' revolving charge accounts is reflected as a reduction of selling, general and administrative expenses. The finance charge income earned by the Company, before considering the costs of administering and servicing the revolving charge accounts, for fiscal years 2000, 1999 and 1998 was $30,619, $28,406 and $29,776, respectively, and is a component of securitization income (see Note 4).

Receivable Sales

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

Stock-Based Compensation

The Company follows Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which provides for a fair value based method of accounting for grants of equity instruments to employees or suppliers in return for goods or services. As permitted under SFAS No. 123, the Company has elected to continue to account for compensation costs under the provisions prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The Company has included pro forma disclosures of net income and basic and diluted earnings per share in Note 10 as if the fair value based method had been applied in measuring compensation cost.

Earnings Per Share

The presentation of earnings per share (EPS) requires a reconciliation of the numerators and denominators used in the basic and diluted EPS calculations. The numerator, net income, is identical in both calculations. The following table presents a reconciliation of the shares outstanding for the respective calculations, as well as the calculated EPS, for each period presented on the accompanying Consolidated Statements of Income. The EPS shown in the reconciliation represents EPS before the impact of extraordinary items.

	2000		1999		1998	
	Shares	EPS	Shares	EPS	Shares	EPS
Basic Calculation	14,953,000	$0.50	14,750,000	$0.68	13,866,000	$0.81
Dilutive Securities —						
Restricted Shares	—		—		25,000	
Options	—		3,000		26,000	
Diluted Calculation	14,953,000	$0.50	14,753,000	$0.68	13,917,000	$0.81
Antidilutive Shares and Options —						
Restricted Shares	280,000		402,000		388,000	
Options	1,206,000		1,316,000		1,068,000	

Antidilutive shares and options, consisting of restricted shares and options to purchase shares outstanding, were excluded from the computation of dilutive securities due to the Company's net loss position in the first three quarters of 1999 and 1998, and the first two quarters of fiscal 2000. In addition, antidilutive options to purchase shares during the remaining quarters were excluded from the computation of dilutive securities due to exercise prices greater than the average market price.

The following table reflects the approximate dilutive securities calculated under the treasury stock method had the Company reported a net profit in each consecutive quarter of the corresponding fiscal years:

	2000	1999	1998
Approximate Dilutive Securities —			
Restricted Shares	—	43,000	90,000
Options	—	27,000	291,000

In addition, options to purchase shares with exercise prices greater than the average market price were excluded from the above table for 2000, 1999 and 1998 in the approximate amounts of 1,206,000, 1,139,000 and 244,000, respectively, as they would have been antidilutive.

Future Accounting Changes

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and for Hedging Activities" ("SFAS No. 133"). This statement requires every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires changes in the derivative's fair value be recognized currently in earnings unless specific hedge criteria are met. SFAS No. 133 also requires the Company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. By requiring greater use of fair value accounting, SFAS No. 133 has the potential to increase the volatility of earnings and other comprehensive income. The Company adopted SFAS No. 133 in fiscal 2001 and its effect was not material to the operating results of the Company as primarily cash flow hedges are utilized by the Company and their change is reported through comprehensive income.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 140"). The guidance in SFAS No. 140 supersedes SFAS No. 125. Under SFAS No. 125, the Company's securitization transactions are accounted for as sales of receivables. SFAS No. 140 requires additional disclosures relating to securitized financial assets, retained interests in securitized financial assets and collateral for fiscal years ending after December 15, 2000. These disclosures are included in Note 4. In addition, SFAS No. 140 establishes new requirements for an entity to be a qualified special purpose entity and modifies under what conditions a transferor has retained effective control over transferred assets. The updated rules to determine the accounting for transfers of financial assets are effective for transfers occurring after March 31, 2001. Early adoption of the new rules is not permitted. We anticipate the adoption of the accounting provisions of SFAS No. 140 will not have a material impact on the operating results of the Company.

Debt consisted of the following:

	February 3, 2001	January 29, 2000
Revolving credit agreement – principal payable April 15, 2004; interest payable periodically at varying rates (7.82% for fiscal year 2000)	$72,450	$ 75,300
Mortgage notes payable – principal payable in varying monthly installments through June 2016; interest 9.62%; secured by land and buildings	20,439	21,012
Mortgage notes payable – principal payable February 1, 2012; interest payable monthly at various rates; secured by a building	4,500	4,500
Mortgage notes payable – principal payable January 1, 2011; interest payable monthly at 5% beginning February 1, 2006; secured by a building and fixtures	1,000	–
Mortgage notes payable – principal and interest in monthly installments of $68 through January 2001, with a balloon payment in February 2001; interest 11.00%; secured by buildings	–	6,117
Total debt	98,389	106,929
Less: current maturities	584	682
Long-term debt	$97,805	$106,247

The Company entered into a loan agreement with the City of Scranton on July 5, 2000. The loan provided $1,000 to be used in certain store renovations. The agreement provides for interest payments beginning February 1, 2006 at a rate of 5% per annum. The principal balance is to be paid in full by January 1, 2011.

In April 1999, the Company amended its revolving credit agreement ("Credit Facility") to extend the term of the facility to April 15, 2004. The amended agreement extends the term of the available fixed assets and real estate borrowing base and provides a more favorable interest rate pricing structure, with substantially all other terms and conditions remaining unchanged. As a result of this transaction, the Company incurred a one-time extraordinary after-tax charge of $378, or $0.02 per share, in fiscal 1999.

As of February 3, 2001, the Company borrowed $72,450, with $37,405 of additional borrowing availability remaining under the Credit Facility. The interest charged under this agreement, based on LIBOR or an index rate plus an applicable margin, is determined by a formula based on the Company's interest coverage ratio (defined as the ratio of earnings before interest, taxes, depreciation and amortization to interest expense).

The Company maintains an interest rate swap portfolio that allows the Company to convert a portion of the variable rates under the Company's facilities to fixed rates. The following table indicates the notional amounts as of February 3, 2001 and January 29, 2000 and the range of interest rates paid and received by the Company during the respective fiscal years:

	February 3, 2001	January 29, 2000
Fixed swaps (notional amount)	$80,000	$110,000
Range of receive rate	6.03%-6.86%	5.00%-6.16%
Range of pay rate	5.58%-5.88%	5.58%-6.06%

The interest rate swap agreements will expire on various dates from June 2, 2003 to April 8, 2004. The net income or expense from the exchange of interest rate payments is included in interest expense. The estimated fair value, based on dealer quotes, of the interest rate swap agreements at February 3, 2001 and January 29, 2000, was a loss of $682 and income of $3,842, respectively, and represents the amount the Company would pay or receive if the agreements were terminated as of such dates.

Several of the Company's loan agreements contain restrictive covenants, including a minimum trade support ratio, a minimum fixed charge ratio and limitations on dividends, additional incurrence of debt and capital expenditures. The Company was in compliance with each of these covenants during fiscal 2001.

The fair value of the Company's debt, excluding interest rate swaps, is estimated at $98,947 and $105,203 on February 3, 2001 and January 29, 2000, respectively, and is based on an estimate of the rates available to the Company for debt with similar features.

Debt maturities, as of February 3, 2001, are as follows:

2001	$ 584
2002	646
2003	715
2004	73,242
2005	876
2006 and thereafter	22,326
	$98,389

3. INTEREST COSTS

Interest and debt costs were:

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Interest costs incurred	$11,284	$8,988	$9,681
Interest income	(255)	(103)	(110)
Capitalized interest, net	(123)	(333)	(175)
Interest expense, net	$10,906	$8,552	$9,396
Interest paid	$11,698	$8,303	$9,128

4. SALE OF RECEIVABLES

The Company securitizes its private credit card portfolio through an accounts receivable facility (the "Facility"). The securitization agreement was amended in October 1999 to extend the term of the facility through January 2003 and contains increased pricing of 0.1 percentage point and a trade support covenant. The amended agreement also provides for the Company to request seasonal increases in the amount sold under the facility and annual extensions of the term. Substantially all other terms and conditions of the original agreement remain unchanged.

Under the securitization agreement, which is contingent upon the receivables meeting certain performance criteria, the Company has the option to sell through The Bon-Ton Receivables Partnership, LP ("BTRLP"), a wholly-owned subsidiary of the Company, up to $150,000 of an undivided percentage interest in the receivables, on a limited recourse basis. In connection with the securitization agreement, the Company retains servicing responsibilities, subordinated interests and an interest-only strip, all of which are retained interests in the securitized receivables. The Company receives annual servicing fees of two percent of the outstanding balance and rights to future cash flows arising after the investors in the securitization have received the return for which they contracted. The investors have no recourse to the Company's other assets for failure of debtors to pay when due. The Company's retained interests are subordinate to the investors' interests. The value of the retained interest is subject to credit, prepayment and interest rate risks. The Company does not recognize a servicing asset or liability, as the amount received for servicing the receivables is a reasonable approximation of market rates and servicing costs.

As of February 3, 2001 and January 29, 2000, credit card receivables were sold under the above referenced agreement in the amount of $150,000 and $138,000, respectively, and the Company had subordinated interests of $22,585 and $25,873, respectively, related to the amounts sold that were included in the accompanying Consolidated Balance Sheets. The Company accounts for its subordinated interest in the receivables in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company has not recognized any unrealized gains or losses on its subordinated interest, as the current carrying value of customers' revolving charge accounts receivable is a reasonable estimate of fair value and the average interest rates approximate current market origination rates.

New receivables are sold on a continual basis to replenish the investors' respective level of participation in receivables, which have been repaid by the credit card holders.

During the fiscal year ended February 3, 2001, January 29, 2000 and January 30, 1999, the Company recognized securitization income of $4.2 million, $4.6 million and $5.0 million, respectively, on the securitization of credit card loans. This income is reported as a component of selling, general and administrative expenses.

Key economic assumptions used in measuring the retained interests at the date of securitization for securitizations completed during the year were as follows:

	Fiscal 2000
Yield on credit cards	18.2%-19.5%
Convenience rate	2.9%
Payment rate	19.1%-19.7%
Interest rate on variable funding	6.4%-7.6%
Net charge-off rate	7.0%
Residual cash flows discount rate	12.0%

As of February 3, 2001, the interest-only strip was recorded at its fair value of $973. The following table shows the key economic assumptions used in measuring the interest-only strip. The table also displays the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in the assumptions:

		Effect of Adverse Changes ($)	
	Assumptions	10%	20%
Yield (annual rate)	18.2%	659	1,318
Convenience rate	2.9%	6	12
Payment rate	19.1%	92	184
Interest rate on variable and adjusted contracts	6.4%	234	467
Net charge-off rate	7.0%	255	510
Residual cash flows discount rate (annual rate)	12.0%	2	5

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in an assumption generally cannot be extrapolated because the relationship of the change in an assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

During fiscal 2000, the Company received net proceeds of $3.2 million from servicing fees, which is reported as a component of selling, general and administrative expenses. At February 3, 2001, the Company had total managed credit card receivables of $172.6 million, of which $150.0 million are securitized and $22.6 million are subordinated interests held by the Company and included on the Consolidated Balance Sheets. As of February 3, 2001, $5.5 million of the total managed credit card receivables were 60 days or more past due. Net credit losses on the total managed credit card receivables for the fiscal year ending February 3, 2001 were $6.8 million.

5. PROPERTY, FIXTURES AND EQUIPMENT

As of February 3, 2001 and January 29, 2000, property, fixtures and equipment and the related accumulated depreciation and amortization consisted of:

	February 3, 2001	January 29, 2000
Land and improvements	$ 2,801	$ 1,952
Buildings and leasehold improvements	135,164	131,290
Furniture and equipment	119,609	113,772
Buildings under capital leases	5,052	5,052
	262,626	252,066
Less: Accumulated depreciation and amortization	115,211	107,351
	$147,415	$144,715

Property, fixtures and equipment with a net depreciated cost of approximately $30,420 and $38,754 are pledged as collateral for secured loans at February 3, 2001 and January 29, 2000, respectively.

On November 20, 1998, the Company sold its vacant property in Downtown Allentown, Pennsylvania. The property was acquired during the 1994 acquisition of certain assets from Hess's Department Stores, Inc. The property was closed in January 1996. No loss was recognized on this transaction as the Company utilized $1.0 million of the store closing reserve established for this property. The net proceeds of $1.5 million received from the sale were used to fund additional working capital requirements.

On February 17, 1998, the Company sold its vacant property in Downtown Lancaster, Pennsylvania. The property, which was acquired during the 1992 acquisition of Watt and Shand, Inc., was closed in March 1995. The Company recognized a gain during the first quarter of 1998 of $1.4 million on the disposal of this property, which included the remaining store closing reserve established in 1994. The gain was reflected as a reduction of selling, general and administrative expense. The net proceeds of $1.2 million received from the sale were used to fund additional working capital requirements.

6. COMMITMENTS AND CONTINGENCIES

Leases

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

At February 3, 2001, future minimum lease payments under operating leases and the present value of net minimum lease payments under capital leases are as follows:

Fiscal Year	Capital Leases	Operating Leases
2001	$ 579	$ 21,014
2002	300	19,224
2003	300	18,486
2004	300	17,705
2005	200	16,231
2006 and thereafter	—	88,192
Total net minimum rentals	1,679	$180,852
Less: Amount representing interest	247	
Present value of net minimum lease payments, of which $479 is due within one year	$1,432	

Minimum rental commitments under operating leases are reflected without reduction for rental income due in future years under noncancellable subleases since the amounts are immaterial. Some of the store leases contain renewal options ranging from two to thirty-five years. Included in the minimum lease payments under operating leases are leased vehicles, copiers, fax machines and computer equipment, as well as related-party commitments with the Company's majority shareholder and related entities of $224 for fiscal 2001 through 2005 and $112 for fiscal 2006 and thereafter.

Rental expense consisted of the following:

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Operating leases:			
Buildings:			
Minimum rentals	$18,667	$16,367	$14,597
Contingent rentals	2,358	2,614	2,710
Fixtures and equipment	2,094	2,015	1,230
Contingent rentals on capital leases	397	414	399
Totals	$23,516	$21,410	$18,936

Contingencies

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

7. SHAREHOLDERS' EQUITY

The Company's capital structure consists of Common Stock with one vote per share and Class A Common Stock with ten votes per share. In addition, the Company has 5.0 million shares of preferred stock authorized at $0.01 par value; however, none of these shares have been issued.

Transfers of the Company's Class A Common Stock are restricted. Upon sale or transfer of ownership or voting rights to other than permitted transferees, as defined, such shares will convert to an equal number of shares of Common Stock.

On May 1, 1998, the Company sold 3.1 million shares of its Common Stock pursuant to a public offering. The net proceeds received of $43.4 million were used to expand and upgrade existing stores, open new stores, provide working capital and for general corporate purposes.

The Company accounts for income taxes according to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under SFAS No. 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using applicable current marginal tax rates.

Components of the income tax provision are as follows:

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Federal and State:			
Current	$ 7,539	$ 7,600	$7,939
Deferred	(2,917)	(1,414)	(743)
Total	$ 4,622	$ 6,186	$7,196

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

	February 3, 2001	January 29, 2000
Deferred tax assets:		
Accrued expenses	$1,444	$2,261
Restricted Shares	1,966	1,614
Bad debt reserve	1,275	1,172
Sale and leaseback	1,045	948
CEO retirement	862	—
Asset write-down	833	830
Loss carryforward	167	222
Capital leases	48	88
Valuation allowance	—	(125)
Total gross deferred tax assets	$7,640	$7,010
Deferred tax liabilities:		
Fixed assets	$2,369	$4,205
Inventory	711	1,029
Other	1,079	1,212
Total gross deferred tax liabilities	$4,159	$6,446

The loss carryforward at February 3, 2001 relates to the acquisition of Adam, Meldrum & Anderson Co., Inc. and will expire in January 2009.

The valuation allowance relates to the deferred tax assets that result from accrued expenses that are not deductible for tax purposes due to the limitations arising from Section 162 of the Internal Revenue Code of 1986, as amended ("IRC 162"), relating to deductions for executive compensation.

No other deferred tax assets have associated valuation allowances since these tax benefits are realizable through carryback availability, the reversal of existing deferred tax liabilities and future taxable income.

A reconciliation of the statutory federal income tax rate to the effective tax rate for fiscal 2000, 1999 and 1998 is presented below:

	Fiscal Year Ended		
	February 3, 2001	January 29, 2000	January 30, 1999
Tax at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.0	2.0	1.0
Book expense in excess of IRC 162 limitation	—	0.9	0.7
Internal Revenue Service audit closure	—	—	1.9
Other, net	1.0	0.1	0.5
Total	38.0%	38.0%	39.1%

In fiscal 2000, 1999 and 1998, the Company made income tax payments of $7,232, $7,335 and $6,397, respectively.

9. EMPLOYEE BENEFIT PLANS

The Company provides eligible employees with retirement benefits under a 401(k) salary reduction and profit sharing plan (the "Plan"). Employees are eligible to participate in the Plan after they reach the age of 21, complete one year of service and work at least 1,000 hours in any calendar year. Under the 401(k) provisions of the Plan, the majority of eligible employees may contribute up to 15% of their compensation to the Plan. Company matching contributions, not to exceed 5% of eligible employees' compensation, are at the discretion of the Company's Board of Directors. Company matching contributions under the 401(k) provisions of the Plan become fully vested for eligible employees after three years of service. Contributions to the Plan under the profit sharing provisions are at the discretion of the Company's Board of Directors. These profit sharing contributions become fully vested after five years of service. The Company's fiscal 2000, 1999 and 1998 expense under the aforementioned benefit plans was $2,200, $1,981 and $1,798, respectively.

10. STOCK AWARD PLANS

The Company's Amended and Restated 1991 Stock Option and Restricted Stock Plan (the "1991 Stock Plan"), as amended through June 17, 1997, provides for the granting of the following options and awards to certain associates, officers, directors, consultants and advisors: Common Stock options; performance-based Common Stock options as part of a long-term incentive plan for selected officers; and Common Stock awards subject to substantial risk of forfeiture ("Restricted Shares"). The maximum number of shares to be granted under the 1991 Stock Plan, less forfeitures, is 1,900,000 shares. In addition to the 1991 Stock Plan, during 1991 the Board of Directors approved a Phantom Equity Replacement Plan (the "Replacement Plan") to replace the Company's previous deferred compensation arrangement that was structured as a phantom stock program.

Options granted under the 1991 Stock Plan, excluding Restricted Share awards, are generally issued at the market price of the Company's stock on the date of grant, vest over three to five years and have a ten-year term. Grants under the Replacement Plan vest over approximately one to six years and have a thirty-year term.

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

The Company implemented The Bon-Ton Stores, Inc. Performance Based Stock Incentive Plan for Heywood Wilansky (the "Stock Incentive Plan") in 1998. The Stock Incentive Plan provided performance-based compensation to Mr. Wilansky in the form of stock bonuses granted in connection with services provided. Pursuant to the early retirement of Mr. Wilansky (see Note 12), outstanding options in the plan have been cancelled and the plan has been terminated.

The Company implemented the 2000 Stock Incentive Plan (the "2000 Stock Plan") during fiscal 2000. The 2000 Stock Plan provides for the granting of Common Stock options and Restricted Shares to associates, directors, consultants and advisors. The maximum number of shares to be granted under the 2000 Stock Plan is 400,000. No options or awards may be granted under the 2000 Stock Plan after March 2, 2010. As of February 3, 2001, no options or Restricted Shares were granted under this plan.

Compensation cost charged to operations, calculated using the intrinsic value method as required by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," was $1,270, $750 and $441 in fiscal 2000, 1999 and 1998, respectively. Had the Company recorded compensation expense using the fair value based method as discussed in SFAS No. 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		2000	1999	1998
Net income	As reported	$7,548	$9,715	$11,211
	Pro forma	6,812	8,121	10,154
Earnings per share				
Basic	As reported	$ 0.50	$ 0.66	$ 0.81
	Pro forma	0.46	0.55	0.73
Diluted	As reported	$ 0.50	$ 0.66	$ 0.81
	Pro forma	0.46	0.55	0.73

The Company used the Black-Scholes option pricing model to calculate the fair value of the stock options at the grant date. The following assumptions were used:

	2000	1999	1998
Expected option term in years	6.0	6.7	7.7
Stock price volatility factor	88.0%	65.4%	66.6%
Dividend yield	0.0%	0.0%	0.0%
Risk free interest rate	6.6%	6.1%	5.5%

A summary of the options and restricted shares under the Stock Plan follows:

	Common Stock Options		Performance-Based Options		Restricted Shares
	Number of Options	Average Price	Number of Options	Average Price	Number of Shares
Fiscal 1998					
January 31, 1998	616,495	$ 8.35	377,200	$ 7.08	256,666
Granted	161,400	$13.80	—	—	35,000
Exercised	(64,132)	$ 8.72	—	—	(90,000)
Forfeited	(21,400)	$ 8.13	(33,300)	$11.25	—
January 30, 1999	692,363	$ 9.58	343,900	$ 6.67	201,666
Options exercisable at January 30, 1999	399,753	$ 8.88	—	—	—
Weighted average fair value of options granted during fiscal 1998		$ 9.86		—	
Fiscal 1999					
Granted	243,000	$ 5.81	—	—	5,000
Transfer	88,400	$ 6.13	(88,400)	$ 6.13	—
Exercised	(1,000)	$ 6.38	—	—	(83,333)
Forfeited	(40,733)	$11.31	(88,400)	$ 6.13	—
January 29, 2000	982,030	$ 8.20	167,100	$ 7.25	123,333
Options exercisable at January 29, 2000	595,342	$ 8.58	—	—	—
Weighted average fair value of options granted during fiscal 1999		$ 3.95		—	
Fiscal 2000					
Granted	10,500	$ 3.29	—	—	—
Transfer	83,550	$ 7.25	(83,550)	$ 7.25	—
Exercised	—	—	—	—	(83,333)
Forfeited	(319,533)	$ 8.64	(83,550)	$ 7.25	(30,000)
February 3, 2001	756,547	$ 7.93	—	—	10,000
Options exercisable at February 3, 2001	562,588	$ 8.39	—	—	—
Weighted average fair value of options granted during fiscal 2000		$ 2.55	—		

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

The range of exercise prices for the Common Stock options outstanding as of February 3, 2001 follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Life	Number of Options Currently Exercisable	Weighted Average Exercise Price
$ 3.19 – $ 7.13	442,681	$ 5.90	4.2 years	275,181	$ 6.03
$ 7.25 – $11.25	151,966	$ 8.04	1.0 year	143,466	$ 8.04
$12.50 – $ 17.00	161,900	$13.37	0.8 years	143,941	$13.24

A summary of the status of the Replacement Plan follows:

	Discount Options	Non-Discount Options
Exercise Price	$3.25	$13.00
January 31, 1998	85,269	37,552
Exercised	(36,080)	–
Forfeited	–	–
January 30, 1999	49,189	37,552
Exercised	–	–
Forfeited	–	–
January 29, 2000	49,189	37,552
Exercised	–	–
Forfeited	–	(8,650)
February 3, 2001	49,189	28,902

The exercisable discounted options amounted to 49,189 as of February 3, 2001, January 29, 2000 and January 30, 1999. The exercisable non-discounted options amounted to 28,902 as of February 3, 2001 and 37,552 as of January 29, 2000 and January 30, 1999.

A summary of the Management Incentive Plan follows:

	Shares
January 31, 1998	202,300
Granted	1,326
Restriction lapse	(39,466)
Forfeited	(47,022)
January 30, 1999	117,138
Granted	–
Restriction lapse	(15,317)
Forfeited	(7,260)
January 29, 2000	94,561
Granted	–
Restriction lapse	(13,907)
Forfeited	(21,359)
February 3, 2001	59,295

Shares issued under the Stock Incentive Plan in fiscal 1998 were 250,000 Restricted Shares and options to purchase 250,000 shares with an exercise price of $8.00 per share. No shares or options were vested or forfeited during fiscal 1998 and 83,334 options vested in fiscal 1999. During fiscal 2000, 250,000 Restricted Shares vested and 250,000 options were forfeited due to the early retirement of Heywood Wilansky (see Note 12). No shares remain in the plan.

Cancellation of options and shares in the above plans resulted primarily from the termination of the employment of certain executives and voluntary forfeitures.

11. QUARTERLY RESULTS (UNAUDITED)

	Fiscal Quarter Ended			
	April 29, 2000	July 29, 2000	October 28, 2000	February 3, 2001
Fiscal 2000				
Net sales	$152,135	$156,346	$174,924	$266,411
Other income, net	572	539	468	1,136
	152,707	156,885	175,392	267,547
Costs of merchandise sold	100,449	98,150	110,178	165,249
Selling, general and administrative expenses	54,025	54,175	56,010	67,649
Depreciation and amortization	4,121	4,121	4,677	4,166
Unusual expense	—	6,485	—	—
Income (loss) from operations	(5,888)	(6,046)	4,527	30,483
Interest expense, net	2,339	2,821	2,906	2,840
Income (loss) before income taxes	(8,227)	(8,867)	1,621	27,643
Income tax provision (benefit)	(3,127)	(3,370)	615	10,504
Net income (loss)	$ (5,100)	$ (5,497)	$ 1,006	$ 17,139
Per Share Amounts –				
Basic:				
Net income (loss)	$ (0.34)	$ (0.37)	$ 0.07	$ 1.13
Basic Shares Outstanding	14,802,000	14,813,000	15,051,000	5,146,000
Diluted:				
Net income (loss)	$ (0.34)	$ (0.37)	$ 0.07	$ 1.13
Diluted Shares Outstanding	14,802,000	14,813,000	15,051,000	15,146,000

	Fiscal Quarter Ended			
	May 1, 1999	July 31, 1999	October 30, 1999	January 29, 2000
Fiscal 1999				
Net sales	$142,399	$149,449	$168,474	$250,641
Other income, net	517	521	477	1,136
	142,916	149,970	168,951	251,777
Costs of merchandise sold	93,190	92,719	106,469	157,218
Selling, general and administrative expenses	48,560	53,311	59,950	62,329
Depreciation and amortization	3,256	3,145	4,194	4,251
Unusual expense	—	—	—	2,683
Restructuring income	—	—	—	(2,492)
Income (loss) from operations	(2,090)	795	(1,662)	27,788
Interest expense, net	1,920	2,048	2,211	2,373
Income (loss) before income taxes	(4,010)	(1,253)	(3,873)	25,415
Income tax provision (benefit)	(1,524)	(476)	(1,472)	9,658
Income (loss) before extraordinary item	(2,486)	(777)	(2,401)	15,757
Extraordinary item – loss on early extinguishment of debt, net of income tax benefit of $232	(378)	—	—	—
Net income (loss)	$ (2,864)	$ (777)	$ (2,401)	$ 15,757
Per Share Amounts –				
Basic:				
Net income (loss) before extraordinary item	$ (0.17)	$ (0.05)	$ (0.16)	$ 1.06
Effect of extraordinary item	(0.02)	—	—	—
Net income (loss)	$ (0.19)	$ (0.05)	$ (0.16)	$ 1.06
Basic Shares Outstanding	14,703,000	14,715,000	14,781,000	14,799,000
Diluted:				
Net income (loss) before extraordinary item	$ (0.17)	$ (0.05)	$ (0.16)	$ 1.06
Effect of extraordinary item	(0.02)	—	—	—
Net income (loss)	$ (0.19)	$ (0.05)	$ (0.16)	$ 1.06
Diluted Shares Outstanding	14,703,000	14,715,000	14,781,000	14,812,000

12. CHIEF EXECUTIVE OFFICER EMPLOYMENT

The Company signed an agreement with Mr. Wilansky, effective February 1, 1998, to extend his employment as the Company's President and Chief Executive Officer through January 31, 2003. This new agreement provided for increased cash and stock-based compensation. Pursuant to the new agreement, the Company implemented the Stock Incentive Plan, which provided performance-based compensation to Mr. Wilansky in connection with services provided by him during the term of the plan. The Stock Incentive Plan provided for the award of 250,000 Restricted Shares and an option to purchase 250,000 shares of Common Stock at $8.00 per share. The restricted shares, which on the date the performance requirement was met had a market value of $1,969, will be transferable to Mr. Wilansky in three equal installments on the last day of the Company's fiscal year which occurs on the third, fourth and fifth anniversaries of the agreement. The options will become exercisable in three equal installments on the day before the first, second and third anniversaries of the agreement. Should Mr. Wilansky leave the Company before the shares are transferred or the options become exercisable, these benefits will be forfeited except in certain limited circumstances.

On June 27, 2000, the Company announced the early retirement of Heywood Wilansky. Mr. Wilansky is entitled to receive his base salary (paid in monthly installments) for the remainder of the term. Mr. Wilansky also received a $170 cash bonus for fiscal 2000. Outstanding options to purchase 435,233 shares of Common Stock were exercisable for a period of 90 days. No options were exercised and all were cancelled. Restricted Shares in the amount of 333,333 shares vested immediately.

13. ACQUISITIONS

In March 1999, the Company acquired the leasehold interests and certain other assets in three department stores located in Hamden, Connecticut; Red Bank, New Jersey and Brick Township, New Jersey, through a bankruptcy auction, for a total cost of $2.2 million. The leasehold interests were held by Steinbach Stores, Inc., a wholly-owned subsidiary of Crowley, Milner and Company. Certain fixed assets and customer lists were also included in the purchase. This business combination was accounted for under the purchase method, with the fair market value of the acquired leases amortized over the remaining lease term.

14. UNUSUAL EXPENSE

During the second quarter of fiscal 2000, the Company announced a workforce reduction of 187 corporate and store personnel. The workforce reduction affected 137 employees and eliminated 50 unfilled positions. Additionally, the Company announced the early retirement of Heywood Wilansky (see Note 12), and the realignment and elimination of certain senior management positions. As of February 3, 2001, the amount paid during fiscal 2000 was $1.5 million and the remaining accrual was $5.0 million.

During the fourth quarter of fiscal 1999, the Company recorded an expense to write down the value of certain assets relating to a cooperative buying group from which the Company purchases inventory. A $2.7 million charge was recorded to write down $2.3 million in deposits held by the cooperative buying group with the remainder relating to the write-down of the Company's minority equity interest. The cooperative buying group ceased its operations during fiscal 2000.

15. SALE AND LEASEBACK ARRANGEMENTS

In December 2000, the Company purchased land from the Company's majority shareholder and related parties. The Company then sold the land along with building, leasehold improvements and certain equipment, comprising a department store and a distribution center both located in Pennsylvania, and subsequently leased the facilities back under a twenty-year lease. The lease has been accounted for as an operating lease for financial reporting purposes. Payments on the lease this year were $332, which includes the prepayment of February and March 2001. Net proceeds of $11,046 were received from the sale, of which $6,023 was used to payoff the related mortgages and the remainder to provide additional working capital. The gain associated with the sale, totaling $418, has been deferred in other long-term liabilities and is being amortized on a straight-line basis over the twenty-year lease term.

In April 1997, the Company sold the land, building and leasehold improvements comprising a department store and a distribution center both located in Pennsylvania, and subsequently leased the facilities back under a twenty-year lease. The lease has been accounted for as an operating lease for financial reporting purposes. Annual payments under the operating lease agreement were $1,270. The $10,841 of net proceeds received from the sale were used to pay down indebtedness of $8,208 and to provide additional working capital. The gain associated with the sale, totaling $2,986, has been deferred in other long-term liabilities and is being amortized on a straight-line basis over the twenty-year lease term.

16. RESTRUCTURING

In fiscal 1995, the Company recorded a restructuring charge of $5,690 for store closings and workforce reductions. The amounts charged against the restructuring reserve for fiscal 1999 and 1998 are as follows:

	1999	1998
Beginning of year balance	$ 2,446	$2,895
Store closing costs, net of expense forgiveness	46	(449)
Restructuring income	(2,492)	–
End of year balance	$ –	$2,446

At the end of fiscal 1998, the balance remaining from this charge related to a leased property located in Johnstown, Pennsylvania. In 1999, the mall containing the leased location was sold to a new owner who wanted to redevelop the property and the Company negotiated the termination of this lease with the new owner. In the fourth quarter of fiscal 1999, the Company entered into an agreement to terminate the lease related to the closed store. To reflect the lease termination, during fiscal 1999, the Company recognized $2.5 million of restructuring income in the Company's Consolidated Statements of Income.

Report of Independent Public Accountants

We have audited the accompanying consolidated balance sheets of The Bon-Ton Stores, Inc. (a Pennsylvania corporation) and subsidiaries as of February 3, 2001 and January 29, 2000 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 3, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Bon-Ton Stores, Inc. and subsidiaries as of February 3, 2001 and January 29, 2000, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Philadelphia, PA
March 7, 2001

Board of Directors

Tim Grumbacher
Chairman of the Board and Chief Executive Officer

Michael L. Gleim
Vice Chairman and Chief Operating Officer

Frank Tworecke
Vice Chairman and Chief Merchandising Officer

Samuel J. Gerson
Former Chairman and Chief Executive Officer of Filene's Basement Corp.

Lawrence J. Ring
Professor of Business Administration at The College of William and Mary's Graduate School

Robert C. Siegel
Former Chairman of the Board, President and Chief Executive Officer, The Stride Rite Corporation

Leon D. Starr
Management Consultant, former Vice President and Executive Group Manager/Allied Stores Corporation

Leon F. Winbigler
Former Chairman of the Board and Chief Executive Officer, Mercantile Stores Company, Inc.

Thomas W. Wolf
President of The Wolf Organization, Inc.

Operating Committee

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Chairman of the Board and Chief Executive Officer

Michael L. Gleim
Vice Chairman and Chief Operating Officer

Frank Tworecke
Vice Chairman and Chief Merchandising Officer

James H. Baireuther
Executive Vice President and Chief Financial Officer

Lynn C. Derry
Senior Vice President, General Merchandise Manager

H. Stephen Evans
Senior Vice President, Real Estate, Legal and Governmental Affairs

John Farrell
Senior Vice President, Stores

Robert A. Geisenberger
Senior Vice President, General Merchandise Manager

William T. Harmon
Senior Vice President, Sales Promotion and Marketing

Gary L. Kellman
Senior Vice President, General Merchandise Manager

Patrick J McIntyre
Senior Vice President and Chief Information Officer

Jeffrey D. Moore
Senior Vice President, General Merchandise Manager

Ryan J. Sattler
Senior Vice President, Human Resources and Operations

Stephanie Stough
Senior Vice President, Merchandise Planning and Control

Corporate Information

Corporate Stock Listing and Prices

The Bon-Ton Stores, Inc. Common Stock trades on The Nasdaq Stock Market℠ under the symbol BONT.

As of March 30, 2001, there were 332 shareholders of record of the Company's Common Stock and five shareholders of record of the Company's Class A Common Stock.

The Company has not paid cash dividends since its initial public offering in September 1991 and does not anticipate paying any cash dividends in the foreseeable future. The payment and rate of future dividends, if any, are subject to the discretion of the Board of Directors. The Company's revolving credit facility contains restrictions on the Company's ability to pay dividends and make other distributions.

The quarterly high and low sales prices for fiscal 2000 and fiscal 1999 are listed below:

	Market Price	
Fiscal 2000	High	Low
First Quarter	$ 4	$ 2 9/32
Second Quarter	$ 2 7/8	$ 1 3/4
Third Quarter	$ 2 7/16	$ 1 11/16
Fourth Quarter	$ 3 1/2	$ 1 11/16

Fiscal 1999	High	Low
First Quarter	$ 8 1/8	$ 4 1/2
Second Quarter	$ 6 23/32	$ 5 7/16
Third Quarter	$ 5 11/16	$ 3 5/8
Fourth Quarter	$ 6 3/8	$ 3 7/16

Shareholder Information

Transfer Agent and Registrar

American Stock Transfer & Trust Company
40 Wall Street
New York, New York 10005
(212) 936-5100
Website: www.amstock.com
Email: info@amstock.com

Corporate Offices

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

Annual Meeting

June 19, 2001, 9:00 a.m.
Heritage Hills Conference Center
2700 Mount Rose Avenue
York, Pennsylvania 17402

General Counsel

Wolf, Block, Schorr and Solis-Cohen LLP
Philadelphia, Pennsylvania

Certified Public Accountants

Arthur Andersen LLP
Philadelphia, Pennsylvania

Form 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001, as filed with the Securities and Exchange Commission, will be sent to any shareholder upon request in writing to:

The Bon-Ton Stores, Inc.
Investor Relations
PO Box 2821
York, Pennsylvania 17405
or
Email: ir@bonton.com

"Safe Harbor" Statement

Statements made in this Annual Report, other than statements of historical information, are forward-looking statements 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", "will", "plan", "expect", "intend" or other similar expressions, involve certain risks and uncertainties that could significantly affect anticipated results in the future, including, but not limited to, uncertainties affecting retail generally (as consumer confidence and demand for soft goods); failure to predict customer fashion preferences; uncertainties associated with opening new stores or expanding and remodeling existing stores; the Company's presence in and dependence on limited geographic markets; competition within the markets in which the Company's stores are located; the ability to attract and retain qualified management; and the ability to obtain financing for working capital, capital expenditures and general corporate purposes. The Company assumes no obligation to update or revise any forward-looking statements even if future events make it clear that any projected results implied by such statements will not be realized.

THE BON·TON

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