



in step

THE BON-TON

Annual Report 2002

contents

financial highlights

1



letter to shareholders

2



in step

5



our stores and locations

14



directors and officers

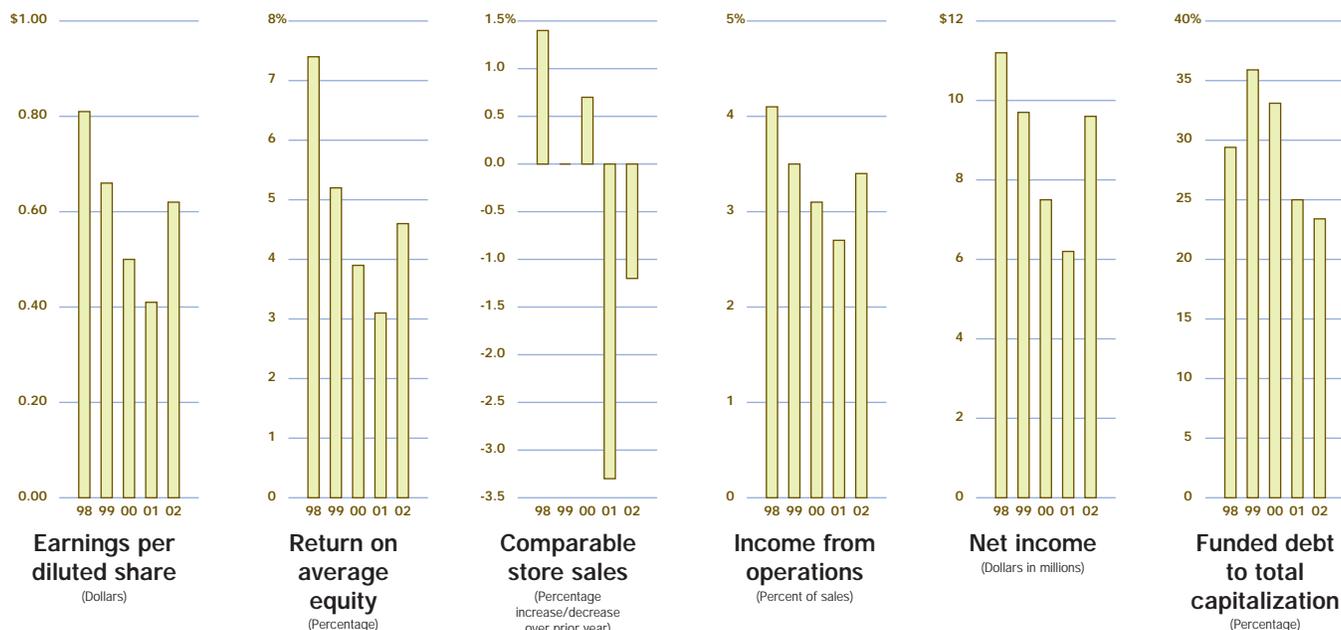
15



corporate information

16

financial highlights



	Fiscal Year Ended				
	2002 2/01/03	2001 2/02/02	2000 2/03/01	1999 1/29/00	1998 1/30/99
(Dollars in thousands except per share data)					
Financial Results:					
Net sales	\$713,230	\$721,777	\$749,816 ⁽³⁾	\$710,963	\$674,871
Comparable store sales change	-1.2%	-3.3%	0.7% ⁽⁴⁾	0.0%	1.4%
Income from operations	24,100	19,600 ⁽¹⁾	23,076 ⁽⁵⁾	24,221 ⁽⁷⁾	27,803 ⁽⁹⁾
Net income	9,605	6,226 ⁽²⁾	7,548 ⁽⁶⁾	9,715 ⁽⁸⁾	11,211 ⁽¹⁰⁾
Earnings per diluted share	\$ 0.62	\$ 0.41 ⁽²⁾	\$ 0.50 ⁽⁶⁾	\$ 0.66 ⁽⁸⁾	\$ 0.81 ⁽¹⁰⁾
Other Financial Data:					
Total assets	\$382,023	\$385,583	\$402,680	\$416,123	\$376,547
Long-term debt, including capital leases	64,662	67,929	98,758	107,678	76,255
Shareholders' equity	212,346	203,261	198,862	190,691	180,211
Return on average shareholders' equity	4.6%	3.1%	3.9%	5.2%	7.4%

(1) Includes an unusual expense related to workforce reductions of \$916,000

(2) Includes an unusual expense related to workforce reductions of \$568,000, net of tax, or \$0.04 per share.

(3) 53 weeks ended February 3, 2001.

(4) 52 weeks ended January 27, 2001.

(5) Includes an unusual expense related to workforce reductions and management changes of \$6.5 million.

(6) Includes an unusual expense related to workforce reductions and management changes of \$4.0 million, net of tax, or \$0.27 per share.

(7) Includes an unusual expense for an asset write-down of \$2.7 million and restructuring income of \$2.5 million.

(8) Includes 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.

(9) Includes the gain recognized on the sale of property of \$1.4 million.

(10) Includes the gain recognized on the sale of property of \$0.9 million, net of tax, or \$0.06 per share.



Tim Grumbacher
Chairman of the Board and Chief Executive Officer

Frank Tworecke
President and Chief Operating Officer

Jim Baireuther
Vice Chairman, Chief Administrative Officer and Chief Financial Officer

While no year is without its achievements and challenges, our 2002 performance is especially gratifying given the difficult retail environment. We executed with conviction the strategies I communicated to you in the 2001 Annual Report: aligning our merchandise mix, strengthening our private brand, customizing merchandise assortments by market, improving inventory management, growing our credit card customer loyalty program, making customers' shopping experiences convenient and easy, persuasively marketing our message and improving productivity through technology. Through these actions, we significantly improved our net income, return on equity, financial leverage and asset productivity. Although a weak economy and depressed consumer confidence defined the year, we succeeded in implementing and expanding initiatives that, in addition to accomplishing our financial goals, improved our existing store base and supported our strategic plan.

Our focus on bottom-line profit enabled us to increase net income 54%, to \$9.6 million from \$6.2 million in 2001. By responding and adapting to market conditions, we delivered improved earnings per share (\$0.62 in 2002 versus \$0.41 in the prior year) despite a decrease in our comparable store sales of 1.2%. Excluding the unusual expense incurred in the third quarter of 2001, net income for fiscal 2001 was \$0.45 per share. Gross margin improved to 36.8% in 2002 from 36.3% in the prior year as we reaped the benefits of the stringent inventory aging standards we initiated in 2001. Conservative planning, effective receipt

management and timely markdowns improved our retail inventory turnover considerably to 2.05 from 1.81 in 2001. For 2002, we effectively managed our selling, general and administrative expenses, reducing the rate from 31.1% in 2001 to 30.8% this year, and decreasing expenses by a significant \$4.6 million year over year. We strengthened our balance sheet by increasing our cash on hand by 72% and further reducing debt 4% following a 31% reduction in the prior year. This was primarily achieved by lowering retail inventory 16%, improving operating profitability and controlling capital expenditures.

In 2003 we will continue to refine our strategies with emphasis on delivering profitable top-line sales. The retail environment in 2002 was very price competitive, as value increasingly became a critical component of the buying process. As a result, we will continue our aggressive promotional posture, giving our customers great value on their purchases. We will further refine our inventory mix with emphasis on offering a wider range of value merchandise. Additionally, expansion of our private labels and growth of exclusive brands support our emphasis on differentiation of product and should afford us higher gross margin opportunity.

We also feel one of our primary tasks in the near term is to increase the quality of our earnings through productivity improvements in our existing space. Our capital projects in 2003 will again be focused on improving customer convenience in our existing stores. We will complete the rollout of our consolidated

service centers to expedite sales transactions and improve customer service. Plans are underway to install our new point-of-sale system; this system will improve inventory management, simplify associate training and further enhance the customer shopping experience. To support our longer term growth plans, we are exploring opportunities for new stores to strategically augment our store base. While we do not anticipate opening any new stores in 2003, we expect to open two or more stores in 2004.

In 2001 we announced a program to repurchase up to \$2.5 million of Bon-Ton stock in the open market. This program has proven to be an excellent use of capital and, to date, we have spent \$1.1 million to repurchase 277,000 shares. We remain committed to this initiative and will consider the purchase of our shares from time to time when appropriate.

The Bon-Ton proactively reviewed its corporate governance practices in 2002 and subsequently strengthened its Board of Directors by adding five new members. The diverse experience and acumen of these business leaders will add valuable perspective and insight to our Board. At the June 17, 2003 shareholders' meeting, Frank Tworecke and Jim Baireuther will not stand for re-election in order to create a more independent Board. In addition, Frank Tworecke, former Vice Chairman and Chief Merchandising Officer, was appointed President and Chief Operating Officer. His accomplishments over the past three years have given me and the Board of Directors confidence in his leadership and vision. This organizational change is part of an overall succession plan designed to ensure the recruitment

and development of the necessary executive talent to achieve the company's long-range goals. We are also reexamining our annual and long-term incentive compensation programs to ensure they provide the proper motivation for management. Our strengthened Board and management team have the company well-positioned to address the changing and challenging business climate.

In 2002 we managed the company in a manner that significantly increased profitability and improved our balance sheet. We are pleased with our results, yet we view our accomplishments as merely a step in the right direction. As we enter 2003 we have the team and strategies in place to continue this momentum. I would like to thank our associates for the contributions they are making toward the accomplishment of our goals. I would also like to thank the Board of Directors for their challenging guidance and look forward to working with our new members.

In closing, as Chairman and Chief Executive Officer, I would like to reaffirm my personal commitment and dedication to the success of our Company. We are on sound footing, both financially and strategically, to make The Bon-Ton a better company for our shareholders, associates, business partners, customers and the communities we serve.



Tim Grumbacher
Chairman of the Board and
Chief Executive Officer
April 18, 2003



The Bon-Ton is a regional chain with 72 stores in nine states. Our stores offer value, moderate and better-priced merchandise in apparel, cosmetics, shoes, accessories and home fashions, as well as exclusive proprietary merchandise. The Bon-Ton's strategy is to carve out and maintain a niche in smaller markets, attracting customers seeking fashion-right merchandise at great value and offering the convenience of local shopping, an upscale presentation and an appropriate level of service. Operating in targeted markets in which we are one of the primary stores, we enjoy a strong reputation for consistently providing great prices and friendly and efficient service.

The Bon-Ton moved forward in 2002 as our focus on bottom-line profit delivered a 54% growth in net income. A weak economy changed consumer spending priorities, but we were successful because we were in step with our customers – we responded to what they were telling us. We managed our business accordingly, aligning our product assortment, store format and service. By doing this, we adapted to the current preferences and shopping patterns of our customers. In this way we were able to successfully meet and satisfy the changing needs of our customer base.

Many of the initiatives we have undertaken have positioned the company to leverage our strengths and capitalize on our opportunities. As you'll read in the following pages, we're firmly committed to being in step with our customers, our markets, our investors and our communities to continue to deliver profitable sales growth.



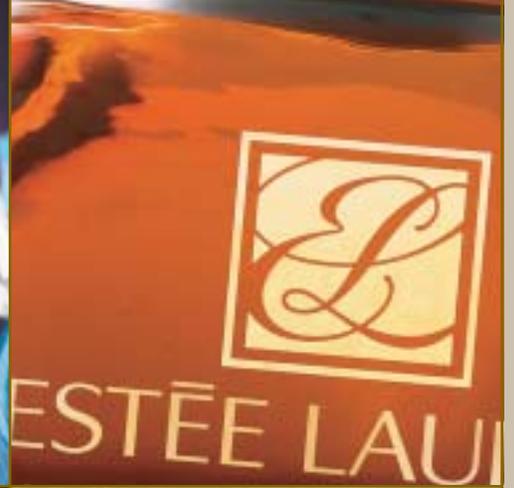


in step with our customers...

Our mission to deliver total value begins and ends with our customers.

We are listening to our customers and seeking ways to stay in step by providing the products, prices and services that offer exceptional value – as defined by them. ♦ Our customers have told us that price is one of the key components in their buying decision. In response, we are expanding our value products to deliver competitive pricing and to increase sales and margins. We continue to refine our merchandise mix to achieve a healthier balance between opening-price, moderate and better goods. In addition, we customize our assortments by store profile to parallel customer buying patterns. ♦ We are responding to our customers' trend of buying closer to need with our "wear now" strategy. Our disciplined approach to inventory management allows our merchants to make advantageous end-of-season buys; these fresh offerings provide newness and fill our customers' needs for seasonally appropriate fashions. ♦ Time-conscious consumers expect convenience in their shopping experience. This means having the right assortments with focused collections that are accessible and in-stock. Offering a full range of products with a broad vendor matrix makes for easy, one-stop shopping. In 2003, we will complete the rollout of our consolidated service centers. These conveniently located, highly visible service centers are staffed at all times to deliver more efficient service. Additionally, plans are underway to install our new point-of-sale system. Our goals for the year are to expedite our sales transactions and achieve higher customer service standards. ♦ We continuously look for ways to enhance our customers' shopping experience, which is why we offer our "Best of The Bon-Ton" customer loyalty program. This proprietary credit card program allows our most valued and loyal customers to reap the benefits of rewards and exclusive discounts. Purchasing information obtained from our loyalty program enables us to track what our customers are buying and better predict their future purchases, strengthening our long-term relationship with our customers.







in step with our markets...

We position ourselves as the value fashion retailer in our markets. Admittedly, it's not easy being in the retail business today. A weak economy continues to inhibit top-line growth, and the industry is being impacted by aggressive competition and changing consumer spending priorities. Our challenge is to determine how to build on our successes of 2002. ♦ Our stores provide a distinctive shopping experience. We consistently offer a wide selection of competitively priced national brands as well as unique, customer-focused merchandise. Our strategy is to exploit niche-building opportunities by featuring a full range of merchandise categories with a broad vendor offering in a convenient and comfortable environment. ♦ We are sharpening our prices throughout the store to offer competitive values to increase sales and margin dollars. We are expanding our value products as a percent of sales as we continue to refine our merchandise mix to better reflect our customers' buying patterns, focusing both on content differentiation and assortment balance. ♦ In the majority of our markets we face competition that provides some of the same national brands as The Bon-Ton. Particularly in these markets, our private brands provide the customer with meaningful product differences: value, newness and fashion in all areas of our business. During 2002, we accelerated sales penetration in our private brands and look to further develop this business in 2003. ♦ We are equally focused in our marketing strategy to support our current merchandising initiative. Our newspaper insert strategy, which we expanded in 2002, proved to be very successful and we will be intensifying that strategy. Our marketing efforts in 2003 will also reflect our continued aggressive presentation of key items and key vendors at compelling prices. This pricing message in our media coupled with our new in-store signing program is the template for our ongoing effort to present value to our customers. ♦ We've proven that we can adapt to changing conditions to stay in step with our markets, and look to further capitalize on another competitive advantage, our size, which affords us the ability to react quickly in a changing marketplace.





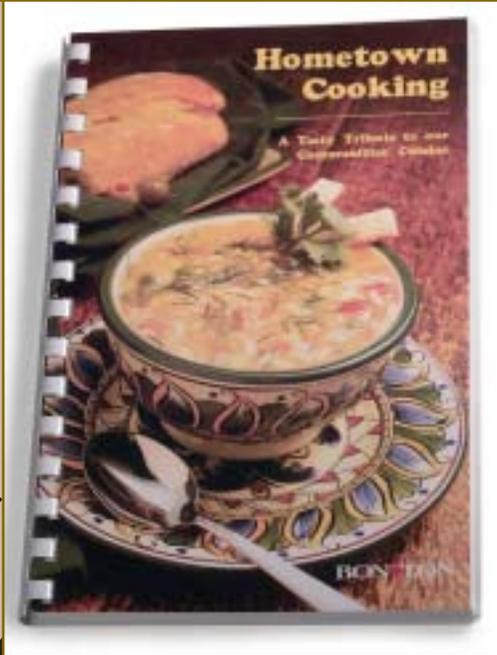


in step with our investors...

As our earnings demonstrated, we can improve productivity by managing margin and inventory to increase profitability even in a challenging environment.

In 2002, economic uncertainty and deteriorating market conditions once again mandated a focus on asset management and expense reductions. We are in step with our investors, adapting to the changing marketplace and increasing shareholder value. ♦ Through conservative planning and careful execution, we reduced our retail inventory by 16% at year-end. Our disciplined approach to inventory management resulted in an improved turnover and contributed to a 4% reduction in our debt, following the 31% reduction we achieved the previous year. We also increased our cash balance by 72%. ♦ We are diligently working to increase the penetration of our private brand merchandise to increase sales and margin. There are significant opportunities for better control over our merchandise mix and better gross margin performance through expansion of this initiative. ♦ We boosted profitable sales with our “wear now” strategy in the fall of 2002. This new program takes advantage of opportunistic end-of-season buys on merchandise for the current season. Because this approach was so effective, we will manage our inventory to position ourselves for this purchasing opportunity in 2003. ♦ Although comparable store sales declined slightly, we were able to reduce selling, general and administrative expenses as a percent of sales. Our cost-saving initiatives contributed to a significant year-over-year decrease in SG&A expenses of \$4.6 million. In the current environment, we cannot depend on an increasing sales base to leverage operating expenses; in 2003 we will continue to closely monitor expenses so that they are consistent with our sales trends. In a move toward higher efficiency, we closed a distribution center in April 2003, consolidating merchandise processing functions into one facility and eliminating redundant operations. Productivity improvements have enabled us to service current and future stores from one distribution center. ♦ Our credit card operation is a meaningful contributor to our increased profit, driving both top- and bottom-line growth. Through strategic marketing efforts to reinforce the use of our proprietary card as the preferred method of payment, we increased the penetration of credit card sales to approximately 56% of total sales in 2002 from 52% in 2001. ♦ We look to improve returns on invested capital. Our focus is to improve the productivity of capital employed in the business through improved inventory turnover, higher gross margin, elimination of unproductive capacity, and investment in information services, focusing on applications critical to our business.





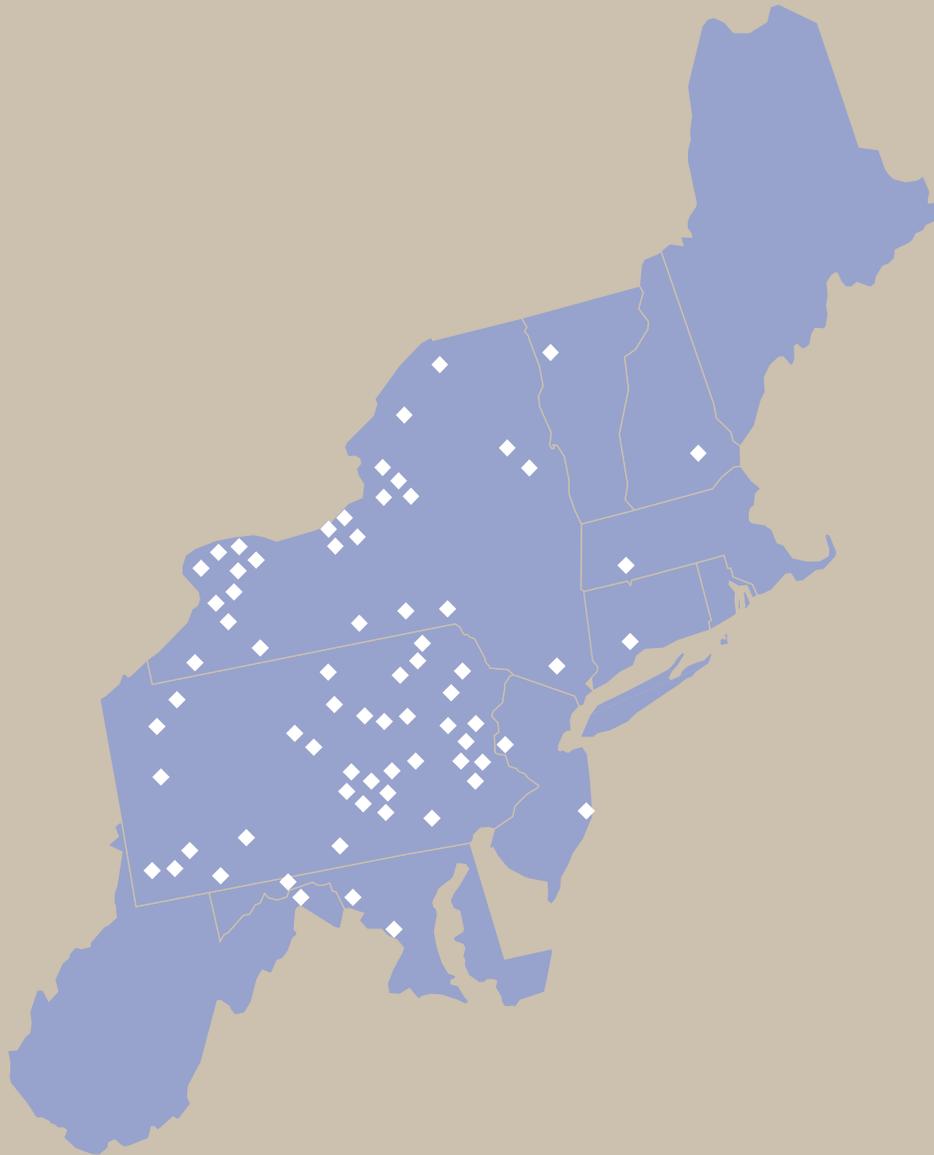


in step with our communities...

We pride ourselves on our participation in the civic and cultural lives of the markets we serve.

Supporting our communities has been a long-standing tradition at The Bon-Ton. It is our conviction that, by making these investments, we help build healthier communities, provide a better environment for our stores to do business, and create value for our shareholders as well. ♦ At The Bon-Ton, we believe we can make a difference. We keep in step with the needs in our communities and have developed several initiatives to provide aid in ways that truly help. Through our Bon-Ton Stores Foundation, we have taken a strategic approach to philanthropic corporate citizenship, focusing on community health, youth and the economically disadvantaged, issues that reflect the core values of our customers and associates. The ultimate goal of the Foundation is to have a meaningful impact on our communities and business environment. We provide opportunities for our associates to support their communities through BRAVO!, Bon-Ton Retail Associate Volunteerism Outreach program, which encourages associates to give of their time, energy and talent. Through the continuing commitment of both philanthropic and volunteer resources, the Foundation supports efforts that build partnerships and strengthen the communities where Bon-Ton associates live and work. ♦ Another means of fulfilling social responsibilities is our cause-related marketing initiative, which helps achieve our marketing objectives while fostering our corporate citizenship. Our efforts under this initiative are designed to bring customers into our stores and reach numerous key constituencies in our markets. In 2002 we partnered with The Breast Cancer Research Foundation (BCRF) to raise awareness and help fund research. Our "Think Pink" events raised funds for BCRF through donations from sales of custom-designed jewelry items and donations made by our customers. "Care to Share Days" is another way we support and participate in the causes that affect customers in our communities. Sales of tickets, which offer customers unique discounts throughout our stores along with the chance to win prizes, benefit local non-profit organizations. Our two community fundraising days in 2002 generated over \$500,000 for the participating groups. We also made generous donations to food distribution organizations in our communities through the sale of our exclusive *Hometown Cooking* cookbook, a compilation of recipes from favorite restaurants and signature regional recipes. In addition to these philanthropic efforts we also support other organizations and events such as Susquehanna River Basin Commission, United Way and Habitat for Humanity, as well as provide enjoyment to our community with Fourth of July fireworks.





The Bon-Ton operates 72 stores in targeted northeastern markets with 36 stores in Pennsylvania, 26 stores in New York, three stores in Maryland, two stores in New Jersey and one store each in Connecticut, Massachusetts, New Hampshire, Vermont and West Virginia. Our stores vary in size from approximately 45,000 to 160,000 gross square feet, with 48 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 value, moderate and better-priced merchandise in convenient shopping in neighborhood locations close to our customers.

board of directors



Tim Grumbacher³
Chairman of the Board
and Chief Executive
Officer



Frank Tworecke
President and Chief
Operating Officer



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



Robert B. Bank^{1,2}
President of Robert B.
Bank Advisory
Services



Philip M. Browne¹
Senior Vice President
and Chief Financial
Officer of Advanta
Corp.



Shirley A. Dawe²
President of Shirley
Dawe Associates, Inc.



Marsha M. Everton⁴
President and Chief
Executive Officer of
The Pfaltzgraff Co.



Samuel J. Gerson⁴
Chairman of the Board
of Genuone, Inc.
Former Chairman and
Chief Executive Officer
of Filene's Basement
Corp.



Michael L. Gleim^{3,4}
Former Vice Chairman
and Chief Operating
Officer of The Bon-Ton
Stores, Inc.



Robert E. Salerno¹
Chief Operating Officer
of Kieselstein-Cord
International



Robert C. Siegel²
Chairman of LaCoste
U.S.A.



Leon D. Starr^{3,4}
Management
Consultant
Former Vice President
and Executive Group
Manager/Allied Stores
Corporation



Thomas W. Wolf³
President of The Wolf
Organization, Inc.

¹ Audit Committee

² Human Resources and Compensation Committee

³ Executive Committee of the Board

⁴ Nominating and Governance Committee

corporate officers

Tim Grumbacher

Chairman of the Board and Chief Executive Officer

Frank Tworecke

President and Chief Operating Officer

James H. Baireuther

Vice Chairman, Chief Administrative Officer and Chief Financial Officer

Lynn C. Derry

Senior Vice President, General Merchandise Manager

John S. Farrell

Senior Vice President, Stores

Robert A. Geisenberger

Senior Vice President, General Merchandise Manager

William T. Harmon

Senior Vice President, Marketing, Planning and Allocation

Patrick J. McIntyre

Senior Vice President and Chief Information Officer

Keith E. Plowman

Senior Vice President, Finance

Ryan J. Sattler

Senior Vice President, Human Resources

corporate information

Corporate Stock Listing and Prices

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

As of March 28, 2003, there were 322 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 2003. 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 2002 and fiscal 2001 are listed below:

Fiscal 2002	Market Price	
	High	Low
First Quarter	\$4.93	\$2.35
Second Quarter	\$5.28	\$3.45
Third Quarter	\$4.94	\$3.41
Fourth Quarter	\$4.31	\$3.37
Fiscal 2001	High	Low
	First Quarter	\$3.50
Second Quarter	\$3.16	\$2.45
Third Quarter	\$3.00	\$1.77
Fourth Quarter	\$3.39	\$2.25

Shareholder Information

Transfer Agent and Registrar

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

Corporate Offices

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

Annual Meeting

June 17, 2003, 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

Independent Accountants

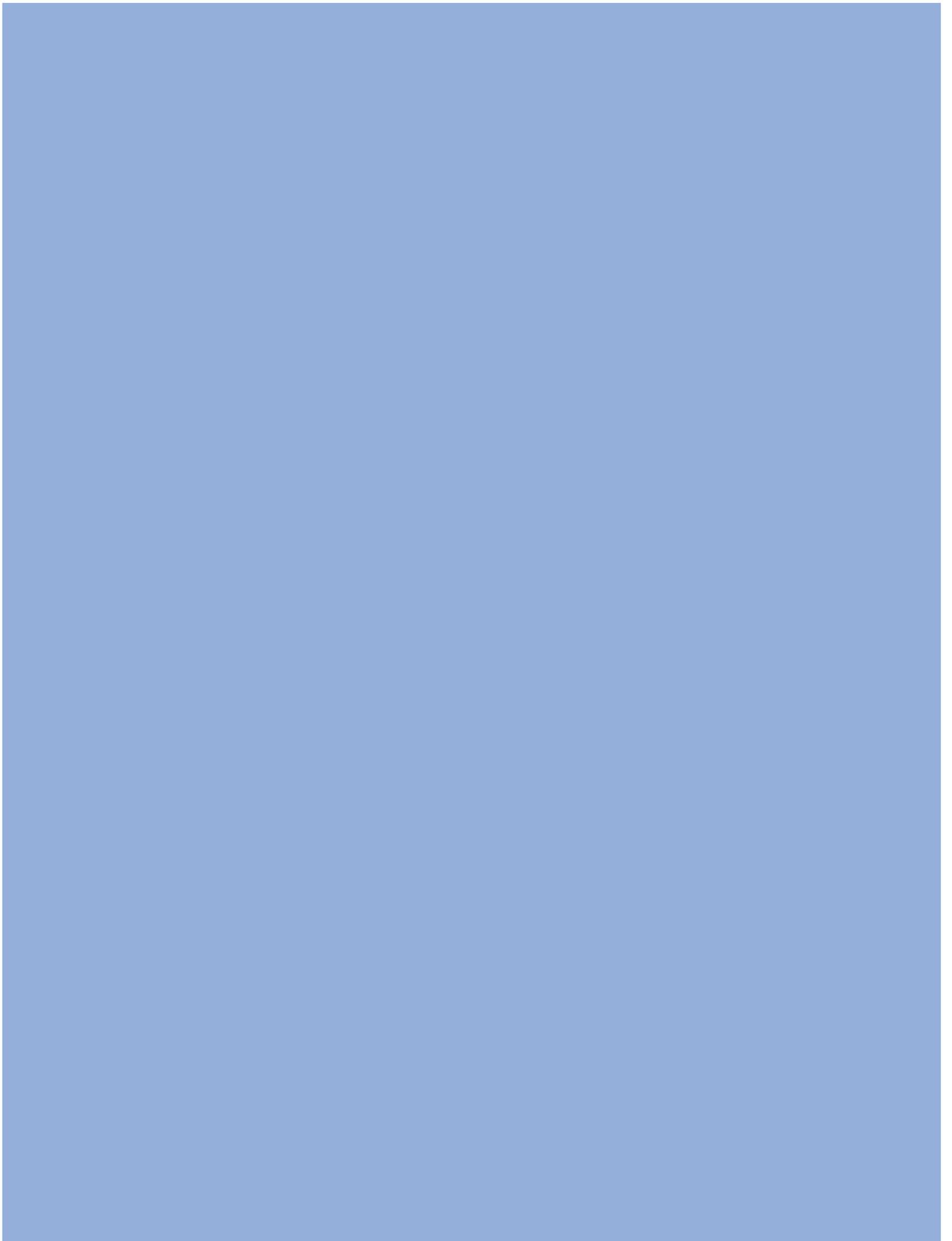
KPMG LLP
Philadelphia, Pennsylvania

Investor Relations

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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 and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements, which may be identified by words such as "may," "will," "plan," "expect," "intend" or other similar expressions, involve certain risks and uncertainties that may cause results to differ materially from those set forth in these statements. Factors that could cause such differences include, but are not limited to, risks related to retail businesses generally, additional competition from existing and new competitors, uncertainties associated with opening new stores or expanding or remodeling existing stores, the Company's presence in and dependence on limited geographic markets, the ability to attract and retain qualified management, the dependence on key vendor relationships and the ability to obtain financing for working capital, capital expenditures and general corporate purposes. Additional factors that could cause the Company's actual results to differ from those contained in these forward-looking statements are discussed in greater detail in the Company's periodic reports filed with the Securities and Exchange Commission.



THE BON•TON

The Bon•Ton 2801 East Market Street York, Pennsylvania 17402 717-757-7660 www.bonton.com