BON TON STORES INC

FORM 10-Q
(Quarterly Report)

Filed 09/06/17 for the Period Ending 07/29/17

Address	2801 E MARKET ST
	YORK, PA, 17402-2406
Telephone	7177577660
CIK	0000878079
Symbol	BONT
SIC Code	5311 - Department Stores
Industry	Department Stores
Sector	Consumer Cyclicals
Fiscal Year	01/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarter ended July 29, 2017	**Commission File Number 0-19517**

THE BON-TON STORES, INC.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 24, 2017, there were 18,570,320 shares of Common Stock, $.01 par value, and 2,951,490 shares of Class A Common Stock, $.01 par value, outstanding.

PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

THE BON-TON STORES, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	(Unaudited) July 29, 2017	(Unaudited) July 30, 2016	January 28, 2017
Assets			
Current assets:			
Cash and cash equivalents	$ 6,335	$ 7,047	$ 6,736
Merchandise inventories	658,218	693,810	724,454
Prepaid expenses and other current assets	82,801	74,897	98,558
Total current assets	747,354	775,754	829,748
Property, fixtures and equipment at cost, net of accumulated depreciation and amortization of $1,049,212, $998,415 and $1,024,435 at July 29, 2017, July 30, 2016 and January 28, 2017, respectively	547,279	613,763	584,803
Intangible assets, net of accumulated amortization of $68,371, $65,090 and $65,646 at July 29, 2017, July 30, 2016 and January 28, 2017, respectively	70,386	79,176	73,111
Other long-term assets	21,729	16,053	17,401
Total assets	$ 1,386,748	$ 1,484,746	$ 1,505,063
Liabilities and Shareholders’ Deficit			
Current liabilities:			
Accounts payable	$ 177,689	$ 214,957	$ 185,900
Accrued payroll and benefits	26,288	25,999	25,821
Accrued expenses	136,610	143,738	150,441
Current maturities of long-term debt	—	57,183	—
Current maturities of capital lease and financing obligations	6,986	5,666	6,685
Total current liabilities	347,573	447,543	368,847
Long-term debt, less current maturities	849,332	762,326	848,777
Capital lease and financing obligations, less current maturities	130,471	123,796	133,857
Other long-term liabilities	170,307	189,589	176,363
Total liabilities	1,497,683	1,523,254	1,527,844
Contingencies (Note 10)			
Shareholders’ deficit			
Preferred Stock — authorized 5,000,000 shares at $0.01 par value; no shares issued	—	—	—
Common Stock — authorized 40,000,000 shares at $0.01 par value; issued shares of 18,908,120, 18,944,025 and 18,972,718 at July 29, 2017, July 30, 2016 and January 28, 2017, respectively	189	189	190
Class A Common Stock — authorized 20,000,000 shares at $0.01 par value; issued and outstanding shares of 2,951,490 at July 29, 2017, July 30, 2016 and January 28, 2017, respectively	30	30	30
Treasury stock, at cost — 337,800 shares at July 29, 2017, July 30, 2016 and January 28, 2017	(1,387)	(1,387)	(1,387)
Additional paid-in capital	168,285	165,820	166,932
Accumulated other comprehensive loss	(71,391)	(74,388)	(72,909)
Accumulated deficit	(206,661)	(128,772)	(115,637)
Total shareholders’ deficit	(110,935)	(38,508)	(22,781)
Total liabilities and shareholders’ deficit	$ 1,386,748	$ 1,484,746	$ 1,505,063

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

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

(In thousands, except per share data) (Unaudited)	THIRTEEN WEEKS ENDED July 29, 2017	THIRTEEN WEEKS ENDED July 30, 2016	TWENTY-SIX WEEKS ENDED July 29, 2017	TWENTY-SIX WEEKS ENDED July 30, 2016
Net sales	$ 504,424	$ 542,360	$ 1,040,565	$ 1,133,367
Other income	21,037	16,252	37,917	33,668
	525,461	558,612	1,078,482	1,167,035
Costs and expenses:				
Costs of merchandise sold	325,195	344,273	688,756	735,186
Selling, general and administrative	191,191	211,872	396,276	428,057
Depreciation and amortization	23,135	24,999	45,342	48,193
Amortization of lease-related interests	955	1,008	1,909	2,015
Impairment charges	147	178	147	178
Loss from operations	(15,162)	(23,718)	(53,948)	(46,594)
Interest expense, net	18,029	15,162	36,047	30,248
Loss on extinguishment of debt	—	—	559	—
Loss before income taxes	(33,191)	(38,880)	(90,554)	(76,842)
Income tax provision (benefit)	18	(144)	(30)	(288)
Net loss	$ (33,209)	$ (38,736)	$ (90,524)	$ (76,554)
Per share amounts —				
Basic:				
Net loss	$ (1.64)	$ (1.95)	$ (4.49)	$ (3.86)
Diluted:				
Net loss	$ (1.64)	$ (1.95)	$ (4.49)	$ (3.86)

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

THE BON-TON STORES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands) (Unaudited)	THIRTEEN WEEKS ENDED July 29, 2017	THIRTEEN WEEKS ENDED July 30, 2016	TWENTY-SIX WEEKS ENDED July 29, 2017	TWENTY-SIX WEEKS ENDED July 30, 2016
Net loss	$ (33,209)	$ (38,736)	$ (90,524)	$ (76,554)
Other comprehensive income, net of tax:				
Pension and postretirement benefit plans	755	867	1,518	1,734
Comprehensive loss	$ (32,454)	$ (37,869)	$ (89,006)	$ (74,820)

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

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

(In thousands) (Unaudited)	TWENTY-SIX WEEKS ENDED July 29, 2017	TWENTY-SIX WEEKS ENDED July 30, 2016
Cash flows from operating activities:		
Net loss	$ (90,524)	$ (76,554)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	45,342	48,193
Amortization of lease-related interests	1,909	2,015
Impairment charges	147	178
Share-based compensation expense	896	1,516
(Gain) loss on sale of property, fixtures and equipment	(5,538)	22
Reclassifications of accumulated other comprehensive loss	2,567	2,927
Loss on extinguishment of debt	559	—
Amortization of deferred financing costs and debt discount	2,892	1,704
Deferred income tax benefit	(30)	(288)
Changes in operating assets and liabilities:		
Decrease in merchandise inventories	66,236	17,888
Decrease in prepaid expenses and other current assets	15,757	22,358
Decrease in other long-term assets	49	632
(Decrease) increase in accounts payable	(6,698)	49,514
Decrease in accrued payroll and benefits and accrued expenses	(11,966)	(6,495)
Decrease in other long-term liabilities	(10,254)	(41)
Net cash provided by operating activities	11,344	63,569
Cash flows from investing activities:		
Capital expenditures	(21,184)	(25,749)
Proceeds from sale of property, fixtures and equipment	21,422	7
Net cash provided by (used in) investing activities	238	(25,742)
Cash flows from financing activities:		
Payments on long-term debt and capital lease and financing obligations	(279,382)	(303,258)
Proceeds from issuance of long-term debt and financing obligations	275,866	263,669
Restricted shares forfeited in lieu of payroll taxes	(44)	(120)
Deferred financing costs paid	(6,842)	(495)
(Decrease) increase in book overdraft balances	(1,581)	2,545
Net cash used in financing activities	(11,983)	(37,659)
Net (decrease) increase in cash and cash equivalents	(401)	168
Cash and cash equivalents at beginning of period	6,736	6,879
Cash and cash equivalents at end of period	$ 6,335	$ 7,047

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

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

(In thousands) (Unaudited)	Common Stock	Class A Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
BALANCE AT JANUARY 30, 2016	$ 185	$ 30	$ (1,387)	$ 164,428	$ (76,122)	$ (52,218)	$ 34,916
Net loss	—	—	—	—	—	(76,554)	(76,554)
Other comprehensive income	—	—	—	—	1,734	—	1,734
Restricted shares forfeited in lieu of payroll taxes	(1)	—	—	(119)	—	—	(120)
Share-based compensation expense	5	—	—	1,511	—	—	1,516
BALANCE AT JULY 30, 2016	$ 189	$ 30	$ (1,387)	$ 165,820	$ (74,388)	$ (128,772)	$ (38,508)
BALANCE AT JANUARY 28, 2017	$ 190	$ 30	$ (1,387)	$ 166,932	$ (72,909)	$ (115,637)	$ (22,781)
Cumulative adjustment to adopt ASU 2016-09 (Note 1)	—	—	—	500	—	(500)	—
Net loss	—	—	—	—	—	(90,524)	(90,524)
Other comprehensive income	—	—	—	—	1,518	—	1,518
Restricted shares forfeited in lieu of payroll taxes	(1)	—	—	(43)	—	—	(44)
Share-based compensation expense	—	—	—	896	—	—	896
BALANCE AT JULY 29, 2017	$ 189	$ 30	$ (1,387)	$ 168,285	$ (71,391)	$ (206,661)	$ (110,935)

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

1. BASIS OF PRESENTATION

The Bon-Ton Stores, Inc., a Pennsylvania corporation, was incorporated on January 31, 1996 as the successor of a company incorporated on January 31, 1929. As of July 29, 2017, The Bon-Ton Stores, Inc. operated, through its subsidiaries, 261 stores, including nine furniture galleries and four clearance centers, in 25 states in the Northeast, Midwest and upper Great Plains under the Bon-Ton, Bergner's, Boston Store, Carson's, Elder-Beerman, Herberger's and Younkers nameplates.

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

The unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and do not include all information and footnotes required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States. In the opinion of management, all adjustments considered necessary for a fair presentation of interim periods have been included. The Company's business is seasonal in nature and results of operations for the interim periods presented are not necessarily indicative of results for the full fiscal year. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

For purposes of the following discussion, references to the "second quarter of 2017" and the "second quarter of 2016" are to the 13 weeks ended July 29, 2017 and July 30, 2016, respectively. References to "fiscal 2017" are to the 53 weeks ending February 3, 2018; references to "fiscal 2016" are to the 52 weeks ended January 28, 2017.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions about future events. These estimates and assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses. Such estimates include those related to merchandise returns, the valuation of inventories, long-lived assets, intangible assets, insurance reserves, contingencies, litigation and assumptions used in the calculation of income taxes and retirement and other post-employment benefits, among others. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Recently Adopted Accounting Standards

Effective January 29, 2017, the Company adopted Accounting Standards Update ("ASU") No. 2016-09, *Stock Compensation* . The new standard is intended to simplify several aspects of the accounting for share-based payment award transactions. In connection with the adoption of this standard, the Company made a policy election to record the expense associated with forfeitures under its share-based payment plans when they occur (rather than estimating forfeitures and recording over the vesting term of the award). The Company made this election to reduce the complexity of accounting for its awards. The Company used a modified retrospective approach to recording this change and recorded a $500 increase to both additional paid-in capital and accumulated deficit at the time of the adoption to eliminate the forfeiture estimates previously recorded for awards outstanding as of January 29, 2017.

(In thousands, except share and per share data)

2. PER-SHARE AMOUNTS

The following table presents a reconciliation of net loss and weighted average shares outstanding used in basic and diluted loss per share ("EPS") calculations for each period presented:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Basic Loss Per Common Share				
Net loss	$ (33,209)	$ (38,736)	$ (90,524)	$ (76,554)
Less: Income allocated to participating securities	—	—	—	—
Net loss available to common shareholders	$ (33,209)	$ (38,736)	$ (90,524)	$ (76,554)
Weighted average common shares outstanding	20,271,746	19,909,198	20,155,397	19,834,823
Basic loss per common share	$ (1.64)	$ (1.95)	$ (4.49)	$ (3.86)
Diluted Loss Per Common Share				
Net loss	$ (33,209)	$ (38,736)	$ (90,524)	$ (76,554)
Less: Income allocated to participating securities	—	—	—	—
Net loss available to common shareholders	$ (33,209)	$ (38,736)	(90,524)	(76,554)
Weighted average common shares outstanding	20,271,746	19,909,198	20,155,397	19,834,823
Common shares issuable - stock options	—	—	—	—
Weighted average common shares outstanding assuming dilution	20,271,746	19,909,198	20,155,397	19,834,823
Diluted loss per common share	$ (1.64)	$ (1.95)	$ (4.49)	$ (3.86)

Due to the Company's net loss position, weighted average unvested restricted shares (participating securities) of 1,138,433 and 1,382,142 for the second quarter in each of 2017 and 2016, respectively, and 1,244,027 and 1,301,295 for the 26 weeks ended July 29, 2017 and July 30, 2016, respectively, were not considered in the calculation of net loss available to common shareholders used for both basic and diluted EPS.

3. FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value and establishes a framework for measuring fair value. ASC 820 establishes fair value hierarchy levels that prioritize the inputs used in valuations determining fair value. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are primarily quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs based on the Company's own assumptions.

The carrying values of the Company's cash and cash equivalents, accounts payable and financial instruments reported within prepaid expenses and other current assets and other long-term assets approximate fair value.

(In thousands, except share and per share data)

The carrying value and estimated fair value of the Company's long-term debt, excluding capital lease and financing obligations and unamortized second lien senior secured notes deferred financing costs and discount on senior secured credit facility — Tranche A-1, as of July 29, 2017 are as follows:

			Fair Value Measurements Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Second lien senior secured notes	$ 350,000	$ 140,000	$ 140,000	$ —	$ —
Senior secured credit facility	506,258	506,258	—	—	506,258
Total	$ 856,258	$ 646,258	$ 140,000	$ —	$ 506,258

The carrying value and estimated fair value of the Company's long-term debt, including current maturities but excluding capital lease and financing obligations and unamortized second lien senior secured notes deferred financing costs, as of July 30, 2016 are as follows:

			Fair Value Measurements Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Second lien senior secured notes	$ 407,292	$ 207,250	$ 207,250	$ —	$ —
Senior secured credit facility	418,301	418,301	—	—	418,301
Total	$ 825,593	$ 625,551	$ 207,250	$ —	$ 418,301

The carrying value and estimated fair value of the Company's long-term debt, excluding capital lease and financing obligations and unamortized second lien senior secured notes deferred financing costs and discount on senior secured credit facility — Tranche A-1, as of January 28, 2017 are as follows:

			Fair Value Measurements Using		
	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Second lien senior secured notes	$ 350,000	$ 177,331	$ 177,331	$ —	$ —
Senior secured credit facility	506,689	506,689	—	—	506,689
Total	$ 856,689	$ 684,020	$ 177,331	$ —	$ 506,689

The Level 3 fair value estimates are determined by a discounted cash flow analysis utilizing a discount rate the Company believes is appropriate and would be used by market participants. There was no change in the valuation technique used to determine the Level 3 fair value estimates.

4. SUPPLEMENTAL BALANCE SHEET INFORMATION

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

(In thousands, except share and per share data)

	July 29, 2017	July 30, 2016	January 28, 2017
Other receivables	$ 43,872	$ 36,475	$ 68,270
Prepaid expenses	38,929	38,422	30,288
Total	$ 82,801	$ 74,897	$ 98,558

5. SUPPLEMENTAL CASH FLOW INFORMATION

The following supplemental cash flow information is provided for the periods reported:

	TWENTY-SIX WEEKS ENDED	
	July 29, 2017	July 30, 2016
Cash paid for:		
Interest, net of amounts capitalized	$ 32,913	$ 28,363
Income taxes, net of refunds received	—	(2)
Non-cash investing and financing activities:		
Property, fixtures and equipment included in accrued expenses	$ 3,420	$ 5,838

6. EXIT OR DISPOSAL ACTIVITIES

The following table summarizes exit or disposal activities during the 26 weeks ended July 29, 2017 related to store closings in fiscal 2017 and 2016 and the Company’s expense efficiency initiative:

	Termination Benefits	Other Costs	Total
Accrued balance as of January 28, 2017	$ 952	$ —	$ 952
Provisions			
Thirteen weeks ended April 29, 2017	132	239	371
Thirteen weeks ended July 29, 2017	421	34	455
Payments			
Thirteen weeks ended April 29, 2017	(666)	(239)	(905)
Thirteen weeks ended July 29, 2017	(313)	(34)	(347)
Accrued balance as of July 29, 2017	$ 526	$ —	$ 526

The above provisions were included within selling, general and administrative expense.

During the second quarter of 2017, the Company recorded $7,810 of gains related to various real estate transactions which were included in selling, general and administrative expense.

7. EMPLOYEE DEFINED AND POSTRETIREMENT BENEFIT PLANS

The Company provides benefits to certain current and former associates who are eligible under a qualified defined benefit pension plan and various non-qualified supplemental pension plans (collectively, the

(In thousands, except share and per share data)

"Pension Plans"). Net periodic benefit expense for the Pension Plans includes the following (income) and expense components:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Interest cost	$ 1,666	$ 1,784	$ 3,332	$ 3,569
Expected return on plan assets	(1,933)	(2,100)	(3,867)	(4,200)
Recognition of net actuarial loss	1,407	1,572	2,814	3,143
Net periodic benefit expense	$ 1,140	$ 1,256	$ 2,279	$ 2,512

During the 26 weeks ended July 29, 2017, contributions of $282 were made to the Pension Plans. The Company anticipates contributing an additional $273 to fund the Pension Plans in fiscal 2017 for an annual total of $555.

The Company also provides medical and life insurance benefits to certain former associates under a postretirement benefit plan ("Postretirement Benefit Plan"). Net periodic benefit income for the Postretirement Benefit Plan includes the following (income) and expense components:

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Interest cost	$ 13	$ 16	$ 26	$ 31
Recognition of net actuarial gain	(124)	(109)	(247)	(216)
Net periodic benefit income	$ (111)	$ (93)	$ (221)	$ (185)

During the 26 weeks ended July 29, 2017, the Company contributed $63 to fund the Postretirement Benefit Plan, and anticipates contributing an additional $204 to fund the Postretirement Benefit Plan in fiscal 2017 for an annual total of $267.

8. LONG-TERM DEBT

On April 28, 2017, The Bon-Ton Department Stores, Inc. and certain subsidiaries as borrowers and certain other subsidiaries as guarantors entered into a Fifth Amendment (the "Fifth Amendment") to the Second Amended and Restated Loan and Security Agreement (the "Second Amended Revolving Credit Facility") with Bank of America, N.A., as Agent, and certain financial institutions as lenders. The Fifth Amendment extends the maturity date of the $730,000 Tranche A of the Second Amended Revolving Credit Facility ("Tranche A"). Tranche A is now due to mature on April 28, 2022 provided that Tranche A-1 of the Second Amended Revolving Credit Facility ("Tranche A-1") is repaid prior to March 15, 2021 or the maturity of Tranche A-1 is extended to at least April 28, 2022. If Tranche A-1 is not so repaid or so extended, or is extended to a date earlier than April 28, 2022, Tranche A will mature on the same date as Tranche A-1. In any event, Tranche A remains subject to a "springing" maturity date that is sixty days prior to the earliest of the maturity date of (1) any senior note debt (which is currently comprised of the 8.00% Second Lien Senior Secured Notes due June 15, 2021) and (2) if incurred, certain permitted debt secured by junior liens.

The Fifth Amendment did not change the total lender commitment under the facility, which remains at $880,000 (for both Tranche A and Tranche A-1). Pricing and other terms of the Second Amended Revolving Credit Facility remain essentially unchanged.

In connection with the Fifth Amendment, the Company incurred a loss on extinguishment of debt of $559 due to the write-off of certain deferred fees.

9. INCOME TAXES

The provisions codified within ASC Topic 740, *Income Taxes* ("ASC 740"), require companies to assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence using a "more likely than not" standard. In accordance with ASC 740, the Company maintained a full valuation allowance throughout fiscal 2016 and the 26 weeks ended July 29, 2017 on all of the Company's net deferred tax assets. The Company's deferred tax asset valuation allowance totaled $242,759, $218,177 and $206,089 as of July 29, 2017, July 30, 2016 and January 28, 2017, respectively.

The Company recorded net income tax expense of $18 and net income tax benefit of $30 for the 13 and 26 weeks ended July 29, 2017, respectively, which includes $528 and $1,049 non-cash income tax benefits from continuing operations during the 13 and 26 weeks ended July 29, 2017, respectively. The Company recorded net income tax benefits of $144 and $288 for the 13 and 26 weeks ended July 30, 2016, respectively, which includes $596 and $1,193 non-cash income tax benefits from continuing operations during the 13 and 26 weeks ended July 30, 2016, respectively. Pursuant to ASC 740, the Company is required to consider all items (including items recorded in other comprehensive income) in determining the amount of tax benefit that results from a loss from continuing operations and that should be allocated to continuing operations. As a result, the Company recorded tax benefits on the losses from continuing operations for the 13 and 26 weeks ended July 29, 2017 and July 30, 2016, which are exactly offset by income tax expense on other comprehensive income. The net income tax expense and benefit includes $546 and $1,019 recorded in the 13 and 26 weeks ended July 29, 2017, respectively, and $452 and $905 recorded in the 13 and 26 weeks ended July 30, 2016, respectively, for recognition of deferred tax liabilities associated with indefinite-lived assets.

10. CONTINGENCIES

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

11. COMPREHENSIVE LOSS

Accumulated other comprehensive loss is comprised of the net actuarial loss associated with the Pension Plans and Postretirement Benefit Plan. Other comprehensive income is comprised entirely of the amortization of the net actuarial loss (gain) associated with the Pension Plans and Postretirement Benefit Plan.

The changes recognized within other comprehensive income reflect income tax expense of $528 and $596 for the second quarter in each of 2017 and 2016, respectively, and $1,049 and $1,193 for the 26 weeks ended on each of July 29, 2017 and July 30, 2016, respectively (see Note 9).

The before-tax amount of amortization of net actuarial loss (gain) (see Note 7) was recorded within selling, general and administrative expense.

12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Certain debt obligations of the Company, which constitute debt obligations of The Bon-Ton Department Stores, Inc. (the “Issuer”), are guaranteed by the Parent and by each of its subsidiaries, other than the Issuer, that is an obligor under the Company’s Second Amended Revolving Credit Facility. Separate financial statements of the Parent, the Issuer and such subsidiary guarantors are not presented because the guarantees by the Parent and each 100% owned subsidiary guarantor are joint and several, full and unconditional, except for certain customary limitations which are applicable only to a subsidiary guarantor. These customary limitations include releases of a guarantee (1) if the subsidiary guarantor no longer guarantees other indebtedness of the Issuer; (2) if there is a sale or other disposition of the capital stock of a subsidiary guarantor and if such sale complies with the covenant regarding asset sales; and (3) if the subsidiary guarantor is properly designated as an “unrestricted subsidiary.”

The condensed consolidating financial information for the Parent, the Issuer and the guarantor subsidiaries as of July 29, 2017, July 30, 2016 and January 28, 2017 and for the second quarter in each of 2017 and 2016 and the 26 weeks ended July 29, 2017 and July 30, 2016 as presented below has been prepared from the books and records maintained by the Parent, the Issuer and the guarantor subsidiaries. The condensed financial information may not necessarily be indicative of the results of operations or financial position had the guarantor subsidiaries operated as independent entities. Certain intercompany revenues and expenses included in the subsidiary records are eliminated in consolidation. As a result of this activity, an amount due to/due from affiliates will exist at any time.

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Balance Sheet
July 29, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 1	$ 3,351	$ 2,983	$ —	$ 6,335
Merchandise inventories	—	428,205	230,013	—	658,218
Prepaid expenses and other current assets	—	78,602	4,379	(180)	82,801
Total current assets	1	510,158	237,375	(180)	747,354
Property, fixtures and equipment at cost, net	—	261,890	285,389	—	547,279
Intangible assets, net	—	16,445	53,941	—	70,386
Investment in and advances to affiliates	(110,936)	387,475	468,174	(744,713)	—
Other long-term assets	—	23,896	875	(3,042)	21,729
Total assets	$ (110,935)	$ 1,199,864	$ 1,045,754	$ (747,935)	$ 1,386,748
Liabilities and Shareholders' (Deficit) Equity					
Current liabilities:					
Accounts payable	$ —	$ 177,689	$ —	$ —	$ 177,689
Accrued payroll and benefits	—	21,717	4,571	—	26,288
Accrued expenses	—	73,806	62,984	(180)	136,610
Current maturities of capital lease and financing obligations	—	2,104	4,882	—	6,986
Total current liabilities	—	275,316	72,437	(180)	347,573
Long-term debt and capital lease and financing obligations, less current maturities	—	920,266	59,537	—	979,803
Other long-term liabilities	—	122,576	50,773	(3,042)	170,307
Total liabilities	—	1,318,158	182,747	(3,222)	1,497,683
Shareholders' (deficit) equity	(110,935)	(118,294)	863,007	(744,713)	(110,935)
Total liabilities and shareholders' (deficit) equity	$ (110,935)	$ 1,199,864	$ 1,045,754	$ (747,935)	$ 1,386,748

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Balance Sheet
July 30, 2016

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 1	$ 3,020	$ 4,026	$ —	$ 7,047
Merchandise inventories	—	461,278	232,532	—	693,810
Prepaid expenses and other current assets	—	70,812	4,265	(180)	74,897
Total current assets	1	535,110	240,823	(180)	775,754
Property, fixtures and equipment at cost, net	—	300,997	312,766	—	613,763
Intangible assets, net	—	19,640	59,536	—	79,176
Investment in and advances to affiliates	(38,509)	417,681	400,054	(779,226)	—
Other long-term assets	—	18,250	1,024	(3,221)	16,053
Total assets	$ (38,508)	$ 1,291,678	$ 1,014,203	$ (782,627)	$ 1,484,746
Liabilities and Shareholders' (Deficit) Equity					
Current liabilities:					
Accounts payable	$ —	$ 214,957	$ —	$ —	$ 214,957
Accrued payroll and benefits	—	20,687	5,312	—	25,999
Accrued expenses	—	71,344	72,574	(180)	143,738
Current maturities of long-term debt and capital lease and financing obligations	—	58,684	4,165	—	62,849
Total current liabilities	—	365,672	82,051	(180)	447,543
Long-term debt and capital lease and financing obligations, less current maturities	—	834,954	51,168	—	886,122
Other long-term liabilities	—	134,951	57,859	(3,221)	189,589
Total liabilities	—	1,335,577	191,078	(3,401)	1,523,254
Shareholders' (deficit) equity	(38,508)	(43,899)	823,125	(779,226)	(38,508)
Total liabilities and shareholders' (deficit) equity	$ (38,508)	$ 1,291,678	$ 1,014,203	$ (782,627)	$ 1,484,746

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Balance Sheet
January 28, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 1	$ 3,575	$ 3,160	$ —	$ 6,736
Merchandise inventories	—	475,816	248,638	—	724,454
Prepaid expenses and other current assets	—	94,585	4,153	(180)	98,558
Total current assets	1	573,976	255,951	(180)	829,748
Property, fixtures and equipment at cost, net	—	277,511	307,292	—	584,803
Intangible assets, net	—	17,715	55,396	—	73,111
Investment in and advances to affiliates	(22,782)	414,949	446,521	(838,688)	—
Other long-term assets	—	19,800	733	(3,132)	17,401
Total assets	$ (22,781)	$ 1,303,951	$ 1,065,893	$ (842,000)	$ 1,505,063
Liabilities and Shareholders' (Deficit) Equity					
Current liabilities:					
Accounts payable	$ —	$ 185,900	$ —	$ —	$ 185,900
Accrued payroll and benefits	—	21,405	4,416	—	25,821
Accrued expenses	—	70,988	79,633	(180)	150,441
Current maturities of capital lease and financing obligations	—	1,995	4,690	—	6,685
Total current liabilities	—	280,288	88,739	(180)	368,847
Long-term debt and capital lease and financing obligations, less current maturities	—	920,782	61,852	—	982,634
Other long-term liabilities	—	132,165	47,330	(3,132)	176,363
Total liabilities	—	1,333,235	197,921	(3,312)	1,527,844
Shareholders' (deficit) equity	(22,781)	(29,284)	867,972	(838,688)	(22,781)
Total liabilities and shareholders' (deficit) equity	$ (22,781)	$ 1,303,951	$ 1,065,893	$ (842,000)	$ 1,505,063

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Thirteen Weeks Ended July 29, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	$ —	$ 314,012	$ 190,412	$ —	$ 504,424
Other income	—	10,682	10,355	—	21,037
	—	324,694	200,767	—	525,461
Costs and expenses:					
Costs of merchandise sold	—	204,830	120,365	—	325,195
Selling, general and administrative	—	115,486	80,606	(4,901)	191,191
Depreciation and amortization	—	13,027	10,108	—	23,135
Amortization of lease-related interests	—	455	500	—	955
Impairment charges	—	147	—	—	147
Loss from operations	—	(9,251)	(10,812)	4,901	(15,162)
Other income (expense):					
Intercompany income	—	382	13,476	(13,858)	—
Equity in (losses) earnings of subsidiaries	(33,191)	1,587	—	31,604	—
Interest expense, net	—	(25,909)	(1,077)	8,957	(18,029)
(Loss) income before income taxes	(33,191)	(33,191)	1,587	31,604	(33,191)
Income tax provision	18	18	275	(293)	18
Net (loss) income	$ (33,209)	$ (33,209)	$ 1,312	$ 31,897	$ (33,209)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Comprehensive (Loss) Income
Thirteen Weeks Ended July 29, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net (loss) income	$ (33,209)	$ (33,209)	$ 1,312	$ 31,897	$ (33,209)
Other comprehensive income, net of tax:					
Pension and postretirement benefit plans	755	755	—	(755)	755
Comprehensive (loss) income	$ (32,454)	$ (32,454)	$ 1,312	$ 31,142	$ (32,454)

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Thirteen Weeks Ended July 30, 2016

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	$ —	$ 324,079	$ 218,281	$ —	$ 542,360
Other income	—	9,814	6,438	—	16,252
	—	333,893	224,719	—	558,612
Costs and expenses:					
Costs of merchandise sold	—	205,933	138,340	—	344,273
Selling, general and administrative	—	129,087	87,810	(5,025)	211,872
Depreciation and amortization	—	14,297	10,702	—	24,999
Amortization of lease-related interests	—	468	540	—	1,008
Impairment charges	—	178	—	—	178
Loss from operations	—	(16,070)	(12,673)	5,025	(23,718)
Other income (expense):					
Intercompany income	—	427	12,606	(13,033)	—
Equity in losses of subsidiaries	(38,880)	(1,078)	—	39,958	—
Interest expense, net	—	(22,159)	(1,011)	8,008	(15,162)
Loss before income taxes	(38,880)	(38,880)	(1,078)	39,958	(38,880)
Income tax (benefit) provision	(144)	(144)	234	(90)	(144)
Net loss	$ (38,736)	$ (38,736)	$ (1,312)	$ 40,048	$ (38,736)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Comprehensive Loss
Thirteen Weeks Ended July 30, 2016

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net loss	$ (38,736)	$ (38,736)	$ (1,312)	$ 40,048	$ (38,736)
Other comprehensive income, net of tax:					
Pension and postretirement benefit plans	867	867	—	(867)	867
Comprehensive loss	$ (37,869)	$ (37,869)	$ (1,312)	$ 39,181	$ (37,869)

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Twenty-Six Weeks Ended July 29, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	$ —	$ 649,516	$ 391,049	$ —	$ 1,040,565
Other income	—	21,495	16,422	—	37,917
	—	671,011	407,471	—	1,078,482
Costs and expenses:					
Costs of merchandise sold	—	434,235	254,521	—	688,756
Selling, general and administrative	—	242,922	163,290	(9,936)	396,276
Depreciation and amortization	—	25,312	20,030	—	45,342
Amortization of lease-related interests	—	909	1,000	—	1,909
Impairment charges	—	147	—	—	147
Loss from operations	—	(32,514)	(31,370)	9,936	(53,948)
Other income (expense):					
Intercompany income	—	780	29,110	(29,890)	—
Equity in losses of subsidiaries	(90,554)	(4,439)	—	94,993	—
Interest expense, net	—	(53,822)	(2,179)	19,954	(36,047)
Loss on extinguishment of debt	—	(559)	—	—	(559)
Loss before income taxes	(90,554)	(90,554)	(4,439)	94,993	(90,554)
Income tax (benefit) provision	(30)	(30)	527	(497)	(30)
Net loss	$ (90,524)	$ (90,524)	$ (4,966)	$ 95,490	$ (90,524)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Comprehensive Loss
Twenty-Six Weeks Ended July 29, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net loss	$ (90,524)	$ (90,524)	$ (4,966)	$ 95,490	$ (90,524)
Other comprehensive income, net of tax:					
Pension and postretirement benefit plans	1,518	1,518	—	(1,518)	1,518
Comprehensive loss	$ (89,006)	$ (89,006)	$ (4,966)	$ 93,972	$ (89,006)

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Operations
Twenty-Six Weeks Ended July 30, 2016

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net sales	$ —	$ 681,575	$ 451,792	$ —	$ 1,133,367
Other income	—	20,568	13,100	—	33,668
	—	702,143	464,892	—	1,167,035
Costs and expenses:					
Costs of merchandise sold	—	444,522	290,664	—	735,186
Selling, general and administrative	—	262,205	175,993	(10,141)	428,057
Depreciation and amortization	—	27,199	20,994	—	48,193
Amortization of lease-related interests	—	936	1,079	—	2,015
Impairment charges	—	178	—	—	178
Loss from operations	—	(32,897)	(23,838)	10,141	(46,594)
Other income (expense):					
Intercompany income	—	901	24,615	(25,516)	—
Equity in losses of subsidiaries	(76,842)	(1,256)	—	78,098	—
Interest expense, net	—	(43,590)	(2,033)	15,375	(30,248)
Loss before income taxes	(76,842)	(76,842)	(1,256)	78,098	(76,842)
Income tax (benefit) provision	(288)	(288)	469	(181)	(288)
Net loss	$ (76,554)	$ (76,554)	$ (1,725)	$ 78,279	$ (76,554)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Comprehensive Loss
Twenty-Six Weeks Ended July 30, 2016

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net loss	$ (76,554)	$ (76,554)	$ (1,725)	$ 78,279	$ (76,554)
Other comprehensive income, net of tax:					
Pension and postretirement benefit plans	1,734	1,734	—	(1,734)	1,734
Comprehensive loss	$ (74,820)	$ (74,820)	$ (1,725)	$ 76,545	$ (74,820)

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Cash Flows
Twenty-Six Weeks Ended July 29, 2017

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net cash provided by (used in) operating activities	$ 44	$ 18,449	$ (7,149)	$ —	$ 11,344
Cash flows from investing activities:					
Capital expenditures	—	(14,881)	(6,303)	—	(21,184)
Proceeds from sale of property, fixtures and equipment	—	6,024	15,398	—	21,422
Net cash (used in) provided by investing activities	—	(8,857)	9,095	—	238
Cash flows from financing activities:					
Payments on long-term debt and capital lease and financing obligations	—	(277,259)	(2,123)	—	(279,382)
Proceeds from issuance of long-term debt and financing obligations	—	275,866	—		275,866
Deferred financing costs paid	—	(6,842)	—	—	(6,842)
Restricted shares forfeited in lieu of payroll taxes	(44)	—	—	—	(44)
Decrease in book overdraft balances	—	(1,581)	—	—	(1,581)
Net cash used in financing activities	(44)	(9,816)	(2,123)	—	(11,983)
Net decrease in cash and cash equivalents	—	(224)	(177)	—	(401)
Cash and cash equivalents at beginning of period	1	3,575	3,160	—	6,736
Cash and cash equivalents at end of period	$ 1	$ 3,351	$ 2,983	$ —	$ 6,335

(In thousands, except share and per share data)

The Bon-Ton Stores, Inc.
Condensed Consolidating Statement of Cash Flows
Twenty-Six Weeks Ended July 30, 2016

	Parent	Issuer	Guarantor Subsidiaries	Consolidating Eliminations	Company Consolidated
Net cash provided by operating activities	$ 120	$ 47,407	$ 16,042	$ —	$ 63,569
Cash flows from investing activities:					
Capital expenditures	—	(11,635)	(14,114)	—	(25,749)
Proceeds from sale of property, fixtures and equipment	—	7	—	—	7
Net cash used in investing activities	—	(11,628)	(14,114)	—	(25,742)
Cash flows from financing activities:					
Payments on long-term debt and capital lease and financing obligations	—	(301,300)	(1,958)	—	(303,258)
Proceeds from issuance of long-term debt and financing obligations	—	263,669	—	—	263,669
Deferred financing costs paid	—	(495)	—	—	(495)
Restricted shares forfeited in lieu of payroll taxes	(120)	—	—	—	(120)
Increase in book overdraft balances	—	2,545	—	—	2,545
Net cash used in financing activities	(120)	(35,581)	(1,958)	—	(37,659)
Net increase (decrease) in cash and cash equivalents	—	198	(30)	—	168
Cash and cash equivalents at beginning of period	1	2,822	4,056	—	6,879
Cash and cash equivalents at end of period	$ 1	$ 3,020	$ 4,026	$ —	$ 7,047

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

For purposes of the following discussion, references to the "second quarter of 2017" and the "second quarter of 2016" are to the 13 weeks ended July 29, 2017 and July 30, 2016, respectively. References to "2017" and "2016" are to the 26 weeks ended July 29, 2017 and July 30, 2016, respectively. References to "fiscal 2017" are to the 53-week period ending February 3, 2018; references to "fiscal 2016" are to the 52-week period ended January 28, 2017. References to the "Company," "we," "us," and "our" refer to The Bon-Ton Stores, Inc. and its subsidiaries.

Overview

General

The Company, a Pennsylvania corporation, is one of the largest regional department store operators in the United States, offering a broad assortment of brand-name fashion apparel and accessories for women, men and children. Our merchandise offerings also include cosmetics, home furnishings and other goods. We currently operate 260 stores, including nine furniture galleries and four clearance centers, in 24 states in the Northeast, Midwest and upper Great Plains under the Bon-Ton, Bergner's, Boston Store, Carson's, Elder-Beerman, Herberger's and Younkers nameplates, encompassing a total of approximately 24 million square feet.

We operate in the department store segment of the U.S. retail industry, a highly competitive environment. The department store industry continues to evolve in response to competitive retail formats—mass merchandisers, national chain retailers, specialty retailers and online retailers—and the expansion of mobile technology and social media.

Performance Summary and Fiscal 2017 Guidance

During the second quarter of 2017, we made progress on a number of our strategic initiatives:

- Experienced strength in key merchandise categories and brands and drove continued double-digit growth in our omnichannel business (reflecting sales via our website, mobile site and our *Let Us Find It* customer service program) as compared to the second quarter of 2016;

- Continued to effectively execute on a number of profit improvement initiatives, substantially reducing our selling, general and administrative ("SG&A") expense for the quarter; and

- Maintained careful inventory controls, as we reduced inventory by 5.1% as compared to the second quarter of 2016.

Comparable store sales decreased 6.1% in the second quarter of 2017, reflecting continued soft mall traffic. Our results were consistent with our expectations and showed an improvement over our performance in the first quarter. We remain focused on working to better position the business for the long-term. We will focus on further enhancing our merchandise assortment with an emphasis on our targeted growth categories, refining our marketing strategy to increase traffic and driving growth in our omnichannel business. We expect to achieve further cost reductions through the continued rollout of our profit improvement initiative.

On August 17, 2017, we reaffirmed that we continue to expect loss per share to be in a range of \$2.08 to \$2.59, inclusive of a \$0.05 per share expense from the 53rd week.

Updated assumptions reflected in our full-year guidance include the following:

- A comparable store sales decrease ranging from 3.5% to 4.5%, which excludes sales from the 53rd week;

- A gross margin rate ranging from a 40- to 60-basis-point decrease from the fiscal 2016 rate of 35.5%;

- SG&A expense between $834 million and $839 million, including approximately $10 million for the 53rd week, compared to SG&A expense of $880.6 million in fiscal 2016;

- Capital expenditures not to exceed $30 million, net of external contributions; and

- An estimated 20.3 million weighted average diluted shares outstanding.

Results of Operations

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

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	July 29, 2017	**July 30, 2016**	**July 29, 2017**	**July 30, 2016**
Net sales	100.0%	100.0%	100.0%	100.0%
Other income	4.2	3.0	3.6	3.0
	104.2	103.0	103.6	103.0
Costs and expenses:				
Costs of merchandise sold	64.5	63.5	66.2	64.9
Selling, general and administrative	37.9	39.1	38.1	37.8
Depreciation and amortization	4.6	4.6	4.4	4.3
Amortization of lease-related interests	0.2	0.2	0.2	0.2
Impairment charges	—	—	—	—
Loss from operations	(3.0)	(4.4)	(5.2)	(4.1)
Interest expense, net	3.6	2.8	3.5	2.7
Loss on extinguishment of debt	—	—	0.1	—
Loss before income taxes	(6.6)	(7.2)	(8.7)	(6.8)
Income tax provision (benefit)	—	—	—	—
Net loss	(6.6)%	(7.1)%	(8.7)%	(6.8)%

Second Quarter of 2017 Compared with Second Quarter of 2016

Net sales : Net sales in the second quarter of 2017 were $504.4 million, compared with $542.4 million in the second quarter of 2016, reflecting a decrease of 7.0%. Comparable store sales decreased 6.1% in the period due to continued soft mall traffic trends.

The best performing merchandise categories in the second quarter of 2017 were Fine Jewelry (included in Accessories) and Dresses (included in Women's Apparel). Fine Jewelry benefited from strong promotional events and the expansion of merchandise to additional doors. Dresses primarily benefited from sales in key items.

Merchandise categories that were challenged in the period included Petites' Sportswear and Young Contemporary (both included in Women's Apparel). Petites' Sportswear was adversely impacted by the strategic reduction of product offerings within certain categories and brands. Young Contemporary was adversely impacted by unfavorable sales in certain brands.

Other income : Other income, which includes income from revenues received under our credit card program agreement, miscellaneous revenue departments and gift and merchandise return card breakage, was $21.0 million in the second quarter of 2017 as compared with $16.3 million in the second quarter of 2016. The increase was primarily due to income associated with gift card breakage and, to a lesser degree, revenues from our proprietary credit card operations. Proprietary credit card sales, as a percentage of total sales, increased 40 basis points to 57.4% in the second quarter of 2017.

Costs and expenses : Gross margin in the second quarter of 2017 decreased $18.9 million to $179.2 million as compared with $198.1 million in the comparable prior year period, primarily due to the decreased sales volume in the current period. Gross margin as a percentage of net sales decreased 100 basis points to 35.5% in the second quarter of 2017 from 36.5% in the comparable prior year period, primarily due to an increase in the markdown rate.

SG&A expense in the second quarter of 2017 decreased $20.7 million to $191.2 million as compared with $211.9 million in the second quarter of 2016. This reduction was largely due to savings associated with prior year closed stores and reductions in consulting fees, medical insurance, payroll, taxes and rent, as well as gains associated with various real estate transactions. The current period expense rate, 37.9% of net sales, decreased 120 basis points from that of the prior year period.

Depreciation and amortization expense and amortization of lease-related interests decreased $1.9 million to $24.1 million in the second quarter of 2017 from $26.0 million in the second quarter of 2016.

Interest expense, net : Net interest expense was $18.0 million in the second quarter of 2017 as compared with $15.2 million in the second quarter of 2016. The increase primarily reflects an increased weighted average interest rate and higher debt levels.

Income tax provision (benefit) : The effective income tax rate in the second quarter in each of 2017 and 2016 largely reflects our valuation allowance position against all net deferred tax assets. The income tax expense in the second quarter of 2017 includes a $0.5 million benefit from the loss on continuing operations which was offset by the recognition of deferred tax liabilities associated with indefinite-lived assets. The $0.1 million income tax benefit in the second quarter of 2016 includes a $0.6 million benefit from the loss on continuing operations which was partially offset by the recognition of deferred tax liabilities associated with indefinite-lived assets.

2017 Compared with 2016

Net sales : Net sales in 2017 were $1,040.6 million, compared with $1,133.4 million in 2016, reflecting a decrease of 8.2%. Comparable store sales decreased 7.5% in the period due to continued soft mall traffic trends.

The best performing merchandise categories in 2017 were Fine Jewelry (included in Accessories) and Furniture (included in Home). Fine Jewelry benefited from strong promotional events and the expansion of merchandise to additional doors. Sales in Furniture increased through the expansion of merchandise to additional doors and sales increases in mattresses.

Merchandise categories that were challenged in the period included Petites' Sportswear (included in Women's Apparel) and Accessories. Petites' Sportswear was adversely impacted by the strategic reduction of product offerings within certain categories and brands. Accessories were adversely affected by lower sales of handbags, specifically within certain key brands.

Other income : Other income, which includes income from revenues received under our credit card program agreement, miscellaneous revenue departments and gift and merchandise return card breakage, was $37.9 million in 2017 as compared with $33.7 million in 2016. The increase primarily reflects income associated with gift card breakage.

Costs and expenses : Gross margin in 2017 decreased $46.4 million to $351.8 million as compared with $398.2 million in 2016. Gross margin as a percentage of net sales decreased 132 basis points to 33.8% in 2017 from 35.1% in 2016, due primarily to an increase in the markdown rate.

SG&A expense in 2017 decreased $31.8 million to $396.3 million as compared with $428.1 million in 2016. This reduction was largely driven by expense control measures, specifically in store expenses, reductions in consulting fees, medical insurance, payroll, taxes and rent, as well as gains associated with various real estate transactions. The current period expense rate, 38.1% of net sales, increased 31 basis points from that of the prior year as a result of decreased sales volume in the current period.

Depreciation and amortization expense and amortization of lease-related interests decreased $3.0 million to $47.3 million in 2017 from $50.2 million in 2016.

Interest expense, net : Net interest expense was $36.0 million in 2017 as compared with $30.2 million in 2016. The increase primarily reflects an increased weighted average interest rate and higher debt levels.

Loss on extinguishment of debt : In 2017, we recorded charges totaling $0.6 million due to the write-off of certain deferred financing fees in connection with the Fifth Amendment to the Second Amended Revolving Credit Facility.

Income tax provision (benefit) : The effective income tax rate in each of 2017 and 2016 largely reflects our valuation allowance position against all net deferred tax assets. The income tax benefit in 2017 includes a $1.0 million benefit from the loss on continuing operations which was offset by the recognition of deferred tax liabilities associated with indefinite-lived assets. The $0.3 million income tax benefit in 2016 includes a $1.2 million benefit from the loss on continuing operations which was partially offset by the recognition of deferred tax liabilities associated with indefinite-lived assets.

Seasonality

Our business, like that of most retailers, is subject to seasonal fluctuations, with the major portion of sales and income realized during the second half of each fiscal year, which includes the holiday season. Due to the fixed nature of certain costs, SG&A expense is typically higher as a percentage of net sales during the first half of each fiscal year. We typically finance working capital increases in the second half of each fiscal year through additional borrowings under our $880.0 million Second Amended Revolving Credit Facility (see “Liquidity and Capital Resources,” below, for further discussion).

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

Liquidity and Capital Resources

At July 29, 2017, we had $6.3 million in cash and cash equivalents and $171.5 million available under our Second Amended Revolving Credit Facility (before taking into account the minimum borrowing availability covenant under such facility, which was $75.0 million at July 29, 2017). Excess availability was $224.8 million as of the comparable prior year period. The unfavorable excess availability comparison primarily reflects the early payment of senior notes due July 2017, partially offset by a net availability increase as a result of the August 2016 amendment to the Second Amended Revolving Credit Facility.

On April 28, 2017, The Bon-Ton Department Stores, Inc. and certain subsidiaries as borrowers and certain other subsidiaries as guarantors entered into a Fifth Amendment (the “Fifth Amendment”) to the Second Amended Revolving Credit Facility with Bank of America, N.A., as Agent, and certain financial institutions as lenders. The Fifth Amendment extends the maturity date of the $730 million Tranche A of the Second Amended Revolving Credit Facility (“Tranche A”). Tranche A is now due to mature on April 28, 2022 provided that Tranche A-1 of the Second Amended Revolving Credit Facility (“Tranche A-1”) is repaid prior to March 15, 2021 or the maturity of Tranche A-1 is extended to at least April 28, 2022. If Tranche A-1 is not so repaid or so extended, or is extended to a date earlier than April 28, 2022, Tranche A will mature on the same date as Tranche A-1. In any event, Tranche A remains subject to a “springing” maturity date that is sixty days prior to the earliest of the maturity date of (1) any senior note debt (which is currently comprised of our 8.00% Second Lien Senior Secured Notes due June 15, 2021) and (2) if incurred, certain permitted debt secured by junior liens.

The Fifth Amendment did not change the total lender commitment under the facility, which remains at $880 million (for both Tranche A and Tranche A-1). Pricing and other terms of the Second Amended Revolving Credit Facility remain essentially unchanged.

Typically, cash flows from operations are impacted by the effect on sales of (1) consumer confidence, (2) weather in the geographic markets served by the Company, (3) general economic conditions and (4) competitive conditions existing in the retail industry. A downturn in any single factor or a combination of factors could have a material adverse impact upon our ability to generate sufficient cash flows to operate our business. While the current economic uncertainty affects our assessment of short-term liquidity, we consider our resources (including, but not limited to, cash flows from operations supplemented by borrowings under the Second Amended Revolving Credit Facility) adequate to satisfy our cash needs for at least the next 12 months.

Our primary sources of working capital are cash flows from operations and borrowings under our Second Amended Revolving Credit Facility, which provides for up to $880.0 million in borrowings (limited by amounts available pursuant to a borrowing base calculation). Our business follows a seasonal pattern; working capital fluctuates with seasonal variations, reaching its highest level in October or November to fund the purchase of merchandise inventories prior to the holiday season. The seasonality of our business historically provides greatest cash flow from operations during the holiday season, with fiscal fourth quarter net sales generating the strongest profits of our fiscal year. As holiday sales significantly reduce inventory levels, this reduction, combined with net income, historically provides us with strong cash flow from operations at the end of our fiscal year.

Cash provided by (used in) our operating, investing and financing activities is summarized as follows:

	TWENTY-SIX WEEKS ENDED	
(Dollars in millions)	**July 29, 2017**	**July 30, 2016**
Operating activities	$ 11.3	$ 63.6
Investing activities	0.2	(25.7)
Financing activities	(12.0)	(37.7)

Net cash provided by operating activities was $11.3 million and $63.6 million in 2017 and 2016, respectively. The decrease in cash flow primarily reflects a higher net loss of $14.0 million, a $19.9 million unfavorable change in cash flow from working capital and a $10.2 million unfavorable change in cash flow from long-term liabilities. The decrease in cash flow from working capital was largely due to unfavorable fluctuations of $56.2 million and $6.6 million in cash flows from accounts payable and prepaid expenses, respectively, partially offset by a favorable variance of $48.3 million in cash flows from inventories.

Net cash provided by investing activities was $0.2 million in 2017 compared with net cash used in investing activities of $25.7 million in 2016. In 2017, the inflow of cash includes $21.4 million of proceeds associated with various real estate transactions. Capital expenditures totaled $21.2 million and $25.7 million in 2017 and 2016, respectively, reflecting a planned decrease in capital expenditures. These expenditures do not reflect reductions for external contributions (primarily leasehold improvement and fixture allowances received from landlords or vendors) of $3.9 million and $14.1 million in 2017 and 2016, respectively. We anticipate that our fiscal 2017 capital expenditures will not exceed $45.0 million (excluding external contributions of $15.0 million, reducing anticipated net capital investments to $30.0 million).

Net cash used in financing activities was $12.0 million and $37.7 million in 2017 and 2016, respectively. The decrease in cash used in financing activities is primarily a result of lower net payments on long term debt due to the reduced cash flow from operating activities.

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.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts and disclosure of contingent assets and liabilities. There have been no significant changes in the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended January 28, 2017.

Recently Adopted Accounting Standards

Recently adopted accounting standards are discussed in Note 1 to the Consolidated Financial Statements.

Forward-Looking Statements

Certain information included in this report (as well as other communications made or to be made by the Company) and other materials filed or to be filed by the Company with the Securities and Exchange Commission contain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which may be identified by words such as “may,” “could,” “will,” “plan,” “expect,” “anticipate,” “believe,” “estimate,” “project,” “intend,” or other similar expressions and include the Company’s fiscal 2017 guidance, involve important risks and uncertainties that could significantly affect results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. Factors that could cause such differences include, but are not limited to: risks related to retail businesses generally; a significant and prolonged deterioration of general economic conditions which could negatively impact the Company in a number of ways, including the potential write-down of the current valuation of intangible assets and deferred taxes; risks related to the Company’s proprietary credit card program; potential increases in pension obligations; consumer spending patterns, debt levels, and the availability and cost of consumer credit; additional competition from existing and new competitors or changes in the competitive environment; inflation; deflation; changes in the costs of fuel and other energy and transportation costs; weather conditions that could negatively impact sales; uncertainties associated with expanding or remodeling existing stores; the ability to attract and retain qualified management; the dependence upon relationships with vendors and their factors; a data security breach or system failure; the ability to reduce or control SG&A expenses, including initiatives to reduce expenses and improve efficiency; operational disruptions; unsuccessful marketing initiatives; the ability to expand capacity and improve efficiency through the Company’s eCommerce fulfillment center; changes in, or the failure to successfully implement, our key strategies, including initiatives to improve our merchandising, marketing and operations; adverse outcomes in litigation; the incurrence of unplanned capital expenditures; the ability to obtain financing for working capital, capital expenditures and general corporate purposes; the impact of regulatory requirements including the Health Care Reform Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act; the inability or limitations on the Company’s ability to favorably adjust the valuation allowance on deferred tax assets; and the financial condition of mall operators. Additional factors that could cause the Company’s actual results to differ from those contained in these forward-looking statements are discussed in greater detail under Item 1A of the Company’s Annual Report on Form 10-K for fiscal 2016 filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk and Financial Instruments

On April 28, 2017, we closed on an extension of our $730 million Tranche A of our Second Amended Revolving Credit Facility in advance of the December 2018 maturity date. See "Liquidity and Capital Resources" for further discussion on this extension.

There were no other material changes in our exposures, risk management strategies, or hedging positions since January 28, 2017. For further information, refer to Item 7A of our fiscal 2016 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report and, based on this evaluation, concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes to our internal controls over financial reporting that occurred during the thirteen weeks ended July 29, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS

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

3.1	Amended and Restated Bylaws of the Company as of August 21, 2017 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 25, 2017)
10.1*	Amendment No. 4 of Executive Transition Agreement, dated as of May 5, 2017, between the Company and M. Thomas Grumbacher (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 9, 2017)
10.2*	Addendum dated May 5, 2017 to Employment Agreement between The Bon-Ton Stores, Inc. and Kathryn Bufano (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 10, 2017)
31.1	Certification of William X. Tracy
31.2	Certification of Nancy A. Walsh
32.1**	Certification Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Constitutes a management contract or compensatory plan or arrangement.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BON-TON STORES, INC.

DATE:	September 6, 2017	BY:	/s/ William X. Tracy William X. Tracy President and Chief Executive Officer (Principal Executive Officer)
DATE:	September 6, 2017	BY:	/s/ Nancy A. Walsh Nancy A. Walsh Executive Vice President— Chief Financial Officer (Principal Financial Officer)
DATE:	September 6, 2017	BY:	/s/ Michael W. Webb Michael W. Webb Senior Vice President— Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF WILLIAM X. TRACY

I, William X. Tracy, certify that:

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

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

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

DATE: September 6, 2017

By: /s/ William X. Tracy
William X. Tracy
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF NANCY A. WALSH

I, Nancy A. Walsh, certify that:

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

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

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: September 6, 2017

By: /s/ Nancy A. Walsh
Nancy A. Walsh
Executive Vice President—
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of The Bon-Ton Stores, Inc. on Form 10-Q for the period ended July 29, 2017, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned officers of The Bon-Ton Stores, Inc., certifies pursuant to 18 U.S.C. Section 1350, that, to his/her respective knowledge:

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

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

DATE: September 6, 2017

By: /s/ William X. Tracy
William X. Tracy
President and Chief Executive Officer

By: /s/ Nancy A. Walsh
Nancy A. Walsh
Executive Vice President—
Chief Financial Officer

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