

## **AUDIT COMMITTEE CHARTER**

This Charter has been adopted by the Board of Directors (the "Board") of The Bon-Ton Stores, Inc. (the "Company") to govern its Audit Committee (the "Committee"), which shall have the authority, responsibility and specific powers described below.

### **Purposes**

The Committee shall be directly responsible for the appointment, compensation and oversight of the Company's independent auditors (the "Auditors").

The Committee shall monitor (1) the integrity of the financial statements of the Company, (2) the Company's compliance with legal and regulatory requirements, (3) the Auditors' qualifications and independence, (4) the performance of the Company's internal audit function and (5) the performance of the Auditors.

The Committee shall prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

The Committee shall oversee the financial reporting processes of the Company and the audits of the Company's financial statements.

### **Organization**

The Committee shall be composed of three or more directors who shall: (i) meet the independence and experience requirements of the Nasdaq National Market ("Nasdaq") and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended; (ii) not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years; and (iii) be able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement. At least one member of the Committee shall be an "audit committee financial expert," as such term is defined by the applicable regulations of the Securities and Exchange Commission ("SEC") and shall meet any applicable standards promulgated by Nasdaq related to enhanced financial expertise applicable to at least one member of the Committee.

The members of the Committee shall be appointed and removed by the Board. A member of the Committee shall be selected by the Board to serve as the Committee's chairperson.

### **Meetings**

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Committee shall meet at least annually with management, the internal auditors and the Auditors in separate executive sessions to discuss any matters that the Committee or any of these groups believes should be discussed privately. In addition, the Committee will meet with the Auditors and management to review the Company's financial statements as provided under the sub-heading "Document Review" below. Minutes or other records of meetings and activities of the Committee shall be maintained.

### **Responsibilities**

The Committee shall have the sole authority to appoint or replace and oversee the Auditors, including the authority to resolve disagreements between management and the Auditors regarding financial reporting. The Auditors shall report directly to the Committee.

The Committee shall pre-approve (1) all audit engagement fees and terms and (2) all non audit services provided by the Auditors which are not proscribed by applicable law. The Committee may delegate pre-approval responsibilities to a member of the Committee, and the decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

The Committee shall, at least annually, obtain and review a report by the Auditors describing the following: (1) the Auditor's internal quality-control procedures; (2) any material issues raised by the most recent internal quality-control review, or peer review, of the Auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Auditors, and any steps taken to deal with any such issues; and (3) in order to assess the Auditors' independence, all relationships between the Auditors and the Company.

The Committee shall review and concur in the appointment, replacement, reassignment or dismissal of the Vice President Internal Audit. The Vice President Internal Audit will report directly to the Committee.

The Committee shall have the authority to engage and determine funding for outside legal, accounting or other consultants to advise the Committee and shall, as appropriate, obtain advice and assistance from such advisors. The Committee may request any officer or employee of the Company or the Company's outside counsel or the

Auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall have the authority to determine, and the Company shall provide, appropriate funding for, (1) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company and (2) payment for the ordinary administrative expenses of the Audit Committee that are necessary or appropriate for carrying out its duties.

The Committee shall make regular reports to the Board. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review the Committee's own performance.

The Committee shall (1) discuss the annual audited financial statements and quarterly financial statements with management and the Auditors, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in reports filed with the SEC; (2) discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies; (3) discuss policies with respect to risk assessment and risk management; (4) review with the Auditors any audit problems or difficulties and management's response; and (5) set clear hiring policies for the Company concerning employees or former employees of the Auditors.

The Committee shall approve the overall scope of the internal audit program, the annual plan and budget. The Committee shall ensure the internal audit function is structured so that it achieves organizational independence and permits full and unrestricted access to the Committee, management and the Board.

In carrying out its duties and responsibilities, the Committee, to the extent it deems necessary or appropriate, will:

#### **Document Review**

1. Review with management and the Auditors the financial statements and disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" to be included in the Company's Annual Report on Form 10 K (or the annual report to shareholders if distributed prior to the filing of Form 10 K), including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the Auditors under generally accepted auditing standards.
2. Review the interim financial statements and disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" with management and the Auditors prior to the filing of the Company's Quarterly Report on Form 10 Q. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the Auditors under generally accepted auditing standards.

#### **Auditors**

3. Review the proposed scope of the audit, the proposed staffing of the audit to ensure adequate coverage, as well as appropriate coverage consistent with Sections 203 and 206 of the Sarbanes Oxley Act of 2002, and the fees proposed to be charged for such audit.
4. Select the Auditors, considering independence and effectiveness, and approve the fees and other compensation to be paid the Auditors. On an annual basis, the Committee should ensure receipt from the Auditors, and review, the Auditors' formal written statement delineating all relationships between the Auditors and the Company, consistent with the Public Company Accounting Oversight Board Ethics and Independence Rules. In addition, the Committee shall actively engage in dialogue with the Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the Auditors and the Committee shall take, or recommend that the full Board take, appropriate action to oversee the independence of the Auditors.
5. Review the performance of the Auditors and approve any proposed discharge of the Auditors when circumstances warrant.
6. Discuss with the Auditors any communications with the Auditors' national office respecting auditing or accounting issues presented by the engagement.
7. Review and evaluate the lead partner on the audit team. Ensure the rotation of the lead partner having primary responsibility for the audit and the partner responsible for reviewing the audit.

8. Periodically consult with the Auditors, without management present, regarding the Company's internal controls and the fullness and accuracy of the Company's financial statements.
9. Receive and review regular reports from the Auditors with respect to:
  - the critical accounting policies and practices of the Company,
  - all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Auditors, and
  - other material written communications between the Auditors and management, such as any management letter or schedule of unadjusted differences.

#### **Internal Auditor**

10. Discuss with the independent auditor and management the Company's auditing responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit program.
11. Review the significant reports to management prepared by the internal auditors and management's responses.

#### **Financial Reporting Processes**

12. Review with the Auditors (i) the Company's financial and accounting personnel, (ii) the adequacy and effectiveness of the accounting and financial controls of the Company, and (iii) elicit any recommendations for the improvement of such internal controls or particular areas where new or more detailed controls or procedures are desirable.
13. Review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year.
14. Review reports from management on material weaknesses or significant deficiencies in the design or operation of internal controls and on any fraud that involves personnel having a significant role in the internal controls.
15. In consultation with the Auditors, review the integrity of the financial reporting processes, both internal and external.
16. Consider the Auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
17. Inquire of management, internal audit and the Auditors about significant risks or exposures and assess the steps management has taken to minimize such risks to the Company.
18. Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the Auditors or management.

#### **Process Improvement**

19. Following completion of the annual audit, review separately with management and with the Auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of the work or access to required information.
20. Review any significant disagreement between management and the Auditors in connection with the preparation of the financial statements.
21. Review with the Auditors and with management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. (This review

should be conducted at an appropriate time subsequent to implementation of changes or improvements, as determined by the Committee.)

#### **Ethical and Legal Compliance**

22. Review and approve all related-party transactions.
23. Review management's periodic update of the Company's Code of Ethical Standards and Business Practices and ensure that management has established a system to enforce such code.
24. Review management's monitoring of the Company's compliance with such code and periodically determine that management has the proper review system in place to ensure that the Company's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements.
25. Review legal compliance matters, including corporate securities trading policies, with Company counsel.
26. Review with Company counsel any legal matter that could have a significant impact on the financial statements.
27. Review and update periodically the Company's procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or audit matters.
28. Review annually the travel and entertainment expenses of the Company's Chief Executive Officer and a summary of all other executive officers' travel and entertainment expenses.
29. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.