BON TON STORES INC
Form 10-Q
December 13, 2004

==========

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 October 30, 2004 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 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of December 10, 2004 there were 13,145,544 shares of Common Stock, $0.01 par value per share, and 2,951,490 shares of Class A Common Stock, $0.01 par value per share, outstanding.

==========

PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

THE BON-TON STORES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

Assets
Current assets:
- Cash and cash equivalents
- Retained interest in trade receivables and other, net of allowance for doubtful accounts and sales returns of $6,733 and $6,299 at October 30, 2004 and January 31, 2004, respectively
- Merchandise inventories
- Prepaid expenses and other current assets
- Deferred income taxes

Total current assets

Property, fixtures and equipment at cost, net of accumulated depreciation and amortization

of $182,154 and $165,438 at October 30, 2004 and January 31, 2004, respectively
Deferred income taxes
Goodwill and intangible assets, net of accumulated amortization of $5,101 and $4,672 at October 30, 2004 and January 31, 2004, respectively
Other assets

TOTAL ASSETS

Liabilities and Shareholders' Equity
Current liabilities:
Accounts payable
Accrued payroll and benefits
Accrued expenses
Current maturities of long-term debt
Current maturities of obligations under capital leases
Income taxes payable

Total current liabilities

Long-term debt, less current maturities
Obligations under capital leases, less current maturities
Other long-term liabilities

TOTAL LIABILITIES

Shareholders' equity:
Preferred Stock - authorized 5,000,000 shares at $0.01 par value; no shares issued
Common Stock - authorized 40,000,000 shares at $0.01 par value; issued shares of 13,476,344 and 13,055,740 at October 30, 2004 and January 31, 2004, respectively
Class A Common Stock - authorized 20,000,000 shares at $0.01 par value; issued and outstanding shares of 2,951,490 and 2,989,853 at October 30, 2004 and January 31, 2004, respectively
Treasury stock, at cost - shares of 337,800 at October 30, 2004 and January 31, 2004
Additional paid-in-capital
Deferred compensation
Accumulated other comprehensive loss
Retained earnings

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

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

2

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

(In thousands except share and per share data) (Unaudited)	THIRTEEN WEEKS ENDED October 30, 2004	THIRTEEN WEEKS ENDED November 1, 2003	THIRTY WEEKS October 30, 2004
Net sales	$ 297,798	$ 180,417	$ 847,079
Other income, net	906	619	2,942
	298,704	181,036	850,021
Costs and expenses:			

Costs of merchandise sold	185,055	113,313	530,723
Selling, general and administrative	105,645	61,690	300,430
Depreciation and amortization	5,707	7,330	19,505
Income (loss) from operations	2,297	(1,297)	(637)
Interest expense, net	3,489	1,437	10,057
Loss before income taxes	(1,192)	(2,734)	(10,694)
Income tax provision (benefit)	(447)	(1,032)	(4,010)
NET LOSS	$ (745)	$ (1,702)	$ (6,684)
PER SHARE AMOUNTS -			
BASIC:			
Net loss	$ (0.05)	$ (0.11)	$ (0.42)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	15,999,908	15,062,566	15,887,321
DILUTED:			
Net loss	$ (0.05)	$ (0.11)	$ (0.42)
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	15,999,908	15,062,566	15,887,321

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

3

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

(In thousands) (Unaudited)	THIRTY-NINE WEEKS ENDED October 30, 2004	November 1 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,684)	$ (3,792
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	19,505	17,217
Bad debt provision	2,369	1,413
Net transfers of receivables to accounts receivable facility	(7,500)	(17,600
Other	3,990	7,003
Changes in operating assets and liabilities, net	(85,596)	(12,217
Net cash used in operating activities	(73,916)	(7,976
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(24,065)	(9,444
Acquisition, net of cash acquired	-	(97,485
Proceeds from sale of property, fixtures and equipment	12	1,310
Net cash used in investing activities	(24,053)	(105,619
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations	(372,992)	(188,947
Proceeds from issuance of long-term debt	462,553	301,192
Issuance of common stock	-	6,500
Common stock repurchased	-	(254
Cash dividends paid	(1,197)	(757
Stock options exercised	2,101	387

Deferred financing costs paid	(448)	(7,839
Increase in bank overdraft balances	6,698	8,758
Net cash provided by financing activities	96,715	119,040
Net (decrease) increase in cash and cash equivalents	(1,254)	5,445
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	19,890	16,796
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 18,636	$ 22,241
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 7,014	$ 5,649
Net income taxes paid (refunded)	$ 14,214	$ (5,870

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

4

THE BON-TON STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

The Bon-Ton Stores, Inc., a Pennsylvania corporation, was incorporated on January 31, 1996 as the successor of a company incorporated on January 31, 1929, and currently operates, through its subsidiaries, 139 department stores and two furniture stores in sixteen states from the Northeast to the Midwest under the names "Bon-Ton" and "Elder-Beerman." The Company conducts its operations through one business segment.

1. BASIS OF PRESENTATION

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

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and do not include all information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair presentation of interim periods have been included. The Company's business is seasonal in nature and results of operations for interim periods presented are not necessarily indicative of results for the full fiscal year. These condensed 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 31, 2004 (the "2003 Annual Report").

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

2. STOCK-BASED COMPENSATION

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25," issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded only if the current market price of the underlying stock on the date of the grant exceeded the exercise price. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), established

accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123 as amended by SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure, an Amendment of FASB Statement No. 123."

THE BON-TON STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

The following table illustrates the effect on net loss if the fair-value-based method had been applied to all unvested awards in each period:

		THIRTEEN WEEKS ENDED		THIRTY-N WEEKS EN
		October 30, 2004	November 1, 2003	October 30, 2004
Net loss, as reported		$ (745)	$ (1,702)	$ (6,684)
Deduct: Total stock-option-based employee compensation expense determined under fair-value-based methods for all awards, net of related tax effects		(97)	(83)	(185)
Pro forma net loss		$ (842)	$ (1,785)	$ (6,869)
Loss per share				
Basic	As reported	$ (0.05)	$ (0.11)	$ (0.42)
	Pro forma	(0.05)	(0.12)	(0.43)
Diluted	As reported	$ (0.05)	$ (0.11)	$ (0.42)
	Pro forma	(0.05)	(0.12)	(0.43)

All stock options impacting the periods in the above table were issued with an option exercise price equal to the per-share market price at the date of grant. The Company used the Black-Scholes option pricing model to calculate the fair value of the stock options at the grant date.

On March 31, 2004, the FASB issued its exposure draft, "Share-Based Payment," which is a proposed amendment to SFAS No. 123. Generally, the approach in the exposure draft is similar to the approach described in SFAS No. 123; however, the exposure draft would require all share-based payments to employees, including grants of employee stock options, to be recognized in the Company's income statement based on their fair values. There are a number of issues that are not resolved in the exposure draft, including the final methodology for calculating fair value. The FASB expects to issue a final standard late in 2004 that would be effective for interim and annual periods beginning after June 15, 2005. The pro forma impact of the adoption of SFAS No. 123 on the Company's historical financial statements is included in these notes to consolidated financial statements. The Company expects to continue to grant stock-based compensation to employees. The impact of the new standard, when and if issued, may have a material adverse impact on our future results of operations.

THE BON-TON STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

3. PER SHARE AMOUNTS

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

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Basic calculation				
Effect of dilutive shares ---	15,999,908	15,062,566	15,887,321	15,031,138
Restricted Shares	-	-	-	-
Options	-	-	-	-
Diluted calculation	15,999,908	15,062,566	15,887,321	15,031,138

The following securities were antidilutive and, therefore, were not included in the computation of diluted earnings per share amounts for the periods indicated:

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Antidilutive shares ---				
Restricted Shares	90,348	150,529	76,949	142,098
Options	559,812	920,382	609,459	937,057

Certain securities were excluded from the computation of dilutive shares due to the Company's net loss position in the thirteen weeks and thirty-nine weeks ended October 30, 2004 and November 1, 2003. The following table shows the approximate effect of dilutive securities had the Company reported a profit for these periods:

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Effect of dilutive securities ---				
Restricted Shares	65,229	121,629	63,492	104,167

Options	219,724	329,366	282,944	184,309

4. EXIT OR DISPOSAL ACTIVITIES

Effective July 31, 2004, the Company closed its Pottstown, Pennsylvania store. Pre-tax charges related to this store closure of $1,721 and $4, reflected within selling, general and administrative expenses, were recorded during the thirteen weeks ended July 31, 2004 and October 30, 2004, respectively.

An agreement was entered into amending the lease termination date to July 31, 2004 from January 28, 2012, requiring the Company to pay a fee of $1,600. The remaining costs relate to severance and logistics. Following is a reconciliation of accruals related to this store closure:

	Fiscal 2004 Charges	Fiscal 2004 Payments	Balance at October 30, 2004
Lease termination fee	$ 1,600	$(1,600)	$ -
Associate termination benefits	29	(29)	-
Other closing costs	96	(96)	-
Total	$ 1,725	$(1,725)	$ -

5. ACQUISITION PURCHASE ACCOUNTING

Effective October 24, 2003, the Company acquired The Elder-Beerman Stores Corp. ("Elder-Beerman"). During the thirteen weeks ended October 30, 2004, the Company made its final purchase accounting allocations in accordance with SFAS No. 141, "Business Combinations." The Company obtained third party appraisals in order to determine the valuation of lease interests, trademarks and customer lists, which resulted in an increase in intangible assets of $4,096. There was a reduction in other assets of $1,699 related primarily to the write-off of capitalized costs relative to certain Elder-Beerman leases. Accrued expenses and other long-term liabilities decreased by $6,924, primarily due to the elimination of deferred rent associated with certain Elder-Beerman leases. Property, fixtures and equipment decreased by $12,101, largely as a result of the impact of the other final purchase price allocation adjustments based on the negative goodwill associated with the Elder-Beerman acquisition. In addition, deferred income tax assets increased by $2,429 based on the tax effect of the final allocation adjustments noted above.

Intangible assets of $4,096 are comprised of the following items: Lease interests that relate to below-market-rate leases of $3,494 and trademarks and customer lists totaling $602. The lease interests, trademarks and customer lists were assigned amortization lives of five to twenty years, three years and three years, respectively.

THE BON-TON STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

6. INTEGRATION ACTIVITIES

In connection with the acquisition of Elder-Beerman, the Company developed integration plans resulting in involuntary terminations, employee relocations, and lease and other contract terminations. The liability for involuntary termination benefits covers approximately three hundred employees, primarily in general and administrative and merchandising functions. The Company expects to pay the balance of involuntary termination benefits and employee relocations by the end of the first fiscal quarter of 2005, while the liability for the terminated leases will be paid over the remaining contract periods (through 2030). Other contract terminations have been fully paid as of October 30, 2004. Liabilities recognized in connection with the acquisition and integration activity to date are as follows:

	Involuntary Termination Benefits	Employee Relocation	Lease and Other Contract Termination	
Liability established in preliminary purchase accounting	$ 5,571	$ 1,637	$ 3,053	$
Payments during fiscal 2003	-	(26)	-	
Balance at January 31, 2004	5,571	1,611	3,053	
Final purchase accounting adjustments	(411)	290	-	
Payments during fiscal 2004	(3,277)	(1,435)	(1,876)	
Balance at October 30, 2004	$ 1,883	$ 466	$ 1,177	$

7. SALE OF RECEIVABLES

The Company securitizes its proprietary credit card portfolio through an accounts receivable facility (the "Facility"). Under the securitization agreement, which is contingent upon receivables meeting certain performance criteria, the Company sells through The Bon-Ton Receivables Partnership, LP ("BTRLP"), a wholly owned subsidiary of the Company and qualifying special purpose entity under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," up to $250,000 of an undivided percentage interest in the receivables on a limited recourse basis. In connection with the securitization agreement, the Company retains servicing responsibilities, subordinated interests and an interest-only strip, all of which are retained interests in the securitized receivables. The Company retains annual servicing fees of 2.0% of the outstanding accounts receivable balance and rights to future cash flows arising after investors in the securitization have received the return for which they contracted. The investors have no recourse to the Company's other assets for failure of debtors to pay when due. The Company's retained interests are subordinate to the investors' interests. The value of the retained interest is subject to credit, prepayment and interest rate risks. The Company does not recognize a servicing asset or liability, as the amount received for servicing the receivables is a reasonable approximation of market rates and servicing costs.

As of October 30, 2004 and January 31, 2004, credit card receivables were sold under the securitization agreement in the amount of $220,988 and $228,488,

respectively, and the Company had subordinated interests of $79,594 and $96,755, respectively, related to the amounts sold that were included in the accompanying Consolidated Balance Sheets as retained interest in trade receivables. The Company accounts for its subordinated interest in the receivables in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company has not recognized any unrealized gains or losses on its subordinated interest, as the current carrying value of customer revolving charge accounts receivable is a reasonable estimate of fair value and average interest rates approximate current market origination rates. Subordinated interests as of October 30, 2004 and January 31, 2004 included restricted cash of $5,303 and $5,998, respectively, required pursuant to terms of the Company's accounts receivable facility agreement.

New receivables are sold on a continual basis to replenish each investor's respective level of participation in receivables that have been repaid by credit card holders.

The Company recognized securitization income of $2,070 and $1,897 on securitization of credit card receivables during the thirteen weeks ended October 30, 2004 and November 1, 2003, respectively and $7,248 and $6,315 during the thirty-nine weeks ended October 30, 2004 and November 1, 2003, respectively. This income is reported as a component of selling, general and administrative expenses.

The Company recognized servicing fees, which it reported as a component of selling, general and administrative expenses, of $1,078 and $666 for the thirteen weeks ended October 30, 2004 and November 1, 2003, respectively and $3,212 and $2,043 for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, respectively. As of October 30, 2004, $8,772 of the total managed credit card receivables were sixty-one days or more past due. Net credit losses on the total managed credit card receivables were $3,474 and $1,995 for the thirteen weeks ended October 30, 2004 and November 1, 2003, respectively and $10,372 and $5,713 for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, respectively.

THE BON-TON STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

8. COMPREHENSIVE LOSS

Comprehensive loss was determined as follows:

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1 2003
Net loss	$ (745)	$(1,702)	$(6,684)	$(3,792)
Other comprehensive income (loss):				
Cash flow hedge derivative income (loss), net of tax	100	(120)	622	437
Comprehensive loss	$ (645)	$(1,822)	$(6,062)	$(3,355)

9. STOCK REPURCHASES

On February 7, 2002, the Company announced a stock repurchase program

authorizing the purchase of up to $2,500 of the Company's Common Stock from time to time. No shares were purchased during the thirty-nine weeks ended October 30, 2004. Since February 7, 2002, the Company purchased 337,800 shares at a cost of $1,387 pursuant to this stock purchase program. Treasury stock is accounted for using the cost method.

10. SUBSEQUENT EVENTS

On December 1, 2004, the Company announced a quarterly cash dividend of $0.025 per share on Class A Common Stock and Common Stock, payable January 15, 2005 to shareholders of record as of January 1, 2005.

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

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

For purposes of the following discussions, all references to "third quarter of 2004" and "third quarter of 2003" are to the thirteen-week fiscal periods ended October 30, 2004 and November 1, 2003, respectively, of The Bon-Ton Stores, Inc. (the "Company"). All references to "fiscal 2004" and "fiscal 2003" are to the twelve months ending January 29, 2005 and January 31, 2004, respectively.

OVERVIEW

The Company is a traditional department store retailer with a 106-year history of providing quality merchandise to its customers in secondary markets. On October 24, 2003, the Company acquired The Elder-Beerman Stores Corp. ("Elder-Beerman"), nearly doubling its number of stores and adding 5.7 million square feet of retail space. As a result of the acquisition, the Company operates 139 department stores and two furniture stores in sixteen states, from the Northeast to the Midwest, under the Bon-Ton and Elder-Beerman names. The stores carry a broad assortment of quality brand-name and private label fashion apparel and accessories for women, men and children, as well as distinctive cosmetics and home furnishings. The Company's strategy is to profitably sell merchandise by providing its customers with differentiated fashion merchandise at compelling value in the secondary markets the Company serves.

The Company's revenues are generated through sales in existing stores and through sales from new stores opened through expansion and acquisition. During the thirty-nine weeks ended October 30, 2004, the Company's total sales increased 78.5% to $847.1 million, including $393.5 million from the acquired Elder-Beerman stores, compared to $474.7 million for the same period last year. The thirty-nine weeks of 2003 included sales of $15.3 million for the Elder-Beerman stores during the nine-day period from October 24, 2003 through November 1, 2003. Comparable store sales during the thirty-nine weeks ended October 30, 2004, which do not include Elder-Beerman stores, decreased 1.9% from the comparable period in fiscal 2003.

The retail industry is highly competitive, as evidenced by the Company's comparable store sales decreases during the first three quarters of fiscal 2004. The Company anticipates these competitive pressures and challenges will continue in the future. As a result, the Company plans to continue its highly promotional posture and emphasis on offering a wide range of value. Additionally, expansion of the Company's private labels and growth of exclusive brands support its strategy of product differentiation and provide opportunity for increased sales and higher gross margin.

The Company's ongoing challenge in 2004 is the successful integration of the two companies into one business unit and ensuring that the combined organization remains a stable financial performer. Decreases in sales volume and

a highly promotional retail environment are being addressed with the finalization of the Company's vendor matrix, product assortment and inventory levels, supported by strong Company-wide marketing efforts. Results for the first three quarters of fiscal 2004 were positively impacted by synergies realized which exceed the integration expenses incurred during the period; achieving these synergies on an ongoing basis will be critical to the Company's success. Of equal importance is expediting the Company's systems integration efforts; the majority of the Company's capital expenditures in 2004 are being directed towards strategic systems

improvements. As a result of the acquisition, the Company has increased its debt levels and, accordingly, its exposure to interest rate fluctuations.

Effective July 31, 2004, the Company closed its Pottstown, Pennsylvania store. The pre-tax cost of closing this location was $1.7 million. The Company previously identified this store as under-performing and, in fiscal 2002, recorded an impairment charge related to long-lived assets at this location. The Company believes this store closure will have a favorable impact on its results of operations in the future.

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	
	October 30, 2004	November 1, 2003
Net sales	100.0%	100.0%
Other income, net	0.3	0.3
	100.3	100.3
Costs and expenses:		
Costs of merchandise sold	62.1	62.8
Selling, general and administrative	35.5	34.2
Depreciation and amortization	1.9	4.1
Income (loss) from operations	0.8	(0.7)
Interest expense, net	1.2	0.8
Loss before income taxes	(0.4)	(1.5)
Income tax provision (benefit)	(0.2)	(0.6)
Net loss	(0.3)%	(0.9)%

THIRTEEN WEEKS ENDED OCTOBER 30, 2004 COMPARED TO THIRTEEN WEEKS ENDED NOVEMBER 1, 2003

NET SALES. Net sales for the third quarter of 2004 were $297.8 million,

reflecting an increase of $117.4 million, or 65.1%, from the same period last year. The third quarter of 2004 includes net sales of $137.7 million generated by the acquired Elder-Beerman stores. The third quarter of 2003 included net sales of $15.3 million for the Elder-Beerman stores during the nine-day period from October 24, 2003 through November 1, 2003. Comparable store sales, which exclude the impact of Elder-Beerman stores, the Latham, New York store (opened in 2003) and the recently closed Pottstown, Pennsylvania store, decreased 3.1% in the third quarter of 2004.

Business families recording comparable store sales increases in the third quarter of 2004 were Home, Cosmetics and Women's Clothing (Misses Sportswear). The favorable results in Home resulted from adopting various merchandising initiatives from Elder-Beerman. One of these initiatives is based on the success of Elder-Beerman's furniture department in driving sales growth; furniture galleries

were opened in five Bon-Ton stores in the second quarter of 2004. In addition, Home continued to benefit from products added to the assortment in the first quarter of 2004. Cosmetics continued to benefit from a new product launch that occurred in the first quarter of 2004. Customers responded favorably to the Company's fall offerings in Women's Clothing (Misses Sportswear). The weakest categories were in apparel: Women's Clothing (Coats and Dresses), Men's, Juniors and Children's. The Company remains focused on product differentiation, appropriate levels of key items and an aggressive marketing campaign for the holiday selling season.

Elder-Beerman sales are not included in the Company's reported comparable store sales. The following is provided for informational purposes only: Elder-Beerman comparable store sales for the thirteen weeks ended October 30, 2004 decreased 4.8% and, for Elder-Beerman and Bon-Ton combined, comparable store sales for the thirteen weeks ended October 30, 2004 decreased 3.9%.

OTHER INCOME, NET. Net other income, principally income from leased departments, was $0.9 million, or 0.3% of net sales, in the third quarter of 2004 compared to $0.6 million, or 0.3% of net sales, in the third quarter of 2003. The increase of $0.3 million primarily reflects income from the leased departments in the Elder-Beerman stores.

COSTS AND EXPENSES. Gross margin was $112.7 million for the third quarter of 2004 compared to $67.1 million for the same period last year, an increase of $45.6 million. Gross margin as a percentage of net sales increased 0.7 percentage point to 37.9% for the third quarter of 2004 from 37.2% for the same period last year. The increase in gross margin rate resulted primarily from an increase in the cumulative markup percentage. The increase in gross margin dollars for the third quarter of 2004 was due to the inclusion of Elder-Beerman operations.

Selling, general and administrative expenses for the third quarter of 2004 were $105.6 million compared to $61.7 million for the third quarter of 2003, reflecting an increase of $44.0 million. The third quarter of 2004 included $39.4 million of incremental Elder-Beerman selling, general and administrative expenses. Selling, general and administrative expenses increased due to integration costs, professional services related to new corporate governance requirements, and increases in advertising and expenses related to the accounts receivable securitization facility. The current year expense rate increased 1.3 percentage points to 35.5% of net sales, compared to 34.2% for the same period last year.

Depreciation and amortization in the third quarter of 2004 was $5.7 million, a decrease of $1.6 million compared to $7.3 million in the third

quarter of 2003. This decrease reflects an asset impairment charge of $2.3 million recorded in the third quarter of 2003 for duplicate information systems, partially offset by the depreciation on the acquired Elder-Beerman assets and recent capital expenditures.

INCOME (LOSS) FROM OPERATIONS. Income from operations in the third quarter of 2004 was $2.3 million, or 0.8% of net sales, compared to a loss of $1.3 million, or 0.7% of net sales, in the third quarter of 2003.

INTEREST EXPENSE, NET. Net interest expense was $3.5 million, or 1.2% of net sales, in the third quarter of 2004 compared to $1.4 million, or 0.8% of net sales, in the third quarter of 2003. The $2.1 million increase primarily reflects additional interest expense of $1.6 million on borrowings required to fund the acquisition and operations of Elder-Beerman and increased financing fees expense of $0.4 million associated with the acquisition financing.

INCOME TAX PROVISION (BENEFIT). The effective tax rate decreased 0.2 percentage point to 37.5% in the third quarter of 2004 from 37.7% in the third quarter of 2003.

NET LOSS. Net loss in the third quarter of 2004 was $0.7 million, or 0.3% of net sales, compared to $1.7 million, or 0.9% of net sales, in the third quarter of 2003.

THIRTY-NINE WEEKS ENDED OCTOBER 30, 2004 COMPARED TO THIRTY-NINE WEEKS ENDED NOVEMBER 1, 2003

For purposes of the following discussions, all references to "2004" and "2003" are to the Company's thirty-nine week periods ended October 30, 2004 and November 1, 2003, respectively.

NET SALES. Net sales for 2004 were $847.1 million, reflecting an increase of $372.4 million, or 78.5%, from the same period last year. 2004 included net sales of $393.5 million generated by the acquired Elder-Beerman stores. 2003 net sales included $15.3 million for the Elder-Beerman stores during the nine-day period from October 24, 2003 through November 1, 2003. Comparable store sales, which exclude the impact of Elder-Beerman stores, the Latham, New York store (opened in 2003) and the recently closed Pottstown, Pennsylvania store, decreased 1.9% in 2004.

Business families recording comparable store sales increases in 2004 were Home, Cosmetics, Shoes, Women's Clothing (Misses Sportswear) and Accessories. The favorable results in Home resulted from adopting various merchandising initiatives from Elder-Beerman. One of these initiatives is based on the success of Elder-Beerman's furniture department in driving sales growth; furniture galleries were opened in five Bon-Ton stores in 2004. In addition, Home continued to benefit from products added to the assortment in the first quarter of 2004. A new product launch in Cosmetics that occurred in the first quarter of 2004 continues to generate sales increases in that category. A change in merchandise presentation in Shoes to an open sell, or self-serve, layout aided that category in delivering sales increases. Customers responded favorably to the Company's fall offerings in Women's Clothing (Misses Sportswear). Colorful, trend-right merchandise in Accessories drove sales increases. The weakest categories were in apparel: Women's Clothing (Dresses and Coats), Men's, Junior's and Children's. The Company remains focused on product differentiation, appropriate levels of key items and an aggressive marketing campaign for the holiday selling season.

Elder-Beerman sales were not included in the Company's reported comparable store sales. The following is provided for informational purposes only:

Elder-Beerman comparable store sales for 2004 decreased 3.4% and, for Elder-Beerman and Bon-Ton combined, comparable store sales for 2004 decreased 2.6%.

OTHER INCOME, NET. Net other income, principally income from leased departments, was $2.9 million, or 0.3% of net sales, in 2004 compared to $1.7 million, or 0.4% of net sales, in 2003. The increase of $1.2 million primarily reflects income from the leased departments in the Elder-Beerman stores.

COSTS AND EXPENSES. Gross margin was $316.4 million for 2004 compared to $176.1 million for the same period last year, an increase of $140.3 million. Gross margin as a percentage of net sales increased 0.2 percentage point to 37.3% for 2004 from 37.1% for the same period last year. The increase in gross margin rate resulted primarily from an increase in the cumulative markup percentage, partially offset by the inclusion of Elder-Beerman sales at a lower gross margin rate. The increase in gross margin dollars for 2004 was primarily due to the inclusion of Elder-Beerman operations.

Selling, general and administrative expenses for 2004 were $300.4 million compared to $162.7 million for 2003, reflecting an increase of $137.8 million. 2004 selling, general and administrative expenses included $121.6 million of incremental Elder-Beerman expenses. Selling, general and administrative expenses for 2004 included a $1.7 million charge associated with the closing of the Company's Pottstown, Pennsylvania store, while 2003 selling, general and administrative expenses reflect a $0.9 million gain on the sale of the Company's Harrisburg, Pennsylvania distribution center. In addition, 2004 selling, general and administrative expenses increased over 2003 due to integration costs, professional services related to new corporate governance requirements, and increases in advertising and expenses related to the accounts receivable securitization facility. The current year expense rate increased 1.2 percentage points to 35.5% of net sales, compared to 34.3% for the same period last year.

Depreciation and amortization in 2004 was $19.5 million, an increase of $2.3 million compared to $17.2 million in 2003. The increase primarily reflects depreciation on the acquired Elder-Beerman assets and recent capital expenditures, partially offset by an asset impairment charge of $2.3 million recorded in the third quarter of 2003 for duplicate information systems.

LOSS FROM OPERATIONS. Loss from operations in 2004 was $0.6 million, or 0.1% of net sales, compared to $2.1 million, or 0.4% of net sales, in 2003.

INTEREST EXPENSE, NET. Net interest expense was $10.1 million, or 1.2% of net sales, in 2004 compared to $4.0 million, or 0.8% of net sales, in 2003. The $6.1 million increase primarily reflects additional interest expense of $3.9 million on borrowings required to fund the acquisition and operations of Elder-Beerman and increased financing fees expense of $2.1 million associated with the acquisition financing.

INCOME TAX PROVISION (BENEFIT). The effective tax rate increased 0.2 percentage point to 37.5% in 2004 from 37.3% in 2003.

NET LOSS. Net loss in 2004 was $6.7 million, or 0.8% of net sales, compared to $3.8 million, or 0.8% of net sales, in 2003.

OPERATIONS

SEASONALITY AND INFLATION

The Company's business, like that of most retailers, is subject to seasonal fluctuations, with the major portion of sales and income realized during the second half of each fiscal year, which includes back-to-school and holiday seasons. Due to the fixed nature of certain costs, selling, general and administrative expenses are typically higher as a percentage of net sales during the first half of each fiscal year.

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

The Company does not believe inflation had a material effect on operating results during the thirty-nine weeks ended October 30, 2004 and November 1, 2003. However, there can be no assurance that the Company's business will not be affected by inflationary adjustments in the future.

LIQUIDITY AND CAPITAL RESOURCES

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

(Dollars in millions)	October 30, 2004	November 1, 2003
Working capital	$ 304.5	$ 269.4
Current ratio	2.21:1	1.77:1
Debt to total capitalization (debt plus equity)	0.53:1	0.60:1
Unused availability under revolving credit facility	$ 58.6	$ 104.6

The Company's primary sources of working capital are cash flows from operations, borrowings under its revolving credit facility and proceeds from its accounts receivable securitization facility. The Company had working capital of $304.5 million and $269.4 million at October 30, 2004 and November 1, 2003, respectively. The increase in working capital for fiscal 2004 as compared to the prior year principally reflects an increase in inventory and payment of accrued benefit liabilities assumed in connection with the acquisition of Elder-Beerman.

The debt to total capitalization ratio decreased in fiscal 2004 from fiscal 2003, reflecting the January 2004 conversion of Elder-Beerman's on-balance-sheet accounts receivable facility to the consolidated, off-balance-sheet accounts receivable securitization facility. For informational purposes only, the fiscal 2003 debt to total capitalization ratio, restated to reflect conversion of the Elder-Beerman accounts receivable facility to the consolidated off-balance-sheet accounts receivable securitization facility, was 0.52:1.

For the thirty-nine weeks ended October 30, 2004, net cash used in

operating activities was $73.9 million compared to $8.0 million for the comparable period last year. The increase in net cash used in operating activities primarily reflects a larger net loss, increases in inventory and income tax payments, and payment of accrued benefit liabilities assumed in connection with the acquisition of Elder-Beerman. Prior year cash flows reflect the net cash used in operating activities for only nine days of the acquired Elder-Beerman operations.

Net cash used in investing activities was $24.1 million for the thirty-nine weeks ended October 30, 2004 compared to $105.6 million for the comparable period last year. Current year capital expenditures were $14.6 million higher than last year; 2003 capital expenditures reflect only nine days of the acquired Elder-Beerman operations. Prior year expenditures include $97.5 million used for the acquisition of Elder-Beerman, partially offset by $1.3 million from the sale of the Harrisburg distribution center.

Net cash provided by financing activities was $96.7 million for the thirty-nine weeks ended October 30, 2004 compared to $119.0 million for the comparable period of 2003. The decrease in net cash provided by financing activities principally reflects the 2004 conversion of Elder-Beerman's on-balance-sheet accounts receivable facility to the consolidated, off-balance-sheet accounts receivable securitization facility, partially offset by an increase in borrowings on the revolving credit facility. Prior year cash flows reflect only nine days of the acquired Elder-Beerman operations.

In October 2003, the Company amended and restated its revolving credit facility agreement. The agreement provides a line of credit of $300.0 million and provided a term loan in the amount of $25.0 million. In June 2004 the Company reduced, to $19.0 million, the related term loan. The current agreement expires in October 2007. The revolving credit facility interest rate, based on LIBOR or an index rate plus an applicable margin, and fee charges are determined by a formula based upon the Company's borrowing availability. The term loan interest rate is based on an index rate plus an applicable margin. Total borrowings under the revolving credit facility agreement, inclusive of the term loan, were $244.0 million and $152.0 million at October 30, 2004 and January 31, 2004, respectively.

In January 2004, the Company entered into a new off-balance-sheet accounts receivable facility. This agreement has a funding limit of $250.0 million and was scheduled to expire in October 2004. During October 2004, this agreement was amended to extend the expiration date from October 2004 to October 2005. Availability under the accounts receivable facility is calculated based on the dollar balance and performance of the Company's proprietary credit card portfolio. At October 30, 2004 and January 31, 2004, accounts receivable totaling $221.0 million and $228.5 million, respectively, were sold under the accounts receivable facility.

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

The Company is exposed to market risk associated with changes in interest rates. To provide some protection against potential rate increases associated with its variable-rate facilities, the Company has entered into a derivative financial transaction in the form of an interest rate swap. This interest rate swap, used to hedge the underlying variable-rate facilities, matures in February 2006.

The accounts receivable facility and revolving credit facility agreements expire in October 2005 and October 2007, respectively. The Company anticipates

that it will be able to renew or replace these agreements with agreements of substantially comparable terms. Failure to renew or replace these agreements on substantially comparable terms would have a material adverse effect on the Company's financial condition.

The Company paid a quarterly cash dividend of $0.025 per share on Class A Common Stock and Common Stock to shareholders on each of April 15, 2004, July 15, 2004 and October 15, 2004 for shareholders of record as of April 1, 2004, July 1, 2004 and October 1, 2004, respectively. Additionally, the Company declared a quarterly cash dividend of $0.025 per share, payable January 15, 2005 to shareholders of record as of January 1, 2005. The Company's Board of Directors will consider dividends in subsequent periods as it deems appropriate.

The Company currently anticipates its capital expenditures for fiscal 2004 will total approximately $32.0 million. Of this amount, approximately $18.2 million is budgeted for the integration of the Elder-Beerman point-of-sale system into Bon-Ton stores and information system enhancements. The remainder will be directed towards remodeling some of the Company's existing stores and general operations. No new stores are planned for the remainder of fiscal 2004.

The Company anticipates its cash flows from operations, supplemented by borrowings under its revolving credit facility and proceeds from its accounts receivable securitization facility, will be sufficient to satisfy its operating cash requirements for at least the next twelve months.

Cash flows from operations are impacted by consumer confidence, weather in the geographic markets served by the Company, and economic and competitive conditions existing in the retail industry. A downturn in any single factor or a combination of factors could have a material adverse impact upon the Company's ability to generate sufficient cash flows to operate its business.

The Company has not identified any probable circumstances that would likely impair its ability to meet its cash requirements or trigger a default or acceleration of payment of the Company's debt.

OFF-BALANCE SHEET ARRANGEMENTS

The Company engages in securitization activities involving the Company's proprietary credit card portfolio as a source of funding. Off-balance sheet proprietary credit card securitizations provide a significant portion of the Company's funding and are one of its primary sources of liquidity. At October 30, 2004, off-balance sheet securitized receivables represented 45.7% of the Company's funding. Gains and losses from securitizations are recognized in the Consolidated Statements of Operations when the Company relinquishes control of the transferred financial assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- a Replacement of FASB Statement No. 125" ("SFAS No. 140"), and other related pronouncements. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale. Based on the term of the securitization agreement (less than one year) and the fact that the credit card receivables that comprise the retained interests are short-term in nature, the Company has classified its retained interests as a current asset.

The Company sells undivided percentage ownership interests in certain of its credit card accounts receivable to unrelated third-parties under a $250.0 million accounts receivable securitization facility. The unrelated third-parties, referred to as the conduit, have purchased a $221.0 million

interest in the accounts receivable under this facility at October 30, 2004. The Company is responsible for servicing these accounts, retains a servicing fee and bears the risk of non-collection (limited to its retained interests in the accounts receivable). Associated off-balance-sheet assets and related debt were $221.0 million at October 30, 2004 and $228.5 million at January 31, 2004. Upon the facility's termination, the conduit would be entitled to all cash collections on the accounts receivable until its investment ($221.0 million at October 30, 2004) and accrued discounts are repaid. Accordingly, upon termination of the facility, the assets of the facility would not be available to the Company until all amounts due to the conduit have been paid in full.

Based upon the terms of the accounts receivable facility, the accounts receivable transactions qualify for "sale treatment" under generally accepted accounting principles. This treatment requires the Company to account for transactions with the conduit as a sale of accounts receivable instead of reflecting the conduit's net investment as long-term debt with a pledge of accounts receivable as collateral. Absent this "sale treatment," the Company's balance sheet would reflect additional accounts receivable and debt, which could be a factor in the Company's ability to raise capital; however, results of operations would not be significantly impacted.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles. Preparation of these financial statements requires the Company to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of its financial statements. On an ongoing basis, the Company evaluates its estimates, including those related to merchandise returns, bad debts, inventories, intangible assets, income taxes, financings, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially lead to materially different results under different assumptions and conditions. The Company believes its critical accounting policies are described below.

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND SALES RETURNS

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit-worthiness. The Company continually monitors collections and payments from customers and maintains an allowance for estimated credit losses based upon its historical experience, how delinquent accounts ultimately charge-off, aging of accounts and any specific customer collection issues identified (e.g., bankruptcy). While such credit losses have historically been within expectations and provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates as in the past. If circumstances change (e.g., higher than expected defaults or bankruptcies), the Company's estimates of the recoverability of amounts due the Company could be materially reduced.

The Company recognizes revenue at either the point-of-sale or at the time merchandise is shipped to the customer. Sales are recorded net of returns and

exclude sales tax. A reserve is provided for estimated merchandise returns based on experience and is reflected as an adjustment to sales and costs of merchandise sold.

The allowance for doubtful accounts and sales returns was $6.7 million and $6.3 million as of October 30, 2004 and January 31, 2004, respectively.

INVENTORY VALUATION

Inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ("LIFO") method. Under the retail inventory method, the valuation of inventories at cost and resulting gross margin is derived by applying a calculated cost-to-retail ratio to the retail value of inventories. The retail inventory method is an averaging method that has been widely used in the retail industry. Use of the retail inventory method will result in valuing inventories at the lower of cost or market if markdowns are taken timely as a reduction of the retail value of inventories.

Inherent in the retail inventory method calculation are certain significant management judgments and estimates including, among others, merchandise markups, markdowns and shrinkage, which significantly impact both the ending inventory valuation at cost and resulting gross margin. These significant estimates, coupled with the fact that the retail inventory method is an averaging process, can, under certain circumstances, result in individual inventory components with cost above related net realizable value. Factors that can lead to this result include applying the retail inventory method to a group of products that is not fairly uniform in terms of its cost, selling price relationship and turnover; or applying the retail inventory method to transactions over a period of time that includes different rates of gross profit, such as those relating to seasonal merchandise. In addition, failure to take timely markdowns can result in an overstatement of cost under the lower of cost or market principle. Management believes that the Company's retail inventory method provides an inventory valuation that approximates cost and results in carrying inventory in the aggregate at the lower of cost or market.

The Company regularly reviews inventory quantities on hand and records an adjustment for excess or old inventory based primarily on an estimated forecast of merchandise demand for the selling season. Demand for merchandise can fluctuate greatly. A significant increase in the demand for merchandise could result in a short-term increase in the cost of inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. Additionally, estimates of future merchandise demand may prove to be inaccurate, in which case the Company may have understated or overstated the adjustment required for excess or old inventory. If the Company's inventory is determined to be overvalued in the future, the Company would be required to recognize such costs in the costs of goods sold and reduce operating income at the time of such determination. Likewise, if inventory is later determined to be undervalued, the Company may have overstated the costs of goods sold in previous periods and would recognize additional operating income when such inventory is sold. Therefore, although every effort is made to ensure the accuracy of forecasts of future merchandise demand, any significant unanticipated changes in demand or the economy in the Company's markets could have a significant impact on the value of the Company's inventory and reported operating results.

As is currently the case with many companies in the retail industry, the Company's LIFO calculations have yielded inventory increases in recent years due to deflation reflected in price indices used. This is the result of the LIFO method whereby merchandise sold is valued at the cost of more recent inventory purchases (which the deflationary indices indicate to be lower), resulting in

the general inventory on-hand being carried at the older, higher costs. Given these higher values and the promotional retail environment, the Company reduced the carrying value of its LIFO inventories to net realizable value (NRV). These reductions totaled $16.1 million at October 30, 2004. Inherent in

these NRV assessments are significant management judgments and estimates regarding future merchandise selling costs and pricing. Should these estimates prove to be inaccurate, the Company may have overstated or understated its inventory carrying value. In such cases, operating income would ultimately be impacted.

VENDOR ALLOWANCES

As is standard industry practice, the Company receives allowances from merchandise vendors as reimbursement for charges incurred on marked-down merchandise. Vendor allowances are generally credited to costs of goods sold, provided the allowance is: (1) collectable, (2) for merchandise either permanently marked down or sold, (3) not predicated on a future purchase, (4) not predicated on a future increase in the purchase price from the vendor, and (5) authorized by internal management. If the aforementioned criteria are not met, the Company reflects the allowances as an adjustment to the cost of merchandise capitalized in inventory.

Additionally, the Company receives allowances from vendors in connection with cooperative advertising programs. The Company reviews advertising allowances received from each vendor to ensure reimbursements are for specific, incremental and identifiable advertising costs incurred by the Company to sell the vendor's products. If a vendor reimbursement exceeds the costs incurred by the Company, the excess reimbursement is recorded as a reduction of cost purchases from the vendor and reflected as a reduction of costs of merchandise sold when the related merchandise is sold. All other amounts are recognized by the Company as a reduction of the related advertising costs that have been incurred and reflected in selling, general and administrative expenses.

INCOME TAXES

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, and the valuation allowance recorded against net deferred tax assets. The process involves the Company summarizing temporary differences resulting from differing treatment of items (e.g., allowance for doubtful accounts) for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. The Company must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent the Company believes recovery is not more-likely-than-not, a valuation allowance must be established. To the extent the Company establishes a valuation allowance in a period, an expense must be recorded within the tax provision in the statement of operations.

In connection with the acquisition of Elder-Beerman, the Company acquired federal and state net operating loss carry-forwards of approximately $75.9 million and $195.8 million, respectively, which are available to offset future federal and state taxable income -- subject to certain limitations imposed by Section 382 of the Internal Revenue Code ("Section 382"). These net operating losses will expire at various dates beginning in fiscal 2009 through fiscal 2022. In addition, pursuant to the acquisition of Elder-Beerman, the Company acquired alternative minimum tax credits and general business credits in the amount of $2.1 million and $0.6 million, respectively. Both credits are also subject to the limitations imposed by Section 382. The alternative minimum tax credits are available indefinitely, and the general business credits expire

beginning in fiscal 2007 through fiscal 2008.

Net deferred tax assets were $30.5 million and $33.1 million as of October 30, 2004 and January 31, 2004, respectively. Pursuant to the acquisition of Elder-Beerman, the Company recorded $86.6 million of net deferred tax assets. The Company's ability to utilize these assets will be limited by Section 382. As part of purchase accounting, a valuation allowance of $47.7 million was established against these deferred tax assets. As of October 30, 2004, $47.3 of this valuation allowance remains; $7.6 million and $39.7 million of this valuation allowance has been classified as current and long-term, respectively, pursuant to requirements of SFAS No. 109, "Accounting for Income Taxes." In assessing the realizability of the deferred tax assets, the Company considered whether it is more-likely-than-not that the deferred tax assets, or a portion thereof, will not be realized. The Company considered the scheduled reversal of deferred tax liabilities, projected future taxable income, tax planning strategies, and the limitations of Section 382 in making this assessment. As a result, the Company concluded that a valuation allowance against a portion of the net deferred tax assets was appropriate. If actual results differ from these estimates or these estimates are adjusted in future periods, the Company may need to adjust its valuation allowance, which could materially impact its financial position and results of operations.

Legislative changes currently proposed by certain states in which the Company operates could have a materially adverse impact on future operating results of the Company. These legislative changes principally involve state income tax laws.

LONG-LIVED ASSETS

Property, fixtures and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of such assets. Changes in the Company's business model or capital strategy can result in the actual useful lives differing from the Company's estimates. In cases where the Company determines that the useful life of property, fixtures and equipment should be shortened, the Company depreciates the net book value in excess of the salvage value over its revised remaining useful life, thereby increasing depreciation expense. Factors such as changes in the planned use of fixtures or leasehold improvements could also result in shortened useful lives. Net property, fixtures and equipment amounted to $156.0 million and $160.9 million as of October 30, 2004 and January 31, 2004, respectively.

The Company assesses, on a store-by-store basis, the impairment of identifiable long-lived assets -- primarily property, fixtures and equipment -- whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include the following:

- Significant under-performance of stores relative to historical or projected future operating results,

- Significant changes in the manner of the Company's use of assets or overall business strategy, and

- Significant negative industry or economic trends for a sustained period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Cash flow estimates are based on historical results adjusted to reflect the Company's best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Estimates of fair value represent the Company's best estimate based on industry trends and reference to market rates and transactions. Should cash flow estimates differ significantly from actual results, an impairment could arise and materially impact the Company's financial position and results of operations. Given the seasonality of operations, impairment is not conclusive, in many cases, until after the holiday period in the fourth quarter is concluded.

Newly opened stores may take time to generate positive operating and cash flow results. Factors such as store type, store location, current marketplace awareness of the Company's private label brands, local customer demographic data and current fashion trends are all considered in determining the time-frame required for a store to achieve positive financial results. If economic conditions prove to be substantially different from the Company's expectations, the carrying value of new stores may ultimately become impaired.

Additionally, the Company has identified assets in various markets that have under-performed relative to the Company average. The Company has taken steps to address these issues and currently forecasts no impairment charge. Should the Company's improvement efforts prove unsuccessful or economic conditions change, the carrying value of these assets may ultimately become impaired.

GOODWILL AND INTANGIBLE ASSETS

Goodwill was $3.0 million as of October 30, 2004 and January 31, 2004.

Net intangible assets amounted to $10.0 million and $6.4 million as of October 30, 2004 and January 31, 2004, respectively. Intangible assets include lease interests that relate to below-market-rate leases assumed in store acquisitions, which were adjusted to reflect fair market value. These leases have average lives of twenty years. Intangible assets also include customer lists and trademarks with amortization lives of three years.

As a result of the Company's adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Company now reviews goodwill and other intangible assets that have indefinite lives for impairment at least annually or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. The Company determines fair value using discounted cash flow analysis, which requires certain assumptions and estimates regarding industry economic factors and future profitability of the business. It is the Company's policy to conduct impairment testing based on its most current business plans, which reflect anticipated changes in the economy and the industry. In addition, amortizable intangible assets are subject to impairment testing and potential impairment losses to the extent that the carrying values of these assets exceed their current fair values. If actual results prove inconsistent with Company assumptions and judgments, the Company could be exposed to a material impairment charge.

SECURITIZATIONS

A significant portion of the Company's funding is through off-balance-sheet credit card securitizations via sales of certain accounts receivable through an accounts receivable facility (the "Facility"). The sale of receivables is to The Bon-Ton Receivables Partnership, LP ("BTRLP"), a special purpose entity as defined by SFAS No. 140. BTRLP is a wholly owned subsidiary of the Company. BTRLP may sell accounts receivable with a purchase price up to $250.0 million through the Facility to a conduit on a revolving basis.

The Company sells accounts receivable through securitizations with servicing retained. When the Company securitizes, it surrenders control over the transferred assets and accounts for the transaction as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The Company allocates the previous carrying amount of the securitized receivables between the assets sold and retained interests, based on their relative estimated fair values at the date of sale. Securitization income is recognized at the time of the sale, and is equal to the excess of the fair value of the assets obtained (principally cash) over the allocated cost of the assets sold and transaction costs. During the revolving period of each accounts receivable securitization, securitization income is recorded representing estimated gains on the sale of new receivables to the conduit on a continuous basis to replenish the investors' interest in securitized receivables that have been repaid by the credit card account holders. Fair value estimates used in the recognition of securitization income require certain assumptions of payment, default, servicing costs (direct and indirect) and interest rates. To the extent actual results differ from those estimates, the impact is recognized as a component of securitization income.

The Company estimates the fair value of retained interests in securitizations based on a discounted cash flow analysis. The cash flows of the retained interest-only strip are estimated as the excess of the weighted average finance charge yield on each pool of receivables sold over the sum of the interest rate paid to the note holder, the servicing fee and an estimate of future credit losses over the life of the receivables. Cash flows are discounted from the date the cash is expected to become available to the Company. These cash flows are projected over the life of the receivables using payment, default, and interest rate assumptions that the Company believes would be used by market participants for similar financial instruments subject to prepayment, credit and interest rate risk. The cash flows are discounted using an interest rate that the Company believes a purchaser unrelated to the seller of the financial instrument would demand. As all estimates used are influenced by factors outside the Company's control, there is uncertainty inherent in these estimates, making it reasonably possible that they could change in the near term. Any adverse change in the Company's assumptions could materially impact securitization income.

The Company recognized securitization income of $2.1 million and $1.9 million for the thirteen weeks ended October 30, 2004 and November 1, 2003, respectively and $7.2 million and $6.3 million for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, respectively. The increased income in 2004 relative to the prior year period was principally due to increased sales of receivables through the Facility, which now includes Elder-Beerman receivables, partially offset by an increase in the net credit loss rate.

FORWARD-LOOKING STATEMENTS

Certain information included in this report and other materials filed or to be filed by the Company with the Securities and Exchange Commission contain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which may be identified by words such as "may," "could," "will," "plan," "expect,"

"anticipate," "estimate," "project," "intend" or other similar expressions, involve important risks and uncertainties that could significantly affect results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, uncertainties affecting the retail industry in general, such as consumer confidence and demand for soft goods; our ability to integrate the recently acquired Elder-Beerman stores into our overall operations; risks relating to leverage and debt service; competition within markets in which the Company's stores are located; and the need for, and costs associated with, store renovations and other capital expenditures. These risks and other risks are discussed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not believe its interest rate risks, as described in the 2003 Annual Report, have changed materially since the Company's disclosure in its 2003 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report and, based on this evaluation, concluded that the Company's disclosure controls and procedures, which have been designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, are effective.

Changes in Internal Controls over Financial Reporting

Other than as described below, there has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company is currently in the process of integrating the operations of Elder-Beerman. As part of the integration, the Company is changing the functional areas or locations responsible for certain transaction processing and certain processes over financial data collection, consolidation and reporting. As a result, the Company is changing the design and operation of certain elements of its internal control over financial reporting. The Company believes it is taking the necessary steps to monitor and maintain appropriate internal control over financial reporting during this period of change.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in any legal proceedings since the Company's disclosure in its 2003 Annual Report.

ITEM 6. EXHIBITS

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

Exhibit	Description	Docum
10.1	Credit Agreement Consent and Amendment No. 2	Fil
10.2	Amendment No. 1 to Note Purchase Agreement	Fil
10.3	Credit Agreement Amendment No. 3	Fil
10.4	Employment Agreement With Byron L. Bergren	Exhibit 10.1 to Form 10-Q for th
31.1	Certification of Byron L. Bergren	Fil
31.2	Certification of James H. Baireuther	Fil
32.1	Certifications Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934.	Fil

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: December 10, 2004 BY: /s/ Byron L. Bergren

Byron L. Bergren
President and
Chief Executive Officer

DATE: December 10, 2004 BY: /s/ James H. Baireuther

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

29