Bon-Ton Stores Inc.
(BONT:NASDAQ)

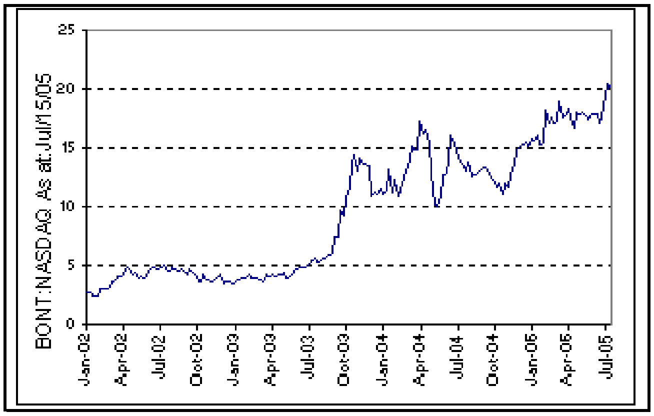
THE COMPANY

The Bon-Ton Stores, Inc., is a family controlled business operating quality fashion department stores. Bon-Ton offers moderate and better apparel, home furnishings, cosmetics, accessories and shoes. The Company carries a number of highly recognized brand names, including Calvin Klein, Cole-Haan, Estee Lauder, Jones New York, Liz Claiborne, Nautica, Nine West, Ralph Lauren and Tommy Hilfiger in addition to its own private label garments. The Company operates 73 stores in small secondary markets where retail competition is sparse. Bon-Ton has 36 stores in Pennsylvania, 26 stores in New York, three stores in each of New Jersey and Maryland, and one store in each of Connecticut, New Hampshire, Massachusetts, Vermont and West Virginia.

FINANCIAL DATA

	2002	2003	2004
Earnings per Share ($)	0.41	0.62	1.33
Price to Earnings (times)	45.0	29.8	13.9
Dividend ($)	-	-	0.08
Dividend Yield (%)	-	-	0.00
Book Value ($)	13.14	14.24	15.25
Price to Book (times)	1.40	1.30	1.20

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT BON-TON

We are on a constant search for securities that trade at a discount to book value and/or net asset value with low price to earnings/cash flow multiples. Our recent purchase of Bon-Ton Stores is no exception. Bon-Ton Stores' current share price of $4.60 a share, represents a 66% discount to its expected year-end book value of $13.65 a share. In addition, Bon-Ton shares currently trade at about 8 times earnings and under 2 times cash flow.

Another interesting point is that Bon-Ton Stores is not officially followed by any Wall Street investment analysts and its story remains virtually unknown. Although there are about 15.5 million shares outstanding trading in the stock is unfortunately relatively thin. Over the past couple of months we patiently accumulated a position in Bon-Ton. We believe the shares are fundamentally undervalued and overlooked by investors.

In the most recent quarter, Bon-Ton Stores showed good results with improved gross margins, lower SG&A expense and better inventory management compared to the same quarter a year earlier. These improvements resulted in a strengthening balance sheet; the company was able to pay down $41 million, or 41% of its long-term debt and buy back a small number of its own shares.

Bon-Ton's depressed share price can be attributed to the slumping U.S. economy, flattish top line revenue growth over the past several years and its position as a small capitalization, under-followed public department store. With its strong financial position, we believe that when the U.S. economy does recover Bon-Ton Stores will be well-positioned for future revenue growth and increased profitability.

ABC Funds
September 6, 2002

UPDATE

On November 21, 2002 Bon-Ton Stores announced results for the third quarter of 2002. Net income for the quarter was $0.3 million or $0.02 per share compared to a net loss of $0.5 million or $0.03 per share, for the same period of fiscal 2001. Comparable store sales decreased 4.6% in the quarter to $167.5 million. Softer sales were offset by a 110 basis point increase in gross margin, reflecting a shift in the company's product mix towards more profitable private label items. Bon-Ton's balance sheet remains strong as debt decreased by $37.6 million or 26% versus last year and inventory levels decreased 9%.

Bon-Ton repurchased 212,000 of its shares in the first nine months of 2002 including 147,000 in the third quarter. During it's conference call the company stated that it would continue to repurchase shares, as management believes the shares remain undervalued. Bon-Ton has $1.62 million remaining in its share buyback program which represents 400,000 shares or over 3% of its float at current market prices. Bon-Ton is somewhat limited as it cannot repurchase more than 25% of the average volume traded in the last 30 days. Given that Bon-Ton shares trade at less than 30% of its book value, share repurchases are highly accretive to book value per share.

Heading into 2003, Bon-ton will be closing its York distribution center in April and consolidating all of its merchandise processing functions into its Pennsylvania center. Management estimates the cost savings will contribute $0.01 to $0.02 in earnings per share on an annualized basis. Capital expenditures of $15-16 million are planned for 2003 and will be used for maintenance and to invest in new technology for its existing stores. We continue to believe that Bon-Ton shares are undervalued. The shares trade at less than 7 times expected 2002 earnings of $0.55 per share and well below its expected year-end book value per share of $13.83.

ABC Funds
December 13, 2002

On May 22, Bon-Ton Stores announced that for the first quarter of 2003 the company lost $2.9 million or $0.29 per share on sales of $141.1 million. This compares with a loss of $4.4 million on sales of $150.5 million in the first quarter of 2002. Despite a 6.2% decline in revenue, gross margins improved considerably from 33.3% to 37.0%. The increase reflects Bon-Ton's efforts to better control its inventory which resulted in fewer markdowns in the quarter.

On June 5th Bon-Ton announced that total sales for the month of May decreased 1.6% to $51.1 million versus $51.9 million reported for the same period last year. The majority of the sales shortfall was in seasonal apparel merchandise. Keep in mind that all 72 Bon-Ton stores operate in the Northeastern United States, an area that lately has been experiencing below average temperatures and above average rainfall. We feel there is a pent up demand for summer/spring clothing that will be seen once the weather begins to improve.

Also, late this afternoon, Bon-Ton Store's board of directors announced that the company would pay its first cash dividend to shareholders in the amount of $0.025 per quarter or $0.10 per year. At Bon-Ton's current share price of $4.50, this represents a yield of approximately 2%. As a result of the decision, Bon-Ton's management has acknowledged that, "given the company's liquidity and strong balance sheet, the dividend provides another avenue of return to shareholders."

Bon-Ton shares have performed well recently increasing 35% above its November low of $3.37. It appears as though the investment community is beginning to take notice of this under-followed company. Even with the recent appreciation in price, we continue to believe that Bon-Ton remains one of the most undervalued companies in the retailing sector. The stock trades at only one third of its book value of $14 and less than 7 times this year's expected earnings, which management believes will be in the range of $0.65 to $0.70 per share.

ABC Funds
June 6, 2003

On September 16th 2003, Elder Beerman, the ninth largest department store operator in the United States, announced that it had accepted an offer from Bon-Ton Stores to be acquired for $92.8 million or $8.00 a share. Bon-Ton’s final bid of $8.00 a share ended a bidding war of sorts between it and Wright Holdings, a group led by Elder-Beerman senior management. Elder-Beerman operates 68 department stores in the mid-western United States including Ohio, West Virginia and Kentucky. The company employs over 6000 employees and had sales of $138.6 million in 2002.

Bon-Ton CEO Tim Grumbacher said of the deal that “the ability to add value for our shareholders is compelling”. We agree. Bon-Ton is purchasing Elder-Beerman at a significant discount to its tangible book value of $14 per share. In addition, the acquisition makes sense strategically as both companies focus on small to mid-size markets and offer similar fashion-orientated merchandise with name brand vendors. Also, there is virtually no geographic overlap between the two.

Bon-Ton shares have increased by $4 or almost 75% since it first offered $7 a share for Elder-Beerman in July. The Bon-Ton story illustrates the importance of the need for a catalyst when investing in companies that are underfollowed and generally out of favour. We give management at Bon-Ton full credit for creating this catalyst. They have not only recognized the value of acquiring Elder-Beerman, but more importantly, they have followed through with the purchase. We expect Bon-Ton to release further information on the acquisition, including financial projections, some time in mid-October after Elder-Beerman shareholders have mailed in their proxy votes.

ABC Funds
September 19, 2003

UPDATE (cont'd)

On March 11th Bon-Ton Stores announced results for its fourth quarter and fiscal year 2003. The Company reported net income in the fourth quarter of $24.4 million, or $1.52 per share, compared to net income of $15.2 million, or $1.00 per share, for the same period of fiscal 2002. For the twelve months ended January 31, 2004, the Company reported net income of $20.6 million, or $1.33 per share, versus net income of $9.6 million, or $0.62 per share, reported for the prior year.

Bon-Ton management expects the company to earn between $1.20 and $1.40 per share next year. This implies that Bon-Ton currently trades at a forward price to earnings multiple of between 10 and 12 times. This multiple is low when compared to the current multiple of most retail stocks. In addition, Bon-Ton shares currently trade slightly above their book value of $13.71. Keep in mind however that Bon-Ton's stated book value does not include many of the Elder Beerman assets, which were written down at the time of the merger.

ABC Funds
March 12, 2004

On November 18th 2004, Bon-Ton reported a loss of $745,000 or $0.05 per share for the third quarter compared to a loss of $1.7 million or $0.11 per share in the third quarter of 2003. For the first nine months the company recorded a loss of $6.7 million or $0.42 per share versus a loss of $3.8 million or $0.25 per share reported last year. Total sales for the third quarter of fiscal 2004, increased 65.1% to $297.8 million, including $137.7 million from the acquired Elder-Beerman stores, compared to $180.4 million for the same period last year. Last year's total sales included $15.3 million from the Elder-Beerman stores for the period from October 24, 2003 through November 1, 2003. Gross margin increased during the quarter to 37.9% from 37.2% in the same quarter last year as a result of lower markdowns.

While Bon-Ton continues to face some integration challenges with respect to its merger with Elder-Beerman, we are encouraged by recent sales trends. Bon-Ton's same store sales increased 5.4% in November while Elder-Beerman reported a same store sales increase of 5.8 % in October. Management expects the company to earn between $1.20 and $1.30 per share for this year, which implies that Bon-ton shares are trading at less than 12 times earnings. This multiple is low when compared to the multiple on most retail stocks.

ABC Funds
December 17, 2004

US retail and food services sales were down 0.5% in May compared to April but were 6.3% higher compared with May of last year. While retailers in general fared well in May, Bon-Ton posted negative same store sales of 6.1%. This was probably due to the fact that Bon-Ton's stores are located in the north-eastern part of the United States. Abnormally cool weather in these regions hurt sales of many of its spring/summer categories. However, with the onset of more favourable weather recently, Bon-Ton could show better sales trends when it releases its June sales figures in early July.

On Wednesday, June 21, 2005, Bon-Ton Stores announced that it has reached a definitive agreement whereby HSBC Retail Services will administer Bon-Ton's proprietary credit card business. Under the terms of the agreement, HSBC will purchase Bon Ton's portfolio of existing private label credit card accounts and any outstanding balances. Bon-Ton is to receive cash for the accounts balances outstanding, plus a premium. These funds will be used to pay down existing debt and for general corporate purposes.

Bon-Ton's credit card operation is a key component to its retailing strategy. In each of the last three years more than 50% of all Bon-Ton sales were paid for using a Bon-Ton credit card. During 2004 for instance, the average dollar amount for Bon-Ton credit card purchases substantially exceeded the average dollar amount for cash purchases. Management believes that this arrangement will be "materially accretive" to its previous earnings guidance for fiscal 2005 of between $1.70 and $1.85 per share.

ABC Funds
June 24, 2005

We have just sold our shares in Bon-Ton Stores, a long-time ABC value favourite, which we have owned since September 2002. We made our original investment in Bon-Ton when the shares were trading at $4.50. In hindsight, this purchase turned out to be quite a bargain. Virtually unknown by the investment community at the time, Bon-Ton was selling at a 66% discount to its book value of $13.65 and a mere 8 times earnings. Since this time, shares of the Pennsylvania-based fashion retailer have quietly increased in value. The shares are up 43% in the last 12 months and have rallied 14% since June 11th, the day the company announced it was selling its credit card business for $316 million.

UPDATE (cont'd)

With shares of Bon-Ton recently hitting an all time high of $20.77, we feel the stock is no longer fundamentally cheap. For example, the shares now trade at a 26% premium to its book value of $15.83. Even if we include the Elder-Beerman assets that were written down at the time of the merger, the shares still trade above their net asset value. Earnings, which management expects will come in between $1.70 and $1.85 per share this year, imply a price to earnings multiple of between 11 to 12 times. While not overly expensive, we feel this multiple is appropriate given the company's limited growth prospects.

With the Bon-ton sale, we plan to invest the proceeds in new undervalued opportunities however, we may reconsider Bon-Ton for repurchase if it once again becomes attractive.

ABC Funds
July 15, 2005