IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: THE BON-TON STORES, INC., *et al.*,[1] Debtors.	Chapter 11 Case No. 18-10248 (___) (Joint Administration Requested)

DECLARATION OF MICHAEL CULHANE
<u>IN SUPPORT OF DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS</u>

I, Michael Culhane, pursuant to section 1746 of title 28 of the United States Code, hereby declare that the following is true and correct to the best of my knowledge, information, and belief:

1. I am the Executive Vice President – Chief Financial Officer (the "<u>CFO</u>") of The Bon-Ton Stores, Inc. and its debtor affiliates (collectively, "<u>Bon-Ton</u>" or the "<u>Debtors</u>") in the above-captioned chapter 11 cases (the "<u>Chapter 11 Cases</u>"). I have served in such capacity since January 2, 2018. From November 2016 until my employment with the Debtors, I served as President and Co-founder of TMAG, Inc. ("<u>TMAG</u>"), a provider of CFO consulting services. From August to December, 2017, while serving as President and Co-founder of TMAG, I also provided contract staff assistance to Bon-Ton's treasury and accounting departments. Prior to TMAG, I served as Chief Financial Officer at Fareportal Inc. from April 2015 through October 2016; Hudson's Bay Company from February 2009 to February 2014; and prior to that time held various financial executive roles with Lord & Taylor and The May Department Stores Group.

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: The Bon-Ton Stores, Inc. (5229); The Bon-Ton Department Stores, Inc. (9309); The Bon-Ton Giftco, LLC (2805); Carson Pirie Scott II, Inc. (2140); Bon-Ton Distribution, LLC (5855); McRIL, LLC (5548); Bonstores Holdings One, LLC (8574); Bonstores Realty One, LLC (8931); Bonstores Holdings Two, LLC (8775); and Bonstores Realty Two, LLC (9075). The headquarters for the above-captioned Debtors is 2801 East Market Street, Bldg. E, York, Pennsylvania 17402.

2. In my capacity as the Debtors' CFO, I am responsible for, among other things, overseeing the Debtors' Accounting, Treasury, Financial Planning, Tax, Credit, Investor Relations, Legal and Internal Audit Departments. In this capacity, I have extensive knowledge of, and experience with, the Debtors' chapter 11 preparations, the events leading up to the instant filings, the business and financial affairs of the Debtors, and the industry in which the Debtors operate.

3. I submit this declaration (the "Declaration") in support of the First Day Pleadings (defined below) and to provide information to parties in interest regarding the Debtors. The relief sought in the First Day Pleadings would allow the Debtors to perform and meet the obligations necessary to fulfill their duties as debtors-in-possession and minimize any adverse effects that filing for bankruptcy protection may have on their business. I am familiar with the contents of each First Day Pleading (including the exhibits thereto) and believe that the relief sought in each First Day Pleading: (a) is necessary to enable the Debtors to operate in chapter 11 with minimum disruption or loss of productivity or value; (b) best serves the Debtors' estates and stakeholders' interests; and (c) is, in those instances where the relief seeks immediate payment of prepetition amounts, necessary to avoid immediate and irreparable harm.

4. Except as otherwise indicated, all statements set forth in this Declaration are based upon: (a) my personal knowledge; (b) information supplied to me by other members of the Debtors' management or the Debtors' professionals; (c) my review of relevant documents; and (d) my opinion based upon my experience and knowledge of the Debtors' operations, financial condition and industry. If called upon to testify, I could and would testify competently to the facts set forth in this Declaration.

I. **Preliminary Statement.**

5. The Company is a leading hometown department store retailer focused on delivering better brands at favorable price-points to consumers in approximately 256 department stores across twenty-three (23) states in the Northeast, Midwest and upper Great Plains, encompassing approximately 24 million square feet. In addition, the Debtors own twenty-two (22) stores, have ground leases on seven (7) stores and lease 227 stores. Bon-Ton employs approximately 23,000 part- and full-time employees with an average tenure of twelve (12) years for all full time salaried employees (*e.g.*, in-store sales managers and higher), and an average Company-wide tenure of approximately eight (8) years. In 2017, the Company generated approximately $2.55 billion in total revenue.

6. Like many other department store and retail companies, the Debtors have been subjected to adverse trends in the retail industry, including consumers' shift from shopping in brick-and-mortar stores to online retail channels. Bon-Ton, with a significant geographic operating footprint and operating presence, is dependent on store traffic, which has decreased as customers shift increasingly toward online retailers. In addition to competing against online retailers, Bon-Ton faces competition from other established department stores, such as J.C. Penney, Kohl's and Macy's.

7. Against the backdrop of a challenging retail economy, the Company has been proactive in developing strategies to address its over-levered balance sheet and improve its performance. Specifically, the Company has taken numerous steps to increase its liquidity under its Credit Facility (defined below), and is implementing strategies specifically contemplated by its Business Plan (defined below), including a store footprint rationalization strategy, as discussed below. These efforts also involved extensive negotiations with the Company's key stakeholders, and ultimately culminated in an agreement with the lenders under the Debtors'

Credit Facility regarding debtor-in-possession financing and a negotiated timeline to accomplish a standalone restructuring or a sale of substantially all of the Company's assets under section 363 of the Bankruptcy Code. With these key agreements in place, the Debtors intend to utilize these Chapter 11 Cases to execute an outcome that is in the best interests of the Company, its stakeholders and constituents.

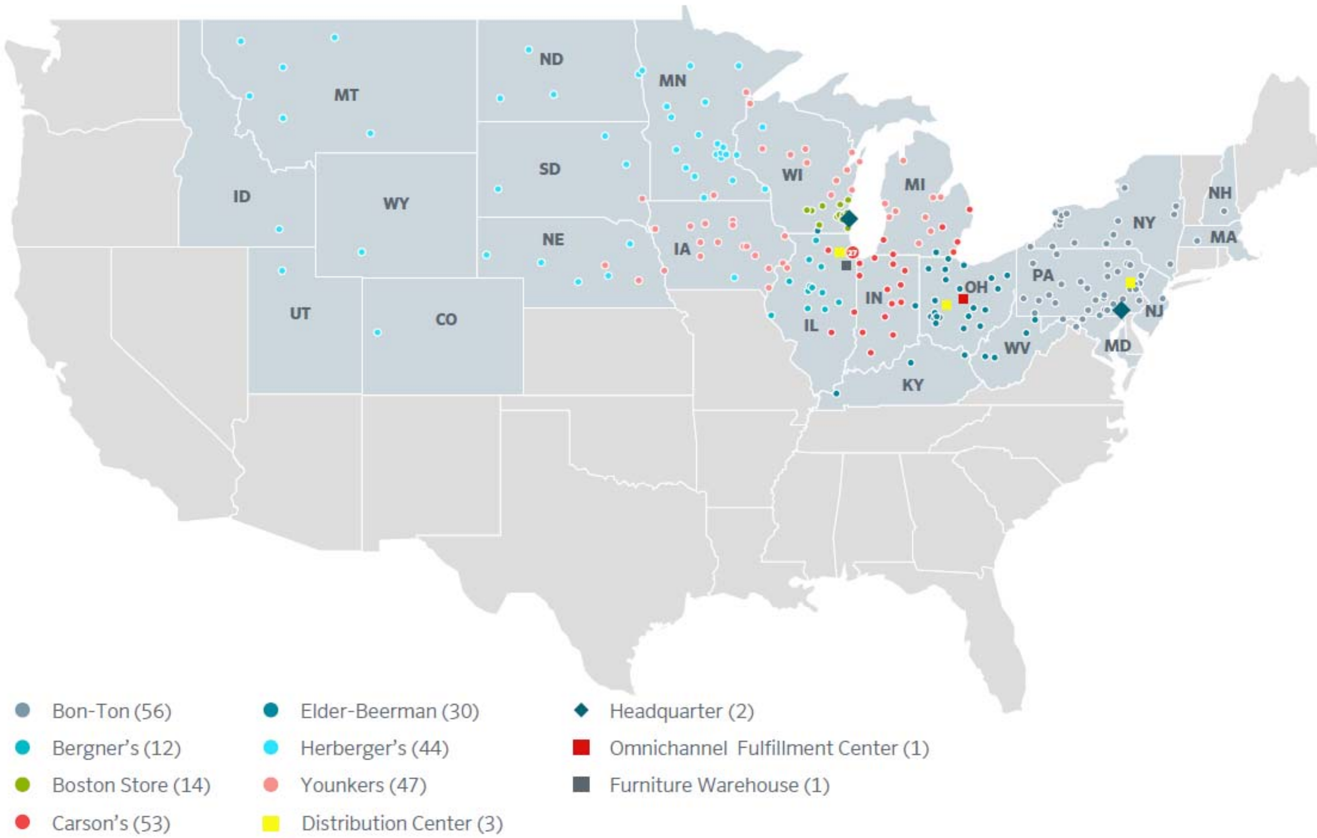
II. Overview.

A. History.

8. Bon-Ton enjoys a unique and rich history. The oldest Company-operated nameplate was founded before the Civil War and the newest before the Great Depression. The stores have thrived throughout historic upheavals and profound cultural and technological transformations. Through it all, Bon-Ton has strived to be the best hometown department store for the family, for the home and for the generations. The Company prides itself on being more than just a business. It has been part of its employees' and customers' lives in their communities for years. Across the decades, the Company has helped raise millions of dollars to support a wide variety of charitable organizations in the communities in which it operates.

9. Composed of seven of the longest-lived nameplates in retail, each with its own storied past, the Bon-Ton stores have come together and grown over the past 160 years since their first store opened in 1854. Bon-Ton was founded in 1898, when Max Grumbacher and his father, Samuel, opened S. Grumbacher & Son, a one-room millinery and dry goods store on Market Street in York, Pennsylvania. In 1929, the company was incorporated as S. Grumbacher & Son, Inc. Today, the Debtors are one of the largest regional department store operators in the United States, offering a broad assortment of national and private brand fashion apparel and accessories for women, men and children, as well as cosmetics, fine jewelry and home furnishings.

10. The Company operates approximately 256 stores across twenty-three (23) states under some of the oldest and best known retail nameplates in the country: Bon-Ton, Bergner's, Boston Store, Carson's, Elder-Beerman, Herberger's and Younkers.



B. Industry Overview.

11. The department store segment of the U.S. retail industry is a highly competitive environment that has evolved significantly in response to new and evolving competitive retail formats, such as the increased prominence of mass merchandisers and increased competition among national chain retailers, specialty retailers and online retailers, as well as the expansion of the internet and, most significantly, the ubiquitous role that mobile technology and social media now play in the retail consumer shopping experience. The Debtors' results and performance (and that of their competitors) has been significantly impacted by the

aforementioned factors in the U.S. retail industry. Presently, numerous business and economic factors affect the retail industry, including the department store sector. These include underemployment and the low labor participation rate, fluctuating consumer confidence, consumer buying habits and slow growth in the U.S. economy and around the globe.

C. Corporate Structure.

12. The Bon-Ton Stores, Inc., incorporated in Pennsylvania, is the parent company of the Debtors. Its wholly-owned subsidiary, The Bon-Ton Department Stores, Inc. ("BTDS"), is the owner of the remaining Debtors. A legal entity structure chart is attached as **Exhibit A** hereto.

(i) *Operating Companies*

13. Carson Pirie Scott II, Inc. (f/k/a McRae's, Inc.), a Florida corporation, Bon-Ton Distribution LLC (f/k/a Saks Distributions Centers, Inc.), an Illinois limited liability company, and McRIL, LLC, a Virginia limited liability company, comprise the Debtors' operating entities (collectively, the "Operating Companies"). Together, the operating entities own approximately 90 leaseholds throughout the U.S. in which the Company's stores are located and employ the Debtors' employees. The Debtors lease space for their stores predominantly in malls, but also in lifestyle centers, outlet centers, strip centers and street level shops, mostly in rural and suburban communities.

(ii) *Former CMBS Entities*

14. Bonstores Holdings One, LLC, Bonstores Holdings Two, LLC, Bonstores Realty One, LLC and Bonstores Realty Two, LLC (collectively, the "Former CMBS Entities") came into existence in 2006 when the Debtors acquired certain stores from Saks, Inc. At the time, the Former CMBS Entities participated in a collateralized mortgage-backed securitization structure which has since been terminated. The Former CMBS Entities own sixteen (16) of the

Debtors' fee simple properties which they lease to the Operating Companies and BTDS. The Former CMBS Entities have pledged all of their real property assets to the Credit Facility lenders (described in Article III.A. below).

15. Other than operations incidental to the ownership of the real estate properties and their lease to the Operating Companies and BTDS, the Former CMBS Entities do not conduct operations and have no employees.

(iii) *Giftco*

16. The Bon-Ton Giftco, LLC ("Giftco") issues the Debtors' various gift and merchandise cards (collectively, the "Store Cards"). Giftco has no assets other than receivables and payables relating to the issuance of the Store Cards.

D. Merchandise and Vendors.

(i) *Merchandise Assortment*

17. The Debtors offer a broad assortment of quality fashion apparel and accessories for women, men and children, as well as cosmetics, fine jewelry, furniture and other goods at moderate and better price points, all of which enables the Debtors to position themselves in local communities as a fashion headquarters. The Debtors both provide unique, localized offerings to their customers in both flagship and local markets, and sell merchandise from nationally distributed brands as well as unique products through private brands such as Living Quarters, Studio Works and RuffHewn. The Debtors' private brand provides attractive and exclusive fashion products at competitive price points, allowing the Debtors to competitively differentiate their businesses and increase customer loyalty. In addition, the Debtors' private brand program positions them to increase gross margins by virtue of the more efficient cost structure inherent in the design and sourcing of in-house brands, as opposed to purchasing inventory from vendors for re-sale in the Debtors' stores. However, the Debtors also offer

exclusive products from nationally distributed brands such as Calvin Klein, Ralph Lauren and LXR (a seller of vintage luxury handbags).

(ii) *Vendor Relationships*

18. The Debtors have long-standing relationships with many of the leading vendors in the marketplace. Moreover, the Debtors' scale, geographic footprint and market position make them a valuable distribution channel for leading merchandise vendors to reach target consumers. This status strengthens the Debtors' ability to negotiate for exclusive merchandise and favorable pricing terms.

19. Consistent with industry practice, the Debtors receive allowances from some of their vendors in support of the merchandise sold to them that was marked down or otherwise did not allow the Debtors to achieve certain margins when sold to customers. Additionally, the Debtors receive advertising allowances and reimbursement of certain payroll expenses from some of their vendors, which primarily represent reimbursements of specific, incremental and identifiable costs incurred to promote and sell the vendors' merchandise.

E. Marketing & Customer Service.

20. The Debtors' marketing and customer service is critical to providing a satisfying and convenient shopping experience. The principal components of the Debtors' customer service and marketing strategy are: (a) "omnichannel" marketing programs (*i.e.*, programs designed to provide customers with a seamless shopping experience across online, via a mobile, or in-store shopping platforms), and thereby enhance customer awareness of Bon-Ton's fashion, quality and value; (b) customer targeting strategies such as promotional and coupon events that help foster relationships between Bon-Ton and its customers; (c) promotions for Private Label Credit Card ("PLCC") holders to strengthen long-term relationships with its best customers and to incentivize customers to shop more often with the Debtors; and

(d) knowledgeable, friendly and well-trained sales associates and customer services representatives available in the Debtors' stores, online, and over the phone.

(i) *Marketing*

21. The Debtors' marketing program is designed to engage customers through multiple media platforms, attract new customers and maintain the Debtors' existing customer base. The Debtors use a combination of (a) advertising and sales promotions to build brand image and increase customer traffic and (b) targeted communication and purchase incentives to drive customer spending and loyalty. The Debtors also focus on important charitable causes and events to enhance our connection with the communities in which the Debtors operate and with the customers they serve. These strategic initiatives garner favorable publicity, increase customer traffic, generate incremental sales and differentiate the Debtors from their competitors.

22. The Debtors also maintain an active calendar of in-store events to promote merchandise and sales efforts. These events include designer appearances, fashion shows and national makeup artist events.

(ii) *Private Label Credit Card*

23. The success of the Debtors' marketing strategy is evidenced by the high penetration rate of their PLCC program, which is designed to cultivate long-term relationships with customers by offering rewards and privileges to all members, including advanced sales notices, savings and events. As of January 28, 2017, the Debtors had approximately 3.8 million active PLCC holders. And as of October 28, 2017, PLCC sales accounted for 57.9% of the Debtors' total sales revenue.

(iii) *Customer Service*

24. The Debtors maintain a sales force of knowledgeable and well-trained sales associates to deliver excellent service. Customer service is a key element of the Debtors' strategy.

25. In addition to providing their customers with quality online and phone support, the Debtors employ a two-tiered strategy to achieve effective customer service in their stores. *First*, in select departments, the Debtors offer one-on-one selling with dedicated sales associates to assist customers with merchandise selections. *Second*, in many of the Debtors' departments, the Debtors offer the convenience of self-service formats. And regardless of whether a customer engages in a one-on-one selling experience or browses merchandise on their own, the Debtors provide efficient service centers to expedite customer purchases.

26. Customers are responding favorably to retailers that make it convenient for them to shop on their terms. The Debtors' successful "Let Us Find It" program allows sales associates to help customers find a brand, size, or color currently not available at a store location, or from the Debtors' extensive omnichannel assortment for delivery directly to their homes. In addition, the Debtors expanded their store order fulfillment locations, which provided the ability to better serve customers by directing omnichannel orders to store locations for fulfillment. In the fall of 2016, the Debtors updated their omnichannel capabilities with new mobile commerce capabilities and with the option for customers to "Buy Online Pick Up In-Store" in all locations, adding an additional convenience service. Finally, the Debtors continue to allow customers to order merchandise over the phone by calling the Debtors' well-trained customer service representatives.

III. Capital Structure.

A. The Credit Facility.

27. On March 21, 2011, BTDS, The Elder-Beerman Stores Corp., Carson Pirie Scott II, Inc., Bon-Ton Distribution, Inc., and McRIL, LLC, as borrowers (the "Borrowers"), and The Bon-Ton Stores, Inc. and certain other debtors as obligors (together with the Borrowers, the "Obligors") entered into the Second Amended Revolving Credit Facility with Bank of America, N.A., as Agent (the "Prepetition Agent"), and certain financial institutions as lenders that amended and restated the Company's prior revolving credit facility (as amended, restated, modified, or supplemented, the "Credit Facility"). The Credit Facility includes two tranches—a Tranche A revolving credit facility of up to $730 million ("Tranche A") and Tranche A-1 term facility of up to $150 million ("Tranche A-1").

28. The Credit Facility provides that the Borrowers may make requests to increase the commitments up to $950 million in the aggregate upon the satisfaction of certain conditions, provided that the lenders are under no obligation to provide any such increases. As is customary in asset-based lending, borrowings under the Credit Facility are limited by amounts available pursuant to a borrowing base calculation, which is based on percentages of eligible inventory, real estate and receivables, in each case subject to reductions for applicable reserves. Under the terms of the Credit Facility, the Borrowers are jointly and severally liable for all of the obligations incurred under the Credit Facility and the other loan documents, which obligations are guaranteed on a joint and several basis by the Borrowers, the other Obligors and all future domestic subsidiaries of the Obligors (subject to certain exceptions).

29. Borrowings under the Credit Facility bear interest at either (1) Adjusted LIBOR (equal to the London Interbank Offered Rate for an interest period selected by the Borrowers) plus an applicable margin or (2) a base rate (based on the highest of (a) the Federal

Funds Rate plus 0.5%, (b) the Bank of America prime rate and (c) Adjusted LIBOR based on an interest period of one month plus 1.0%) plus the applicable margin. Following the Fourth Amendment (as defined below), the applicable margins in respect of the Tranche A-1 facility are 9.5% for LIBOR loans and 8.5% for base rate loans; there is also a 1% LIBOR floor utilized when determining Adjusted LIBOR for that Tranche. The applicable margins in respect of the Tranche A facility continue to be based upon the excess availability under the Credit Facility.

30. The Credit Facility is secured by a valid and perfected first priority security position on substantially all of the current and future assets of the Borrowers and the other Obligors, including, but not limited to, inventory, certain accounts receivable, general intangibles, trademarks, equipment, real estate and proceeds from any of the foregoing, subject to certain exceptions and permitted liens.

31. The Debtors have been proactive in ensuring they have access to sufficient liquidity under the Credit Facility to operate their business. Specifically, the Debtors have taken the following actions since 2015.

32. *First*, during 2015, pursuant to the terms of commitment increase letter acknowledgments, the Tranche A revolving commitments under the Credit Facility were increased from $575 million to $730 million. This brought total revolving commitments under the Credit Facility to $830 million.

33. *Second*, on January 15, 2016, the Obligors entered into a Consent and Third Amendment to the Credit Facility which, among other changes, provided for the joinders of the Former CMBS Entities as Obligors under the Credit Facility. Pursuant to the amendment, all properties owned by the Former CMBS Entities became real estate in which security interests were granted under the Credit Facility. As a result, (1) borrowing base availability under the

revolving credit facility increased to reflect the addition of the properties and (2) interest margins applicable to borrowings increased.

34. *Third*, on August 15, 2016, the Obligors entered into a Fourth Amendment (the "Fourth Amendment") to the Credit Facility which, among other changes, increased lender commitments under the A-1 Tranche of the Credit Facility to $150 million from the previous $100 million. This brought total commitments under the Credit Facility to $880 million (including a $150 million sub-line for letters of credit and $75 million for swing line loans).

35. *Fourth*, on April 28, 2017, the Borrowers and Obligors entered into a Fifth Amendment (the "Fifth Amendment") to the Credit Facility. The Fifth Amendment extended the maturity date of the $730 million Tranche A. Tranche A is now due to mature on April 28, 2022 provided that Tranche A-1 of the Credit Facility is repaid prior to March 15, 2021 or the maturity of Tranche A-1 is extended to at least April 28, 2022. If Tranche A-1 is not so repaid or so extended, or is extended to a date earlier than April 28, 2022, Tranche A will mature on the same date as Tranche A-1. In any event, Tranche A remains subject to a "springing" maturity date that is sixty days prior to the earliest of the maturity date of (1) any senior note debt (which is currently comprised of the 8.00% Second Lien Senior Secured Notes due June 15, 2021) and (2) if incurred, certain permitted debt secured by junior liens.

36. *Finally*, and as discussed in further detail in the *Declaration of James H. Baird in Support of the Debtors' Motion for Entry of (A) an Order (I) Scheduling a Hearing on the Approval of the Sale of All or Substantially All of the Debtors' Assets Free and Clear Of All Encumbrances, and the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases, (II) Approving Certain Bidding Procedures, Assumption and Assignment Procedures, and the Form And Manner of Notice Thereof, and (III) Granting Related Relief; and*

(B) an Order (I) Approving Asset Purchase Agreement, (II) Authorizing the Sale of All or Substantially All of the Debtors' Assets Free and Clear of All Encumbrances, (III) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases, and (IV) Granting Related Relief, filed contemporaneously herewith (the "Baird Sale Declaration"), in advance of the 2017 holiday season and in conjunction with the Debtors' initiatives to explore a comprehensive financial and operational restructuring, the Debtors sought, and the Credit Facility lenders agreed to provide, a further amendment to the Credit Facility that would provide them with the necessary liquidity to ensure a successful holiday season and provide a runway for the Debtors to pursue value-maximizing strategic alternatives.

37. Thus, on October 24, 2017, the Borrowers and Obligors entered into a Sixth Amendment (the "Sixth Amendment") to the Credit Facility. Among other matters, the Sixth Amendment amended the required excess availability from 20% to 15% of the lesser of (a) the aggregate commitments and (b) the aggregate borrowing base through December 2, 2017. After December 2, 2017, the required excess availability has been the greater of (a) 20% of the lesser of (i) the aggregate commitments and (ii) the aggregate borrowing base and (b) $132,500. Through December 2, 2017, the excess availability was determined on the basis of the Tranche A Borrowing Base, and not the lower of the Tranche A Commitments and the Tranche A Borrowing Base. As a result of the Sixth Amendment, in accordance with accounting principles generally accepted in the United States, the Company is required to reflect the Credit Facility as a short-term borrowing in its balance sheet, although the outstanding balance does not mature until 2021. In addition, the Sixth Amendment provides for a prepayment penalty of (a) 1% for the Tranche A through the second anniversary of the effective date of the Sixth Amendment, and

(b) the greater of the Make-Whole Amount (as defined in the Sixth Amendment) and 2% of the amount of the Tranche A-1 that is prepaid.

38. As of the Petition Date, the amounts outstanding under the Credit Facility are approximately: (a) $339 million under the Tranche A with accrued interest of approximately $761,000; (b) $150 million under the Tranche A-1 with accrued interest and fees of approximately $3.9 million; and (c) letters of credit totaling approximately $36 million.

B. Second Lien Notes.

39. BTDS has also issued $350 million in face amount of outstanding 8% second lien senior secured notes due 2021 (the "Second Lien Notes"), which are guaranteed by each of the other Debtors. Wells Fargo Bank, National Association currently serves as the Trustee and Collateral Agent for the Second Lien Notes, but is in the process of being replaced by Wilmington Savings Fund Society, FSB. The Second Lien Notes accrue interest at a rate of 8% per annum payable semi-annually in arrears on June 15 and December 15 of each year, resulting in approximately $17.98 million of unpaid interest accrued as of the Petition Date. The Second Lien Notes are secured by a second-priority lien on substantially all of the Debtors' tangible and intangible assets securing the Credit Facility, except for capital stock of BTDS and certain of the BTDS subsidiaries, and certain other exceptions.

C. Intercreditor Agreements.

(i) *Tranche A & Tranche A-1 Intercreditor Agreement*

40. The Tranche A and Tranche A-1 lenders are party to Schedule 14 to the Credit Facility ("Schedule 14"). Schedule 14 specifies the circumstances under which the Tranche A-1 lenders are permitted to direct the Prepetition Agent to exercise enforcement rights or remedies, and that the Tranche A-1 rights to receive repayment from the Company remains junior and subordinate in all respects to the claims of the Tranche A lenders without regard to the

validity, perfection, priority or enforceability of the Tranche A lenders' claims. Schedule 14 also specifies the terms and conditions on which the Tranche A lenders may provide debtor-in-possession financing without the consent of the Tranche A-1 lenders. As discussed in more detail in the *Declaration of James H. Baird in Support of Debtors' Motion for Interim and Final Orders (I) Authorizing the Debtors to Obtain Post-Petition Secured Financing; (II) Authorizing the Debtors' Use of Cash Collateral; (III) Granting Adequate Protection to Prepetition Secured Creditors; (IV) Scheduling a Final Hearing; and (V) Granting Related Relief*, filed substantially contemporaneously herewith (the "Baird DIP Declaration"), the Debtors will not have sufficient liquidity to fund a sales process that they believe will maximize value for the estate without the relaxation of certain covenants under the Credit Facility. These modifications require the consent of the Tranche A-1 Lenders.

(ii) *Credit Facility & Second Lien Notes Intercreditor Agreement*

41. On May 28, 2013, Wells Fargo Bank, National Association, as collateral agent for the Second Lien Notes (the "Second Lien Collateral Agent"), entered into a joinder agreement (the "Joinder Agreement") pursuant to which it agreed, among other things, to bind itself and the holders of the Second Lien Notes (the "Second Lien Noteholders") to the provisions of that certain Intercreditor Agreement, dated as of July 9, 2012, by and among the Prepetition Agent, Wells Fargo Bank, National Association, as collateral agent for holders of certain second lien notes that have since been retired, and the other parties thereto (as supplemented by the Joinder Agreement, and as further supplemented, amended, modified, or restated from time to time, the "Intercreditor Agreement").

42. The Intercreditor Agreement provides that if the Credit Facility lenders authorize debtor-in-possession financing secured by the Collateral in a bankruptcy case of BTDS or any of the guarantors of the Credit Facility (a) the Second Lien Noteholders may not object to

any use of cash collateral or debtor-in-possession financing to be provided by the Credit Facility lenders or any adequate protection sought by or granted to any Credit Facility lender, (*See* § 5.2(b)–(d)), and (b) the second-priority liens of the Second Lien Noteholders may, without any further action or consent of the Second Lien Collateral Agent, be made junior and subordinate to the liens granted to secure such debtor-in-possession financing. *See id.* § 5.3.

43. The Intercreditor Agreement provides also that, among other things: (1) prior to the discharge of the first-priority liens securing the Credit Facility, (a) the Second Lien Noteholders are not permitted to enforce their security interests or other rights in the Collateral (as defined in the Intercreditor Agreement) other than in certain limited circumstances (*See* Intercreditor Agreement § 3.1), and (b) the Second Lien Noteholders' rights in the Collateral remain junior and subordinate in all respects to the first-priority security interests securing the Credit Facility, irrespective of the validity, perfection, priority or enforceability of the Credit Facility's first-priority liens (*See id.* § 4).

D. Equity Interests.

44. As of November 30, 2017, The Bon-Ton Stores, Inc. had 17,857,465 shares of Common Stock, $.01 par value, and 2,951,490 shares of Class A Common Stock, $.01 par value, outstanding.

45. On December 7, 2017 The Nasdaq Stock Market, LLC and The Nasdaq Stock Market, Inc. determined to delist the Common Stock from the Nasdaq exchange, effective at the opening of the trading session on December 18, 2017. Nasdaq staff determined that the Company no longer qualified for listing on the exchange pursuant to Listing Rules 5450(a)(1) and 5450(b)(1)(C).

IV. Pension and Supplementary Retirement Plans.

46. The Debtors provide an unfunded non-qualified defined benefit supplementary pension plan to certain key executives. Through acquisitions, the Debtors also acquired a qualified defined benefit pension plan and assumed the liabilities of non-qualified defined benefit supplementary pension plans and a postretirement benefit plan (collectively, the "Pension Plans"). During the thirty-nine (39) weeks ended October 28, 2017, contributions of approximately $434,000 were made to the Pension Plans. The Company anticipates contributing an additional approximately $121,000 to fund the Pension Plans in the 2017 fiscal year for an annual total of approximately $555,000.

47. The Company also provides medical and life insurance benefits to certain former associates under a postretirement benefit plan (the "Postretirement Benefit Plan"). During the thirty-nine (39) weeks ended October 28, 2017, the Company contributed approximately $73,000 to fund the Postretirement Benefit Plan, and anticipates contributing an additional approximately $194,000 to fund the Postretirement Benefit Plan in fiscal 2017 for an annual total of approximately $267,000.

V. Events Leading to these Chapter 11 Cases.

A. The Business Plan and Standalone Restructuring Proposal.

48. For the reasons discussed above, and as described in the Baird Sale Declaration, the Debtors have faced an increasingly challenging retail environment. Their third quarter results fell short of projections. As more fully described in the Baird Sale Declaration, to address these challenges, the Debtors took proactive steps to improve performance and strengthen their financial position. Specifically, in July 2017, the Debtors retained AlixPartners, LLP to provide liquidity forecasting and cash management services in support of the Debtors' treasury department and, in conjunction with the Debtors' initiatives to explore a comprehensive

financial and operational restructuring, to provide financial advisory services and to assist the Debtors in preparing a comprehensive go-forward business plan. In addition, in August 2017, the Debtors retained PJT Partners LP ("PJT Partners") for the primary purpose of exploring all aspects of the Debtors' strategic alternatives to maximize value for the benefit of all of the Debtors' stakeholders.

49. As the 2017 holiday season approached, the Debtors sought to position themselves for optimal success during their most historically profitable quarter and to provide an ample timeframe to enable the Debtors to pursue value-maximizing strategic alternatives. As discussed above, the Debtors consummated the Sixth Amendment in late October 2017, pursuant to which the Credit Facility lenders agreed to certain amendments to the facility that resulted in an aggregate increase of the Debtors' liquidity of approximately $80 million. The Sixth Amendment afforded the Debtors sufficient time and liquidity to complete a comprehensive business plan (the "Business Plan") that involved a thorough "bottom-up" evaluation of strategic operational changes across the following key areas: (a) differentiating the Company through merchandise assortment enhancements; (b) driving omnichannel growth; (c) refining their marketing strategy to increase traffic and customer engagement; and (d) further reducing costs through the continued rollout of our profit improvement initiatives.

50. In addition to these four focus areas, the Debtors committed to increasing their store rationalization activities and redirecting capital expenditures toward investments designed to drive sales growth. Specifically, the Debtors, in consultation with their advisors, selected and analyzed approximately 100 of the Debtors' lower-performing stores and determined that closure or divestiture of approximately forty-two (42) leased and owned locations (the "Closing Stores") was warranted, based on key common characteristics including

(a) stores with continually declining financial metrics, and (b) stores which were poorly geographically situated and suffering from overwhelming competitive pressure.

51. On September 18, 2017, the Debtors signed confidentiality agreements with the advisors to an informal group of holders of Second Lien Notes (the "Ad Hoc Group") to support collaborative efforts in respect of a restructuring. On November 30, 2017, Debtors' senior management team presented the Business Plan to the advisors to the Ad Hoc Group.

52. On December 15, 2017, an interest payment of $14 million in respect of the Second Lien Notes was due. The Debtors elected to exercise the thirty (30) day grace period under the terms of the Indenture pursuant to which the Second Lien Notes were issued (the "Second Lien Notes Indenture"). On December 18, 2017, the Debtors presented a proposal, based on the Business Plan, to the advisors to the Ad Hoc Group for a value-maximizing restructuring that provided for a conversion of the Second Lien Notes into equity and for an investment of new money to ensure that the Debtors had access to adequate capital to fund the business (the "Standalone Restructuring").

53. Once the Ad Hoc Group's advisors received the Standalone Restructuring proposal, members of the Ad Hoc Group expressed an interest in reviewing the Business Plan and engaging in direct discussion with the Debtors and their advisors. Accordingly, on December 29, 2017, they executed a confidentiality agreement. On January 3, 2018, the Debtors' senior management team and advisors hosted the members of the Ad Hoc Group and their advisors for a meeting at PJT Partners' offices. During this meeting, the Debtors' management and advisors provided a comprehensive overview of the Business Plan and presented the Standalone Restructuring proposal. At the conclusion of the meeting, the Ad Hoc Group made a counter-proposal that contemplated the conversion of a substantial portion of the

Second Lien Notes into equity of the reorganized Debtors and the conversion of the remainder into new second lien notes. In addition, the Ad Hoc Group indicated a willingness to invest new money in the reorganized business, but on the condition that the Debtors identify a third party strategic sponsor to invest new capital alongside the Ad Hoc Group and assume majority ownership of the reorganized Debtors (the "Ad Hoc Counter-Proposal"). Finally, the Ad Hoc Group requested that the Debtors obtain bids from liquidators for all of the Company's assets to position the Company to pivot to a liquidation in the event a reorganization could not be achieved. On January 8, 2018, the Ad Hoc Group provided the Debtors with a term sheet reflecting the Ad Hoc Counter-Proposal.

54. Based on the Ad Hoc Counter-Proposal, the Debtors prepared an illustrative analysis of proposed debtor-in-possession and exit financing, which they presented to the Ad Hoc Group and their advisors as well as the Prepetition Agent and other lenders under the Credit Facility at a meeting at PJT Partners' offices on January 10, 2018. During this meeting, the lenders proposed changes to certain of the terms and covenants under the Credit Facility to provide additional liquidity both (a) during a chapter 11 case in the form of a debtor-in-possession financing, and (b) post-emergence in the form of an exit financing asset-based revolving credit facility.

55. Contemporaneously with pursuing the Standalone Restructuring and as requested by the Ad Hoc Group, the Debtors requested from two separate groups of liquidators both fee- and equity-based bids for the liquidation of the Closing Stores as well as for the liquidation of substantially all of the Debtors' assets (if other value-maximizing alternatives do not materialize). The Debtors also (a) engaged, as of January 8, 2018, Joseph A. Malfitano, PLLC as special transactional counsel to assist the Debtors in the solicitation and negotiation of

the liquidators' bids, and (b) began working with A&G Realty Partners LLC in Fall 2017, with an engagement effective as of January 12, 2018, as the Debtors' real estate advisor to assist in the disposition of the Debtors' owned and leased real estate in connection with the Closing Stores.

56. To facilitate further negotiations in respect of a Standalone Restructuring, the Debtors immediately commenced negotiations with both the advisors to the Prepetition Agent and the advisors to the Ad Hoc Group regarding forbearance agreements regarding upcoming events of default in respect of the (a) Second Lien Notes Indenture (which would occur upon the expiration of the thirty-day grace period triggered when the Debtors determined not to make the December 15, 2017 interest payment), and (b) the Credit Facility (which would occur upon the occurrence of an event of default under the Second Lien Notes Indenture). Ultimately, the Debtors, the Prepetition Agent and the Ad Hoc Group agreed to the terms of two separate Forbearance Agreements, both of which provided that the Prepetition Agent and the Ad Hoc Group would forbear from exercising any rights and remedies in respect of the previously described events of default under the Credit Facility and the Second Lien Notes Indenture, respectively, until January 26, 2018 at 5:00 p.m. (prevailing Eastern Time).

57. On January 19, 2018, the Debtors received final bids from both groups of liquidators for both the liquidation of (a) the Closing Stores, and (b) substantially all of the Debtors' inventory, fixtures and equipment. As provided in the Business Plan, on January 29, 2018, the Debtors entered into an agreement with an agent to manage the liquidation of the Closing Stores and, on or about February 1, 2018, began conducting the store closing sales at such locations.

B. The Proposed DIP Financing.

58. While discussions and diligence in respect of a Standalone Restructuring were continuing, the Debtors simultaneously began to prepare to sell all or substantially all of their assets in chapter 11 under section 363 of the Bankruptcy Code. As it became clear that the Debtors would most likely need to restructure in chapter 11, the Debtors and their advisors approached potential interested parties for debtor-in-possession ("DIP") financing.

59. Ultimately, the Debtors anticipate obtaining DIP financing in the form of a senior secured super-priority DIP facility (the "DIP Facility") and an agreement regarding the consensual use of the Prepetition Agent's collateral and cash collateral. The DIP Facility is a senior secured super priority asset-based revolving credit facility in the principal amount of up to $725 million consisting of (a) $600 million in tranche A revolver commitments, and (b) $125 million in tranche A-1 revolver commitments, and will include a $150 million sublimit for the issuance of letters of credit and a $75 million sublimit for swingline loans. Under the DIP Facility, Bank of America, N.A. will act as the administrative agent for a syndicate of banks, financial institutions and other institutional lenders party to the Credit Facility. Like the Credit Facility, the DIP Facility will be secured by valid and fully perfected first priority liens and security interests in all real and personal property of the Debtors (subject to the limitations in the proposed order approving the DIP Facility). The DIP Facility also provides for the refinancing (or a "roll-up") of the Debtors' obligations under the Credit Facility upon Court approval of the DIP Facility and closing of the DIP Facility. As discussed in detail in the Baird DIP Declaration, the Debtors, in consultation with their professionals, have determined that the DIP Facility is the best option available.

60. Access to credit under the DIP Facility will instill much needed confidence in parties that are critical to the success of the Chapter 11 Cases, including the

Debtors' employees, vendors, customers and communities, as well as potential sponsors of a Standalone Restructuring and bidders for the Debtors' assets. I believe this greatly enhances the likelihood that the Debtors will continue to receive the support of key constituents during the pendency of these Chapter 11 Cases, and increases the opportunity for a robust, competitive sale process that will yield the greatest recovery for the Debtors' estates and creditors. The potential consequences to the Debtors of a failure to obtain adequate funding are dire: among other things, the Debtors could be unable to purchase new inventory, lose valuable customer accounts, and liquidate in a disorderly and disorganized fashion, resulting in irreparable harm to the Debtors, their estates, and all parties in interest.

61. The DIP Facility contains certain milestones tied to liquidity and progress of the case. Among other things, the milestones require the Debtors to embark on a comprehensive process to identify a third party sponsor of a Standalone Restructuring, one or more going concern buyers for some or all of the Debtors' assets or, if other value-maximizing alternatives are unavailable, to commence an orderly liquidation of their business. As discussed in the Baird DIP Declaration and the Baird Sale Declaration, the Debtors believe that the milestones provide the Debtors with an appropriate runway and flexibility to pursue the sales process that the Debtors and their advisors have developed. In the meantime, the Debtors intend to continue to operate their businesses in the ordinary course throughout these Chapter 11 Cases, and to continue to execute on the Business Plan.

62. I further believe that, subject to approval by the Court, each of the Debtors is qualified and authorized to enter into the DIP Facility. Specifically, each Borrower (as defined in the DIP Facility) is a corporation or limited liability company validly existing and in good standing under the laws of the State of Delaware, Florida, Illinois or Pennsylvania, as applicable.

Each Borrower has the corporate (or limited liability company) power and authority to enter into and perform the Loan Documents to which it is a party, has taken all necessary corporate (or limited liability company) action to authorize the execution, delivery and performance of such Loan Documents and has duly executed and delivered such Loan Documents. Further, the execution and delivery by each Borrower of the Loan Documents to which they are parties do not, and the performance by the Borrowers of their respective obligations thereunder will not (i) result in a violation of the Certificate of Incorporation or Bylaws or other organizational documents of such Borrower or (ii) result in a violation of any order of the Court.

VI. Evidentiary Support for First Day Motions.[2]

63. The Debtors filed the First Day Motions concurrently with the commencement of their Chapter 11 Cases. As a result of my first-hand experience, and through my review of various materials and information, discussions with members of the Debtors' management, and discussions with the Debtors' outside advisors, I have formed opinions as to (a) the necessity of obtaining the relief sought by the Debtors in the First Day Motions described below, and (b) the immediate and irreparable harm to which the Debtors and their businesses would be exposed unless the relief requested in the First Day Motions is granted without delay.

64. I submit this Declaration in support of the Petitions and the First Day Motions filed with the Court in these cases and as described below.

65. I have reviewed each of the First Day Motions (including the exhibits and schedules attached thereto) and, to the best of my knowledge, believe the facts set forth therein are true and correct. This representation is based upon information and belief and through my review of various materials and information, as well as my experience and knowledge of the

[2] Capitalized terms used but not otherwise defined in this Section shall have the meaning given to them in the respective First Day Motion.

Debtors' operations and financial condition. If I were called upon to testify, I could and would, based on the foregoing, testify competently to the facts set forth in each of the First Day Motions.

66. The relief sought in the First Day Motions is critical to the success of these Chapter 11 Cases. The First Day Motions will maximize value for the Debtors' estates and stakeholders by reducing unnecessary disruption and minimizing any adverse effects caused by the chapter 11 filings on the Debtors' businesses and operations. As described more fully below, the Debtors, in consultation with their professionals, have carefully tailored the relief requested in the First Day Motions to ensure the Debtors' immediate operational needs are met, and that the Debtors suffer no immediate and irreparable harm. For the reasons set forth below, I believe that the relief requested in each of the First Day Motions is appropriate under the circumstances and should be granted by the Court.

A. Administrative Pleadings.

(i) *Motion for Joint Administration*

67. Many of the motions, applications, hearings and orders in these Chapter 11 Cases will jointly affect each Debtor. Under these circumstances, the interests of the Debtors, their estates, their creditors and other parties in interest would be best served by the joint administration of these Chapter 11 Cases for procedural purposes only. Joint administration of these Chapter 11 Cases will ease the administrative burden on the Court and all parties in interest, and will protect creditors of the respective estates against potential conflicts of interest.

68. For these reasons, the Debtors submit, and I believe, that the relief requested in the motion is in the best interest of the Debtors, their estates and their creditors, and, therefore, should be approved.

(ii) *Motion to Appoint 156(c) Claims Agent*

69. The Debtors request entry of an order, pursuant to section 156(c) of title 28 of the United States Code, and Rule 2002-1(f) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the "Local Rules"), authorizing the retention and appointment of Prime Clerk LLC ("Prime Clerk"), as claims and noticing agent in these Chapter 11 Cases. The Debtors selected Prime Clerk after soliciting proposals from Prime Clerk and three other potential claims and noticing agents. I believe that the relief requested in Prime Clerk's retention application will ease the administrative burden on the Clerk of the Court in connection with these Chapter 11 Cases. In addition, I have been advised by counsel that Prime Clerk's retention is required by the Local Rules in light of the aggregate number of the Debtors' creditors. Accordingly, the Debtors believe that the Application should be approved on the terms proposed.

B. Operational Motions Requesting Immediate Relief.

(i) *Motion to Provide Utilities Adequate Assurance*

70. The Debtors utilize various utility services at their retail locations, distribution centers and corporate headquarters, which is provided by numerous utility companies (collectively, the "Utility Companies"). Because the Utility Companies provide essential services to the Debtors, any significant interruption in utility services would be highly problematic. In fact, the temporary or permanent discontinuation of utility services at any of the Debtors' locations could irreparably disrupt business operations and diminish sales revenue, and, as a result, fundamentally undermine the Debtors' efforts to maximize value. I understand that under section 366 of the Bankruptcy Code, the Debtors' Utility Companies are entitled to a form of "adequate assurance" of future performance. Accordingly, the Debtors have proposed to protect the rights of the Utility Companies by providing such Utility Companies with a deposit in

an amount equal to approximately two weeks of the Debtors' estimated aggregate utility expenses. The Debtors submit that the deposit, together with the Debtors' ability to pay for future utility services in the ordinary course of business, constitute adequate assurance of future payment to the Utility Companies to satisfy the requirements of section 366 of the Bankruptcy Code. To the extent that the Utility Companies disagree, however, the Utility Companies would be able to utilize the Debtors' proposed procedures to seek additional adequate assurance.

71. I believe the Debtors' proposed treatment of the Utility Companies is appropriate under the circumstances, and I am advised by counsel that the proposed procedures are consistent with procedures routinely approved by Courts in this District. Accordingly, I believe that the relief requested is in the best interests of the Debtors, their estates and creditors, and, therefore, should be approved.

(ii) *Motion to Honor and Continue Insurance Programs*

72. In the ordinary course of their business, the Debtors maintain numerous insurance policies that provide coverage for, among other things, general liability, automobile liability, foreign liability, cyber liability, property damage, cargo damage, directors and officers liability, employment practices liability, commercial crime and fiduciary liability. A listing of all known policies currently in effect, which list I have reviewed, is attached as an exhibit to the Debtors' motion.

73. In addition, the Debtors finance certain of their insurance premiums and may find it reasonable and necessary during the course of these Chapter 11 Cases to either renew an existing premium financing agreement, or enter into a new premium financing agreement (or agreements) in the ordinary course of their business. Copies of the Debtors' currently-effective premium financing agreements, which I have reviewed, are attached as an exhibit to the Debtors' motion.

74. The Debtors' insurance policies are essential to preserve the value of the Debtors' business and assets, and are, in some cases, required by various laws, regulations or contracts that govern the Debtors' business (and I am advised that certain insurance policies are also required by the Guidelines established by the Office of the U.S. Trustee for chapter 11 bankruptcy cases). It is critical that the insurance policies be maintained and renewed on an ongoing and uninterrupted basis. Therefore, the Debtors request that the Court authorize them to pay all prepetition premiums, fees and expenses arising under, or related to, the insurance policies, including with respect to any currently-effective premium financing agreement, or any premium financing agreement entered into postpetition under substantially similar terms. For these reasons, I believe that the relief requested is in the best interests of the Debtors, their estates and creditors, and, therefore, the motion should be approved.

(iii) *Motion to Honor and Continue Employee Obligations and Benefits*

75. The continued and uninterrupted support of the Debtors' workforce is essential to the Debtors' success. The skills and experience of the Debtors' employees, their relationships with key parties to the Debtors' business, such as customers and vendors, and their knowledge of the Debtors' retail goods, infrastructure and business are essential to the preservation and maximization of the value of the Debtors' estates. Interruptions in payment of prepetition employee-related obligations will impose hardship on the employees and is certain to jeopardize their continued performance during this critical time.

76. To minimize the personal hardship that employees will suffer if prepetition employee-related obligations are not paid when due, and to maintain the employees' morale during this critical time, it is important that the Debtors be permitted to pay and/or perform, as applicable, their employee-related obligations, as detailed in the Debtors' motion, including with respect to the following, whether arising pre- or post-petition: (i) employee

wages, salaries, and other compensation, as well as compensation of temporary workers and independent contractors; (ii) business expenses incurred by the Debtors' employees, on behalf of the Debtors, in the ordinary course of business; (iii) paid time off policies, certain severance obligations, and employee benefits programs and plans; (iv) payroll taxes and other deductions and withholdings; (v) workers compensation programs; and (vi) all costs and expenses incidental to any of the foregoing, including obligations to third-party payroll and other administrators.

77. The relief requested in the Debtors' motion is essential to the continued operation of the Debtors' business and will enable the Debtors' to operate during these Chapter 11 Cases without disruption, thereby maximizing value for the Debtors' estates, creditors and other stakeholders. Moreover, I am advised by counsel that the Debtors do not seek to compensate any employees on behalf of pre-petition obligations in an amount that exceeds the statutory priority cap of $12,850, and the Debtors will not make any severance-related payments pending entry of a supplemental order at a final hearing. For these reasons, the Debtors believe that the motion is in the best interests of the Debtors, their estates and creditors, and, therefore, should be approved.

(iv) *Motion to Honor Prepetition Taxes*

78. The Debtors, in the ordinary course of their businesses, incur various tax liabilities, including, without limitation, (i) sales taxes, (ii) use taxes, (iii) franchise taxes, (iv) property taxes, and (v) certain other miscellaneous taxes (collectively, the "Taxes") and various other fees and assessments (collectively, the "Fees," and together with the Taxes, the "Taxes and Fees") owed to certain taxing authorities (collectively, the "Authorities").

79. Prior to the Petition Date, the Debtors generally paid their Taxes and Fees as they became due, and the Debtors believe any Taxes and Fees actually incurred as of the Petition Date are for current tax periods in the approximate amount of 24 million.

80. The Debtors seek entry of an order allowing them to pay the Taxes and Fees to the Authorities, including all Taxes and Fees subsequently determined upon audit to be owed for periods prior to the Petition Date. The Debtors have ample business justification to pay the Taxes and Fees because it is my understanding that: (a) many, if not all, of the Taxes and Fees would be priority claims under the Bankruptcy Code that likely would have to be paid in full under a chapter 11 plan; (b) the funds to satisfy certain of the Taxes and Fees may not constitute property of the Debtors' chapter 11 estates; (c) the Debtors are required to pay the Taxes and Fees to maintain their good standing in certain jurisdictions in which they do business; (d) failure to pay certain of the Taxes and Fees could give rise to liens on certain of the Debtors' property; and (e) the Debtors' directors and officers may face personal liability if certain of the Taxes and Fees are not paid. Therefore, to prevent immediate and irreparable harm that would result from such disruptions and distractions, the Debtors seek authority to pay the Taxes and Fees, and submit that the motion should be approved because it is in the best interests of the Debtors, their estates and creditors.

(v) *Motion to Honor and Continue Customer Programs*

81. The Debtors, in the ordinary course of their business, engage in certain customer-related programs and practices that are designed to maximize their profitability. These include, but are not limited to, the following: (1) the YOUR REWARDS credit card program; (2) the LoveStyle Membership Program; (3) the Charitable Partnerships; (4) gift cards; (5) extended warranties and related service programs; (6) returns, refunds, and exchanges program; (7) the furniture assembly and delivery program; (8) the price match and adjustment policy; (9) the Registry Rewards Program; (10) third party credit and debit card agreements; (11) promotions and all such other similar policies, programs, and practices of the Debtors; and (12) accept payment on member accounts for amounts owed by holders of YOUR REWARDS

cards (collectively, the "Customer Programs"). On account of the Customer Programs, the Debtors may owe certain obligations to their customers, arising both before and after the Petition Date (collectively, the "Customer Obligations"). Certain of these programs are designed to inspire confidence in customers that intend to purchase and use the Debtors' products, such as warranties. Other programs are designed to attract new customers and to enhance loyalty and sales among the Debtors' existing customer base.

82. As detailed in the Debtors' motion, the Debtors believe that the success and viability of the Debtors' business, and ultimately the Debtors' ability to maximize the value of the Debtors' estates, are dependent upon the patronage and loyalty of their customers. In this regard, the Customer Programs are critical, and any delay in honoring Customer Obligations will severely and irreparably impair customer relations, thereby harming the Debtors' efforts to maximize value for all interested parties. For these reasons, the Debtors seek authority to continue to maintain and administer the Customer Programs and honor the Customer Obligations in the ordinary course, and honor obligations arising thereunder, and submit that the motion should be approved because it is in the best interests of the Debtors, their estates and creditors.

(vi) *Motion to Honor Claims of Shippers, Warehouseman and Other Lien Claimants, and Satisfy Outstanding Orders*

83. In connection with day-to-day operation of their business, the Debtors necessarily depend on an extensive shipping, warehousing and distribution network to move consumer goods to the Debtors' warehouses, distribution centers, retail locations and, ultimately, to their customers. As a result, the Debtors incur obligations to their network of service providers which give rise to claims against the Debtors, some of which relate to the prepetition period (such claims, the "Distribution Charges"). Parties holding claims giving rise to

Distribution Charges may, in certain instances, hold possessory or statutory lien claims under applicable non-bankruptcy law, as described more fully in the Debtors' motion.

84. Further, given the vast geographic scope of the Debtors' operations, in the ordinary course of business, the Debtors have ordered a variety of goods for which delivery will not occur until on or after the Petition Date (the "Outstanding Orders"). Because vendors holding such goods may be concerned that goods ordered prior to the Petition Date pursuant to the Outstanding Orders, which are slated to be delivered to the Debtors on or after the Petition Date, will render such suppliers general unsecured creditors of the Debtors' estates, they may refuse to ship or transport goods to their ultimate designated destination.

85. Because the Debtors believe that they must ensure that the flow of products throughout the Debtors' distribution network remains constant, timely and efficient, the Debtors believe it is essential that they be granted authority, in their discretion, to (i) satisfy Distribution Charges upon obtaining customary trade terms from applicable vendors and (ii) satisfy all undisputed obligations incurred in connection with the Outstanding Orders.

86. Should the Debtors' flow of goods or receipt of such services be interrupted, the Debtors could suffer immediate and irreparable disruptions to their business and could fail to meet customer demand at their retail stores and on their website, which would necessarily trigger a corresponding loss of consumer confidence. The Debtors' efforts to preserve and maximize the going concern value of their business cannot afford any such disruptions of their business operations, or present anything less than a "business as usual" appearance to their loyal customer base.

87. As a result of the foregoing, the Debtors seek authority to treat all undisputed obligations relating to the Outstanding Orders as administrative expense claims under

section 503(b)(1)(A) of the Bankruptcy Code, and to pay claims arising thereunder in the ordinary course of business consistent with the parties' customary practices in effect prior to the Petition Date.

88. Further, the Debtors seek authority, pending entry of a final order, to pay the prepetition amounts owed on account of Distribution Charges in an amount not to exceed $8 million, upon obtaining, in their sole discretion, the Lien Claimants' agreement to provide Customary Trade Terms as consideration for such payment.

89. The Debtors seek the relief described herein because they believe it is absolutely critical that the Debtors' transportation and logistics network operate on a seamless basis to preserve the going concern value of the Debtors' business and operations. Without the instant relief, the Debtors' ability to maximize value and drive revenue would be severely undermined and, therefore, the Debtors request approval of the relief requested because it is in the best interests of the Debtors, their estates and creditors.

(vii) *Motion to Honor Claims of Foreign Vendors*

90. The Debtors' business depends on, among other things, the Debtors' ability to retain their vendors and service providers and to maintain their reputation and customer loyalty within the retail industry. As part of that initiative, and in the ordinary course of business, the Debtors incur various obligations to numerous foreign vendors, suppliers and other entities (collectively, the "Foreign Vendors"). The Debtors estimate that, as of the Petition Date, the aggregate amount of claims held by Foreign Vendors is approximately $5 million, all of which will be due and owing within approximately thirty (30) days after the Petition Date. The Debtors rely on the Foreign Vendors, which are primarily located in Asia, to supply various goods and services that are crucial to the Debtors' ongoing operations. Many of the Foreign Vendors who supply these essential goods and services may argue that they are not subject to the

jurisdiction of the Court or the provisions of the Bankruptcy Code that would otherwise protect the Debtors' assets and business operations, and/or may take actions that would disrupt the Debtors' business operations. There is also a risk that Foreign Vendors could sue the Debtors in foreign courts and attempt to recover prepetition amounts owed to them if such amounts remain unpaid. If the Foreign Vendors were successful in obtaining judgments against the Debtors, the Foreign Vendors could seek to exercise post-judgment remedies, including seeking to attach the Debtors' foreign assets or withholding vital supplies from the Debtors.

91. Accordingly, to avoid the resulting irreparable harm that would immediately arise from the potential issues highlighted above, I believe that the Debtors must have the ability to continue to compensate the Foreign Vendors on an uninterrupted basis and, therefore, the Debtors seek the relief requested in the Debtors' motion. As set forth therein, the Debtors believe that obtaining authority to satisfy claims asserted by the Foreign Vendors will ensure that the critical goods and services provided by such Foreign Vendors remain at the Debtors' disposal and, ultimately, of value to the Debtors' customer base. To the extent that the Debtors pay prepetition claims to such Foreign Vendors, the Debtors seek authority to, in return, obtain customary trade terms from such parties and, further, to apply payments, in the first instance, against claims held by Foreign Vendors which qualify for administrative expense priority under section 503(b)(9) of the Bankruptcy Code. For these reasons, and those set forth in the motion, the Debtors believe that the relief requested therein is narrowly tailored and in the best interests of the Debtors, their estates and creditors, and therefore should be approved.

(viii) *Motion to Honor Claims Arising Under Section 503(b)(9) of the Bankruptcy Code*

92. Given the nature of the Debtors' business and the constant flow of goods that the Debtors receive into their warehouses, distribution centers and retail locations, which are

ultimately the backbone of the Debtors' retail operations and required to meet consumer demand, certain claims held by a large number of vendors may be entitled to administrative expense priority under section 503(b)(9) of the Bankruptcy Code (such claims, the "503(b)(9) Claims") because they are on account of goods that were received by the Debtors in the ordinary course of business within the twenty-day period immediately preceding the Petition Date. The Debtors believe that payment of any such 503(b)(9) Claims would be appropriate if the Debtors determine, in their sole discretion and business judgment, that payment of such 503(b)(9) Claims is necessary and appropriate to ensure the uninterrupted operation of their businesses and prevent the imposition of immediate and irreparable harm thereto. Consequently, the Debtors seek authority to satisfy 503(b)(9) Claims on the terms described in the Debtors' motion.

93. To the extent that the Debtors do determine, in their business judgment, to satisfy all or a portion of the 503(b)(9) Claims, the Debtors will seek to condition payment of such claims on the agreement of the applicable 503(b)(9) Vendor to continue supplying goods to the Debtors on Customary Trade Terms. The Debtors believe that this will allow the Debtors to maintain favorable terms with some of their most important vendors, which will benefit the Debtors, their estates and stakeholders. In total, the Debtors seek authority to, in their discretion, pay or otherwise honor or satisfy the 503(b)(9) Claims in an amount not to exceed $3 million.

94. I am advised by counsel that the Debtors must satisfy the 503(b)(9) Claims in full if they are to confirm a chapter 11 plan and, as such, the proposed payment of the 503(b)(9) Claims would affect only the timing of such payments, and not the amount to be received by the 503(b)(9) Vendors on account of such claims. Accordingly, the Debtors believe that the relief sought is in the best interest of the Debtors, their estates and creditors, and the motion should, therefore, be approved.

(ix) *The Store Closing Agreement Assumption Motion*

95. By this motion (the "Store Closing Agreement Assumption Motion"), the Debtors request authority to assume the consulting agreement entered into by and between the Debtors and the Agent and continue the Closing Sales. Prior to the Petition Date, the Debtors embarked on several restructuring initiatives designed to streamline their operations and competitively reposition their business. As part of this process, the Debtors completed a comprehensive review of the performance of all of their retail stores to analyze, among other things, the profitability and viability of each store location and to determine the Debtors' optimal footprint.

96. As a culmination of these efforts, the Debtors developed the Store Closing Plan, which they continue to refine. In December 2017, the Debtors initiated store liquidations at five stores, which liquidations have been administered by the Debtors using solely in-house resources. Pursuant to the Store Closing Plan, in consultation with AlixPartners, the Debtors identified forty-two (42) additional underperforming and/or unprofitable locations that have been designated as Closing Stores.

97. The Debtors negotiated with, and entertained bids from, four nationally recognized groups who ultimately formed joint ventures and submitted two sets of proposals to serve as the agent for management of the Closing Stores in order to ensure that the liquidation and closure of all the Closing Stores is managed efficiently and effectively. The Debtors retained the Agent because of its expertise in conducting store closing sales, including the orderly liquidation of the inventory and certain furniture, fixtures, equipment, and other assets that the Debtors do not wish to retain at the respective Closing Stores, for the purpose of maximizing sale proceeds for the Debtors and their creditors. The Debtors negotiated the terms

and conditions of the Store Closing Agreement in good faith and at arms' length. Accordingly, on January 29, 2018, the Debtors and the Agent executed the Store Closing Agreement.

98. Pursuant to the Store Closing Agreement, the Agent will, among other things, (a) provide qualified supervisors (the "Supervisors") engaged by the Agent to oversee the management of the Closing Stores, which Supervisors, once identified to the Debtors, shall not be removed from the Sale event unless the Debtors, acting reasonably, otherwise agree or request removal; (b) determine appropriate point-of-sale and external advertising for the Closing Stores, approved in advance by the Debtors; (c) recommend appropriate discounts of Merchandise, (d) determine staffing levels for the Closing Stores, and appropriate bonus and incentive programs, if any, for the Closing Stores' employees, each of which shall be approved in advance by the Debtors; (e) oversee display of Merchandise for the Closing Stores; (f) to the extent that information is available, evaluate sales of Merchandise by category and sales reporting and monitor expenses; (g) maintain the confidentiality of all proprietary or non-public information regarding the Debtors in accordance with the provisions of the confidentiality agreement signed by the Parties; (h) assist the Debtors in connection with managing and controlling loss prevention and employee relations matters; and (i) provide such other related services deemed necessary or appropriate by the Debtors and the Agent, including liquidation of fixtures and equipment. In exchange for the Agent's services, the Debtors have agreed to, among other things, pay the Agent a Consulting Fee equal to 1.25% of the aggregate Net Proceeds. Subject to further agreement between the parties, the Closing Sales are slated to conclude by the end of May, 2018.

99. I believe that the Debtors' decision to conduct Closing Sales represents the best path for maximizing recoveries to the Debtors' estates with respect to the Closing Stores. To that end, I believe that engaging the Agent pursuant to the Store Closing Agreement will

achieve the maximum value for the Debtors' Merchandise and minimize the administrative expenses to be borne by the Debtors' estates by, among other things, positioning the Debtors to exit their retail locations by the end of May 2018. In particular, the Agent's extensive expertise in conducting liquidation sales generally will allow it to oversee and implement the Closing Sales, with the assistance of the Debtors' management, in the most efficient and cost effective manner. Accordingly, I believe that entry into the Store Closing Agreement, which will enable the Debtors to utilize the experience, skills, and resources of the Agent, together with the uninterrupted continuation of the Closing Sales, will generate maximum return for the estates and all interested parties. By contrast, I believe that delaying the further conduct of the Closing Sales would result in an increase in burdensome and unnecessary administrative expenses, to the prejudice of all interested parties.

100. With respect to the proposed fee structure, upon further discussions with AlixPartners and the Debtors' other outside advisors, I believe that the fees set forth in the Store Closing Agreement are market-based, derived from a competitive marketing process, and consistent with fee structures that have been approved by courts in connection with similar agreements. Moreover, the Debtors, in consultation with their advisors, formulated the applicable sale guidelines to allow the Debtors to conduct the Store Closing Sales in a manner that maximizes value for the estates.

101. Because the relief sought in the Store Closing Agreement Assumption Motion is imperative to the Debtors' ability to maximize the value of their estates for the benefit of their creditors through the Closing Sales, and for the other reasons set forth above, the Debtors respectfully request that the Store Closing Agreement Assumption Motion be approved.

(x) *Motion to Continue Using Existing Cash Management System*

102. In the ordinary course of business, the Debtors operate a cash management system (the "Cash Management System") involving fifteen (15) bank accounts (collectively, the "Bank Accounts"). The Cash Management System provides a well-established mechanism for the collection, management and disbursement of funds used in the Debtors' business.

103. In light of the substantial size and complexity of the Debtors' operations, significant disruptions to the Debtors' business would be highly likely if the cash management procedures must be quickly altered. As such, it is essential that the Debtors be permitted to maintain their Cash Management System in its current format.

104. Given the Debtors' corporate and financial structure and the number of affiliated entities participating in the Cash Management System, it would be difficult and unduly burdensome for the Debtors to establish an entirely new system of bank accounts and a new cash management and disbursement system for each of the ten legal entities that comprise the Debtors. The Debtors, therefore, seek authority for the continued use of the Cash Management System and Bank Accounts. The Debtors further seek authority to implement ordinary course changes to their Cash Management System and to open and close bank accounts. The Debtors also request authority for the banks to charge and the Debtors to pay or honor service and other fees, costs, charges and expenses to which the banks may be entitled under the terms of and in accordance with their contractual arrangements with the Debtors.

105. The Debtors believe that the use of the bank accounts substantially complies with section 345(b) of the Bankruptcy Code. The Debtors seek an interim waiver of section 345(b) to permit them to continue to deposit funds in their bank accounts.

106. The Debtors and certain non-Debtor affiliates engage in inter-Debtor and intercompany transactions with each other in the ordinary course of business, as more fully

described in the motion. These transactions include the sale of goods or provision of services from one Debtor entity to another (and in some cases between the non-Debtor subsidiaries and a Debtor) utilizing arms' length transfer pricing. Others of these transactions involved the transfer of funds from one Debtor to another through intercompany loans. The continuation of such ordinary course transactions will permit the Debtors to conduct business as usual and avoid any disruption to the detriment of the Debtors and their non-Debtor subsidiaries. The Debtors request that, pursuant to section 503(b)(1) of the Bankruptcy Code, the Court accord administrative expense status to all intercompany claims against a Debtor by another Debtor or a non-Debtor affiliate arising after the Petition Date as a result of inter-Debtor and intercompany transactions. The Debtors further seek authorization to preserve and exercise intercompany setoff rights that arise through the operation of their Cash Management System.

(xi) *Procedures for Trading in Equity Securities of Debtor The Bon-Ton Stores, Inc.*

107. The Debtors request that the Court establish certain procedures designed to protect the value of Debtor The Bon-Ton Stores, Inc.'s Tax Attributes, including, among other things, its net operating loss carryforwards. The procedures proposed in the Debtors' motion, which include notice and objection procedures related to the trading of Bon-Ton Stock, are necessary to protect these valuable assets of the Debtors' estates.

108. I understand that sections 382 and 383 of the Tax Code may, under certain circumstances, operate to limit Bon-Ton's ability to use the Tax Attributes to reduce future tax liabilities, specifically after the occurrence of an "ownership change." I understand that Bon-Ton would be unable to use its Tax Attributes to reduce future tax liability if such an ownership change occurs before the effective date of a chapter 11 plan of reorganization. Accordingly, the Debtors seek approval of the procedures proposed in their motion so that they may monitor any

changes in ownership of Bon-Ton Stock and protect against any trades that may constitute an ownership change for the purposes of sections 382 and 383 of the Tax Code. I believe that granting the relief requested is in the best interests of the Debtors, their estates, and all parties in interest, as the savings presented by the Tax Attributes could materially enhance the Debtors' future cash position. As such, the Debtors request that the motion be approved.

Conclusion

109. For all the reasons described herein and in the First Day Pleadings, I respectfully request that the Court grant the relief requested in each of the First Day Pleadings.

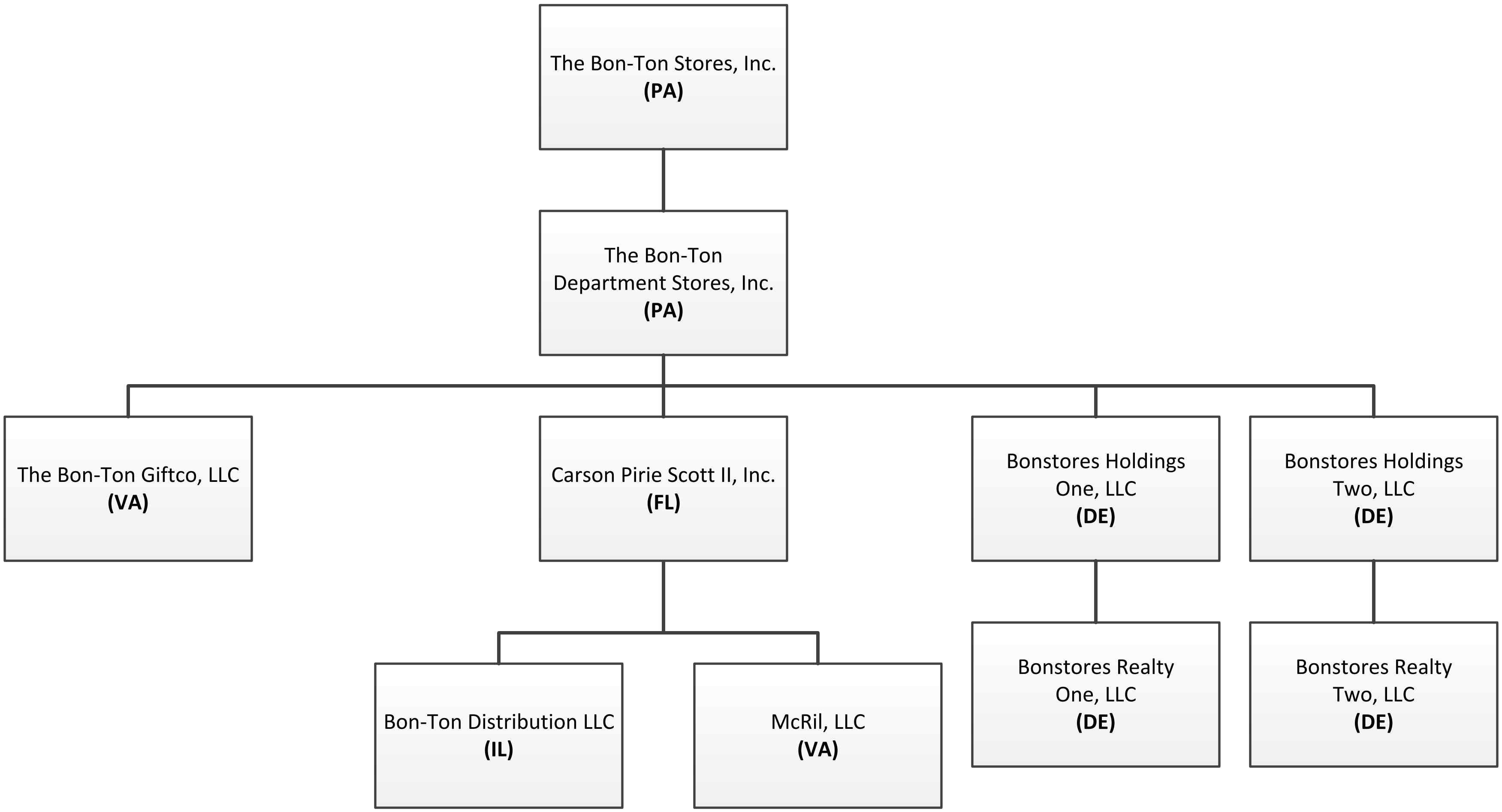
Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed on February 4, 2018 in Wilmington, Delaware.

/s/ Michael Culhane
Michael Culhane

Exhibit A

BON-TON


The Bon-Ton Stores, Inc. (PA)
The Bon-Ton Department Stores, Inc. (PA)
The Bon-Ton Giftco, LLC (VA)
Carson Pirie Scott II, Inc. (FL)
Bonstores Holdings One, LLC (DE)
Bonstores Holdings Two, LLC (DE)
Bon-Ton Distribution LLC (IL)
McRil, LLC (VA)
Bonstores Realty One, LLC (DE)
Bonstores Realty Two, LLC (DE)