GOTTSCHALKS INC
Form 10-Q
December 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 30, 2004

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to _________

Commission file number 1-09100

Gottschalks Inc.
(Exact name of Registrant as specified in its Charter)

Delaware	**77-0159791**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

7 River Park Place East
Fresno, California 93720

(Address of Principal Executive Offices including Zip Code)

(559) 434-4800

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES

x NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES

o NO x

The number of shares of the Registrant's common stock outstanding as of November 30, 2004 was 12,936,851.

GOTTSCHALKS INC. AND SUBSIDIARY
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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

GOTTSCHALKS INC.
CONDENSED BALANCE SHEETS (UNAUDITED - Note 1)
(In thousands of dollars)

	October 30, 2004	January 31, 2004	November 1, 2003
ASSETS			
CURRENT ASSETS:			
Cash	$ 6,270	$ 5,172	$ 6,123
Receivables, net	1,948	9,145	4,179
Merchandise inventories	218,139	156,458	228,232
Other	11,436	10,849	16,045
Total current assets	237,793	181,624	254,579
PROPERTY AND EQUIPMENT - NET	128,782	129,832	132,098
GOODWILL - NET	7,501	7,501	7,501
OTHER INTANGIBLES - NET	817	854	860
OTHER LONG-TERM ASSETS	5,301	4,180	4,908
	$ 380,194	$ 323,991	$ 399,946
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable and other current liabilities	$ 105,256	$ 67,942	$ 100,909
Revolving line of credit (as restated, see Note 6)	89,049	51,009	101,356
Current portion of long-term obligations	6,304	3,725	4,014
Total current liabilities	200,609	122,676	206,279
LONG-TERM OBLIGATIONS (less current portion) (as restated, see Note 6):			
Notes and mortgage loans payable	18,806	35,596	36,064
Capitalized lease obligations	4,429	5,706	6,124
	23,235	41,302	42,188
DEFERRED INCOME TAXES AND OTHER LIABILITIES	28,828	29,511	29,493
SUBORDINATED NOTE PAYABLE TO AFFILIATE	22,180	22,180	22,180
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY	105,342	108,322	99,806
	$ 380,194	$ 323,991	$ 399,946

See notes to condensed financial statements.

GOTTSCHALKS INC.
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED - Note 1)
(In thousands of dollars, except per share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks	
	October 30, 2004	November 1, 2003	October 30, 2004	Nov 2
Net sales	$ 147,893	$ 145,288	$ 440,202	$ 43
Net credit revenues	731	764	2,324	
Net leased department revenues	631	616	2,110	
Total revenues	149,255	146,668	444,636	43
Costs and expenses:				
Cost of sales	95,421	94,372	285,725	28
Selling, general and administrative expenses	51,209	50,509	148,983	14
Depreciation and amortization	2,939	3,299	8,975	
Total costs and expenses	149,569	148,180	443,683	43
Operating (loss) income	(314)	(1,512)	953	
Other (income) expense:				
Interest expense	2,264	3,270	7,308	1
Miscellaneous income	(379)	(703)	(1,305)	(
	1,885	2,567	6,003	
Loss before income tax benefit	(2,199)	(4,079)	(5,050)	(
Income tax benefit	(808)	(1,489)	(1,920)	(
Income (loss) from continuing operations	(1,391)	(2,590)	(3,130)	(
Discontinued operations:				
Income (loss) from operations of closed stores	--	39	--	
Loss on store closures	--	(73)	(31)	
Income tax benefit	--	(12)	(11)	
Loss on discontinued operations	--	(22)	(20)	
Net loss	$ (1,391)	$ (2,612)	$ (3,150)	$ (
Loss per common share - basic and diluted				
Loss from continuing operations	$ (0.11)	$ (0.20)	$ (0.24)	$
Loss from discontinued operations	$ --	$ --	$ --	$
Loss per common share	$ (0.11)	$ (0.20)	$ (0.24)	$
Weighted average number of common shares outstanding - Basic and Diluted	12,927	12,844	12,905	1

See notes to condensed financial statements.

GOTTSCHALKS INC.
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED - Note 1)
(In thousands of dollars)

	Thirty-Nine Weeks Ended	
	October 30, 2004	November 1, 2003
OPERATING ACTIVITIES:		
Net loss	$ (3,150)	$ (6,573)
Adjustments:		
Depreciation and amortization	8,975	10,015
Other adjustments, net	(683)	(1,697)
Changes in operating assets and liabilities:		
Receivables	7,198	5,156
Merchandise inventories	(60,551)	(62,651)
Other current and long-term assets	(880)	(2,279)
Trade accounts payable	31,103	17,224
Other current and long-term liabilities	(48)	693
Net cash used in operating activities	(18,036)	(40,112)
INVESTING ACTIVITIES:		
Capital expenditures	(9,021)	(3,383)
Other	91	352
Net cash used in investing activities	(8,930)	(3,031)
FINANCING ACTIVITIES:		
Net proceeds under revolving line of credit	29,040	42,510
Proceeds from long-term obligations	9,000	--
Debt issuance costs	(1,060)	--
Principal payments on long-term obligations	(15,488)	(3,394)
Proceeds from Exercise of Stock Options	228	
Changes in cash management liability and other	6,344	3,935
Net cash provided by financing activities	28,064	43,051
INCREASE IN CASH	1,098	(92)
CASH AT BEGINNING OF PERIOD	5,172	6,215
CASH AT END OF PERIOD	$ 6,270	$ 6,123

See notes to condensed financial statements.

GOTTSCHALKS INC. AND SUBSIDIARY
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
Thirteen and Thirty-Nine Weeks Ended October 30, 2004 and November 1, 2003

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Gottschalks Inc. (the "Company") is a regional department store chain based in Fresno, California. As of the end of the third quarter of the fiscal year ending January 29, 2005 ("fiscal 2004"), the Company operated 63 full-line Gottschalks department stores located in 6 Western states, with 39 stores in California, 12 in Washington, 6 in Alaska, and 2 in each of Oregon, Nevada and Idaho. The Company also operates 10 specialty apparel stores, which carry a limited selection of merchandise. The Company's department stores typically offer a wide range of better to moderate brand-name and private-label merchandise for the entire family, including men's, women's, junior's and children's apparel; cosmetics, shoes, fine jewelry and accessories; and home furnishings, including china, housewares, domestics, small electric appliances and furniture (in selected locations). The majority of the Company's department stores range from 40,000 to 150,000 in gross square feet, and are generally anchor tenants of regional shopping malls or strategically located strip centers. The Company operates in one reportable operating segment.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the thirteen-week and thirty-nine week periods ended October 30, 2004 are not necessarily indicative of the results that may be expected for fiscal 2004 due to the seasonal nature of the Company's business. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended January 31, 2004, as amended in the Company's Annual Report on Form 10-K/A for the year ended January 31, 2004, (the "2003 Annual Report on Form 10-K/A"). The condensed balance sheet at January 31, 2004 has been derived from the audited financial statements as of that date.

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

2. STOCK-BASED COMPENSATION

At October 30, 2004, the Company has two stock-based employee compensation plans. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in results of operations, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

The following table illustrates the effect on results of operations and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation. The Company's calculations were made using the Black-Scholes option pricing model.

	Thirteen Weeks Ended	Thirty-Nine Weeks Ende

(In thousands of dollars, except per share data)	October 30, 2004	November 1, 2003	October 30, 2004	November 2003
Net loss as reported	$ (1,391)	$ (2,612)	$ (3,150)	$ (6,573
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(86)	(14)	(210)	(59
Pro forma net loss	$ (1,477)	$ (2,626)	$ (3,360)	$ (6,632
Net loss per share (basic and diluted):				
As reported	$ (0.11)	$ (0.20)	$ (0.24)	$ (0.51
Pro-forma	$ (0.11)	$ (0.20)	$ (0.26)	$ (0.52

3. NET CREDIT REVENUES

Net Credit Revenues

Net credit revenues associated with the Company's proprietary credit cards consist of the following:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
(In thousands of dollars)	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Service charge revenues	$ 692	$ 687	$ 2,197	$ 1,792
Interim servicing compensation - net				1,088
Amortization of interest-only strip				(313)
Recoveries on previously charged off receivables	39	77	127	260
	$ 731	$ 764	$ 2,324	$ 2,827

4. MERCHANDISE INVENTORIES

Inventories, which consist of merchandise held for resale, are valued by the retail method and are stated at last-in, first-out (LIFO) cost, which is not in excess of market value. The Company includes in inventory the capitalization of certain indirect costs related to the purchasing, handling and storage of merchandise. Current cost, which approximates replacement cost, under the first-in, first-out (FIFO) method was equal to the LIFO value of inventories at January 31, 2004. A valuation of inventory under the LIFO method is presently made only at the end of each year based on actual inventory levels and costs at that time. Since these factors are subject to variability beyond the control of management, interim results of operations are subject to the final year-end LIFO inventory valuation adjustment. Management does not currently anticipate that its year-end LIFO adjustment will materially affect the Company's fiscal 2004 operating results.

5. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Trade accounts payable and other current liabilities consist of the following:

(In thousands of dollars)	October 30, 2004	January 31, 2004	November 1, 2003

Trade accounts payable	$ 54,939	$ 20,035	$ 47,126
Accrued expenses	19,247	19,579	18,255
Cash management liability	13,728	7,326	19,051
Accrued payroll and related liabilities	7,770	7,718	7,876
Taxes, other than income taxes	8,447	12,059	7,960
Federal and state income taxes payable	556	656	12
Deferred income taxes payable	569	569	629
	$ 105,256	$ 67,942	$ 100,909

6. DEBT

Senior Revolving Credit Facility

On March 1, 2004, the Company amended and restated its senior revolving credit facility with General Electric Capital (as amended, the "Original GE facility"). The GE facility provides up to $165.0 million of working capital financing through February 1, 2007, with an option to extend the facility through February 2, 2009 for a limited time and under certain conditions. The GE facility consists of a revolving credit facility of up to $156.0 million (including a $20.0 million letter of credit sub-facility) and a fully funded term loan of $9.0 million. Borrowings under the revolving credit facility are limited to the sum of (a) a specified percentage of eligible credit card receivables, and (b) the lesser of specified percentages of (i) the cost of eligible inventory and (ii) the net recovery value of the inventory, as determined by periodic valuation performed by an independent appraiser. Such borrowings are further limited by a requirement to maintain a minimum of $5.0 million of excess availability at all times, and other reserves that are in effect.

As of October 30, 2004, outstanding borrowings under the GE facility totaled $89.0 million, and excess borrowing availability under the GE facility, after the deduction of the minimum availability requirement and other reserves, totaled $62.0 million. Substantially all of the Company's assets, including its merchandise inventories, are pledged to GE Capital under the GE facility.

Although the GE facility expires in February 2007 and the Company has the intent and believes it will have the ability to maintain this debt outstanding for more than one year, the Company has classified its borrowings under the facility as a current liability in accordance with the provisions set forth in Emerging Issues Task Force (EITF) 95-22 "Balance Sheet Classifications, Borrowings Outstanding Under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement." The accompanying balance sheet at November 1, 2003 has been restated to reclassify $50 million of borrowings under the revolving credit facility previously reported as long-term liabilities to current liabilities.

As of October 30, 2004, interest charged on amounts borrowed under the revolving portion of the GE facility are at the prime rate, or at the Company's option, at the applicable LIBOR rate plus 1.75% per annum, and interest charged on the term loan is a fixed rate of 6.6% per annum. In addition, the Company pays an unused commitment fee equal to 0.375% per annum on the average unused daily balance of the revolving portion of the GE facility. The interest rate applicable to the revolving portion of the GE facility is adjusted upwards or downwards on a quarterly basis based on a pricing matrix which is tied to the Company's daily average excess availability for the preceding fiscal quarter (as defined in the agreement). Under the pricing matrix, the applicable interest rate could range from a rate as low as prime plus 0.00% or LIBOR plus 1.50%, to as high as prime plus 0.75%, or LIBOR plus 2.75%.

The GE facility contains restrictive financial and operating covenants, including the requirement to maintain a fixed charge coverage ratio (as defined in the agreement) of 1:1, a prohibition on the payment of dividends on capital stock and restrictions on the ability of the Company to pay principal of subordinated indebtedness or repurchase its capital stock.

Long-Term Financings

The Company's long-term debt and capital lease obligations consist of the following:

(In thousands)	October 30, 2004	January 31, 2004	November 1, 2003
9.39% mortgage loans payable, due 2010.	17,176	17,513	17,620
12.0% note payable, due 2005..........		13,240	13,480
Capital lease obligations.............	6,124	7,643	8,367
Variable rate note payable, due 2005...	3,700	3,700	3,700
Other mortgage loans and notes payable.	2,539	2,931	3,035
	29,539	45,027	46,202
Less current portion..................	6,304	3,725	4,014
	$ 23,235	$ 41,302	$ 42,188

Substantially all of the Company's assets, including its merchandise inventories, are pledged as collateral under the Company's various debt agreements. Certain of the Company's long-term debt agreements contain financial and other restrictive covenants. Management believes the Company was in compliance with all such covenants as of October 30, 2004.

7. DISCONTINUED OPERATIONS

During fiscal 2003 the Company closed six stores and one specialty store. These stores were determined to be either underperforming or inconsistent with the Company's long-term operating strategy. Results from operating one store closed in January 2004 were negligible during the quarter ended November 1, 2003. The net loss from operating all such stores was $0.6 million and $0.8 million in the thirty-nine weeks ended November 1, 2003. Results from operations of discontinued stores consists of the following:

	Thirteen Weeks Ended		Thirty-Nine Weeks En	
(In thousands of dollars)	October 30, 2004	November 1, 2003	October 30, 2004	Novembe 2003
Net sales from closed stores....................	$ --	$ 641	$ --	$ 5,
Cost of sales..................................	--	260	--	3,
Selling, general and administrative expenses.....	--	336	--	2,
Depreciation and amortization...................	--	6	--	
Other..	--	--	--	
Total costs and expenses......................	--	602	--	6,
Income (loss) from operations of closed stores...	$ --	$ 39	$ --	$ (

The Company incurred no costs related to the closure of stores in the quarter ended October 30, 2004. Net costs associated with the closure of stores were minor in the thirty-nine weeks ended October 30, 2004, primarily consisting of incremental costs associated with the closure of one store at January 31, 2004. Net costs associated with the closure of stores totaled $0.1 million and $0.5 million in the thirteen-weeks and thirty-nine weeks ended November 1, 2003 respectively, primarily consisting of lease termination costs, severance, and other incremental costs associated with the store closings. The Company currently has no plans to close additional stores. In the event the Company is unable to improve the operating performance of any underperforming stores, the Company may consider the sale, sublease or closure of those stores in the future.

As of October 30, 2004, the Company had a reserve for store closure costs totaling $0.1 million, which consisted primarily of estimated future lease obligations for one store closed in fiscal 2001. In the event the Company is not successful in selling or subleasing the store closed in fiscal 2001 as soon as management expects, additional store closure costs may be recorded. In addition, in the event the Company decides to close additional stores in fiscal 2004 or beyond, additional store closure costs, which may be material, may be incurred.

8. WEIGHTED AVERAGE NUMBER OF SHARES

Options with an exercise price greater than the average market price of the Company's common stock during the period, or outstanding in a period in which the Company reports a net loss, are excluded from the computation of the weighted average number of shares on a diluted basis, as such options are anti-dilutive.

9. COMMITMENTS AND CONTINGENCIES

On March 5, 2004, AT&T filed a breach of contract complaint in The United States District Court in Fresno, California demanding the payment of approximately $768,000 for telecommunication services allegedly supplied to the Company in 2002 and 2003. The Company has answered and denied the AT&T allegations and demand. At this time it is not possible to predict the outcome of this dispute, but the Company believes that it is not liable for the amounts demanded by AT&T, and will vigorously defend any action AT&T files to pursue its claim.

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

The Company is in the process of remodeling certain existing store locations. As of October 30, 2004, the estimated remaining cost of such projects is $1.4 million. Such projects are expected to be fully complete in fiscal 2004. The Company presently has no commitments to open any new stores in fiscal 2004. In July of fiscal 2004 the Company entered into an agreement to open one new concept store in the River Park area of Fresno, California. The anticipated completion date of the project is Summer 2005 with an estimated net cost to the Company of approximately $4.5 million.

As of October 30, 2004, the Company had issued a total of $3.2 million of standby letters of credit and documentary letters of credit totaling $2.4 million. Management believes that the likelihood of any draws under the standby letters of credit is remote. Documentary letters of credit are issued in the ordinary course of business to facilitate the purchase of merchandise from overseas suppliers. The suppliers draw against the documentary letters of credit upon delivery of the merchandise to the Company's customs broker at a United States port.

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

Following is management's discussion and analysis of significant factors which have affected the Company's financial position and its results of operations for the periods presented in the accompanying condensed financial statements.

The Company's operating results, like those of most retailers, are subject to seasonal influences, with the major portion of sales, gross margin and operating results realized during the fourth quarter of each fiscal year. Accordingly, performance for the thirteen and thirty-nine week periods ended October 30, 2004 (hereinafter referred to as the "third quarter" and "first three quarters" of fiscal 2004"), is not necessarily indicative of performance for the remainder of the year.

Critical Accounting Policies

The Company's financial statements are based on the application of significant accounting policies, many of which require management to make significant estimates and assumptions. Some of these significant accounting policies involve a higher degree of judgment or complexity than its other accounting policies. The Company evaluates its estimates on an ongoing basis, including those related to its revenue recognition policy, the carrying value of its merchandise inventories, the adequacy of its store closure reserves, and the valuation of its long-lived assets, including goodwill, and its deferred tax assets. The impact and associated risks related to these policies on the Company's business operations are described more fully in the Company's 2003 Annual Report on Form 10-K/A.

Results of Operations

The following table sets forth the Company's Statements of Operations as a percent of net sales:

	Thirteen Weeks Ended		Thirty-Nine Week	
	October 30, 2004	November 1, 2003	October 30, 2004	Nov
Net sales	100.0 %	100.0 %	100.0 %	
Net credit revenues	0.5	0.5	0.5	
Net leased department revenues	0.4	0.4	0.5	
Total revenues	100.9	100.9	101.0	
Costs and expenses:				
Cost of sales	64.5	64.9	64.9	
Selling, general and administrative expenses	34.6	34.8	33.9	
Depreciation and amortization	2.0	2.3	2.0	
Total costs and expenses	101.1	101.9	100.8	
Operating (loss) income	(0.2)	(1.0)	0.2	
Other (income) expense:				
Interest expense	1.5	2.3	1.7	
Miscellaneous income	(0.3)	(0.5)	(0.3)	
	1.2	1.8	1.4	
Loss before income tax benefit	(1.4)	(2.8)	(1.1)	
Income tax benefit	(0.5)	(1.0)	(0.4)	
Income (loss) from continuing operations	(0.9)	(1.8)	(0.7)	
Discontinued operations:				
Income (loss) from operations of closed stores	--	--	--	
Loss on store closures	--	--	--	
Income tax benefit	--	--	--	

Loss on discontinued operations	--	--	--	
Net loss	(0.9)%	(1.8)%	(0.7)%	

Third Quarter of Fiscal 2004 Compared to Third Quarter of Fiscal 2003

Net Sales

Net sales from continuing operations increased by approximately $2.6 million to $147.9 million in the third quarter of fiscal 2004 as compared to $145.3 million in the third quarter of fiscal 2003, an increase of 1.8%. This increase was primarily driven by promotions related to the Company's 100th anniversary celebration during the month of September and was partially tempered by continuing consumer uncertainty resulting from significant increases in fuel prices and other economic concerns, and during latter October 2004, the presidential elections. Comparable store sales for the third quarter of fiscal 2004, which includes sales for stores open for the full period in both years, also increased by 1.8% as compared to the third quarter of fiscal 2003.

The Company operated 63 department stores and 10 specialty stores as of the end of the third quarter of fiscal 2004, as compared to 64 department stores and 11 specialty stores as of the end of the third quarter of fiscal 2003.

Net Credit Revenues

As described more fully in the Company's Annual Report on Form 10-K/A, in January 2003, pursuant to the terms of a Purchase and Sale Agreement between the Company and Household Bank SB (N.A.) (now "HSBC"), the Company sold its private label credit card accounts and accounts receivable to HSBC. In connection with the sale the Company entered into a Credit Card Program Agreement (the "CCA") which provides the Company will be paid a percentage of Net Cardholder Charges and a percentage of Other Revenue (each as defined in the CCA). All amounts received under the CCA, including amortization of prepaid program revenue, are reflected in the table below as service charge revenues.

Net credit revenues related to the Company's proprietary credit cards in the third quarter of fiscal 2004 was essentially flat as compared to the third quarter of fiscal 2003. As a percent of net sales, net credit revenues was 0.5% of net sales in the third quarter of fiscal 2004 and the third quarter of fiscal 2003. Net credit revenues consist of the following:

	Third Quarter	
(In thousands of dollars)	**2004**	**2003**
Service charge revenues	$ 692	$ 687
Recoveries on previously charged off receivables	39	77
	$ 731	$ 764

Net Leased Department Revenues

Net rental income generated by the Company's various leased departments in the third quarter of fiscal 2004 was virtually equal to the third quarter of fiscal 2003.

Leased department sales are presented net of the related costs for financial reporting purposes. Sales generated in the Company's leased departments in the third quarter of fiscal 2004 consisted primarily of sales in the fine jewelry departments and the beauty salons. These leased department sales were $4.4 million in both the third quarter of fiscal 2004 and the third quarter of fiscal 2003.

Cost of Sales

Cost of sales from continuing operations, which includes costs associated with the buying, handling and distribution of merchandise, increased by approximately $1.0 million to $95.4 million in the third quarter of fiscal 2004 as compared to $94.4 million in the third quarter of fiscal 2003, an increase of 1.1%. The resulting increase in gross margin dollars of $1.0 million is mainly due to the increase in net sales The Company's gross margin percentage increased to 35.5% in the third quarter of fiscal 2004 as compared to 35.0% in the third quarter of fiscal 2003.

Selling, General and Administrative Expenses

Selling, general and administrative expenses from continuing operations increased by approximately $0.7 million to $51.2 million in the third quarter of fiscal 2004 as compared to $50.5 million in the third quarter of fiscal 2003, an increase of 1.4%. The increase is primarily attributable to recent increases in unemployment insurance contribution rates and worker's compensation loss development rates in California. The Company is continuing to experience benefits from its cost control initiatives, but expects to see offsetting pressures from such rate increases in the foreseeable future. As a percent of net sales, selling, general and administrative expenses from continuing operations in the third quarter of fiscal 2004 decreased by 0.2% as compared to the third quarter of fiscal 2003 as a result of the higher sales volume.

Depreciation and Amortization

Depreciation and amortization expense, which includes the amortization (accretion) of intangible assets other than goodwill, was $3.0 million in the third quarter of fiscal 2004 as compared to $3.3 million in the third quarter of fiscal 2003. As a percent of net sales, depreciation and amortization expense decreased to 2.0% in the third quarter of fiscal 2004 as compared to 2.3% in the third quarter of fiscal 2003. These decreases are primarily due to the expiration of certain capital leases.

Interest Expense

Interest expense, which includes the amortization of deferred financing costs, decreased by approximately $1.0 million to $2.3 million in the third quarter of fiscal 2004 as compared to $3.3 million in the third quarter of fiscal 2003, a decrease of 30.8%. As a percent of net sales, interest expense decreased to 1.5% in the third quarter of fiscal 2004 as compared to 2.3% in the third quarter of fiscal 2003. These decreases are primarily due to lower average outstanding borrowing on the Company's revolving line of credit, and the elimination of certain higher interest debt facilities resulting from the amendment and extension of the Company's revolving credit facility, reflected by a total debt reduction of $28.9 million at the end of the third quarter of fiscal 2004 as compared to the end of the third quarter of fiscal 2003. The weighted average interest rate applicable to the revolving credit facility was 5.0% in the third quarter of fiscal 2004 (4.8% at October 30, 2004) as compared to 5.0% in the third quarter of fiscal 2003.

Miscellaneous Income - Net

Miscellaneous income, which includes the amortization of deferred income and other non-operating income and expense amounts, was $0.4 million in the third quarter of fiscal 2004 and $0.7 million in the third quarter of fiscal 2003. Fiscal 2003 included recovery of reserves of approximately $0.3 million related to the final settlement of certain net operating loss carry-back claims.

Income Taxes

The Company's interim effective tax benefit rates from continuing operations are 36.7% in the third quarter of fiscal 2004 and 36.5% in the third quarter of fiscal 2003. The effective tax benefit rate for the third quarter of fiscal 2004 includes the year-to-date impact of an adjustment to the projected effective annual rate of 38% from the previously projected rate of 39% used for the first half of fiscal 2004. This adjustment was primarily attributable to the retroactive renewal in the third quarter of certain federal credits which had expired as of December 31, 2003. The increase in the interim effective tax benefit rate compared to prior year is primarily attributable to improved earnings performance and near-term earnings outlook for the remainder of fiscal 2004.

Loss From Continuing Operations

The Company reported losses from continuing operations of $1.4 million, or $0.11 per share (basic and diluted)and $2.6 million, or $0.20 per share (basic and diluted), in the third quarters of fiscal 2004 and fiscal 2003 respectively.

Discontinued Operations

During fiscal 2003 the Company closed six stores and one specialty store. These stores were determined to be either underperforming or inconsistent with the Company's long-term operating strategy. Results from operating one store closed in January 2004 were negligible during the quarter ended November 1, 2003. Results of operations of the discontinued store consists of the following:

	Third Quarter	
(In thousands of dollars)	**2004**	**2003**
Net sales from closed stores......................	$ --	$ 641
Cost of sales....................................	--	260
Selling, general and administrative expenses.......	--	336
Depreciation and amortization.....................	--	6
Total costs and expenses........................	--	602
Income (loss) from operations of closed stores.....	$ --	$ 39

The Company incurred no costs related to the closure of stores in the quarter ended October 30, 2004. Net costs associated with the closure of stores totaled $0.1 million in the quarter ended November 1, 2003, primarily consisting of lease termination costs, severance, and other incremental costs associated with the store closings. The Company currently has no plans to close additional stores. In the event the Company is unable to improve the operating performance of any underperforming stores, the Company may consider the sale, sublease or closure of those stores in the future.

Net Loss

As a result of the foregoing, the Company reported a net loss of approximately $1.4 million in the third quarter of fiscal 2004 as compared to a net loss of $2.6 million in the third quarter of 2003. On a per share basis (basic and diluted), the net loss was $0.11 per share in the third quarter of 2004 as compared to $0.20 per share in the third quarter of 2003.

Three Quarters of Fiscal 2004 Compared to Three Quarters of Fiscal 2003

Net Sales

Net sales from continuing operations increased by approximately $7.2 million to $440.2 million in the first three quarters of fiscal 2004 as compared to $433.0 million in the first three quarters of fiscal 2003, an increase of 1.7%. This increase was primarily driven by promotions related to the Company's 100th anniversary celebration during the months of March and September, and was partially tempered by continuing consumer uncertainty resulting from significant increases in fuel prices and other economic concerns, and during latter October 2004, the presidential elections. Comparable store sales for the first three quarters of fiscal 2004, which includes sales for stores open for the full period in both years, also increased by 1.7% as compared to the first three quarters of fiscal 2003.

The Company operated 63 department stores and 10 specialty stores as of the end of the third quarter of fiscal 2004, as compared to 64 department stores and 11 specialty stores as of the end of the third quarter of fiscal 2003.

Net Credit Revenues

Net credit revenues related to the Company's proprietary credit cards decreased approximately $0.5 million, or 17.8%, in the first three quarters of fiscal 2004 as compared to the first three quarters of fiscal 2003. As a percent of net sales, net credit revenues was 0.5% of net sales in the first three quarters of fiscal 2004 as compared to 0.6% in the first three quarters of fiscal 2003. Net credit revenues consist of the following:

	Three Quarters	
(In thousands of dollars)	**2004**	**2003**
Service charge revenues..........................	$ 2,197	$ 1,792
Interim servicing compensation - net		1,088
Amortization of interest-only strip		(313)
Recoveries on previously charged off receivables...	127	260
	$ 2,324	$ 2,827

The increase in service charge revenues reflects a stabilization of the accounts receivable portfolio subsequent to conversion to the HSBC processing center and efforts by the Company and HSBC to enhance related program revenues.

The interim servicing compensation amount represents servicing fees under the ISA attributable to general corporate activities that were not offset by direct costs of servicing the portfolio during the interim period. These revenues ceased at the end of the interim servicing period on May 14, 2003.

In connection with the sale of the receivables, on January 31, 2003 the Company recorded a $313,000 interest-only strip that was amortized over the estimated life of the underlying assets sold (approximately five months). The interest-only strip represents the portion of the initial revenues under the CCA that were considered a residual interest in the assets sold.

Net Leased Department Revenues

Net rental income generated by the Company's various leased departments in the first three quarters of fiscal 2004 was virtually equal to the first three quarters of fiscal 2003.

Leased department sales are presented net of the related costs for financial reporting purposes. Sales generated in the Company's leased departments in the first three quarters of fiscal 2004 consisted primarily of sales in the fine jewelry departments and the beauty salons. These leased department sales were $14.9 million in the first three quarters of fiscal 2004 and $14.8 million in the first three quarters of fiscal 2003.

Cost of Sales

Cost of sales from continuing operations, which includes costs associated with the buying, handling and distribution of merchandise, increased by approximately $3.7 million to $285.7 million in the first three quarters of fiscal 2004 as compared to $282.0 million in the first three quarters of fiscal 2003, an increase of 1.3%. The resulting increase in gross margin dollars of $3.5 million is mainly due to the increase in net sales. The Company's gross margin percentage increased to 35.1% in the first three quarters of fiscal 2004 as compared to 34.9% in the first three quarters of fiscal 2003.

Selling, General and Administrative Expenses

Selling, general and administrative expenses from continuing operations increased by approximately $2.1 million to $149.0 million in the first three quarters of fiscal 2004 as compared to $146.9 million in the first three quarters of fiscal 2003, an increase of 1.4%. The increase is primarily attributable to recent increases in unemployment insurance contribution rates and worker's compensation loss development rates in California. The Company is continuing to experience benefits from its cost control initiatives, but expects to see offsetting pressures from such rate increases in the foreseeable future. As a percent of net sales, selling, general and administrative expenses from continuing operations in the first three quarters of fiscal 2004 decreased 0.1% as compared to the first three quarters of fiscal 2003 as a result of the higher sales volume.

Depreciation and Amortization

Depreciation and amortization expense, which includes the amortization (accretion) of intangible assets other than goodwill, was $9.0 million in the first three quarters of fiscal 2004 as compared to $10.0 million in the first three quarters of fiscal 2003. As a percent of net sales, depreciation and amortization expense decreased to 2.0% in the first three quarters of fiscal 2004 as compared to 2.3% in the first three quarters of fiscal 2003. These decreases are partially due to the expiration of certain capital leases and as a percent to sales partially due to the higher sales volume.

Interest Expense

Interest expense, which includes the amortization of deferred financing costs, decreased by approximately $2.7 million to $7.3 million in the first three quarters of fiscal 2004 as compared to $10.0 million in the first three quarters of fiscal 2003, a decrease of 27.3%. As a percent of net sales, interest expense decreased to 1.7% in the first three quarters of fiscal 2004 as compared to 2.3% in the first three quarters of fiscal 2003. These decreases are primarily due to reductions in interest rates charged on the Company's revolving line of credit and the elimination of certain higher interest debt facilities, resulting from the amendment and extension of the Company's revolving credit facility, as well as a total debt reduction of $28.9 million at the end of the first three quarters of fiscal 2004 as compared to the end of the first three quarters of fiscal 2003. These interest reductions were partially offset by one-time charges of $0.4 million for the early termination of certain debt in the first half of fiscal 2004 in connection with the amendment and extension of the Company's revolving credit facility. The weighted average interest rate applicable to the revolving credit facility was 5.0% in the first three quarters of fiscal 2004 (4.8% at October 30, 2004) as compared to 5.2% in the first three quarters of fiscal 2003.

Miscellaneous Income - Net

Miscellaneous income, which includes the amortization of deferred income and other non-operating income and expense amounts, was $1.3 million in the first three quarters of fiscal 2004 and $1.8 million in the first three quarters of fiscal 2003. Fiscal 2003 included recovery of reserves of approximately $0.3 million related to the final settlement of certain net operating loss carry-back claims.

Income Taxes

The Company's interim effective tax benefit rates from continuing operations of 38% in the first three quarters of fiscal 2004 and 36.8% in the first three quarters of fiscal 2003 relate to the net losses incurred in those periods. The effective tax benefit rate for fiscal 2004 includes the year-to-date impact of a third quarter adjustment to the projected effective annual rate of 38% from the previously projected rate of 39% used for the first half of fiscal 2004. This adjustment was primarily attributable to the retroactive renewal in the third quarter of certain federal credits which had expired as of December 31, 2003. The effective tax benefit rate for the third quarter of fiscal 2003 reflects the effects of application of tax allocations to discontinued operations. The effective tax benefit rate for the Company in total for fiscal 2003 was 36.5%. The increase in the interim effective tax benefit rate compared to prior year is primarily attributable to improved earnings performance and near-term earnings outlook for the remainder of fiscal 2004.

Loss From Continuing Operations

The Company reported a loss from continuing operations of $3.1 million, or $0.24 per share (basic and diluted), in the first three quarters of fiscal 2004 as compared to a loss from continuing operations of $5.8 million, or $0.45 per share (basic and diluted), in the first three quarters of fiscal 2003.

Discontinued Operations

During fiscal 2003 the Company closed six stores and one specialty store. These stores were determined to be either underperforming or inconsistent with the Company's long-term operating strategy. The net loss from operating these stores was $0.6 million in the first three quarters of fiscal 2003. The loss from operation of discontinued stores consists of the following:

	Three Quarters	
(In thousands of dollars)	**2004**	**2003**
Net sales from closed stores	$ --	$ 5,561
Cost of sales	--	3,495
Selling, general and administrative expenses	--	2,569
Depreciation and amortization	--	58
Total costs and expenses	--	6,122
Income (loss) from operations of closed stores	$ --	$ (561)

Net costs associated with the closure of stores were minor in the first three quarters of fiscal 2004, primarily consisting of incremental costs associated with the closure of one store at January 31, 2004. Net costs associated with the closure of stores totaled $0.5 million in the first three quarters of fiscal 2003, primarily consisting of lease termination costs, severance, and other incremental costs associated with the store closings. The Company currently has no plans to close additional stores. In the event the Company is unable to improve the operating performance of any underperforming stores, the Company may consider the sale, sublease or closure of those stores in the future.

Net Loss

As a result of the foregoing, the Company reported a net loss of approximately $3.1 million in the first three quarters of fiscal 2004 as compared to net loss of $6.6 million in the first three quarters of 2003. On a per share basis (basic and diluted), the net loss was $0.24 per share in the first three quarters of 2004 as compared to $0.51 per share in the first three quarters of 2003.

Liquidity and Capital Resources

As described more fully in the Company's 2003 Annual Report on Form 10-K/A and Note 6 to the accompanying financial statements, the Company's working capital requirements are currently met through a combination of cash provided by operations, borrowings under its senior revolving credit facility, and by short-term trade and factor credit. As described more fully-in the Company's 2003 Annual Report on Form 10-K/A, on January 31, 2003 the Company sold its credit card accounts and accounts receivable to HSBC. Proceeds from the sale were used to reduce the Company's debt, including off-balance sheet securitization obligations, by over $100 million. The Company's liquidity position, like that of most retailers, is affected by seasonal influences, with the greatest portion of cash from operations generated in the fourth quarter of each fiscal year.

For the thirty-nine weeks ended October 30, 2004, net cash used in operating activities was $18.0 million compared to $40.1 million for the comparable period last year. The reduction in net cash used in operating activities reflects a lower net loss for the period and is also primarily driven by increases in the change in trade accounts payable and accrued expenses from the beginning of the fiscal year as compared to the same period last year.

Net cash used in investing activities was $8.9 million for the thirty-nine weeks ended October 30, 2004 compared to $3.0 million for the comparable period last year. The increase in net cash used in investing activities reflects an increase in capital expenditures of $5.9 million over last year related to the resumption of the Company's store remodeling and expansion programs.

Net cash provided by financing activities was $28.1 million for the thirty-nine weeks ended October 30, 2004 compared to $43.1 million for the comparable period last year. The decrease in net cash provided by financing activities principally reflects the payoff of the high interest rate Kimco note, net of a smaller replacement term note under the Company's amended and extended credit facility with GE Capital and related debt issuance costs. Slightly lower borrowings on the revolving credit facility were partially offset by increased bank overdraft balances.

Sources of Liquidity

Senior Secured Credit Facility

On March 1, 2004, the Company amended and restated its senior revolving credit facility with General Electric Capital (as amended, the "Original GE facility"). The GE facility provides up to $165.0 million of working capital financing through February 1, 2007, with an option to extend the facility through February 2, 2009 for a limited time and under certain conditions. The GE facility consists of a revolving credit facility of up to $156.0 million (including a $20.0 million letter of credit sub-facility) and a fully funded term loan of $9.0 million. Borrowings under the revolving credit facility are limited to the sum of (a) a specified percentage of eligible credit card receivables, and (b) the lesser of specified percentages of (i) the cost of eligible inventory and (ii) the net recovery value of the inventory, as determined by periodic valuation performed by an independent appraiser. Such borrowings are further limited by a requirement to maintain a minimum of $5.0 million of excess availability at all times, and other reserves that are in effect.

As of October 30, 2004, outstanding borrowings under the GE facility totaled $89.0 million, and excess borrowing availability under the GE facility, after the deduction of the minimum availability requirement and other reserves, totaled $62.0 million. Substantially all of the Company's assets, including its merchandise inventories, are pledged to GE Capital under the GE facility.

Although the GE facility expires in February 2007 and the Company has the intent and believes it will have the ability to maintain this debt outstanding for more than one year, the Company has classified its borrowings under the facility as a current liability in accordance with the provisions set forth in Emerging Issues Task Force (EITF) 95-22 "Balance Sheet Classifications, Borrowings Outstanding Under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement." The accompanying balance sheet at November 1, 2003 has been restated to reclassify $50 million of borrowings under the revolving credit facility previously reported as long-term liabilities to current liabilities.

As of October 30, 2004, interest charged on amounts borrowed under the revolving portion of the GE facility are at the prime rate, or at the Company's option, at the applicable LIBOR rate plus 1.75% per annum, and interest charged on the term loan is a fixed rate of 6.6% per annum. In addition, the Company pays an unused commitment fee equal to 0.375% per annum on the average unused daily balance of the revolving portion of the GE facility. The interest rate applicable to the revolving portion of the GE facility is adjusted upwards or downwards on a quarterly basis based on a pricing matrix which is tied to the Company's daily average excess availability for the preceding fiscal quarter (as defined in the agreement). Under the pricing matrix, the applicable interest rate could range from a rate as low as prime plus 0.00% or LIBOR plus 1.50%, to as high as prime plus 0.75%, or LIBOR plus 2.75%.

The GE facility contains restrictive financial and operating covenants, including the requirement to maintain a fixed charge coverage ratio (as defined in the agreement) of 1:1, a prohibition on the payment of dividends on capital stock and restrictions on the ability of the Company to pay principal of subordinated indebtedness or repurchase its capital stock.

Trade Credit

The success of the Company's business is partially dependent upon the adequacy of trade credit offered by key factors and vendors, the vendors' ability and willingness to sell its products at favorable prices and terms, and the willingness of vendors to ship merchandise on a timely basis. The Company has been able to purchase adequate levels of merchandise to support its operations and expects the level of trade credit to be sufficient to support its operations in the foreseeable future. Restrictions to the amount of trade credit granted by key factors and vendors can adversely impact the volume of merchandise the Company is able to purchase. Any significant reduction in the volume of merchandise the Company is able to purchase, or a prolonged disruption in the timing of when merchandise is received, could have a material adverse affect on the Company's business, liquidity position, and results of operations.

Other Financings

The Company may consider various other sources of liquidity in the future, including but not limited to the issuance of additional securities that might have a dilutive effect on existing shareholders or incurring additional indebtedness which would increase the Company's leverage.

Uses of Liquidity

The Company's primary uses of liquidity are for working capital, debt service requirements and capital expenditures. Capital expenditures in the first three quarters of fiscal 2004, totaling $9.0 million, were primarily related to renovation, refixturing, and expansion of certain existing locations and certain information system enhancements.

The Company is in the process of remodeling certain existing store locations. As of October 30, 2004, the estimated remaining cost of such projects is $1.4 million. Such projects are expected to be fully complete in fiscal 2004. The Company presently has no commitments to open any new stores in fiscal 2004. In July of fiscal 2004 the Company entered into an agreement to open one new concept store in the River Park area of Fresno, California. The anticipated completion date of the project is Summer 2005 with an estimated net cost to the Company of approximately $4.5 million.

As of October 30, 2004, the Company had issued a total of $3.2 million of standby letters of credit and documentary letters of credit totaling $2.4 million. The standby letters of credit were issued to provide collateral for workers compensation insurance policies. Management believes that the likelihood of any draws under the standby letters of credit is remote. Documentary letters of credit are issued in the ordinary course of business to facilitate the purchase of merchandise from overseas suppliers. The supplier draws against the documentary letter of credit upon delivery of the merchandise.

Subject to the previously described risks and uncertainties relative to the Company's sources of liquidity, management currently believes that the described sources of liquidity, including cash generated by operations, liquidity provided by the GE facility and other financial resources, will be adequate to meet the Company's planned cash requirements for the next twelve months. However, the Company's actual results may differ from the expectations set forth in the preceding sentence. The Company's liquidity and capital resources may be affected by a number of factors and risks (many of which are beyond the control of the Company), including but not limited to the availability of adequate borrowing capacity, adequate cash flows generated by operations and the adequacy of factor and trade credit. If the estimates or assumptions relative to any one of these sources of liquidity are not realized, or if these sources of liquidity are significantly reduced or eliminated, the Company's liquidity position, financial condition and results of operations will be materially adversely affected.

Safe Harbor Statement.

Certain statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements include the plans and objectives of management for future operations and the future economic performance of the Company that involve risks and uncertainties. In some instances, such statements may be identified by the use of forward-looking terminology such as "may," "will," "expects," "believes," "intends," "projects," "forecasts," "plans," "estimates," "anticipates," "continues," "targets," or similar terms, variations of such terms or the negative of such terms. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties which could cause actual results to differ materially from those described in the forward-looking statements, including, without limitation, the Company's ability to meet debt obligations and adhere to the restrictions and covenants imposed under its various debt agreements; the timely receipt of merchandise and the Company's ability to obtain adequate trade credit from its key factors and vendors; risks arising from general economic and market conditions (including uncertainties arising from future acts of terrorism or war); the ability to modify operations in order to minimize the adverse impact of rising costs, including but not limited to health care, workers' compensation, property and casualty insurance, unemployment insurance, and utilities costs; the effects of seasonality and weather conditions, changing consumer trends and preferences, competition, consumer credit; the Company's dependence on its key personnel; and general labor conditions, all of which are described in more detail under the caption "Risk Factors" in Item I. "Business" in the Company's 2003 Annual Report on Form 10-K/A and other reports filed by the Company with the Securities and Exchange Commission. THE COMPANY DOES NOT PRESENTLY INTEND TO UPDATE THESE STATEMENTS AND UNDERTAKES NO DUTY TO ANY PERSON TO EFFECT ANY SUCH UPDATE UNDER ANY CIRCUMSTANCES.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described more fully in Part II, Item 7A of the Company's 2003 Annual Report on Form 10-K/A, the Company is exposed to market risks in the normal course of business due to changes in interest rates on short-term borrowings under its revolving line of credit and on certain of its long-term borrowing arrangements. Based on current market conditions, management does not believe there has been a material change in the Company's exposure to interest rate risks as described in that report.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures," as such term is defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in the Company's reports, pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosures. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

The Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively), have evaluated the effectiveness of the Company's "disclosure controls and procedures," as of October 30, 2004. Based on their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurances that information required to be disclosed in the Company's reports, pursuant to the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosures.

Changes in Internal Controls Over Financial Reporting

Subsequent to the issuance of our condensed financial statements for the quarter ended May 1, 2004, the Company's management determined that borrowings under its revolving credit facility should have been classified as short-term on the consolidated balance sheets. As a result, the accompanying balance sheet as of November 1, 2003 has been restated. The Company performed a thorough review of all new loan agreements to specifically identify proper classification of debt.

This evaluation referred to above did not identify any other significant matters in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation of the Company, as amended. (1)
3.2	Bylaws of the Company, as amended. (2)

31.1	Section 302 Certification of Chief Executive Officer. (3)
31.2	Section 302 Certification of Chief Administrative Officer. (3)
32.1	Certification of President and Chief Executive Officer and Chief Administrative Officer Pursuant to 18 U.S.C. §1350, As Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. (3)

(1) Previously filed as an exhibit to Registration Statement on Form S-1 (File No. 33-3949).

(2) Previously filed as an exhibit to the Annual Report on Form 10-K for the year ended February 3, 2001 (File No. 1-09100).

(3) Furnished concurrently herewith.

SIGNATURES

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

Gottschalks Inc.
(Registrant)

December 7, 2004 By: /s/ James R. Famalette
James R. Famalette
(President and Chief Executive Officer)

December 7, 2004 By: /s/ J. Gregory Ambro
J. Gregory Ambro
(Senior Vice President/Chief Administrative and Financial Officer)

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