



FOR: GOTTSCHALKS INC.

CONTACT: Greg Ambro
Chief Financial Officer
(559) 434-4800
or
Financial Dynamics:
Leigh Parrish, Rachel Albert
(212) 850-5651

DISTRIBUTION: NO. CALIFORNIA NEWS LINE & EMAIL/FAX LIST: SFGOT

FOR RELEASE ON THURSDAY, MAY 25th at 1:05 P.M. P.D.T.

**GOTTSCHALKS REPORTS FIRST QUARTER
FISCAL 2006 FINANCIAL RESULTS**

FRESNO, CA – May 25, 2006 – Gottschalks Inc. (NYSE: GOT) today reported financial results for the first quarter of fiscal 2006. Net loss for the first quarter was \$4.0 million, or \$0.30 per diluted share, compared to a net loss of \$2.0 million, or \$0.15 per diluted share, for the first quarter of fiscal 2005. The net loss for the first quarter includes a pre-tax charge of \$300,000, or \$0.01 per diluted share, relating to the expensing of stock based compensation.

As previously reported, same store sales decreased 0.5% for the first quarter of 2006. Total sales decreased slightly by 0.4% to \$143.5 million, from \$144.1 million for the first fiscal quarter last year.

Jim Famalette, president and chief executive officer of Gottschalks, stated, “Our results for the quarter were impacted by several factors, including unseasonably cool, wet weather, increased supply chain expenses due to higher fuel costs and higher interest rates. These factors, coupled with the expensing of stock options, contributed to the decline in our bottom line compared to the first quarter of fiscal 2005. Despite the challenges we faced in the first quarter, our core merchandise categories – cosmetics, accessories and shoes – remained strong and continued to perform well. Our apparel business was affected by the unusual weather, but we have already begun to see an improvement in our sales as more typical seasonal weather has returned. Despite the slower sales, we continued to make progress towards improved inventory turns and averaged 2% less inventory in comparable stores for the quarter. We are also currently taking action to help mitigate the increased cost factors impacting our business.”

Commenting on the Company’s outlook, Mr. Famalette concluded, “Looking forward, we believe our core merchandise areas will continue to drive our top line performance and expect to

generate a one to two percent increase in our comp store sales for the year. We are taking a long-term view to our business and are planning to complete important investments in our operations during the year. These additional costs will focus predominantly on enhancing our infrastructure to support future growth as well as continuing to make progress on our key operational initiatives – namely store renovations, enhancing our IT infrastructure, closing under performing stores and refining our merchandising assortments. We anticipate high fuel prices and increasing interest rates will continue for the remainder of the year, which is expected to temper our bottom line results. Our current estimate for the cost of expensing stock options in fiscal 2006 is \$800,000 on a pre-tax basis. For the full fiscal year we anticipate net income to be in a range of \$5.2 to \$5.6 million based on first quarter results and an estimated annualized tax rate of 37%. We remain confident that with the strategies we have in place Gottschalks is on the right track to deliver long-term shareholder value.”

As the Company previously announced, it expects to open its fourth store in Oregon at the Valley River Mall in Eugene, where it will be taking over a 124,000 square foot Macy’s store lease. Additionally the Company will close its 42,000 square foot store located in Danville, California. The Company anticipates that these two store events will occur in the third quarter. The Company also anticipates an additional store will be closed by fiscal year end.

Supplemental Operating Data:

In accordance with accounting standards generally accepted in the United States of America (GAAP), the operating results for closed stores are reported in the condensed financial statements as loss from discontinued operations and are excluded from the operating results from continuing operations. The following table provides additional information on operations and reconciles the total net sales, gross margin, and selling, general and administrative expenses to reported results from continuing operations:

	Thirteen Weeks Ended	
	April 29 2006	April 30, 2005
Sales		
Continuing operations	\$142,727	\$142,172
Discontinued operations	785	1,932
Total	<u>\$143,512</u>	<u>\$144,104</u>
Gross Margin		
Continuing operations	47,603	48,155
Discontinued operations	48	716
Total	<u>\$47,651</u>	<u>\$48,871</u>
Selling, general and administrative expenses		
Continuing operations	49,939	47,735
Discontinued operations	243	980
Total	<u>\$50,182</u>	<u>\$48,715</u>
Net loss		
Continuing operations	(3,859)	(1,739)
Discontinued operations	(102)	(246)
Total	<u>(\$3,961)</u>	<u>(\$1,985)</u>

Earnings Teleconference and Webcast

Gottschalks will host a conference call today at 1:30 p.m. Pacific Time to review its results for the first quarter of fiscal 2006. To access the call, dial 800-362-0571 to listen to the call on the day of the event. If you are unable to participate in the call, a replay will be made available through June 1, 2006. To access this service, please dial 800-839-6975. No passcode is required

for the live call or replay. The live conference call and replay can also be accessed via audio web cast at the Investor Relations section of the Company's web site, located at www.gottschalks.com.

About Gottschalks

Gottschalks is a regional department store chain, currently operating 62 department stores and 6 specialty apparel stores in six western states, including California (39), Washington (9), Alaska (6), Oregon (3), Nevada (2) and Idaho (3). Gottschalks offers better to moderate brand-name fashion apparel, cosmetics, shoes, accessories and home merchandise. Gottschalks offers corporate information and selected merchandise on its website located at www.gottschalks.com.

Business Risks and Forward Looking Statements

This release contains forward-looking statements (within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995) 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 acts of terrorism or war); the ability to improve the profitability and cash flows of its stores or to sell, sublease or close underperforming stores; 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 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 in Gottschalks' Annual Report on Form 10-K and other reports filed by Gottschalks with the Securities and Exchange Commission. GOTTSCHALKS DOES NOT PRESENTLY INTEND TO UPDATE THESE STATEMENTS AND UNDERTAKES NO DUTY TO ANY PERSON TO EFFECT ANY SUCH UPDATE UNDER ANY CIRCUMSTANCES.

(Tables follow)

GOTTSCHALKS INC.
STATEMENTS OF OPERATIONS
(In thousands, except share data)
(unaudited)

	Thirteen Weeks Ended	
	April 29, 2006	April 30, 2005
Net sales	\$142,727	\$142,172
Net credit revenues	636	779
Net leased department revenues	741	744
Total revenues	<u>144,104</u>	<u>143,695</u>
Costs and expenses:		
Cost of sales	95,124	94,017
Selling, general and administrative expenses	49,939	47,735
Depreciation and amortization	3,562	3,089
New store opening costs	0	107
Total costs and expenses	<u>148,625</u>	<u>144,948</u>
Operating loss	(4,521)	(1,253)
Other (income) expense:		
Interest expense	2,235	1,929
Miscellaneous income	(434)	(353)
	<u>1,801</u>	<u>1,576</u>
Loss before income tax benefit	(6,322)	(2,829)
Income tax benefit	(2,463)	(1,090)
Loss from continuing operations	<u>(3,859)</u>	<u>(1,739)</u>
Discontinued operations:		
Loss from operation of closed stores	(226)	(372)
Net gain on store closures	72	0
Income tax benefit	52	126
Loss on discontinued operations	<u>(102)</u>	<u>(246)</u>
Net loss	<u><u>\$(3,961)</u></u>	<u><u>\$(1,985)</u></u>
Net loss per common share - basic and diluted:		
Loss from continuing operations	(\$0.29)	(\$0.13)
Loss from discontinued operations	(\$0.01)	(\$0.02)
Net loss per common share	(\$0.30)	(\$0.15)
Weighted average # of common shares outstanding:		
Basic and diluted	13,371	13,077

GOTTSCHALKS INC.
CONDENSED BALANCE SHEETS
(In thousands)
(unaudited)

	<u>April 29, 2006</u>	<u>January 28, 2006</u>	<u>April 30, 2005</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$6,885	\$5,368	\$5,622
Receivables – net	2,574	7,284	3,110
Merchandise inventories	174,543	159,986	178,104
Other	18,301	15,534	17,454
Total current assets	<u>202,303</u>	<u>188,172</u>	<u>204,290</u>
PROPERTY AND EQUIPMENT – net	130,734	133,545	127,071
OTHER LONG-TERM ASSETS	13,238	13,305	13,277
	<u>\$346,275</u>	<u>\$335,022</u>	<u>\$344,638</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Trade accounts payable and other current liabilities	\$89,192	\$88,472	\$90,848
Current portion of long-term obligations	2,020	2,770	3,244
Total current liabilities	<u>91,212</u>	<u>91,242</u>	<u>94,092</u>
REVOLVING LINE OF CREDIT	80,795	47,935	63,730
LONG-TERM OBLIGATIONS (less current portion)	12,490	28,971	24,898
DEFERRED INCOME & OTHER	26,254	26,790	30,697
SUBORDINATED NOTE PAYABLE TO AFFILIATE	19,180	20,180	20,180
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY	<u>116,344</u>	<u>119,904</u>	<u>111,041</u>
	<u>\$346,275</u>	<u>\$335,022</u>	<u>\$344,638</u>

###