

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE

In re: Gottschalks, Inc.

Case No. 09-10157 (KJC)  
Reporting Period: November 28, 2010 - January 1, 2011

MONTHLY OPERATING REPORT

File with Court and submit copy to United States Trustee within 20 days after end of month.

Submit copy of report to any official committee appointed in the case.

REQUIRED DOCUMENTS	Form No.	Document Attached	Available Upon Request	Affidavit/Supplement Attached
Schedule of Cash Receipts and Disbursements	MOR-1	X		
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1a		X	
Schedule of Professional Fees Paid	MOR-1b	X		
Listing of bank account numbers and balances		X		
Cash disbursements journals		X		
Statement of Operations	MOR-2	X		
Balance Sheet	MOR-3	X		
Status of Postpetition Taxes	MOR-4	X		
Copies of IRS Form 6123 or payment receipt		N/A		
Copies of tax returns filed during reporting period		N/A		
Summary of Accounts Payables	MOR-4	X		
Accounts Receivable Aging		N/A		
Debtor Questionnaire	MOR-5	X		

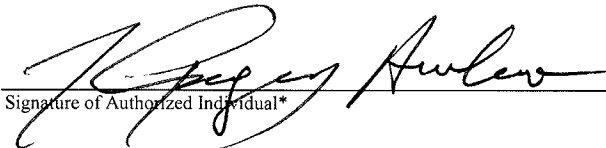
I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.

  
Signature of Debtor

1/13/11  
Date

Signature of Joint Debtor

Date

  
Signature of Authorized Individual\*

1/13/11  
Date

J. Gregory Ambro  
Printed Name of Authorized Individual

Executive Vice President and Chief Operating Officer  
Title of Authorized Individual

\*Authorized individual must be an officer, director or shareholder if debtor is a corporation; a partner if debtor is a partnership; a manager or member if debtor is a limited liability company.

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SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS [1]

	BANK ACCOUNTS							CURRENT MONTH		FILING TO DATE
	GEN OPER.	STORE WORKING FUNDS	UTILITY DEP.	SALES TAX	PROF FEES RESERVE	ALASKA		ACTUAL	PROJECTED [2]	ACTUAL
CASH (LOAN BALANCE) BEGINNING OF MONTH	\$ 8,310	\$ -	\$ 281	\$ -	\$ -	\$ -		\$ 8,591	\$ 7,352	\$ (68,811)
<b>RECEIPTS</b>										
CASH SALES	-							-	-	83,387
CREDIT CARD RECEIVABLES	-							-	-	20,495
LOANS AND ADVANCES	-							-	-	-
SALE OF ASSETS (3)	1,499							1,499	-	119,119
OTHER RECEIPTS (4)	91							91	-	70,227
TRANSFERS (FROM DIP ACCTS)								-	-	-
<b>TOTAL RECEIPTS</b>	\$ 1,590	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 1,590	\$ -	\$ 293,228
<b>DISBURSEMENTS</b>										
ADVERTISING	-							-	-	3,223
MERCHANDISE (INCLUDING FREIGHT)	-							-	-	53,228
RENT	38							38	5	14,504
PAYROLL, PAYROLL TAXES, AND BENEFITS	74							74	53	51,348
UTILITIES	8							8	8	4,769
INSURANCE	167							167	150	1,281
SALES AND OTHER TAXES	-							-	20	33,083
GENERAL OPERATING	6							6	11	8,780
FINLAY LICENSE	-							-	-	11,814
FINANCING EXPENSES	-							-	-	3,524
PROFESSIONAL FEES	234							234	350	19,339
OTHER	-							-	-	7,744
<b>TOTAL DISBURSEMENTS</b>	\$ 527	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 527	\$ 597	\$ 212,637
DRAW ON LC	-							-	-	4,648
ADJUSTMENTS	-							-	-	2,522
NET CASH FLOW	\$ 1,063	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 1,063	\$ (597)	\$ 78,465
(RECEIPTS LESS DISBURSEMENTS)										
<b>CASH (LOAN BALANCE)- END OF MONTH</b>	\$ 9,373	\$ -	\$ 281	\$ -	\$ -	\$ -		\$ 9,654	\$ 6,755	\$ 9,654

[1] The cash balances and activity on this schedule represents the following balance sheet items: Unrestricted Cash and Cash Equivalents, Restricted Cash and Cash Equivalents, and Revolver Line of Credit. The balance of the revolver line of credit as of 1/1/11 was \$0.

[2] 'Projected' amounts reflect projections per the winddown budget.

(3) Proceeds from the sale of the Park 41 partnership.

(4) Includes refund for 2009 Delaware Franchise Taxes.

**SCHEDULE OF PROFESSIONAL FEES AND EXPENSES PAID**

This schedule is to include all retained professional payments from case inception to current month.

(Actual \$)

PAYEE	PERIOD COVERED	DATE OF COURT ORDER AUTHORIZING PAYMENT	AMOUNT APPROVED	AMOUNT PAID		TOTAL PAID TO DATE		TOTAL INCURRED AND UNPAID
				FEES	EXPENSES	FEES	EXPENSES	
O'Melveny & Meyers	11/28/10 to 1/1/11	12/17/2010	164,476	164,476	-	7,105,511	218,849	217,132
FTI Consulting	11/28/10 to 1/1/11	12/17/2010	11,393	11,393	-	3,093,637	132,854	-
Richards, Layton & Finger	11/28/10 to 1/1/11	11/30/10 & 12/17/10	18,942	18,552	390	929,754	66,589	20,309
Kurtzman Carson Consultants	11/28/10 to 1/1/11	n/a	-	-	-	1,184,904	210,801	16,076
Cooley Godward Kronish	11/28/10 to 1/1/11	11/30 & 12/16 & 12/17	32,971	32,843	129	925,462	32,145	15,329
Loughlin Meghji & Company	11/28/10 to 1/1/11	12/16/10 & 12/17/10	14,881	14,881	-	907,015	833	9,257
Benesch	11/28/10 to 1/1/11	12/16/10 & 12/17/10	2,160	1,892	269	164,488	4,690	1,157
GE Capital Third Party Legal [1]	11/28/10 to 1/1/11	n/a	-	-	-	578,731	5,505	-
Financial Dynamics	11/28/10 to 1/1/11	-	-	-	-	29,377	-	-
Other	11/28/10 to 1/1/11	12/17/2010	2,428	2,428	-	236,754	766	6,931
<b>TOTAL PAYMENTS TO PROFESSIONALS</b>			<b>\$ 247,251</b>	<b>\$ 246,463</b>	<b>\$ 788</b>	<b>\$ 15,155,631</b>	<b>\$ 673,032</b>	<b>\$ 286,191</b>

[1] Amounts paid to GE Capital's legal advisors represent disbursements related to advisory work on the Credit Agreement.

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**STATEMENT OF OPERATIONS - Income Statement**

The Statement of Operations is to be prepared on an accrual basis. The accrual basis of accounting recognizes revenue when it is realized and expenses when they are incurred, regardless of when cash is actually received or paid.

<b>REVENUES</b>	<b>Month (\$ in 000's)</b>	<b>Cumulative Filing to Date (\$ in 000's)</b>
Net Sales	-	93,101
Net Leased Department Revenue	-	1,791
Net Credit Revenue	-	1,758
Total Revenues	-	96,650
<b>COST OF GOODS SOLD</b>		
Cost of Goods Sold	-	73,936
Gross Profit	-	22,714
<b>OPERATING EXPENSES</b>		
Advertising	-	2,108
Bad Debts	-	61
Contributions	-	9
Employee Benefits Programs	(13)	2,402
Insider Compensation	54	1,612
Insurance	15	1,480
Repairs and Maintenance	1	1,287
Rent and Lease Expense	-	4,830
Salaries/Commissions/Fees	14	21,746
Supplies	-	1,921
Taxes	(140)	3,856
Travel and Entertainment	1	133
Utilities	1	1,677
Other (attach schedule)	509	98,138
Total Operating Expenses Before Depreciation	442	141,260
Depreciation/Depletion/Amortization	12	5,505
Net Profit (Loss) Before Other Income & Expenses	(454)	(124,051)
<b>OTHER INCOME AND EXPENSES</b>		
Other Income (attach schedule)	(4)	(4,243)
Interest Expense	-	1,656
Net Profit (Loss) Before Reorganization Items	(450)	(121,464)
<b>REORGANIZATION ITEMS</b>		
Professional Fees	106	16,558
U. S. Trustee Quarterly Fees	2	123
Other Reorganization Expenses (attach schedule)	-	2,809
Total Reorganization Expenses	108	19,490
Income Taxes	-	76
Net Profit (Loss)	<b>\$ (558)</b>	<b>\$ (141,030)</b>

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**STATEMENT OF OPERATIONS - continuation sheet**

<b>BREAKDOWN OF "OTHER" CATEGORY</b>		<b>Cumulative</b>
	<b>Month (\$ in 000s)</b>	<b>Filing to Date (\$ in 000s)</b>
<b>Other Operational Expenses</b>		
Services Purchased	3	5,659
Unclassified	0	(1,122)
Communications	3	670
Postage	0	224
Professional Fees	3	46
Costs capitalized under Uniform Capitalization Rules [1]	0	(1,099)
Loss/(Gain) on Sale of Assets	500	93,716
Store Closure Costs	0	44
<b>Total Other Operational Expenses</b>	<b>509</b>	<b>98,138</b>
<b>Other Income</b>		
Rental income	(3)	(150)
Miscellaneous (income) expense	(1)	(4,093)
<b>Total Other Income</b>	<b>(4)</b>	<b>(4,243)</b>
<b>Other Reorganization Expenses</b>		
Amortization of DIP loan fees	0	2,809
<b>Total Other Reorganization Expenses</b>	<b>0</b>	<b>2,809</b>

[1] Uniform Capitalization Rules require capitalization of certain indirect buying, handling and distribution costs to align these costs with the related sales.

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**BALANCE SHEET**

The Balance Sheet is to be completed on an accrual basis only. Pre-petition liabilities must be classified separately from postpetition obligations.

ASSETS	BOOK VALUE AT END OF CURRENT REPORTING MONTH (\$ in 000's)	BOOK VALUE PETITION DATE (\$ in 000's)
<b>CURRENT ASSETS</b>		
Unrestricted Cash and Equivalents	\$ 9,299	\$ 7,408
Restricted Cash and Cash Equivalents [1]	281	-
Accounts Receivable (Net)	2,887	2,944
Inventories	-	126,552
Prepaid Expenses (attach schedule)	1,898	3,849
Professional Retainers	70	493
Other Current Assets (attach schedule)	6,313	8,216
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 20,748</b>	<b>\$ 149,462</b>
<b>PROPERTY AND EQUIPMENT</b>		
Real Property and Improvements	-	60,652
Machinery and Equipment	-	61,313
Furniture, Fixtures and Office Equipment	-	89,942
Leasehold Improvements	3,981	65,463
Vehicles	-	420
Construction in progress	-	2,187
Less Accumulated Depreciation	(2,520)	(151,228)
<b>TOTAL PROPERTY &amp; EQUIPMENT</b>	<b>\$ 1,461</b>	<b>\$ 128,749</b>
<b>OTHER ASSETS</b>		
Loans to Insiders	-	-
Other Assets (attach schedule)	13	5,166
<b>TOTAL OTHER ASSETS</b>	<b>\$ 13</b>	<b>\$ 5,166</b>
<b>TOTAL ASSETS</b>	<b>\$ 22,222</b>	<b>\$ 283,377</b>
<b>LIABILITIES AND OWNER EQUITY</b>		
<b>LIABILITIES NOT SUBJECT TO COMPROMISE (Postpetition)</b>		
Accounts Payable	59	
Taxes Payable (refer to FORM MOR-4)	957	
Wages Payable	9	
Rent / Leases - Building/Equipment	1,289	
Secured Debt / Adequate Protection Payments	-	
Professional Fees	286	
Amounts Due to Insiders	22	
Other Postpetition Liabilities (attach schedule)	17,618	
<b>TOTAL POSTPETITION LIABILITIES</b>	<b>\$ 20,240</b>	<b>-</b>
<b>LIABILITIES SUBJECT TO COMPROMISE (Pre-Petition)</b>		
Secured Debt	-	76,069
Priority Debt	-	37
Unsecured Debt	54,244	54,533
Other Pre-petition Liabilities (attach schedule)	122	64,099
<b>TOTAL PRE-PETITION LIABILITIES</b>	<b>\$ 54,366</b>	<b>194,738</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 74,606</b>	<b>194,738</b>
<b>OWNER EQUITY</b>		
Capital Stock	137	137
Additional Paid-In Capital	78,007	78,002
Retained Earnings - Pre-Petition	11,987	11,987
Retained Earnings - Postpetition	(141,028)	
Adjustments to Owner Equity (attach schedule)	(1,487)	(1,487)
<b>NET OWNER EQUITY</b>	<b>(52,384)</b>	<b>88,639</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>\$ 22,222</b>	<b>\$ 283,377</b>

[1] Restricted Cash and Cash Equivalents represents cash held in a separate account for utility adequate assurance.

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BALANCE SHEET - continuation sheet

ASSETS		BOOK VALUE AT END OF CURRENT REPORTING MONTH (\$ in 000's)	BOOK VALUE PETITION DATE (\$ in 000's)
Prepaid Expenses			
	Prepaid insurance	159	1,167
	Workers compensation prepaid	1,739	889
	Prepaid advertising	-	219
	Prepaid health and other	-	122
	Prepaid rent	-	-
	Prepaid expenses	-	1,094
	Prepaid property taxes	-	358
	<b>Total Prepaid Expenses</b>	<b>1,898</b>	<b>3,849</b>
Other Current Assets			
	Supplies	-	1,534
	Workers compensation reserves	6,118	6,118
	Deferred loan fees	-	4
	Other receivables	195	373
	Salary support receivable	-	184
	Other	-	3
	<b>Total Other Current Assets</b>	<b>6,313</b>	<b>8,216</b>
Other Assets			
	Intangibles - lease rights	-	813
	Investment in partnership	-	1,810
	Deposits	10	-
	Straightline lease	-	2,543
	Prepaid rent	3	
	<b>Total Other Assets</b>	<b>13</b>	<b>5,166</b>
LIABILITIES AND OWNER EQUITY		BOOK VALUE AT END OF CURRENT REPORTING MONTH	BOOK VALUE PETITION DATE
Other Postpetition Prepetition Liabilities			
	<b>Other Postpetition Liabilities</b>		
	Accrued expenses	2,667	
	Gift and merchandise cards	3,595	
	Vacation payable	21	
	Payroll deductions payable	-	
	Accrued accounting fees	151	
	Sales return reserve	-	
	Workers compensation insurance reserves	6,118	
	Other insurance reserves	329	
	Deferred revenue	-	
	Deferred rent	-	
	Intangibles - lease rights	-	
	Fin 48 liability	1,008	
	Deferred taxes	3,729	
	Capital leases	-	
	<b>Total Other Postpetition Liabilities</b>	<b>17,618</b>	
	<b>Other Prepetition Liabilities</b>		
	Accrued expenses	-	5,162
	Gift and merchandise cards	-	7,738
	Sales and payroll taxes payable	-	10,495
	Wages payable	-	2,030
	Vacation payable	25	2,990
	Payroll deductions payable	-	304
	Accrued accounting fees	-	520
	Pension liability	97	97
	Other accruals prepetition	-	599
	Store party fund	-	63
	Vendor supported events	-	220
	Sales return reserve	-	1,663
	Workers compensation insurance reserves	-	6,118
	Other insurance reserves	-	259
	Deferred revenue	-	6,699
	Deferred rent	-	5,466
	Intangibles - lease rights	-	208
	Fin 48 liability	-	1,008
	Deferred taxes	-	3,512
	Capital leases	-	8,948
	<b>Total Other Prepetition Liabilities</b>	<b>122</b>	<b>64,099</b>
Adjustments to Owner Equity			
	Treasury stock	(1,487)	(1,487)
	[1] Represents reserves that are reevaluated on a quarterly basis.		
	[2] Represents employee programs that were continued postpetition per Court order.		

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**STATUS OF POSTPETITION TAXES**

The beginning tax liability should be the ending liability from the prior month or, if this is the first report, the amount should be zero.

Attach photocopies of IRS Form 6123 or payment receipt to verify payment or deposit of federal payroll taxes.

Attach photocopies of any tax returns filed during the reporting period.

(Actual \$)

	Beginning Tax Liability	Amount Withheld or Accrued	Amount Paid	Ending Tax Liability
<b>Federal</b>				
Withholding	5,931	11,978	(17,909)	-
FICA	1,515	2,825	(4,340)	-
Unemployment	-	-	-	-
Total Federal Taxes	\$ 7,446	\$ 14,803	\$ (22,249)	\$ -
<b>State and Local</b>				
Withholding	2,182	4,393	(6,575)	-
Sales & Excise	-	-	-	-
Unemployment	36	-	-	36
Real Property	493,581	18,489	-	512,070
Personal Property <sup>[1]</sup>	442,273	2,173	-	444,446
Workers Compensation	-	-	-	-
Other: Local	-	-	-	-
Total State and Local	938,072	25,054	(6,575)	956,551
<b>Total Taxes</b>	<b>\$ 945,518</b>	<b>\$ 39,858</b>	<b>\$ (28,825)</b>	<b>\$ 956,551</b>

<sup>[1]</sup> Personal Property Taxes are paid on an annual basis.

\* Copies of tax returns are available upon request.

**SUMMARY OF ACCOUNTS PAYABLE**

Attach aged listing of accounts payable.

Note: The Company does not analyze or prepare the aging of its accounts payable.



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**ACCOUNTS RECEIVABLE AGING**

Accounts Receivable Aging	Amount
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Note: The Company does not analyze or prepare the aging of its accounts receivable.

**DEBTOR QUESTIONNAIRE**

Must be completed each month	Yes	No
1. Have any assets been sold or transferred outside the normal course of business this reporting period? If yes, provide an explanation below. [1]	X	
2. Have any funds been disbursed from any account other than a debtor in possession account this reporting period? If yes, provide an explanation below.		X
3. Have all postpetition tax returns been timely filed? If no, provide an explanation below.	X	
4. Are workers compensation, general liability and other necessary insurance coverages in effect? If no, provide an explanation below.	X	
5. Has any bank account been opened during the reporting period? If yes, provide documentation identifying the opened account(s). If an investment account has been opened provide the required documentation pursuant to the Delaware Local Rule 4001-3.		X

[1] The sale of the Park 41 Partnership was completed on December 28, 2010.