

GOTTSCHALKS INC.

AUDIT COMMITTEE CHARTER

1. Formation. The board of Directors (the “Board”) of Gottschalks Inc. (the “Corporation”) has established the Audit Committee (the “Committee”) pursuant to the Delaware General Corporation Law and the Corporation’s Bylaws.

2. Statement of Purpose. The Committee will assist the Board in fulfilling its oversight responsibilities. The Committee will review the financial reporting process, the system of internal control, the audit process, and the Corporation’s process for monitoring compliance with laws and regulations. The Committee should also provide an open avenue of communication among the external auditors, management, internal audit and the Board. To effectively perform his or her role, each Committee member will obtain an understanding of the responsibilities of Committee membership as well as the Corporation’s business, operations, and risks.

The Committee is not responsible, in the ordinary course, for planning or conducting audits or determining that the Corporation’s financial statements are accurate and are in accordance with generally accepted accounting principles. This duty is the responsibility of management and the external auditors. It is also not the duty of the Committee to independently verify information presented to it, unless special circumstances require such verification.

3. Relationship With External Auditors. The Committee has the direct and sole authority and responsibility to select, evaluate and, where appropriate, replace the external auditors. The Committee is responsible for ensuring that the external auditors submit on a periodic basis to the Committee a formal written statement delineating all relationships between the external auditors and the Company and for actively engaging in a dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors. The Committee is also responsible for recommending that the Board take appropriate action in response to the external auditors’ statement to satisfy itself of the external auditors’ independence.

4. Composition and Qualifications. The Committee shall be composed of not less than three members of the Corporation’s Board. Subject to the foregoing, the exact number of members of the Committee shall be fixed and may be changed from time to time by resolution duly adopted by the Board. One of the members of the Committee shall be designated by vote of the members of the Committee as the chairperson (the “Chairperson”) of the Committee. The Board shall appoint the members of the Committee to serve until their successors have been duly designated. The Board for any reason and at any time may remove members of the Committee. The Board shall fill vacancies on the Committee. The members of the Committee shall meet the standards of independence and other qualifications required by the New York Stock Exchange, as they may be amended from time to time. The Committee shall determine whether at least one member has the experience and knowledge to meet the definition of “financial expert” as defined by the rules of the Securities and Exchange Commission (the “SEC”) and, if not, shall disclose that fact as required by the rules of the SEC. Members of the Committee shall receive no remuneration from the Corporation or its subsidiaries other than that received as Board members.

5. **OVERSIGHT.** The Committee shall have responsibilities in the following areas:

(a) INTERNAL CONTROLS

- Review with management and the external auditors the internal accounting controls and procedures, including computer systems and applications, the security of such systems and applications, and the contingency plan for the processing financial information in the event of a systems breakdown.
- Review and instruct the external auditors to keep the Committee informed about the adequacy of the internal controls to expose any payments, transactions or procedures that might be illegal or otherwise improper fraud, about illegal acts, deficiencies in internal control, and certain other matters.
- Inquire about internal control recommendations made by internal and external auditors and whether management has implemented them.

(b) FINANCIAL REPORTING

- Review significant accounting and reporting issues and judgments and their impact on the financial statements, as presented by management for the auditors.
- Review periodically with the internal and external auditors significant risks and exposures and the plans to monitor, control and minimize such risks and exposures.
- Review significant findings and recommendations made by the internal and external auditors and discuss them on a timely basis.
- Instruct the external auditors to communicate to the Committee any required changes affecting the financial statement presentation and the responsibilities of the Committee.
- Meet with management and the external auditors to review the annual financial statements (including the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Result of Operations"), the results of the audit and recommend to the Board whether the financials statements should be included in the Annual Report on Form 10-K.
- Request and review an analysis by internal and external auditors about the significant financial reporting issues, including any complex and/or unusual transactions, significant valuation issues,

reserve adequacy and significant judgments made in the preparation of the financial statements.

- Review and evaluate management’s handling of proposed audit adjustments identified and presented to the Committee by the external auditors.
- Review with management and require the external auditors to review the financial information included in the Corporation’s interim financial statements (including the Corporation’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Result of Operations”) prior to filing SEC reports.
- Review generally earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies (i.e., discussion of the type of information to be disclosed and the type of presentation to be made).

(c) COMPLIANCE WITH LAWS AND REGULATIONS

- Periodically obtain reports from management, auditors, general counsel, and tax advisors regarding regulatory compliance by the Corporation, transactions with affiliates, and other legal matters that may have a material impact on financial statements and the consideration of those matters in preparing the financial statements.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management’s investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.
- Review the findings of any examinations by regulatory agencies.

(d) INTERNAL AUDIT

- Review the activities, organizational structure and qualifications of the internal audit function.
- Participate in decisions regarding appointment, replacement, reassignment, or dismissal of the director of internal audit.
- Review the effectiveness of the internal audit function, including the scope of the internal auditors’ responsibilities, their access to management and the Committee, their resources, staffing, and budget and their follow-up experience with the Corporation’s implementation of prior audit recommendations.

- Establish procedures for the receipt, retention and treatment of complaints from employees on accounting, internal accounting controls or auditing matters, as well as for confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

(e) EXTERNAL AUDIT

- Articulate the external auditors' ultimate accountability to the Board and the Committee.
- Review the external auditors' proposed audit scope and approach.
- Review annual engagement proposal for retention of the external auditors and level of fees to be paid to external auditors.
- Review and evaluate the performance of the external auditors, appoint or discharge the external auditors and determine the scope of services to be provided by and the compensation paid to the external auditors. This includes review and preapproval of all audit and nonaudit services other than with respect to *de minimis* exceptions permitted by law or regulation and disclosure of the approval of nonaudit services as may be required by the rules of the SEC or by the New York Stock Exchange.
- Review and discuss the independence of the external auditors, the nonaudit services provided and the auditors' disclosures concerning and assertion of their independence in accordance with professional standards and as required by applicable standards, including:
 - At least annually, obtaining and reviewing a report by the external auditor describing the auditor's internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review or any inquiry or investigation by governmental or professional authorities within the least five years with respect to one or more independent audits conducted by the external auditor, and any steps taken to deal with such issues.
- Review with the external auditors any problems or difficulties they may have encountered, any management letter provided by the external auditors, and the Corporation's response to that letter, including:
 - Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information; and

- Any changes required in the planned scope of the internal audit.
- Overseeing the resolution of disagreements between management and the external auditors, if any.
- The internal audit department responsibilities, budget and staffing.
- Discuss with the external auditors the following:
 - Critical accounting policies and practices.
 - Alternative treatment of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor.
 - An analysis of the external auditor's judgment as to the quality of the Corporation's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of financial statements.
- Discuss the matters identified in Accounting Standards No. 61, as it may be amended from time to time, relating to the conduct of the audit.
- Obtain from the external auditors assurance that Section 10A of the Private Securities Litigation Reform Act of 1995, as it may be amended from time to time, has not been implicated.

a. REPORTING RESPONSIBILITIES

- Regularly update the Board about Committee activities and make appropriate recommendations.
- Prepare for inclusion in the proxy statement the disclosures about the committee and its functioning required under applicable SEC rules.¹

OTHER RESPONSIBILITIES

- Meet with the external auditors, director of internal audit and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- Review summary data on executive officer and director expense accounts and review related party transactions and actual or potential conflicts of interest.
- Set clear hiring policies for employees or former employees of the external auditor.
- Perform other oversight functions as requested by the Board.
- Annually review and (if appropriate) update this charter, subject to the Board's approval of changes.

6. MEETINGS

(a) FREQUENCY

The Committee shall hold regular meetings on such days as it shall determine at least four times per year. Special meetings of the Committee will be held at the request of the Chairperson of the Committee or any two other Committee members. The Committee shall keep and approve minutes of the Committee's proceedings. The Corporation's Secretary shall maintain the minutes and records of the proceedings of the Committee.

(b) AGENDA

Prior to each regularly scheduled meeting, the Committee members will receive notice of and an agenda for the meeting. Other topics for discussion may be introduced at the meeting or by notice to the Chairperson at the request of any Committee member.

(c) ATTENDANCE

The Committee may regularly or from time-to-time ask corporate officers and other employees of the Corporation to attend the meetings. With the permission of the chairperson of the Committee, directors who are not members of the Committee may also attend Committee meetings.

(d) PROCEDURES

The Committee may adopt rules for its meetings and activities. In the absence of any such rules, the Committee actions shall be governed by the Corporation's Bylaws and applicable law, as applicable to Board meetings and activities. In all cases, a quorum of the Committee shall be a majority of the persons then serving as members of the Committee. Meetings of the Committee may be undertaken in person and telephonically.

7. OUTSIDE ASSISTANCE

The Committee shall have the authority to request and receive access to any internal or external information it requires to fulfill its duties and responsibilities. The Committee is authorized to engage such outside professional or other services as in its discretion may be required to fulfill its responsibilities and the Corporation shall provide appropriate funding for such services.

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