

## **GOTTSCHALKS INC.**

### **COMPENSATION COMMITTEE CHARTER**

#### **Purpose**

The Compensation Committee (the “Committee”) shall be responsible for reviewing and making decisions under a delegation of authority from the Board of Directors with respect to salaries, bonuses, stock options and other benefits for executive officers of Gottschalks Inc. (the “Company”). In performing this function, it shall be the objective of the Committee to: (i) encourage the achievement of the Company’s long-range objectives by providing compensation which directly relates to the performance of the individual and the achievement of internal strategic objectives; (ii) establish compensation policies and guidelines that will attract and retain qualified personnel through an overall level of compensation opportunity that is competitive within the Company’s industry; and (iii) promote a direct relationship between compensation and the Company’s performance by facilitating executive officer stock ownership through restricted stock and stock option awards. The Committee shall produce an annual report on executive compensation for inclusion in the Company’s proxy statement for the annual meeting of stockholders, in accordance with applicable rules and regulations.

#### **Composition of the Committee**

The members of the Committee shall be independent directors meeting the requirements of the New York Stock Exchange and appointed by the Board of Directors on the recommendation of the Nominating and Corporate Governance Committee. At least two of the directors appointed to serve on the Committee shall be “non-employee directors” (within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended) and “outside directors” (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder). The Chairman of the Committee shall be designated by the Board of Directors. In the absence of the Chairman, the members of the Committee may designate a chairman by majority vote. The Board of Directors may at any time remove one or more directors as members of the Committee.

#### **Authority and Responsibilities**

The Committee is authorized to fix the compensation of executive officers of the Company, to establish and administer the annual incentive plan or plans applicable to executive officers of the Company, including, without limitation, the Executive Incentive Plan, and to administer the equity incentive plans of the Company as may from time to time be acquired or adopted, including, without limitation, the 2002 Long-Term Incentive Plan and the 1997 Non-Employee Director Stock Compensation Plan.<sup>6</sup> To that end, the Committee shall have and may exercise all the powers and authority of the Board of Directors to the extent permitted under Section 141 of the Delaware General Corporation Law.

To the extent permitted by Delaware law, the Committee may delegate to one or more officers of the Company the power (i) to designate the officers and employees of the Company or any of its subsidiaries who will receive grants of restricted shares or options to purchase from the Company shares of the Company’s capital stock, and (ii) to determine the number of restricted shares or options to be received by them. Such delegation must be made by a resolution that

specifies the total number of restricted shares or options that may be granted under the delegated authority, and no officer may be delegated the power to designate himself or herself as a recipient of restricted shares or options.

The Committee may determine, from time to time, the advisability of retaining a compensation consultant to assist in the evaluation of Chief Executive Officer or other executive officer compensation. The Committee has the authority to retain, at Company expense, and terminate a compensation consultant, including sole authority to approve the consultant's fees and other retention terms.

The Committee is responsible for making decisions with respect to the Company's executive compensation policies. In addition, pursuant to authority granted by the Board of Directors, the Committee shall review and approve corporate goals and objectives relevant to the compensation to be paid to the Chief Executive Officer and each of the other executive officers of the Company.

The Committee shall:

1. Annually evaluate the performance of the Chief Executive Officer in light of the corporate goals and objectives approved and determine base salary and incentive bonus levels of the Chief Executive Officer of the Company based on this evaluation, also considering the Company's performance, relative shareholder return, the value of compensation to chief executive officers at comparable companies, and the compensation given in prior years;
2. Annually review and approve base salary and incentive bonus levels of the other executive officers of the Company, giving consideration to the recommendations given to the Committee by the Company's Chief Executive Officer;
3. Annually establish and administer the Executive Incentive Plan;
4. Administer the Company's 2002 Long-Term Incentive Plan and the 1997 Non-Employee Director Stock Compensation Plan, as well as any other stock option, stock purchase, incentive or other benefit plans of the Company, fulfilling such duties and responsibilities as are set forth in such plans;
5. Review and approve awards under the Company's 2002 Long-Term Incentive Plan and the 1997 Non-Employee Director Stock Compensation Plan, giving consideration to the recommendations given to the Committee by the Company's Chief Executive Officer;
6. Make regular reports to the Board of Directors concerning the activities of the Committee; and
7. Perform an annual performance evaluation of the Committee.

## **Committee Meetings**

The Committee shall meet at least [two] times per year. One such meeting shall be held at a time when the Committee can review and recommend annual base salary and incentive awards as described above. The other meeting[s] shall be held at the discretion of the Chairman of the Committee, as recommended by the Chief Executive Officer. Minutes of each of these meetings shall be kept. The Chief Executive Officer will function as the management liaison officer to the Compensation Committee.

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