



Shmuel Thaler/Sentinel

Shoppers head into Gottschalks on Main Street in Watsonville on Tuesday.

Gottschalks struggling to find cash to stay afloat

By JONDI GUMZ
SENTINEL STAFF WRITER

Gottschalks, a 104-year-old retailer with locations in Capitola and Watsonville, is looking for credit sources to survive.

It's the second department store chain to be buffeted by the recession. Just a few days ago, Mervyns department store, burdened by debt and lagging sales, liquidated and closed all of its outlets, including its anchor in the Capitola Mall. Kohl's department store will take Mervyns' space but has yet to set an opening date.

In early December, when Gottschalks reported a \$10.1 million loss for the third quarter, company officials said they did not expect sales, cash and credit to meet their needs through the end of January "unless additional sources of financing are secured."

The 59-store chain had been negotiating with Everbright Development Overseas, a company based in China that owns hotel properties, for \$30 million in exchange for a majority stake. After a due diligence period, an agreement between the two expired Dec. 15. Four days later, Gottschalks announced they were still talking.

There hasn't been any news since.

Greg Ambro, senior vice president and chief operating officer, did not return a call Tuesday seeking comment. Neither did Mary Jo Bullock, manager of Gottschalks on 41st Avenue in the Capitola Mall.

Gottschalks faces these troubling numbers:

- The \$10.1 million loss was more than double the \$4.1 million loss in the third quarter a year ago.

- The loss was due to in part to a goodwill impairment write-off of \$7.5 million, indicating a



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Even the brisk sales the day after Thanksgiving couldn't save Gottschalks from financial crisis.

Gottschalks

Continued from Page A1

drop in value.

- Stock that traded at nearly \$3 a share in April is trading at around 25 cents.

Gottschalks opened in the Capitola Mall on 41st Avenue in 1990, second in size to Sears. It opened in Watsonville in 1995, taking over a building vacated by Ford's department store at Main and West Beach streets.

Watsonville City Manager Carlos Palacios said he hadn't realized how troubled Gottschalks was, but he wasn't surprised given the demise of Mervyns. When he shopped there for Christmas, the store seemed to be doing well.

"It's a very important part of the downtown business, an anchor that attracts a lot of people downtown," he said, adding that losing the store would be a "big blow."

The store opened with 62 employees in a building rebuilt after the 1989 earthquake. Both building and land are owned by William Hansen, who runs an insur-

ance business in Watsonville.

Gottschalks in the mall seemed busy during December.

"I waited in short lines at the cashier's counter," said Toni Castro of the Capitola-Soquel Chamber of Commerce.

Steep markdowns, like a \$60 vest priced at \$14, were part of the attraction.

If Gottschalks closed, Capitola City Councilman Dennis Norton said the mall location would be perfect for Target, a discount retailer that has a store in Watsonville and is proposing to open in Scotts Valley.

Gottschalks' troubles reflect problems experienced by retailers throughout the country, a shortage of customers willing and able to buy.

"We are certain to lose some retailers in 2009," said Bill Tysseling of the Santa Cruz Chamber of Commerce. "Our goal must be to retain a critical mass in each shopping area sufficient to draw customers. Once that critical mass is lost it is very difficult to rebuild it."

Contact Jondi Gumz at 706-3253 or jgumz@santacruzsentinel.com.