



FOR IMMEDIATE RELEASE

DUCKWALL-ALCO STORES REPORTS \$5.6 MILLION IMPROVEMENT IN NET EARNINGS FOR FIRST HALF OF FISCAL 2010

Results Benefit from Increased Margins

ABILENE, Kan. (September 10, 2009) -- Duckwall-ALCO Stores, Inc. (NASDAQ: DUCK), which specializes in providing a superior selection of essential products for everyday life in small-town America, today announced operating results for its second quarter ending August 2, 2009.

Net sales from continuing operations for the second quarter decreased 1.6% to \$123.4 million and same-store sales decreased 3.0%. Net sales from continuing operations year-to-date increased 4.1% to \$237.6 million and same-store sales increased 1.2%.

Net earnings for the second quarter were \$3.0 million, or \$0.78 per diluted share, compared to net earnings of \$3.3 million, or \$0.85 per diluted share, for the second quarter of the prior fiscal year. Net earnings in the current year were impacted by a charge of \$435,000, net after taxes, or \$0.11 per diluted share, for the Company's store transformation project, which was completed as planned in June 2009.

Net earnings for year-to-date were \$3.0 million, or \$0.77 per diluted share, compared to a net loss of \$2.6 million, or (\$0.68) per basic share, for year-to-date of the prior fiscal year. This \$5.6 million improvement in net earnings is attributable primarily to a \$4.6 million increase, or 6.0%, in Adjusted Gross Margin dollars. Adjusted Gross Margin as a percentage of sales has increased 110 basis points for the fiscal year-to-date compared to the prior fiscal year-to-date. Year-to-date earnings from continuing operations, before income taxes, have increased \$6.5 million compared to the prior fiscal year-to-date. This improvement is attributable to a total gross margin dollar improvement of \$5.9 million.

Larry Zigerelli, President and CEO, commented, "Strong fiscal year-to-date earnings reflect progress in both top and bottom line performance. Continued gross margin improvement is especially encouraging in the face of a weakened economy. All elements of our strategic transformation plan that began last fall remain on or ahead of schedule. We expect continued progress near term."

Investor Conference Call

The Company will host an investor conference call at 10:00 a.m. Central Daylight Time on September 15, 2009, to discuss operating results for the second quarter ended August 2, 2009. The dial-in number for the conference call is 888-819-8018 (international/local participants dial 913-661-9178), and the Confirmation Code is 5278547. Parties interested in participating in the conference call should dial in approximately five minutes prior to 10:00 a.m. Central Daylight Time. A replay of the call will be available from two hours after completion on September 15 through September 20 by dialing 888-203-1112 or for international/local callers by dialing 719-457-0820. The Replay Passcode is 5278547. A replay of the call will also be available four hours after completion of the call by visiting the Investors page on the Company's website, www.ALCOstores.com.

Supplemental Data

The Company has included certain tables in this press release that are set forth fully in the Company's 10-Q.

Certain Non-GAAP Financial Measures

The Company has included Adjusted Gross Margin and Adjusted EBITDA, non-GAAP performance measures, as part of its disclosure as a means to enhance its communications with stockholders. Certain stockholders have specifically requested this information to assist them in comparing the Company to other retailers that disclose similar non-GAAP performance measures. Further, management utilizes these measures in internal evaluation; review of performance and comparison with the Company's financial measures to those of its peers. Adjusted EBITDA differs from the most comparable GAAP financial measure (earnings from continuing operations before discontinued operations) in that it does not include certain items, as does Adjusted Gross Margin. These items are excluded by management to better evaluate normalized operational cash flow and expenses excluding unusual, inconsistent and non-cash charges. To compensate for the limitations of evaluating the Company's performance using Adjusted Gross Margin and Adjusted EBITDA, management also utilizes GAAP performance measures such as gross margin return on investment, return on equity and free cash flow. As a result, Adjusted Gross Margin and Adjusted EBITDA may not reflect important aspects of the results of the Company's operations.

About Duckwall-ALCO Stores, Inc.

Duckwall-ALCO Stores, Inc. is a regional broad line retailer that specializes in meeting the needs of smaller, underserved communities across 23 states, primarily in the central United States. The Company offers an exceptional selection of quality products and recognized brand names at reasonable prices. Its specialty is delivering those products with the friendly, personal service its customers have come to expect. With 257 stores, Duckwall-ALCO Stores is proud to have continually provided excellent products at good value prices to its customers for 108 years. To learn more about Duckwall-ALCO Stores, Inc. visit www.ALCOstores.com.

Forward-looking statements

This press release contains forward-looking statements, as referenced in the Private Securities Litigation Reform Act of 1995 ("the Act"). Any forward-looking statements are made by the Company in good faith, pursuant to the safe-harbor provisions of the Act. These forward-looking statements reflect management's current views and projections regarding economic conditions, retail industry environments, and Company performance. Factors which could significantly change results include but are not limited to: sales performance, expense levels, competitive activity, interest rates, changes in the Company's financial condition, and factors affecting the retail category in general. Additional information regarding these and other factors may be included in the Company's 10-Q filings and other public documents, copies of which are available from the Company on request and are available from the United States Securities and Exchange Commission.

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- Tables to follow -

Duckwall-ALCO Stores, Inc. and Subsidiaries
Consolidated Statements of Operations
(dollars in thousands, except share and per share amounts)
(Unaudited)

	For the Thirteen Week Periods Ended		For the Twenty-Six Week Periods Ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
Net sales	\$ 125,291	129,186	240,695	234,813
Cost of sales	<u>82,880</u>	<u>85,868</u>	<u>159,748</u>	<u>159,771</u>
Gross margin	42,411	43,318	80,947	75,042
Selling, general and administrative	34,614	35,055	70,325	71,821
Depreciation and amortization	<u>2,268</u>	<u>1,904</u>	<u>4,646</u>	<u>3,676</u>
Total operating expenses	36,882	36,959	74,971	75,497
Operating income (loss) from continuing operations	5,529	6,359	5,976	(455)
Interest expense, net	<u>521</u>	<u>551</u>	<u>1,057</u>	<u>1,156</u>
Earnings (loss) from continuing operations before income taxes	5,008	5,808	4,919	(1,611)
Income tax expense (benefit)	<u>1,977</u>	<u>2,364</u>	<u>1,936</u>	<u>(685)</u>
Earnings (loss) from continuing operations	3,031	3,444	2,983	(926)
Loss from discontinued operations, net of income tax benefit	<u>-</u>	<u>(188)</u>	<u>(2)</u>	<u>(1,670)</u>
Net earnings (loss)	<u>\$ 3,031</u>	<u>3,256</u>	<u>2,981</u>	<u>(2,596)</u>
Earnings (loss) per diluted share				
Continuing operations	<u>\$ 0.78</u>	<u>0.90</u>	<u>0.77</u>	<u>(0.24)</u>
Net earnings (loss)	<u>\$ 0.78</u>	<u>0.85</u>	<u>0.77</u>	<u>(0.68)</u>
Weighted-average shares outstanding:				
Basic	3,798	3,814	3,798	3,812
Diluted	3,902	3,825	3,857	3,812

Supplemental Data:

	For the Thirteen Week Periods Ended		For the Twenty-Six Week Periods Ended	
	August 2, 2009	August 3, 2008	August 2, 2009	August 3, 2008
Gross margin as reported	\$ 42,411	43,318	80,947	75,042
Inventory review initiative	-	-	-	1,345
Adjusted Gross Margin	\$ <u>42,411</u>	<u>43,318</u>	<u>80,947</u>	<u>76,387</u>
Same-store gross margin dollar change	3.9 %	2.6 %	6.7 %	1.2 %
Same-store SG&A dollar change	(3.8)%	5.0 %	(3.4)%	4.4 %
Same-store total customer count change	(2.3)%	(2.7)%	(0.5)%	(3.3)%
Same-store average sale per ticket change	(2.3)%	6.8 %	0.1 %	4.6 %

Reconciliation of Adjusted EBITDA to net earnings (loss) from continuing operations:

	Fiscal 2009	For the Thirteen Week Periods Ended		Trailing Twelve Periods Ended	For the Thirteen Week Periods Ended		Trailing Twelve Periods Ended
		May 3, 2009	May 4, 2008	May 3, 2009	August 2, 2009	August 3, 2008	August 2, 2009
Net earnings (loss) from continuing operations (1)	\$ (2,996)	(43)	(4,367)	1,328	3,031	3,444	915
Plus:							
Interest	1,867	537	605	1,799	521	551	1,769
Taxes (1)	(2,090)	(45)	(3,054)	919	1,977	2,364	532
Depreciation and amortization (1)	9,302	2,377	1,773	9,906	2,268	1,904	10,270
Share-based compensation	186	185	(329)	700	261	194	767
Preopening store costs (2)	1,846	-	722	1,124	-	773	351
Inventory review initiative	1,345	-	1,345	-	-	-	-
Executive and staff severance	1,942	-	1,942	-	-	-	-
Store transformation project costs	2,220	1,378	-	3,598	718	-	4,316
=Adjusted EBITDA (1)(3)(4)(5)	<u>13,622</u>	<u>4,389</u>	<u>(1,363)</u>	<u>19,374</u>	<u>8,776</u>	<u>9,230</u>	<u>18,920</u>
Cash	4,744	8,208	4,977	8,208	5,446	4,653	5,446
Debt	49,841	60,946	41,080	60,946	48,802	36,964	48,802
Debt, net of cash	\$ <u>45,097</u>	<u>52,738</u>	<u>36,103</u>	<u>52,738</u>	<u>43,356</u>	<u>32,311</u>	<u>43,356</u>

(1) These amounts will not agree with the fiscal 2009 first quarter 10-Q filing due to the one store the Company closed in the third quarter of fiscal 2009. These amounts will not agree with the fiscal year end 2009 or fiscal 2010 first quarter 10-Q filing due to the one store the Company closed in the second quarter of fiscal 2010. These stores are now shown in discontinued operations.

(2) These costs are not consistent quarter to quarter as the Company does not open the same number of stores in each quarter of each fiscal year. These costs are directly associated with the number of stores that have or will be opened and are incurred prior to the grand opening of each store.

(3) For the trailing twelve periods ended August 2, 2009 the average open weeks for the Company's three non same-stores is 49 weeks.

(4) During fiscal year 2009, the Company made a change in its Executive Management team and Board of Directors resulting in several initiatives to reduce certain SG&A expenses. For the trailing twelve periods ended August 2, 2009, these initiatives resulted in approximately \$5.9 million reduced SG&A expenses when compared to the same prior year trailing twelve periods. The initiatives include, but are not limited to, executive and staff reduction, reduced ALCO same-store hourly wages, advertising expenses, net of coop offset and floor care services along with reduced total Company insurance and travel expenses.

(5) In addition to continued efforts regarding the fiscal 2009 cost reduction initiatives, the Company has also implemented new initiatives for fiscal year 2010. The fiscal 2010 initiatives include, but are not limited to, reduced point-of-sale hardware lease expense, energy expense and accident reduction programs. These initiatives achieved approximately \$1.4 million in reduced SG&A savings for the twenty-six weeks of fiscal 2010 when compared to the prior year same period.

Duckwall-ALCO Stores, Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands, except share amounts)

(Unaudited)

	<u>August 2, 2009</u>		<u>August 3, 2008</u>	
Assets				
Current assets:				
Cash and cash equivalents	\$	5,446	\$	4,653
Receivables		5,656		3,743
Prepaid income taxes		423		2,423
Inventories		148,499		145,658
Prepaid expenses		4,067		4,106
Deferred income taxes		5,345		6,835
Assets held for sale		1,539		-
Total current assets		<u>170,975</u>		<u>167,418</u>
Property and equipment, at cost		100,761		91,907
Less accumulated depreciation		69,230		62,682
Net property and equipment		<u>31,531</u>		<u>29,225</u>
Property under capital leases, net of accumulated amortization		2,231		3,972
Other non-current assets		164		249
Deferred income taxes		31		3,078
Total assets	\$	<u><u>204,932</u></u>	\$	<u><u>203,942</u></u>
Liabilities and Stockholders' Equity				
Current liabilities:				
Current maturities of long-term debt	\$	1,406	\$	1,319
Current maturities of capital lease obligations		1,903		1,828
Accounts payable		25,682		35,879
Accrued salaries and commissions		4,632		5,092
Accrued taxes other than income		4,792		4,338
Self-insurance claim reserves		4,841		4,205
Other current liabilities		4,548		6,815
Total current liabilities		<u>47,804</u>		<u>59,476</u>
Long-term debt, less current maturities		2,151		3,557
Notes payable under revolving loan		41,308		26,257
Capital lease obligations - less current maturities		2,034		4,002
Deferred gain on leases		4,405		4,792
Deferred income taxes		160		-
Other noncurrent liabilities		1,662		1,457
Total liabilities		<u>99,524</u>		<u>99,541</u>
Stockholders' equity:				
Common stock, \$.0001 par value, authorized 20,000,000 shares; issued and outstanding 3,797,947 shares and 3,820,591 shares, respectively		1		1
Additional paid-in capital		39,002		38,590
Retained earnings		66,405		65,810
Total stockholders' equity		<u>105,408</u>		<u>104,401</u>
Total liabilities and stockholders' equity	\$	<u><u>204,932</u></u>	\$	<u><u>203,942</u></u>