



FOR IMMEDIATE RELEASE

DUCKWALL-ALCO STORES REPORTS \$5.8 MILLION IMPROVEMENT IN NET EARNINGS FOR FIRST NINE PERIODS OF FISCAL 2010

Improvement from Increased Margins and Reduced SG&A Expenses

ABILENE, Kan. (December 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 third quarter ending November 1, 2009.

Net sales from continuing operations for the third quarter of fiscal 2010 decreased 2.9% to \$111.5 million and same-store sales decreased 1.7%. Net sales from continuing operations year-to-date increased 0.7% to \$352.2 million and same-store sales increased 0.2%.

Net loss for the third quarter was \$1.4 million, or (\$0.38) per basic share, compared to a net loss of \$1.7 million, or (\$0.44) per basic share, for the third quarter of the fiscal 2009. Results in the current quarter benefited from an 80 basis point reduction in Adjusted Selling, General and Administrative (SG&A) expenses as a percentage of net sales offset by a 30 basis point reduction in gross margin as a percentage of net sales amid a very competitive pricing environment.

Despite a difficult economy, net earnings for the first nine periods of fiscal 2010 were \$1.5 million, or \$0.40 per diluted share. This compares to a net loss of \$4.3 million, or (\$1.12) per basic share, in the prior year period. This \$5.8 million improvement in net earnings is primarily attributable to an increase of \$3.1 million, or 2.7%, in Adjusted Gross Margin dollars. Adjusted Gross Margin as a percentage of sales has increased 65 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 \$7.6 million, compared to the prior fiscal year-to-date. This improvement is attributable to a total gross margin dollar improvement of \$4.4 million, or 4.0%, and reduced SG&A expenses of \$4.7 million, or 4.3%, somewhat offset by increases in net interest expense, depreciation and amortization.

Larry Zigerelli, President and CEO, commented, "Positive year-to-date same-store sales results and customer counts, combined with a significant increase in gross margin dollars and a major reduction in SG&A expenses, are encouraging. We have made substantial progress in upgrading our merchandising, marketing and store operations programs, and are changing our culture in the continued face of a very tough economy. The holiday season is off to a good start, and we remain cautiously optimistic. Our turnaround is not complete by any means, but we continue to track with plans for store transformation and improving performance."

Investor Conference Call

The Company will host an investor conference call at 10:00 a.m. Central Standard Time on December 11, 2009, to discuss operating results for the third quarter ended November 1, 2009. The dial-in number for the conference call is 888-797-2983 (international/local participants dial 913-227-1352), and the Confirmation Code is 2341952. Parties interested in participating in the conference call should dial in approximately five minutes prior to 10:00 a.m. Central Standard Time. A replay of the call will be available from two hours after completion on December 11, 2009 through December 16, 2009 by dialing 888-203-1112 or for international/local callers by dialing 719-457-0820. The Replay Passcode is 2341952. 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 (loss) from continuing 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 Thirty-Nine Week Periods Ended	
	November 1, 2009	November 2, 2008	November 1, 2009	November 2, 2008
Net sales	\$ 111,495	114,880	352,191	349,692
Cost of sales	<u>75,835</u>	<u>77,756</u>	<u>235,583</u>	<u>237,527</u>
Gross margin	35,660	37,124	116,608	112,165
Selling, general and administrative	34,862	38,097	105,187	109,918
Depreciation and amortization	<u>2,327</u>	<u>2,118</u>	<u>6,973</u>	<u>5,794</u>
Total operating expenses	37,189	40,215	112,160	115,712
Operating income (loss) from continuing operations	(1,529)	(3,091)	4,448	(3,547)
Interest expense, net	<u>532</u>	<u>63</u>	<u>1,589</u>	<u>1,218</u>
Earnings (loss) from continuing operations before income taxes	(2,061)	(3,154)	2,859	(4,765)
Income tax expense (benefit)	<u>(626)</u>	<u>(1,644)</u>	<u>1,310</u>	<u>(2,329)</u>
Earnings (loss) from continuing operations	(1,435)	(1,510)	1,549	(2,436)
Loss from discontinued operations, net of income tax benefit	<u>(2)</u>	<u>(155)</u>	<u>(5)</u>	<u>(1,825)</u>
Net earnings (loss)	<u>\$ (1,437)</u>	<u>(1,665)</u>	<u>1,544</u>	<u>(4,261)</u>
Earnings (loss) per diluted share				
Continuing operations	<u>\$ (0.38)</u>	<u>(0.40)</u>	<u>0.40</u>	<u>(0.64)</u>
Net earnings (loss)	<u>\$ (0.38)</u>	<u>(0.44)</u>	<u>0.40</u>	<u>(1.12)</u>
Weighted-average shares outstanding:				
Basic	3,798	3,812	3,798	3,812
Diluted	3,798	3,812	3,877	3,812

Supplemental Data:

	<u>November 1, 2009</u>	<u>November 2, 2008</u>	<u>November 1, 2009</u>	<u>November 2, 2008</u>
Gross margin as reported	\$ 35,660	37,124	116,608	112,165
Inventory review initiative	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,345</u>
Adjusted Gross Margin	<u>\$ 35,660</u>	<u>37,124</u>	<u>116,608</u>	<u>113,510</u>
Same-store adjusted gross margin dollar change	0.0 %	(1.8)%	1.3 %	(1.4)%
Same-store SG&A dollar change	(4.7)%	(0.9)%	(2.2)%	2.5 %
Same-store total customer count change	(1.2)%	(5.4)%	(0.7)%	(4.0)%
Same-store average sale per ticket change	(2.0)%	4.0 %	(0.6)%	4.4 %

	Fiscal 2009	For the Twenty-Six Week Periods Ended		Trailing Twelve Periods Ended	For the Thirteen Week Periods Ended		Trailing Twelve Periods Ended
		August 2, 2009	August 3, 2008	August 2, 2009	November 1, 2009	November 2, 2008	November 1, 2009
Net earnings (loss) from continuing operations (1) Plus:	\$ (2,996)	2,988	(923)	915	(1,435)	(1,510)	990
Interest	1,867	1,058	1,156	1,769	532	63	2,238
Taxes (1)	(2,090)	1,932	(690)	532	(626)	(1,644)	1,550
Depreciation and amortization (1)	9,302	4,645	3,677	10,270	2,327	2,118	10,479
Share-based compensation	186	446	(135)	767	155	169	753
Preopening store costs (2)	1,846	-	1,495	351	2	342	11
Inventory review initiative	1,345	-	1,345	-	-	-	-
Executive and staff severance	1,942	-	1,942	-	-	-	-
Store transformation project costs =Adjusted EBITDA (1)(3)(4)(5)	2,220	2,096	-	4,316	-	937	3,379
	<u>13,622</u>	<u>13,165</u>	<u>7,867</u>	<u>18,920</u>	<u>955</u>	<u>475</u>	<u>19,400</u>
Cash	4,744	5,446	4,653	5,446	5,703	5,320	5,703
Debt	49,841	48,802	36,964	48,802	54,180	58,303	54,180
Debt, net of cash	\$ <u>45,097</u>	<u>43,356</u>	<u>32,311</u>	<u>43,356</u>	<u>48,477</u>	<u>52,983</u>	<u>48,477</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 been or will be opened and are incurred prior to the grand opening of each store.

(3) For the trailing twelve periods ended November 1, 2009 the average open weeks for the Company's one non same-store is 59 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 November 1, 2009, these initiatives resulted in approximately \$5.7 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 \$2.0 million in reduced SG&A savings for the thirty-nine 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)

	November 1, 2009	November 2, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,703	\$ 5,320
Receivables	5,998	3,520
Prepaid income taxes	1,527	4,731
Inventories	165,131	166,404
Prepaid expenses	3,688	3,871
Deferred income taxes	2,835	5,430
Assets held for sale	1,531	-
Total current assets	186,413	189,276
Property and equipment, at cost	102,318	93,607
Less accumulated depreciation	71,228	63,605
Net property and equipment	31,090	30,002
Property under capital leases, net of accumulated amortization	1,931	3,513
Other non-current assets	143	227
Deferred income taxes	2,055	1,181
Total assets	\$ 221,632	\$ 224,199
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 1,428	\$ 1,340
Current maturities of capital lease obligations	1,929	1,833
Accounts payable	37,290	37,513
Accrued salaries and commissions	5,107	5,589
Accrued taxes other than income	5,410	4,844
Self-insurance claim reserves	5,087	4,318
Other current liabilities	4,280	4,618
Total current liabilities	60,531	60,055
Long-term debt, less current maturities	1,786	3,214
Notes payable under revolving loan	47,510	48,388
Capital lease obligations - less current maturities	1,527	3,528
Deferred gain on leases	4,309	4,695
Deferred income taxes	160	-
Other noncurrent liabilities	1,682	1,617
Total liabilities	117,505	121,497
Stockholders' equity:		
Common stock, \$.0001 par value, authorized		
20,000,000 shares; issued and outstanding		
3,797,947 shares and 3,806,113 shares, respectively	1	1
Additional paid-in capital	39,158	38,557
Retained earnings	64,968	64,144

Total stockholders' equity	<u>104,127</u>	<u>102,702</u>
Total liabilities and stockholders' equity	\$ <u><u>221,632</u></u>	\$ <u><u>224,199</u></u>