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Duckwall-ALCO Stores, Inc. F2Q10 (Qtr End 08/02/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) The first question comes from the line of Adam Peck – Heartland Advisors.

Adam Peck – Heartland Advisors

As far as the 20 stores of growth next year can you help me understand what the balance sheet you think will look like at the end of the year? Next year?

Donny Johnson

The average investment we see from opening a new store, inventory on a gross basis is around \$550,000 to \$600,000 and the equipment is still running in the \$300,000 range. So we are looking from a net investment perspective around \$1 million when you will have about \$140,000 of pre-opening. A lot of that is leveraged against inventory and payables will offset that.

So \$1 million is what it is going to take to open a store. We have plenty of revolver capacity and actually the projected revolver change is really insignificant as the operating performance of these stores will mitigate much of the investment. So we are continuing to see the revolver come down. As of today, which I looked at our balance at the end of business yesterday we were \$40.9 million on our revolver at the close of business yesterday and that same day a year ago we were \$43.6 million. So even though at the end of the quarter you saw we were still up quite a bit compared to last year that has switched now and we were actually below last year as of the close of business yesterday. If you will recall, we added over \$5 million to the revolver in the December time period of last year relating to the buyout of the POS equipment lease.

Not only have we overcome that, we have plenty of capacity to cover these new store openings.

Adam Peck – Heartland Advisors

Geographically, where will these stores be opening next year?

Lawrence Zigerelli

We have more than 100 stores located in existing markets where we can take advantage of the distribution efficiencies. We are not going into any new markets in the next few years.

Operator

The next question comes from the line of Sam Lee – Private Investor.

Sam Lee – Private Investor

Gentlemen, first of all congratulations on the second quarter and first half of the fiscal year. I noticed inventory was reduced significantly this quarter but it appears to remain at a relatively high level. Is this a level you are comfortable with or do you expect that further reductions will be necessary? More importantly, do you anticipate that there will need to be any more charges against cost of goods sold?

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