DUANE READE REALTY INC
Form S-4/A
October 30, 2009
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As filed with the Securities and Exchange Commission on October 30, 2009

Registration No. 333-162549

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

DUANE READE INC.	DUANE READE
(Exact name of Registrant as specified in its charter)	(Exact name of Registrant as specified in its charter)
DELAWARE	NEW YORK
(State or other jurisdiction of incorporation or organization)	(State or other jurisdiction of incorporation or organization)
04-3164702	11-2731721
(IRS Employer Identification No.)	(IRS Employer Identification No.)

440 Ninth Avenue

New York, NY 10001

(212) 273-5700

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Phillip A. Bradley, Esq.

440 Ninth Avenue

New York, NY 10001

(212) 273-5700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Lawrence G. Wee, Esq.

Paul, Weiss, Rifkind, Wharton & Garrison LLP

1285 Avenue of the Americas

New York, New York 10019-6064

212-373-3000

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ (Do not check if a smaller reporting company)	Smaller reporting company	¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)	¨
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer	¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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TABLE OF ADDITIONAL REGISTRANTS

Name	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	IRS Employer Identification Number
Duane Reade Holdings, Inc.	Delaware	5912	05-0599589
Duane Reade International, LLC	Delaware	5912	22-3672347
Duane Reade Realty, Inc.	Delaware	5912	13-4074383
DRI I Inc.	Delaware	5912	04-3166107

The address of each of Duane Reade Holdings, Inc., Duane Reade International, LLC, Duane Reade Realty, Inc. and DRI I Inc. is 440 Ninth Avenue, New York, NY 10001.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED October 30, 2009

PRELIMINARY PROSPECTUS

Duane Reade Inc. Duane Reade

Exchange Offer for $300,000,000

11.75% Senior Secured Notes due 2015

The Notes and the Guarantees

We are offering to issue $300,000,000 of our 11.75% Senior Secured Notes due 2015, whose issuance is registered under the Securities Act of 1933, which we refer to as the exchange notes, in exchange for a like aggregate principal amount of 11.75% Senior Secured Notes due 2015, which were issued on August 7, 2009 and which we refer to as the initial notes. The exchange notes will be issued under the existing indenture, dated as of August 7, 2009.

The exchange notes will mature on August 1, 2015. We will pay interest on the exchange notes on February 1 and August 1 of each year, beginning on February 1, 2010.

The exchange notes are guaranteed on a senior secured basis by our parent, Duane Reade Holdings, Inc., which we refer to as Holdings, and by all current and certain future domestic subsidiaries of Duane Reade Inc. Each guarantee of the exchange notes will be a senior secured obligation of the relevant guarantor and will rank equally in right of payment with all existing and future senior indebtedness of such guarantor.

The exchange notes and the guarantees will be secured by a first priority lien on all of our and our guarantors assets other than those assets that secure the obligations under our asset-based revolving loan facility and certain excluded assets. The exchange notes and the guarantees will be secured by a second priority lien on the collateral securing the asset-based revolving loan facility subject only to a first priority security interest securing the revolving loan obligations up to the maximum revolving debt amount and a first priority lien on the collateral securing the asset-based revolving loan facility with respect to that portion of the revolving loan obligations exceeding the maximum revolving debt amount.

Terms of the exchange offer

It will expire at 5:00 p.m., New York City time, on , 2009, unless we extend it.

If all the conditions to this exchange offer are satisfied, we will exchange all of our initial notes, that are validly tendered and not withdrawn for the exchange notes.

You may withdraw your tender of initial notes at any time before the expiration of this exchange offer.

The exchange notes that we will issue you in exchange for your initial notes will be substantially identical to your initial notes except that, unlike your initial notes, the exchange notes will have no transfer restrictions or registration rights.

The exchange notes that we will issue you in exchange for your initial notes are new securities with no established market for trading.

Before participating in this exchange offer, please refer to the section in this prospectus entitled Risk Factors commencing on page 19.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Broker-dealers who receive exchange notes pursuant to the exchange offer must acknowledge that they will deliver a prospectus in connection with any resale of such exchange notes. Broker-dealers who acquired the initial notes as a result of market-making or other trading activities may use the prospectus for the exchange offer, as supplemented or amended, in connection with resales of the exchange notes.

The date of this prospectus is , 2009.

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INDUSTRY AND MARKET DATA

This prospectus includes information with respect to market share and industry conditions from third-party sources or based upon our estimates using such sources when available. While we believe that such information and estimates are reasonable and reliable, we have not independently verified any of the data from third-party sources, and we cannot guarantee the accuracy or completeness of the information. Similarly, our internal research is based upon our understanding of industry conditions, and such information has not been verified by any independent sources.

Where we refer to our market share for Manhattan and New York City, we estimated such amounts based on the number of stores in the relevant market and in the overall New York metropolitan area. The New York metropolitan area, for purposes of market data included in this prospectus covers the five boroughs of New York City and the New York State counties of Rockland, Putnam and Westchester. All references to the New York greater metropolitan area in this prospectus refer to the five boroughs of New York City, the New York State counties of Nassau, Suffolk, Rockland, Putnam and Westchester, and northern New Jersey.

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PROSPECTUS SUMMARY

This summary highlights some basic information contained in this prospectus to help you understand the exchange offer. It may not contain all of the information that is important to you. For a more comprehensive understanding of our business and the exchange offer, you should read the entire prospectus, including Risk Factors and our historical consolidated financial statements and the notes to those statements and the other information contained elsewhere in this prospectus. In this prospectus, if a measurement is on an as-adjusted basis, that measurement gives effect to the transactions listed in paragraph (2) under Capitalization.

In this prospectus, unless the context otherwise requires, the Company, we, us, or our refers to Duane Reade Inc. and its subsidiaries, Duane Reade GP refers to Duane Reade, a New York general partnership, of which Duane Reade Inc. is a general partner, and the Issuers refers to Duane Reade Inc. and Duane Reade, collectively.

The term initial notes refers to the 11.75% Senior Secured Notes due 2015 that were issued on August 7, 2009 in a private offering. The term exchange notes refers to the 11.75% Senior Secured Notes due 2015 offered with this prospectus. The term notes refers to the initial notes and the exchange notes, collectively.

Our Company

We are the largest drugstore chain in New York City, which is the largest sales volume drugstore market in the United States. In 2008, we believe that we led the drugstore market in New York City in sales of both back-end (pharmacy) and front-end (non-pharmacy) categories. As of June 27, 2009, we operated 150 of our 253 stores in Manhattan s high-traffic business and residential districts, representing over twice as many stores as our next largest competitor in Manhattan. In addition, as of June 27, 2009, we operated 78 stores in New York s densely populated outer boroughs and 25 stores in the surrounding New York and New Jersey suburbs, including the Hudson River communities of northeastern New Jersey, as well as Westchester, Nassau and Suffolk counties in New York. Since opening our first store in 1960, we have executed a marketing and operating strategy tailored to the unique characteristics of New York City, the most densely populated major market in the United States. Sales of higher margin front-end items accounted for approximately 54% of our total sales in fiscal 2008, one of the highest ratios in the chain drug industry.

Our name is derived from our first successful full-service drugstore, which opened in 1960 on Broadway, between Duane and Reade Streets in Manhattan. We enjoy strong brand name recognition in the New York greater metropolitan area, which we believe results from our many locations in high-traffic areas of New York City, promotional advertising, and our Dollar Rewards Loyalty Card program.

We have developed an operating strategy designed to capitalize on the unique characteristics of the New York greater metropolitan area, which include high-traffic volume, complex distribution logistics, and high costs of occupancy, advertising and personnel. The key elements of our operating strategy are:

- a convenient and value-oriented shopping experience;
- a low-cost operating structure supported by high sales per square foot store locations and relatively low warehouse, distribution and advertising costs; and
- a differentiated real estate strategy using flexible store formats.

We believe that our customer service orientation, competitive price format, broad product offerings and Dollar Rewards Loyalty Card program provide a convenient and value-oriented shopping experience for our customers and help to build customer loyalty.

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Despite the high costs of operating in the New York greater metropolitan area, our high sales per square foot stores generally allow us to effectively leverage occupancy costs, payroll and other store expenses. Our approximately 506,000 square foot primary distribution facility is centrally located in Maspeth, Queens, New York City. The facility is located within ten miles of approximately 90% of our stores, and none of our retail locations are farther than 50 miles from this facility. We also operate a second, smaller warehouse facility in North Bergen, New Jersey for the distribution of certain seasonal and other promotional merchandise. This approximately 114,000 square foot support facility enjoys similar proximity to most of our New York City locations while providing additional capacity and closer proximity to our stores located in New Jersey. We believe that these two central locations allow us to maintain relatively low warehouse and distribution costs as a percentage of sales.

As of December 27, 2008, we operated 251 stores, 15 of which were opened during fiscal 2008, and as of June 27, 2009, we operated 253 stores. During fiscal 2007 and 2006, we opened ten stores and five stores, respectively. We closed six stores in 2008, 16 stores in 2007 and eight stores in 2006. During the twenty-six weeks ended June 27, 2009 and June 28, 2008, we closed two and six stores, respectively. Among the 15 new stores we opened during 2008, 11 were in Manhattan, three were in the densely populated outer boroughs of New York City and one was in New Jersey. As of June 27, 2009, approximately 59% of our stores were in Manhattan, 31% were in the outer boroughs of New York City and 10% were located outside New York City. As of June 27, 2009, we occupied approximately 1.7 million square feet of retail space, approximately 0.9% more than at the end of fiscal 2008. Approximately 47% of the stores we operated at June 27, 2009 had been opened since the beginning of fiscal 2001.

In March 2006, as part of an expansion and realignment of the senior management team that started in November 2005, we implemented a six-point strategic plan to transform our business and improve performance, known as Duane Reade Full Potential. The successful implementation of Duane Reade Full Potential allowed us to stabilize our business performance and resulted in improved sales and margin performance during 2008, 2007 and 2006, compared to 2005, as well as improved leveraging of costs and improved working capital management. In April 2008, John A. Lederer was appointed as our Chairman and Chief Executive Officer.

We believe that our current market position provides us with an opportunity to become one of the New York metropolitan area s most recognized and trusted brands. During 2008, we sought to further strengthen our management team and build upon the success we have achieved by adding new senior management executives in operations, supply chain and merchandising to execute several strategic plans that we believe will return us to profitability and further strengthen our brand in the New York metropolitan area. Our strategic plan for 2009 includes:

- Improving the pharmacy through maintenance of improved in-stock conditions, more convenient operating hours, faster customer prescription fulfillment and enhanced accessibility and interaction between our customers and pharmacists;

- Enhancing the customer s experience by providing our store personnel with additional training on planning, directing and organizing the store for success;

- Improving our merchandise and private label offerings and differentiating ourselves from competitors through the use of exclusive brand products, improved presentations and a strengthened loyalty program; and

- Modernizing our store locations through store renovations, new interior and exterior design graphics and décor. Several of our 2008 and all of our 2009 store openings reflect these new store design concepts.

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Our strategic plan will focus on serving the needs of our customers by providing them with the products they need to look and feel better and will offer them a wide assortment of products designed to meet their everyday needs. The implementation of this strategic plan began in the second half of 2008 and will continue throughout 2009.

Recent Developments

Offers to Purchase Prior Debt Securities

On August 7, 2009, pursuant to offers to purchase, we completed the repurchase of approximately $205.0 million of our senior secured floating rate notes due 2010 for total consideration of approximately $206.6 million and approximately $143.3 million of our 9.75% senior subordinated notes due 2011 for a total consideration of approximately $125.6 million, in each case, including accrued and unpaid interest. On the same day, we called for redemption of the remaining approximately $5.0 million of senior secured floating rate notes, which we purchased on September 8, 2009 for approximately $5.0 million. In connection with the offers to purchase, we eliminated substantially all of the restrictive covenants in the indenture governing the senior subordinated notes, of which approximately $51.7 million remain outstanding. The proceeds from the sale of the initial notes were used to fund, in part, the consideration for the above transactions.

Credit Agreement Amendment

On August 7, 2009, we entered into an amendment to our asset-based revolving loan facility. The credit agreement amendment permitted, among other things, the completion of the offers to purchase, the offering of the initial notes and other related transactions. In addition, as a result of the credit agreement amendment, the applicable margins on LIBOR-based loans increased from a range of 1.00% to 2.00% to a range of 2.25% to 3.25%, and the applicable margins on prime rate loans increased from a range of 0.00% to 0.50% to a range of 1.25% to 1.75%. Also, line fees and commitment fees increased from 0.30% to 0.50% per year.

Equity Investment

Concurrently with the completion of the offers to purchase, entities associated with Oak Hill Capital Partners, L.P. invested $125.0 million of redeemable preferred equity in Holdings. A portion of the proceeds of the equity investment was used to pay the total consideration in the offers to purchase. The remaining proceeds from the equity investment were used to temporarily reduce the amount of outstanding borrowings under our asset-based revolving loan facility.

Our Equity Sponsor

Oak Hill Capital Partners, L.P. and its successor funds are private equity partnerships that manage more than $8 billion of private equity capital. Oak Hill Capital Partners also has relationships with other separate partnerships that share the Oak Hill name and which manage capital across multiple asset classes, including high yield and bank debt, public equity, distressed debt, venture capital and real estate. Each of the other Oak Hill partnerships has a separate and dedicated management team, a different investor group and makes its investment decisions on an independent basis.

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Sources and Uses

We will not receive any cash proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the registration rights agreements entered into in connection with the offering of the initial notes. In consideration for issuing the exchange notes, we will receive initial notes in like aggregate principal amount.

The gross proceeds from the offering of the initial notes were approximately $292.3 million. The sources and uses of funds in connection with the offering of the initial notes are set forth below:

(dollars in millions)

Sources of Funds		**Uses of Funds**	
Initial notes(1)	$ 292.3	Purchase of the senior secured floating rate notes(2)	$ 210.0
Proceeds of the equity investment	125.0	Purchase of the senior subordinated notes	125.4
		Temporary repayment of the asset-based revolving loan facility	70.9
		Transaction costs and interest payments(3)	11.0
Total Sources	$ 417.3	Total Uses	$ 417.3

(1) The initial notes were offered at a price of 97.417% of their face value, resulting in approximately $292.3 million of gross proceeds.

(2) Includes the payment of approximately $205.0 million for the senior secured floating rate notes purchased in offers to purchase and the optional redemption of the remaining approximately $5.0 million of senior secured floating rate notes on September 8, 2009 at a price equal to 100% of the principal amount thereof.

(3) Includes the payment of accrued and unpaid interest on the notes purchased in the offers to purchase through (but not including) August 7, 2009 and the payment of accrued and unpaid interest on the remaining senior secured floating rate notes that were called for redemption, through (but not including) September 8, 2009.

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Corporate Structure and Capital Structure

The following is a chart of our corporate structure and capital structure:

(1) DRI I Inc., Duane Reade International, LLC (f/k/a Duane Reade International, Inc.) and Duane Reade Realty, Inc. are guarantors under the asset-based revolving loan facility, the notes and the senior subordinated notes.

The Obligors

Duane Reade Inc. is a corporation organized under the laws of the State of Delaware in 1992. Its principal executive offices are located at 440 Ninth Avenue, New York, New York 10001, and its telephone number is (212) 273-5700. Its web site address is *www.duanereade.com.* Its website and the information contained on its website are not a part of this prospectus.

Duane Reade is a New York general partnership formed in 1985. Its principal offices are located at 440 Ninth Avenue, New York, New York 10001, and its telephone number is (212) 273-5700.

Duane Reade Holdings, Inc. is a corporation organized under the laws of the State of Delaware in 2003. Its principal offices are located at 440 Ninth Avenue, New York, New York 10001, and its telephone number is (212) 273-5700.

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SUMMARY OF THE EXCHANGE OFFER

In this subsection, we, us, our and the Company refer only to Duane Reade Inc. and not its subsidiaries.

We are offering to exchange $300,000,000 in aggregate principal amount of our initial notes for a like aggregate principal amount of our exchange notes. In order to exchange your initial notes, you must properly tender them and we must accept your tender. We will exchange all outstanding initial notes that are validly tendered and not validly withdrawn.

Exchange Offer	We will exchange our exchange notes for a like aggregate principal amount at maturity of our initial notes.
Expiration Date	This exchange offer will expire at 5:00 p.m., New York City time, on , 2009, unless we decide to extend it.
Conditions to the Exchange Offer	We will complete this exchange offer only if:

- there is no change in the laws and regulations which would impair our ability to proceed with this exchange offer,
- there is no change in the current interpretation of the staff of the SEC which permits resales of the exchange notes,
- there is no stop order issued by the SEC which would suspend the effectiveness of the registration statement which includes this prospectus or the qualification of the exchange notes under the Trust Indenture Act of 1939,
- there is no litigation or threatened litigation which would impair our ability to proceed with this exchange offer, and
- we obtain all the governmental approvals we deem necessary to complete this exchange offer.

Please refer to the section in this prospectus entitled The Exchange Offer Conditions to the Exchange Offer.

Procedures for Tendering Initial Notes	To participate in this exchange offer, you must complete, sign and date the letter of transmittal or its facsimile and transmit it, together with your initial notes to be exchanged and all other documents required by the letter of transmittal, to U.S. Bank National Association, as exchange agent, at its address indicated under The Exchange Offer Exchange Agent. In the alternative, you can tender your initial notes by book-entry delivery following the procedures described in this prospectus. For more information on tendering your notes, please refer to the section in this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes.

Special Procedures for Beneficial Owners	If you are a beneficial owner of initial notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your initial notes in the exchange offer, you should contact the registered holder promptly and instruct that person to tender on your behalf.

Guaranteed Delivery Procedures	If you wish to tender your initial notes and you cannot get the required documents to the exchange agent on time, you may tender your notes by using the guaranteed delivery procedures described under the section of this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes Guaranteed Delivery Procedure.
Withdrawal Rights	You may withdraw the tender of your initial notes at any time before 5:00 p.m., New York City time, on the expiration date of the exchange offer. To withdraw, you must send a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated under The Exchange Offer Exchange Agent before 5:00 p.m., New York City time, on the expiration date of the exchange offer.
Acceptance of Initial Notes and Delivery of Exchange Notes	If all the conditions to the completion of this exchange offer are satisfied, we will accept any and all initial notes that are properly tendered in this exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any initial note that we do not accept for exchange to you without expense promptly after the expiration date. We will deliver the exchange notes to you promptly after the expiration date and acceptance of your initial notes for exchange. Please refer to the section in this prospectus entitled The Exchange Offer Acceptance of Initial Notes for Exchange; Delivery of Exchange Notes.
Federal Income Tax Considerations Relating to the Exchange Offer	Exchanging your initial notes for exchange notes should not be a taxable event to you for United States federal income tax purposes. Please refer to the section of this prospectus entitled Certain United States Federal Income Tax Consequences.
Exchange Agent	U.S. Bank National Association is serving as exchange agent in the exchange offer.
Fees and Expenses	We will pay all expenses related to this exchange offer. Please refer to the section of this prospectus entitled The Exchange Offer Fees and Expenses.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes. We are making this exchange offer solely to satisfy certain of our obligations under our registration rights agreement entered into in connection with the offering of the initial notes.
Consequences to Holders Who Do Not Participate in the Exchange Offer	If you do not participate in this exchange offer:

except as set forth in the next paragraph, you will not necessarily be able to require us to register your initial notes under the Securities Act,

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you will not be able to resell, offer to resell or otherwise transfer your initial notes unless they are registered under the Securities Act or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act, and

the trading market for your initial notes will become more limited to the extent other holders of initial notes participate in the exchange offer.

You will not be able to require us to register your initial notes under the Securities Act unless:

the exchange offer is not permitted by applicable law or SEC policy

the exchange offer is not consummated within 270 days after the closing date of the offering of the initial notes;

you are prohibited by applicable law or SEC policy from participating in the exchange offer

you may not resell the exchange notes you acquire in the exchange offer to the public without delivering a prospectus and that the prospectus contained in the exchange offer registration statement is not appropriate or available for such resales by you; or

you are a broker-dealer and hold initial notes acquired directly from us or one of our affiliates.

In these cases, the registration rights agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial notes described in this paragraph. We do not currently anticipate that we will register under the Securities Act any notes that remain outstanding after completion of the exchange offer.

Please refer to the section of this prospectus entitled The Exchange Offer Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences.

Resales

It may be possible for you to resell the notes issued in the exchange offer without compliance with the registration and prospectus delivery provisions of the Securities Act, subject to the conditions described under Obligations of Broker-Dealers below.

To tender your initial notes in this exchange offer and resell the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, you must make the following representations:

you are authorized to tender the initial notes and to acquire exchange notes, and that we will acquire good and unencumbered title to those initial notes,

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the exchange notes acquired by you are being acquired in the ordinary course of business,

you have no arrangement or understanding with any person to participate in a distribution of the exchange notes and are not participating in, and do not intend to participate in, the distribution of such exchange notes,

you are not an affiliate, as defined in Rule 405 under the Securities Act, of ours, or you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable,

if you are not a broker-dealer, you are not engaging in, and do not intend to engage in, a distribution of exchange notes, and

if you are a broker-dealer, initial notes to be exchanged were acquired by you as a result of market-making or other trading activities and you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange notes.

Please refer to the sections of this prospectus entitled The Exchange Offer Procedure for Tendering Initial Notes Proper Execution and Delivery of Letters of Transmittal, Risk Factors Risks Related to the Exchange Offer *Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes* and Plan of Distribution.

Obligations of Broker-Dealers	If you are a broker-dealer that receives exchange notes, you must acknowledge that you will deliver a prospectus in connection with any resales of the exchange notes. If you are a broker-dealer who acquired the initial notes as a result of market making or other trading activities, you may use the exchange offer prospectus as supplemented or amended, on connection with resales of the exchanges notes. If you are a broker-dealer who acquired the initial notes directly from the issuers in the initial offering and not as a result of market making and trading activities, you must, in the absence of an exemption, comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the exchange notes.

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Summary of Terms of the Exchange Notes

The exchange notes will be governed by the indenture, dated as of August 7, 2009, by and among Duane Reade Inc., Duane Reade GP, the guarantors named therein and U.S. Bank National Association, as trustee. The following is a summary of certain terms of the indenture and the exchange notes and is qualified in its entirety by the more detailed information contained under the heading Description of Notes elsewhere in this prospectus. Certain descriptions in this prospectus of provisions of the indenture are summaries of such provisions and are qualified herein by reference to the indenture.

Issuers	Duane Reade Inc. and Duane Reade
Exchange Notes	$300,000,000 aggregate principal amount of 11.75% Senior Secured Notes due 2015. The form and terms of the exchange notes are the same as the form and terms of the initial notes, except that the issuance of the exchange notes is registered under the Securities Act, the exchange notes will not bear legends restricting their transfer and the exchange notes will not be entitled to registration rights under the registration rights agreement. The exchange notes will evidence the same debt as the initial notes, and both the initial notes and the exchange notes will be governed by the same indenture.
Maturity	The exchange notes will mature on August 1, 2015.
Interest	The exchange notes will bear interest at a rate of 11.75% per annum, payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2010.

Interest on the exchange notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Original Issue Discount	Because the initial notes were issued with original issue discount, the exchange notes should be treated as having been issued with original issue discount for United States federal income tax purposes. Thus, U.S. Holders (as defined in Certain United States Federal Income Tax Consequences) will be required to include amounts representing such original issue discount in gross income on a constant yield basis for United States federal income tax purposes in advance of the receipt of cash payments to which such income is attributable. See Certain United States Federal Income Tax Consequences.
Guarantees	Duane Reade Holdings, Inc., the Company s direct parent, and all of the Company s existing direct and indirect subsidiaries, other than Duane Reade GP, will fully and unconditionally guarantee the payment of principal, interest and premium, if any, on the exchange notes, as described under the headings Description of Notes Guarantees.
Collateral for the Exchange Notes	The exchange notes and the guarantees and the obligations under certain interest rate and other swap agreements will be secured (on an equal and ratable basis) by a first priority lien on all of the assets owned by the Issuers and the guarantors other than those assets that secure the obligations under the asset-based revolving loan facility,

which includes (i) accounts receivable, inventory, chattel paper, instruments, documents, prescription files, tax refunds and abatements and deposit accounts, (ii) letter of credit rights and supporting obligations related to the items referred to in clause (i), (iii) all books and records relating to any of the foregoing, (iv) all payment intangibles constituting proceeds of the foregoing and (v) all other products and proceeds of the foregoing (including insurance proceeds related thereto).

The exchange notes and the guarantees will be secured by a second priority lien on the collateral securing the asset-based revolving loan facility subject only to a first priority security interest securing the revolving loan obligations up to the maximum revolving debt amount (as defined in the agreement governing our asset-based revolving loan facility) and a first priority lien on the collateral securing the asset-based revolving loan facility with respect to that portion of the revolving loan obligations exceeding the maximum revolving debt amount.

The exchange notes will not be secured by certain excluded assets, such as assets constituting real property, assets securing purchase money obligations or capital lease obligations incurred in compliance with the indenture, which obligations will effectively rank senior to the exchange notes to the extent of the value of such excluded assets. See Description of Notes Collateral for more information.

Ranking

The exchange notes will be each Issuer s senior secured obligation, and the guarantee of the exchange notes will be each guarantor s senior secured obligation. Accordingly, they will rank:

- equally in right of payment with all of such Issuer s or guarantor s existing and future senior indebtedness;

- senior in right of payment to any of such Issuer s or guarantor s existing and future subordinated indebtedness (as the case may be);

- effectively subordinated to such Issuer s or guarantor s outstanding obligations under the asset-based revolving loan facility up to the maximum revolving debt amount, to the extent of the value of the collateral that secures revolving loan facility obligations;

- effectively senior to such Issuer s or guarantor s outstanding obligations under the asset-based revolving loan facility in excess of the maximum revolving debt amount, to the extent of the value of the collateral that secures revolving loan facility obligations;

- effectively senior to such Issuer s or guarantor s outstanding obligations under the asset-based revolving loan facility with respect to assets of such Issuer securing the exchange notes but not the asset-based revolving loan facility; and

- effectively senior to all existing and future senior unsecured debt of such Issuer or guarantor, to the extent of the value of the collateral securing the exchange notes.

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As of June 27, 2009, on an as-adjusted basis, the exchange notes and the related guarantees would be effectively subordinated to approximately $72.5 million of indebtedness outstanding under our asset-based revolving loan facility with respect to the collateral securing that facility, with an additional $143.4 million of availability under that facility (net of outstanding letters of credit).

All of the exchange notes will be effectively subordinated to all of the liabilities and preferred stock of our subsidiaries that do not guarantee the exchange notes. We do not expect to have any non-guarantor subsidiaries as of the issue date of the exchange notes.

Optional Redemption	Prior to August 1, 2012, the Issuers may redeem the exchange notes in whole or in part, at a price equal to 100% of the principal amount thereof plus the applicable make-whole premium. The Issuers may redeem all or a portion of the exchange notes at the redemption prices listed under the heading Description of Notes Optional Redemption, plus accrued and unpaid interest to the date of redemption. In addition, the Company, Holdings or Duane Reade Shareholders, LLC may redeem up to an aggregate of 35% of aggregate principal amount of the exchange notes with the net cash proceeds from certain equity offerings. However, we may only make such redemptions if at least 65% of the aggregate principal amount of the exchange notes remains outstanding immediately after the occurrence of such redemption.
Change of Control	If a change of control of the Company occurs, the Issuers must give holders of the exchange notes the opportunity to sell to the Issuers their exchange notes at 101% of their face amount, plus accrued interest.

The Issuers might not be able to pay holders the required price for the exchange notes holders present to them at the time of a change of control, because:

- the Issuers might not have enough funds at that time; or
- the terms of the Issuers other debt may prevent the Issuers from paying.

Asset Sale Proceeds	If the Company or certain of its subsidiaries engage in asset sales, the Company generally must either invest the net cash proceeds from such sales in its business within a specified period of time, prepay specified classes of debt or make an offer to purchase a principal amount of the exchange notes, term loan obligations and other indebtedness ranking *pari passu* therewith equal to the excess net cash proceeds. See Description of the Notes Certain Covenants *Asset Sales*.
Certain Covenants	The indenture governing the exchange notes contains covenants that, among other things, limit the Company s and certain of its restricted subsidiaries ability to:

- incur or guarantee additional indebtedness;

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- pay dividends, make repayments on indebtedness that is subordinated to the applicable exchange notes and make other restricted payments ;
- make certain investments;
- create liens on their assets to secure debt;
- enter into transactions with affiliates;
- merge, consolidate or amalgamate with another company;
- transfer and sell assets;
- impair the collateral; and
- permit restrictions on the payment of dividends by our subsidiaries.

These covenants are subject to a number of important limitations and exceptions. See Description of Notes.

Governing Law	The indenture governing the exchange notes is governed by New York law.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the registration rights agreement entered into in connection with the offering of the initial notes.
Absence of a Public Market for the Exchange Notes	The exchange notes are new securities with no established market for them. We cannot assure you that a market for these exchange notes will develop or that this market will be liquid. Please refer to the section of this prospectus entitled Risk Factors Risks Relating to the Exchange Offer *There may be no active or liquid market for the exchange notes*.
Form of the Exchange Notes	The exchange notes will be represented by one or more permanent global securities in registered form deposited on behalf of The Depository Trust Company with U.S. Bank National Association, as custodian. You will not receive exchange notes in certificated form unless one of the events described in the section of this prospectus entitled Book Entry; Delivery and Form Exchange of Book Entry Notes for Certificated Notes occurs. Instead, beneficial interests in the exchange notes will be shown on, and transfers of these exchange notes will be effected only through, records maintained in book-entry form by The Depository Trust Company with respect to its participants.
Risk Factors	

See Risk Factors for a discussion of factors you should carefully consider before deciding to invest in the exchange notes.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The summary historical consolidated financial data presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes related to those statements contained elsewhere in this prospectus.

The summary historical consolidated financial and other data set forth below as of and for the fiscal years ended December 30, 2006, December 29, 2007 and December 27, 2008 have been derived from our audited consolidated financial statements. The summary historical consolidated financial and other data set forth below as of and for the twenty-six-week periods ended June 28, 2008 and June 27, 2009 have been derived from our unaudited consolidated interim financial statements. To conform to our current presentation, we have removed the gross profit caption from the statement of operations data. The financial data set forth below as of and for the twenty-six-week periods are not necessarily indicative of the results of operations that would be achieved over the course of a full fiscal year.

	Fiscal Year			(Unaudited) Twenty-Six Weeks Ended	
	2006	2007	2008	June 28, 2008	June 27, 2009
	(dollars in thousands, except percentages and store data)				
Statement of Operations Data					
Net sales	$ 1,584,778	$ 1,686,752	$ 1,774,029	$ 878,532	$ 923,573
Costs and expenses:					
Cost of sales(1)	1,108,727	1,176,376	1,227,129	606,405	640,496
Selling, general & administrative expenses	426,532	446,696	476,574	236,450	244,415
Labor contingency income(2)	(18,004)				
Depreciation and amortization	71,932	73,080	68,539	35,593	35,342
Store pre-opening expenses	305	600	797	247	235
Gain on sale of pharmacy files		(1,337)			
Other expenses(3)	14,747	15,948	16,808	4,149	6,283
Operating loss	(19,461)	(24,611)	(15,818)	(4,312)	(3,198)
Interest expense, net	56,947	60,977	54,915	27,281	24,191
Loss before income taxes	(76,408)	(85,588)	(70,733)	(31,593)	(27,389)
Income taxes	2,956	2,192	2,045	1,478	1,407
Net loss	$ (79,364)	$ (87,780)	$ (72,778)	$ (33,071)	$ (28,796)
Operating Data					
Net cash provided by operating activities	$ 11,616	$ 19,271	$ 44,317	$ 26,767	$ 30,996
Net cash used in investing activities	$ (29,070)	$ (41,921)	$ (47,001)	$ (25,965)	$ (27,513)
Net cash provided by (used in) financing activities	$ 17,487	$ 22,635	$ 2,734	$ (810)	$ (3,548)
Number of stores at end of period	248	242	251	241	253
Same-store sales growth(4)	4.6%	7.4%	4.2%	4.6%	1.4%
Pharmacy same-store sales growth(4)	2.6%	5.9%	3.1%	2.5%	3.6%
Front-end same-store sales growth(4)	6.2%	8.6%	5.0%	6.3%	(0.3)%
Average store size (selling square feet) at end of period	6,987	6,813	6,764	6,799	6,768
Sales per square foot(5)	$ 881	$ 975	$ 1,010	N/A	N/A
Pharmacy sales as a % of net sales(6)	46.5%	46.0%	46.1%	45.6%	47.0%
Third party plan sales as a % of prescription sales	92.8%	93.0%	93.4%	93.2%	94.0%
FIFO EBITDA(7)	$ 37,500	$ 50,069	$ 56,713	$ 32,881	$ 33,994

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	December 27, 2008	June 27, 2009
	(dollars in thousands)	
Balance Sheet Data (at end of period)		
Working capital deficit(8)	$ (13,316)	$ (21,559)
Total assets	$ 712,600	$ 701,655
Total debt and capital lease obligations	$ 555,652	$ 554,511
Stockholders deficit	$ (146,701)	$ (175,336)

(1) Shown exclusive of depreciation and amortization expense for our distribution centers which is included in the separate line item captioned depreciation and amortization.

(2) We recognized pre-tax income of $18.0 million in fiscal 2006 in connection with the recognition and subsequent resolution of a National Labor Relations Board decision in a litigation matter relating to our collective bargaining agreement with one of our unions at the time.

(3) Includes closed store costs, asset impairment charges, Oak Hill management fee, accounting investigation costs, former CEO (Mr. Cuti) matters and miscellaneous other items. See Footnote 7 below, Note 16 to the consolidated audited financial statements and Note 10 to the consolidated unaudited interim financial statements contained elsewhere in this prospectus, which provide a detailed explanation of these charges.

(4) Same-store sales figures include stores that have been in operation for at least 13 months.

(5) Items defined as N/A are not reported by us on a partial year basis.

(6) Includes resales of certain retail inventory.

(7) As used in this prospectus, FIFO EBITDA means earnings before interest, income taxes, depreciation, amortization, non-cash charges and credits related to the LIFO inventory valuation method, extraordinary charges and other non-recurring charges. We believe that FIFO EBITDA, as presented, represents a useful measure of assessing the performance of our ongoing operating activities, as it reflects our earnings trends without the impact of certain non-cash charges and other non-recurring items.

In evaluating FIFO EBITDA, you should be aware that in the future we may incur charges and other items such as those used in calculating FIFO EBITDA. Our presentation of FIFO EBITDA should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items. FIFO EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under Generally Accepted Accounting Principles in the United States. Some of these limitations are:

- it does not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments;
- it does not reflect changes in, or cash requirements for, our working capital needs;
- it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and FIFO EBITDA does not reflect any cash requirements for such replacements;

- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;

- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us; and

- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, FIFO EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations, including those under the exchange notes. You should compensate for these limitations by relying primarily on our GAAP results and using FIFO EBITDA only supplementally. See our consolidated financial statements contained elsewhere in this prospectus.

FIFO EBITDA is not intended as an alternative to net income as an indicator of our operating performance, as an alternative to any other measure of performance in conformity with GAAP nor as an alternative to cash flow provided by operating activities as measures of liquidity. You should therefore not place undue reliance on FIFO EBITDA or ratios calculated using this measure.

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A reconciliation of net loss to FIFO EBITDA for each period included above is set forth below:

		Fiscal Year		(Unaudited) Twenty-Six Weeks Ended	
	2006	2007	2008	June 28, 2008	June 27, 2009
			(dollars in thousands)		
Net loss	$ (79,364)	$ (87,780)	$ (72,778)	$ (33,071)	$ (28,796)
Income tax expense	2,956	2,192	2,045	1,478	1,407
Interest expense	56,947	60,977	54,915	27,281	24,191
Depreciation and amortization(a)	71,932	73,080	68,539	35,593	35,342
Labor contingency income(b)	(18,004)				
LIFO Expense	3,033	1,600	3,992	1,600	1,850
FIFO EBITDA	$ 37,500	$ 50,069	$ 56,713	$ 32,881	$ 33,994
The following items may be considered in addition to FIFO EBITDA:					
Non-cash rent expense(c)	$ 10,956	$ 11,678	$ 12,751	$ 5,816	$ 5,469
Former CEO (Mr. Cuti) matters(d)	1,280	6,013	6,029	1,300	2,892
Oak Hill management fee(e)	1,250	1,250	1,250	625	625
Asset impairment charges(f)	10,202	868	7,662		
Litigation Settlement Charge(g)			3,500		
Closed store costs(h)		4,351	3,649	2,117	2,766
Accounting investigation costs(i)	835	2,250			
Stock option expense	336	982	697	339	435
Miscellaneous other items	$ 1,335(j)	$ 1,216(k)	$ (1,782)(l)	$ 107(m)	$

(a) Excludes amortization expense associated with deferred financing costs, which is included in the line item entitled Interest expense.

(b) We recognized pre-tax income of $18.0 million in fiscal 2006 in connection with the recognition and subsequent resolution of a National Labor Relations Board decision in a litigation matter relating to our collective bargaining agreement with one of our former unions.

(c) Non-cash deferred rent expense for a period equals our total rent expense recorded under GAAP less cash rent expense actually paid in the period.

(d) Reflects charges relating to our former CEO, Mr. Cuti, including severance expenses and legal expenses for proceedings relating to Mr. Cuti. For a detailed explanation of these charges, see Notes 2 and 18 to the consolidated audited financial statements, which are contained elsewhere in this prospectus.

(e) Oak Hill Capital Management, Inc. (an affiliate of Oak Hill Capital Partners, L.P.), provides us with financial advisory and management services under a management services agreement. In consideration of these services, Oak Hill Capital Management, Inc. receives an annual fee of $1.25 million, payable quarterly.

(f) Represents non-cash charges to reduce the carrying value of certain store assets to fair value.

(g) This litigation settlement charge relates to two class action lawsuits that we believe are unusual and non-recurring and is more fully described elsewhere in this prospectus.

(h) In the normal course of our business, we close store locations. In accordance with the provisions of SFAS No. 146, *Accounting for the Costs Associated with Exit or Disposal Activities,* we establish reserves for closed store costs anticipated to be incurred in connection with such closings.

(i) These charges relate to accounting investigations that were completed in the first half of the 2007 fiscal year. For a detailed explanation of these charges see Note 2 to the consolidated audited financial statements, contained elsewhere in this prospectus.

(j) Includes severance costs relating to our former executives, costs relating to changes in the fair value of outstanding profits interests and executive relocation, recruitment and retention costs. These items were partially offset by benefits resulting from changes in the fair value of the phantom stock liability in respect of certain of our current and former executives.

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(k) Includes severance costs relating to our former executives, costs relating to a union contract settlement and costs relating to changes in the fair value of the phantom stock liability in respect of certain of our current and former executives, partially offset by benefits resulting from changes in the fair value of outstanding profits interests.

(l) Includes benefits resulting from changes in the fair value of the phantom stock liability in respect of certain of our current and former executives and changes in the fair value of outstanding profits interests, partially offset by additional costs relating to a union contract settlement and severance costs relating to our former executives.

(m) Represents severance costs relating to our former executives.

(8) For the fiscal year December 27, 2008 and for the twenty-six-week period ended June 27, 2009, working capital deficit reflects the classification of our asset-based revolving loan facility as a current liability, rather than as long-term debt, because cash receipts controlled by the lenders are used to reduce outstanding debt, and we do not meet the criteria of SFAS No. 6, *Classification of Short-Term Obligations Expected to be Refinanced An Amendment of ARB No. 43, Chapter 3A,* to classify the debt as long-term. At December 27, 2008 and June 27, 2009, the revolving loan balance was $144.6 million and $143.4 million, respectively.

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RISK FACTORS

Your decision whether to acquire the exchange notes will involve risk. You should be aware of, and carefully consider, the following risk factors, along with all of the other information provided or referred to in this prospectus before deciding whether to invest in the exchange notes.

Risks Related to Our Capital Structure

Our substantial indebtedness could prevent us from fulfilling our obligations under the exchange notes and may otherwise restrict our activities.

We have a significant amount of indebtedness. As of June 27, 2009, on an as-adjusted basis, we had a total of approximately $430.3 million of indebtedness outstanding, consisting of approximately $72.5 million outstanding under the asset-based revolving loan facility, $300.0 million of outstanding initial notes (which were issued at a discount of approximately $7.7 million), $51.7 million of outstanding senior subordinated notes and approximately $6.1 million of capital lease obligations. See Description of Other Indebtedness and Capitalization.

Our outstanding indebtedness, including under the notes and the asset-based revolving loan facility, could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes;
- limit our ability to obtain additional financing for funding our growth strategy, capital expenditures, acquisitions, working capital or other purposes;
- require us to dedicate a substantial portion of our operating cash flow to service our debt, thereby reducing funds available for our growth strategy, capital expenditures, acquisitions, working capital and other purposes;
- increase our vulnerability to adverse economic, regulatory and industry conditions;
- limit our flexibility in planning for, or responding to, changing business and economic conditions, including reacting to any economic slowdown in the New York greater metropolitan area;
- place us at a competitive disadvantage relative to our competitors with less indebtedness; and
- subject us to financial and other restrictive covenants, and our failure to comply with these covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of all of our indebtedness.

We may be required to refinance our indebtedness. Our ability to refinance our indebtedness will depend on, among other things, our financial condition at the time, our financial performance, credit market conditions and the availability of financing. Our ability to refinance our indebtedness could be impaired if debt holders develop a negative perception of our long-term or short-term financial prospects. Such negative perceptions could result if we suffer a decline in the level of our business activity, among other reasons. In addition, because of disruptions in the worldwide credit markets, because of the economic downturn and its impact on our business or for other reasons, we may not be able to obtain refinancing on commercially reasonable terms or at all. Failure to refinance our indebtedness could have a material adverse effect on us and could require us to dispose of assets if we cannot refinance our indebtedness. We may be unable to sell some of our assets, or we may have to sell assets at a substantial discount from market value, either of which could adversely affect our results of operations.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur substantial additional indebtedness. This could further exacerbate the risks associated with our existing substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. On an as-adjusted basis, we would be able to incur up to a maximum of $225.0 million in total indebtedness under our asset-based revolving loan facility, of which approximately $72.5 million would be outstanding as of June 27, 2009. Our ability to borrow under our asset-based revolving loan facility is subject to a borrowing base formula, which would provide for $143.4 million of remaining availability on an as-adjusted basis (net of outstanding letters of credit). The agreement governing our asset-based revolving loan facility also allows us to incur additional other indebtedness. The indenture governing the notes contains some limitations on the ability of Duane Reade Inc., Duane Reade GP and their restricted subsidiaries to incur indebtedness; however, they may not prohibit those entities from incurring additional indebtedness. If new indebtedness is added to our and our subsidiaries current indebtedness levels, the related risks that we and our subsidiaries now face would intensify. See Description of Notes Certain Covenants *Incurrence of Indebtedness and Issuance of Disqualified Capital Stock* and Description of Other Indebtedness.

In addition to the covenants under the indenture governing the notes, the agreement governing our asset-based revolving loan facility includes restrictive and financial covenants that may limit our operating and financial flexibility.

The indentures governing the notes and the agreement governing our asset-based revolving loan facility contain covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest. These include restrictions on the ability of Duane Reade Inc., Duane Reade GP and their restricted subsidiaries (and in case of our asset-based revolving loan facility, Holdings) to:

- incur additional indebtedness;
- pay dividends or distributions on, or redeem or repurchase, capital stock;
- prepay, redeem or repurchase specified indebtedness;
- merge, consolidate or sell assets or enter into other business combination transactions;
- make acquisitions, capital expenditure investments or other investments;
- enter into transactions with affiliates;
- incur certain liens;
- enter into sale-leaseback transactions;
- use proceeds from sale of assets;
- permit restrictions on the payment of dividends by their subsidiaries;
- impair the collateral; and
- change their business.

In addition, the agreement governing our asset-based revolving loan facility contains a single fixed charge coverage requirement which only becomes applicable when borrowings exceed 90% of the borrowing base, as defined in the agreement governing our asset-based revolving loan facility. Borrowings under our asset-based revolving loan facility have not exceeded 90% of the borrowing base and, as a result, the fixed charge covenant has not become applicable. There are no credit ratings related triggers in our asset-based revolving loan facility that would impact the cost of borrowing, annual amortization of principal or related indebtedness maturity.

Issues affecting financial institutions could adversely affect financial markets generally as well as our ability to raise capital or access liquidity.

Factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally could impair our ability to raise necessary funding. The creditworthiness of many financial institutions may be closely interrelated as a result of credit, derivative, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This may adversely affect the financial institutions, such as banks and insurance providers, with which we interact on a daily basis, and therefore could adversely affect our ability to raise needed funds or access liquidity.

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We are a company whose equity is not publicly traded and which is effectively controlled by a single stockholder. That stockholder may effect changes to our board of directors, management and business plan, and the interests of that stockholder may conflict with the interests of our noteholders.

Duane Reade Shareholders, LLC owns approximately 99% of the outstanding shares of common stock of Holdings, our parent. Oak Hill Capital Partners, L.P. owns a majority of the voting membership interests in Duane Reade Shareholders, LLC.

Accordingly, Oak Hill indirectly beneficially owns a majority of our outstanding shares of common stock and can determine the outcomes of the elections of members of our board of directors and the outcome of corporate actions requiring stockholder approval, including mergers, consolidations and the sale of all or substantially all of our assets. Oak Hill also controls our management, policies and financing decisions and is in a position to prevent or cause a change of control. The interests of Oak Hill could conflict with those of our public debt holders. For example, if we encounter financial difficulties or are unable to pay our debts as they come due, the interests of Oak Hill as an equity holder might conflict with the interests of our noteholders. Oak Hill may have an interest in pursuing acquisitions, divestitures or financings or other transactions that, in its judgment could enhance its equity investment, even though such transactions may involve significant risks to our noteholders. In addition, Oak Hill and its affiliates may in the future own interests in businesses that compete with ours.

Risks Applicable to the Notes

A court could deem the issuance of the notes or the guarantees to be a fraudulent conveyance and void all or a portion of the obligations represented by the notes or the guarantees.

In a bankruptcy proceeding, a trustee, debtor in possession, or someone else acting on behalf of the bankruptcy estate may seek to recover transfers made or void obligations incurred prior to the bankruptcy proceeding on the basis that such transfers and obligations constituted fraudulent conveyances. Fraudulent conveyances are generally defined to include transfers made or obligations incurred for inadequate consideration when the debtor was insolvent, inadequately capitalized or in similar financial distress, or transfers made or obligations incurred with the intent of hindering, delaying or defrauding current or future creditors. A trustee or such other parties may recover such transfers and avoid such obligations made within two years prior to the commencement of a bankruptcy proceeding. Furthermore, under certain circumstances, creditors may recover transfers or void obligations under state fraudulent conveyance laws, within the applicable limitation period, which may be longer than two years, even if the debtor is not in bankruptcy. In bankruptcy, a representative of the estate may also assert such state law claims. If a court were to find that either an Issuer issued the notes or a guarantor issued its guarantee under circumstances constituting a fraudulent conveyance, the court could void all or a portion of the obligations under the notes or the guarantees, or the pledge of collateral granted in connection therewith. In addition, under such circumstances, the value of any consideration holders received with respect to the notes, including upon foreclosure of the collateral, could also be subject to recovery from such holders and possibly from subsequent transferees. If the pledge of collateral to secure the notes were voided and the issuance of the notes and/or guarantees were not voided, holders of notes would be unsecured creditors with claims that ranked *pari passu* with all other unsubordinated creditors of the applicable obligor, including trade creditors.

A note could be voided, claims in respect of a note could be subordinated to all other debts of an Issuer or the pledge of collateral securing the notes could be voided, if such Issuer at the time the indebtedness evidenced by the notes was incurred:

- intended to hinder, delay, or defraud any existing or future creditor or contemplated insolvency with a design to prefer one or more creditors to the exclusion in whole or in part of others;

- received less than reasonably equivalent value or fair consideration for the issuance of the notes and was insolvent or rendered insolvent by reason of such issuance or incurrence;

was engaged in a business or transaction for which such Issuer s remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond the ability to pay those debts as they mature.

Similar risks apply to the incurrence by each guarantor of its guarantee of the notes and its pledge of collateral to secure its guarantee of the notes.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a debtor would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

We cannot assure you as to what standard a court would apply in determining whether an Issuer or a guarantor would be considered to be insolvent. If a court determined that an Issuer or a guarantor was insolvent after giving effect to the issuance of the notes or the applicable guarantee, it could void the notes or the applicable guarantees of the notes (or the pledge of collateral) and require you to return any payments received in respect of the notes or guarantees (or upon the foreclosure on collateral).

If a bankruptcy petition were filed by or against us, holders of notes may receive a lesser amount for their claim than they would have been entitled to receive under the indentures governing the notes.

If a bankruptcy petition were filed by or against us under the U.S. Bankruptcy Code after the issuance of the notes, the claim by any holder of the notes for the principal amount of the notes may be limited to an amount equal to the sum of:

the original issue price for the notes; and

that portion of the original issue discount that does not constitute unmatured interest for purposes of the U.S. Bankruptcy Code.

Any original issue discount that was not amortized as of the date of the bankruptcy filing would constitute unmatured interest. Accordingly, holders of the notes under these circumstances may receive a lesser amount than they would be entitled to receive under the terms of the indentures governing the notes, even if sufficient funds are available.

The exchange notes should be treated as issued with original issue discount for U.S. federal income tax purposes.

Because the initial notes were issued with original issue discount, the exchange notes should be treated as issued with original issue discount for U.S. federal income tax purposes. Thus, U.S. Holders (as defined in Certain United States Federal Income Tax Consequences) will be required to include such original issue discount in gross income (as ordinary income) for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income and regardless of the U.S. Holder s method of tax accounting. See Certain United States Federal Income Tax Consequences.

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The notes are new issues of securities and the trading market for such notes may be limited.

The notes are new securities for which there currently is no established trading market, and on issuance there will not be any established trading market. We do not intend to apply for listing of the notes on any securities exchange or for quotation in any automated dealer quotation system. In addition, although the initial purchasers have informed us that they currently intend to make a market in the notes, they are not obligated to do so and may discontinue such market-making at any time without notice, in their sole discretion. If any of the notes are traded after their initial issuance, they may trade at a discount from their initial issue price or principal amount, depending upon many factors, including prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our financial condition, performance and prospects. Any decline in trading prices, regardless of the cause, may adversely affect the liquidity and trading markets for the notes.

We may not have the ability to purchase the notes upon a change of control.

Upon the occurrence of specified change of control events, we will be required to offer to purchase each holder s notes at a price equal to 101% of their principal amount plus accrued and unpaid interest, unless all notes have been previously called for redemption. The holders of other debt securities that we may issue in the future, which rank equally in right of payment with the notes may also have this right. The occurrence of a change of control could constitute an event of default under agreements governing other indebtedness, some of which will rank effectively senior to the notes, in which case our lenders may terminate their commitments under those agreements and accelerate all amounts outstanding under the relevant facilities. Therefore, we may not have sufficient financial resources to purchase all of the debt securities or other indebtedness with such provisions as a result of a change of control.

The assets of our subsidiaries that are not guarantors of the notes will be subject to prior claims by creditors of those subsidiaries.

You will not have any claim as a creditor against our subsidiaries that are not guarantors of the notes. All of our current subsidiaries, other than Duane Reade GP, which is the co-Issuer of the notes, will guarantee the notes, and there are currently no unrestricted subsidiaries under the indenture. Nevertheless, any future unrestricted subsidiaries will not guarantee the notes. In addition, although we currently have no such subsidiaries, certain non-wholly-owned restricted subsidiaries will not be required to guarantee the notes or pledge their assets, subject to certain limitations, as described in Description of Notes Guarantees and Description of Notes Certain Covenants *Issuances of Guarantees by New Restricted Subsidiaries and Non-Guarantor Restricted Subsidiaries*. Therefore, the assets of our non-guarantor subsidiaries will be subject to prior claims by creditors of those subsidiaries, whether secured or unsecured, including trade claims. Unrestricted subsidiaries under the indentures are also not subject to the covenants in such indenture.

Holders of the notes and guarantees will share most collateral equally and ratably with the lenders under certain additional secured indebtedness that we are permitted by the indenture to incur in the future. If there is a default, the value of that collateral may not be sufficient to repay the holders of all of the debt secured by such collateral under such indebtedness. Furthermore, if there is a default, the collateral agent will be directed by a majority in aggregate principal amount of the notes and such other secured indebtedness, taken as a whole.

Our obligations under the notes and the guarantees are secured by a first-priority lien on all collateral (except for certain excluded assets) that does not secure our obligations under the asset-based revolving loan facility and by a lien on all collateral (except for certain excluded assets) that secures the asset-based revolving loan facility obligations that is junior to the lien securing such asset-based revolving loan facility obligations up to a specified maximum amount. The indenture governing the notes may allow us to incur additional debt that is secured equally and ratably with our obligations under the notes and the guarantees. See Description of Notes Certain Covenants *Incurrence of Indebtedness and Issuance of Disqualified Capital Stock* and Description of

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Notes Certain Covenants *Liens*. In the event of a bankruptcy, there may not be sufficient collateral value to satisfy our obligations under the notes and the guarantees and such additional parity debt. In addition, upon the occurrence of an event of default, the collateral agency agreement provides that, among other things, all instructions to the collateral agent, including with respect to the exercise of remedies, are to be made pursuant to the vote of holders of a majority of the aggregate outstanding indebtedness under the notes and such additional parity debt, subject to various conditions and exceptions. Therefore, a majority of noteholders may not be sufficient to direct the actions of the collateral agent. See Description of Notes Collateral *Instructions to the Collateral Agent* and Description of Notes Collateral *Foreclosure*.

Some of the collateral securing our obligations under the notes and the guarantees thereof is shared with creditors that have first-priority liens on that Secondary Collateral. If there is a default, the value of that collateral may not be sufficient to repay the first-priority lien creditors and the holders of the notes and related guarantees.

Our obligations under our asset-based revolving loan facility are secured, up to a maximum amount, by a first-priority lien on all present and future:

- accounts receivable, inventory, chattel paper, instruments, documents, prescription files, tax refunds and abatements and deposit accounts;
- letter of credit rights and supporting obligations related to the items referred to in the previous bullet;
- all books and records relating to any of the above;
- all payment intangibles constituting proceeds of the above; and
- all other products and proceeds of the above (including related insurance proceeds).

Our obligations under the notes and the guarantees are secured by a second-priority lien on all of the collateral securing our obligations under our asset-based revolving loan facility (such assets are referred to herein as Secondary Collateral) up to a specified maximum amount. The relative priority of the liens on the Secondary Collateral is governed by an intercreditor agreement and the related collateral documents. Accordingly, any proceeds received upon a realization of the Secondary Collateral will be applied first to obligations (including expenses and other amounts) under our asset-based revolving loan facility. As a result, if there is a default, the value of that Secondary Collateral may not be sufficient to repay the first-priority lien creditors, the holders of the notes and the guarantees.

Your right to exercise remedies with respect to the Secondary Collateral is limited, even during an event of default under the indenture. In addition, Secondary Collateral will be subject to any exceptions, defects, encumbrances, liens and other imperfections that are accepted by the lenders under our asset-based revolving loan facility.

The rights of the holders of the notes with respect to the Secondary Collateral are limited, even during an event of default under the indenture. If our asset-based revolving loan facility (or any replacement thereof) is not terminated or our obligations under it or any other obligations secured by first-priority liens are outstanding, any actions that may be taken in respect of any of Secondary Collateral, including the ability to cause the commencement of enforcement proceedings against the Secondary Collateral and to control the conduct of such proceedings are limited and, in most cases, controlled and directed by the lenders under our asset-based revolving loan facility and other obligations secured by first-priority liens. In those circumstances, the trustee, on behalf of the holders of the notes, will not have the ability to control or direct such actions, even if an event of default under the indenture governing the notes has occurred or if the rights of the holders of the notes are or may be adversely affected. The agent and the lenders under our asset-based revolving loan facility are under no obligation to take into account the interests of holders of the notes and guarantees when determining whether and how to exercise their rights with respect to the Secondary Collateral, subject to the intercreditor agreement, and their interests and rights may be significantly different from or adverse to yours.

To the extent that Secondary Collateral is released from the first-priority liens in accordance with our asset-based revolving loan facility, the second-priority liens securing the notes and the guarantees will also automatically be released. See Description of Notes Intercreditor Agreement and Description of Notes Possession, Use and Release of Collateral *Release of Collateral*.

The Secondary Collateral will also be subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the lenders under our asset-based revolving loan facility and other creditors that have the benefit of first-priority liens on the Secondary Collateral from time to time, whether on or after the date the notes and guarantees are issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Secondary Collateral securing the notes as well as the ability of the collateral agent to realize or foreclose on such Secondary Collateral. We have neither analyzed the effect of, nor participated in any negotiations relating to such exceptions, defects, encumbrances, liens and imperfections and the existence thereof could adversely affect the value of the Secondary Collateral securing the notes as well as the ability of the collateral agent to realize or foreclose on such Secondary Collateral.

There may not be sufficient collateral to pay all or any of the notes, especially if we incur additional senior secured indebtedness, which will dilute the value of the collateral securing the notes and guarantees.

No appraisals of any collateral have been prepared in connection with the issuance of the notes offered hereby. The fair market value of the collateral is subject to fluctuations based on factors that include, among others, the condition of the markets and sectors in which we operate, the ability to sell the collateral in an orderly sale, the condition of the national and local economies, the availability of buyers and similar factors. The value of the assets pledged as collateral for the notes could be also impaired in the future as a result of our failure to implement our business strategy, competition or other future trends. In the event of foreclosure on the collateral, the proceeds from the sale of the collateral may not be sufficient to satisfy in full our obligations under the notes and any additional indebtedness secured equally and ratably with the notes and our asset-based revolving loan facility (in the case of Secondary Collateral). The amount to be received upon such a sale would be dependent on numerous factors, including but not limited to the timing and the manner of the sale. In addition, the book value of the collateral should not be relied on as a measure of realizable value for such assets. By its nature, portions of the collateral may be illiquid and may have no readily ascertainable market value. In particular, the collateral on which the notes and guarantees have a first-priority security interest (including equipment, contracts and intellectual property) is generally more illiquid than the collateral shared with the lenders of our asset-based revolving loan facility (receivables and inventory). Accordingly, there can be no assurance that the collateral can be sold in a short period of time in an orderly manner. A significant portion of the collateral includes assets that may only be usable, and thus retain value, as part of our existing operating business. Accordingly, any such sale of the collateral separate from the sale of certain of our operating businesses may not be feasible or of significant value.

To the extent that pre-existing liens, liens permitted under the indenture and other rights, including liens on excluded assets, such as those securing purchase money obligations and capital lease obligations granted to other parties (in addition to the holders of obligations secured by first-priority liens), encumber any of the collateral securing the notes and the guarantees, those parties have or may exercise rights and remedies with respect to the collateral that could adversely affect the value of the collateral and the ability of the collateral agent, the trustee under the indenture or the holders of the notes to realize or foreclose on the collateral. Consequently, liquidating the collateral securing the notes may not result in proceeds in an amount sufficient to pay any amounts due under the notes after also satisfying the obligations to pay any creditors with prior liens. If the proceeds of any sale of collateral are not sufficient to repay all amounts due on the notes, the holders of the notes (to the extent not repaid from the proceeds of the sale of the collateral) would have only an unsecured, unsubordinated claim against our and the guarantors remaining assets.

We or any guarantor may incur additional secured indebtedness under the indenture, including the issuance of additional notes or the incurrence of other forms of indebtedness secured equally and ratably with the notes

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and borrowings under our asset-based revolving loan facility, subject to certain specified conditions. See Description of Notes Certain Covenants *Incurrence of Indebtedness and Issuance of Disqualified Capital Stock.* There is no restriction on the ability of Holdings to incur indebtedness. Any such incurrences could dilute the value of the collateral securing the notes and guarantees.

There are circumstances other than repayment or discharge of the notes under which the collateral securing the notes and guarantees will be released automatically, without your consent, the consent of the lenders under our asset-based revolving facility or the consent of the notes trustee.

Under various circumstances, all or a portion of the collateral securing the notes and guarantees will be released automatically, including:

- a taking by eminent domain, condemnation or other similar circumstances;
- a sale, transfer or other disposal or liquidation of such collateral in a transaction not prohibited under the indenture;
- with respect to collateral held by a guarantor, upon the release of such guarantor from its guarantee (and its guarantee of any other indebtedness secured equally and ratably with the notes) in accordance with the indenture;
- with respect to any Secondary Collateral, upon any sale or other disposition of such Secondary Collateral (i) by the lenders under our asset-based revolving loan facility or (ii) by us or our subsidiaries with the consent of those lenders.

See Description of Notes Possession, Use and Release of Collateral *Release of Collateral.* The indenture will also permit us to designate one or more of the restricted subsidiaries as unrestricted subsidiaries, subject to certain conditions. If we designate a subsidiary as an unrestricted subsidiary, all of the liens on any collateral owned by the unrestricted subsidiary or any of its subsidiaries and any guarantees of the notes by the unrestricted subsidiary or any of its subsidiaries will be automatically released under the indenture. Designation of an unrestricted subsidiary will therefore reduce the aggregate value of the collateral securing the notes. See Description of Notes Possession, Use and Release of Collateral *Release of Collateral.*

The pledge of the capital stock, other securities and similar items of our subsidiaries that secure the notes will automatically be excluded from the collateral to the extent the pledge of such capital stock or such other securities would require the filing of separate financial statements with the SEC for that subsidiary.

The notes and the guarantees are secured by a pledge of our stock that is owned by Holdings and the capital stock, other securities and similar items of some of our subsidiaries. Under SEC regulations currently in effect, if the par value, book value as carried by us or market value (whichever is greatest) of the capital stock, other securities or similar items of a subsidiary pledged as part of the collateral is greater than or equal to 20% of the aggregate principal amount of the notes then outstanding, such a subsidiary would be required to provide separate financial statements to the SEC. Therefore, the indenture and the collateral documents provide that any capital stock and other securities of any of our principal subsidiaries, Duane Reade GP, DRI I Inc. and Duane Reade International, LLC (f/k/a Duane Reade International, Inc.), will be excluded from the collateral to the extent that the pledge of such capital stock or other securities to secure the notes would cause such subsidiary to be required to file separate financial statements with the SEC pursuant to Rule 3-16 of Regulation S-X (as in effect from time to time). We conduct substantially all of our operations through those subsidiaries, which hold substantially all of our assets on a consolidated basis. In addition, the stock of subsidiaries created or acquired by us after the date of the indenture governing the notes can be excluded assets if the aggregate fair market value of all such subsidiaries does not exceed $30.0 million. As a result, holders of the notes could lose a portion or all of their security interest in the capital stock or other securities of those subsidiaries. It may be more difficult, costly and time-consuming for holders of the notes to foreclose on the assets of a subsidiary than to foreclose on its capital stock or other securities, so the proceeds realized upon any such foreclosure could be significantly less than those that would have been received upon any sale of the capital stock or other securities of such subsidiary. See Description of Notes Collateral *Excluded Assets.*

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The imposition of certain permitted liens will cause the asset on which such liens are imposed to be excluded from the collateral securing the notes and the guarantees. There are also certain other categories of property that are also excluded from the collateral.

The indenture permits liens in favor of third parties to secure purchase money indebtedness and capital lease obligations, and any assets subject to such liens will be automatically excluded from the collateral securing the notes and the guarantees. Our ability to incur purchase money indebtedness and capital lease obligations is subject to the limitations, as described in Description of Notes Certain Covenants *Incurrence of Indebtedness and Issuance of Disqualified Capital Stock*. Other categories of excluded assets and property include owned and leased real property, certain contracts, certain equipment, assets of unrestricted subsidiaries and foreign subsidiaries, capital stock and other securities of certain of our existing subsidiaries (through which we conduct substantially all of our operations) certain stock of foreign subsidiaries and the proceeds from any of the foregoing. See Description of Notes Collateral *Excluded Assets*. Excluded assets will not be available as collateral to secure the Issuers and the guarantors obligations under the notes. As a result, with respect to the excluded assets, the notes and the guarantees will effectively rank equally with any other unsubordinated indebtedness of the Issuers and the guarantors that is not itself secured by the excluded assets.

We will in most cases have control over the collateral, and the sale of particular assets by us could reduce the pool of assets securing the notes and the guarantees.

The collateral documents allow us to remain in possession of, retain exclusive control over, to freely operate and to collect, invest and dispose of any income from, the collateral securing the notes and the guarantees.

In addition, we, Duane Reade GP and the guarantors will not be required to comply with all or any portion of Section 314(d) of the Trust Indenture Act of 1939 if we determine, in good faith based on advice of counsel, that, under the terms of that section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including no action letters or exemptive orders, all or such portion of Section 314(d) of the Trust Indenture Act is inapplicable to the released collateral. For example, so long as no default or event of default under the indenture would result therefrom and such transaction would not violate the Trust Indenture Act, we may, among other things, without any release or consent by the indenture trustee, conduct ordinary course activities with respect to collateral, such as selling, factoring, abandoning or otherwise disposing of collateral and making ordinary course cash payments (including repayments of indebtedness). With respect to such releases, Duane Reade Inc. and Duane Reade GP must deliver to the collateral agent, from time to time, an officers certificate to the effect that all releases and withdrawals during the preceding six-month period in which no release or consent of the collateral agent was obtained in the ordinary course of our business were not prohibited by the indenture. See Description of Notes Possession, Use and Release of Collateral *Permitted Ordinary Course Activities with Respect to Collateral*.

The collateral is subject to casualty risks.

We intend to maintain insurance or otherwise insure against hazards in a manner appropriate and customary for our business. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses. If there is a complete or partial loss of any of the pledged collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the notes and the guarantees.

Rights of holders of notes in the collateral may be adversely affected by the failure to perfect security interests in certain collateral.

The security interests in the collateral securing the notes include both tangible and intangible assets, whether now owned or acquired or arising in the future. Applicable law requires that certain property and rights acquired after the grant of a general security interest can only be perfected at the time such property and rights are acquired and identified. There can be no assurance that the collateral agent will monitor, or that we will inform

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the collateral agent of, the future acquisition of property and rights that constitute collateral, and that the necessary action will be taken to properly perfect the security interest in such after acquired collateral. The collateral agent does not have any duty to monitor the acquisition of additional property or rights that constitute collateral or perfection of the security interests therein. Such failure may result in the loss of the security interest therein or the priority of the security interest in favor of the holders of notes against third parties. In addition, under certain circumstances, we may not be required to grant or perfect security interests in property acquired after the date of the indenture. For example, we will not be required to grant or perfect a lien on any collateral that consists of rights that are licensed or leased from a third party, if we would be required to obtain the third party s consent for such grant or perfection, and we are unable to do so after use of commercially reasonable efforts. See Description of Notes Collateral *After-Acquired Property*.

Rights of holders of notes in their collateral may be adversely affected by bankruptcy proceedings.

The right of the trustees for the notes to repossess and dispose of the collateral securing the notes upon acceleration is likely to be significantly impaired by federal bankruptcy law if bankruptcy proceedings are commenced by or against us. This could be true even if bankruptcy proceedings are commenced after the applicable trustee has repossessed and disposed of the collateral. Under bankruptcy law, a secured creditor such as a trustee for the notes is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from a debtor, without bankruptcy court approval. Moreover, bankruptcy law permits the debtor to continue to retain and to use collateral, and the proceeds, products, rents, or profits of the collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given adequate protection.

The meaning of the term adequate protection varies according to circumstance, but in general the doctrine of adequate protection requires a troubled debtor to protect the value of a secured creditor s interest in the collateral, through cash payments, the granting of an additional security interest or otherwise, if and at such time as the court in its discretion may determine during the pendency of the bankruptcy case. In view of the broad discretionary powers of a bankruptcy court, it is impossible to predict how long payments under the notes could be delayed following commencement of a bankruptcy case, whether or when the trustee would repossess or dispose of the collateral, or whether or to what extent holders of the notes would be compensated for any delay in payment or loss of value of the collateral through the requirements of adequate protection. Furthermore, in the event the bankruptcy court determines that the value of the collateral is not sufficient to repay all amounts due on the notes, the holders of the notes would have unsecured deficiency claims as to the difference. Federal bankruptcy laws do not generally permit the payment or accrual of interest, costs, or attorneys fees for unsecured claims during the debtor s bankruptcy case.

Certain pledges of collateral might be avoidable by a trustee in bankruptcy.

Any future pledge of collateral, or any future perfection of any other pledge, to secure the notes might be avoidable by the pledgor (as debtor in possession) or by its trustee in bankruptcy if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the holders of the notes to receive a greater recovery than if the pledge had not been given, and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the pledge, or, in certain circumstances, a longer period. If the pledges of collateral are voided, the collateral will not be available to the holders of the notes or the guarantees to satisfy the obligations under the notes, and the notes and the guarantees will effectively rank equally with the unsecured unsubordinated indebtedness of the Issuers and guarantors.

It may be difficult to realize the value of the collateral pledged to secure the notes and the guarantees.

The security interest of the trustee may be subject to practical problems generally associated with the realization of security interests in the collateral. For example, the trustee may need to obtain the consent of a third party or governmental agency to obtain or enforce a security interest in a license or contract or to otherwise

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operate our business. We cannot assure you that the trustee will be able to obtain any such consent. If the trustee exercises its rights to foreclose on certain assets, transferring required government approvals to, or obtaining new approvals by, a purchaser of assets may require governmental proceedings with consequent delays. In addition, any foreclosure on the assets of a subsidiary, rather than upon its capital stock as a result of the stock of such subsidiary being an excluded asset, may result in delays and additional expense, as well as less proceeds than would otherwise have been the case.

The notes may be subject to repurchase by the lenders under our asset-based revolving loan facility or their nominees upon an event of default under the indenture and an acceleration of the notes.

Under the intercreditor agreement, if an event of default under the indenture or any other indebtedness secured equally and ratably with the notes occurs, and the notes or such indebtedness are accelerated, persons designated by the lenders under our asset-based revolving loan facility have the option to purchase all of the notes and such indebtedness. The purchase price will be the full amount then outstanding and unpaid under the notes and such indebtedness (including principal, interest, fees and expenses, including reasonable attorneys fees and legal expenses). The option to purchase does not include any premium and is exercisable at any time upon an event of default and acceleration, regardless of whether the notes are otherwise subject to redemption at such time. See Description of Notes Option to Purchase. Depending on the circumstances of such a purchase, the purchase price for the notes may not reflect their actual value at the time.

Risks Related to the Exchange Offer

The issuance of the exchange notes may adversely affect the market for the initial notes.

To the extent the initial notes are tendered and accepted in the exchange offer, the trading market for the untendered and tendered but unaccepted initial notes could be adversely affected. Because we anticipate that most holders of the initial notes will elect to exchange their initial notes for exchange notes due to the absence of restrictions on the resale of exchange notes under the Securities Act, we anticipate that the liquidity of the market for any initial notes remaining after the completion of this exchange offer may be substantially limited. Please refer to the section in this prospectus entitled The Exchange Offer Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences.

Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the staff of the SEC contained in Exxon Capital Holdings Corp., SEC no-action letter (April 13, 1988), Morgan Stanley & Co. Inc., SEC no-action letter (June 5, 1991) and Shearman & Sterling, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, you will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer your exchange notes. In these cases, if you transfer any exchange note without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your exchange notes under the Securities Act, you may incur liability under this act. We do not and will not assume, or indemnify you against, this liability.

Risks Related to Our Business.

We face a high level of competition in our markets.

We operate in highly competitive markets. In the New York greater metropolitan area, we compete against national, regional and local drugstore chains, discount drugstores, supermarkets, combination food and drugstores, discount general merchandise stores, mass merchandisers, independent drugstores and local merchants. Major chain competitors in the New York greater metropolitan area include CVS, Rite Aid and Walgreens. In addition, other chain stores may enter the New York greater metropolitan area and become significant competitors in the future. Many of our competitors have greater financial and other resources than we do. Currently, we have the largest market share in New York City compared to our competitors in the drugstore business. If any of our current competitors, or new competitors, were to devote significant resources to enhancing or establishing an increased presence in the New York greater metropolitan area, they could make it difficult for us to maintain or grow our market share or maintain our margins, and our advertising and promotional costs could increase. This competition could materially adversely affect our results of operations and financial condition in the future. In addition to competition from the drugstore chains named above, our pharmacy business also competes with hospitals, health maintenance organizations and Canadian imports.

Another adverse trend for drugstore retailing has been the growth in mail-order and internet-based prescription processors. These prescription distribution methods have grown in market share relative to drugstores as a result of the rapid rise in drug costs experienced in recent years. Mail-order prescription distribution methods have been perceived by employers and insurers as being less costly than traditional distribution methods and are being mandated by an increasing number of third party pharmacy benefit managers, many of which also own and manage mail-order distribution operations, as well as a growing number of employers and unions. In addition to these forms of mail-order distribution, there have also been an increasing number of internet-based prescription distributors that specialize in offering certain high demand lifestyle drugs at deeply discounted prices. A number of these internet-based distributors operate illicitly and outside the reach of regulations that govern legitimate drug retailers. Competition from Canadian imports has also created volume and pricing pressure. Imports from foreign countries may increase further if recently introduced legislation seeking to legalize the importation of drugs from Canada and other countries is eventually enacted. These alternate distribution channels have acted to restrain our rate of sales growth in the last several years.

We operate in a concentrated region and, as a result, our business is significantly influenced by the economic conditions and other characteristics of the New York greater metropolitan area.

Substantially all of our stores are located in the greater New York metropolitan area. In addition, in a number of respects, the current economic downturn can affect retailers disproportionately, as consumers may prioritize reductions in discretionary spending on consumer goods in response to the deterioration of the economy. As a result, we are sensitive to, and our success will be substantially affected by, economic conditions and other factors affecting this region, such as the regulatory environment, unemployment levels, cost of energy, real estate, insurance, taxes and rent, weather, demographics, the availability of labor, financial markets and geopolitical factors such as terrorism. We cannot predict economic conditions in this region. During the 1990s, the New York City economy grew substantially, and our business benefited from this high rate of economic growth. As a result of the economic recession and the terrorist attack on the World Trade Center in September 2001, however, the New York City economy was materially and adversely affected. In the latter half of 2008 and the beginning of 2009, economic conditions worsened considerably and the level of national economic activity as measured by a number of recent key economic indicators has shown that the economy entered into a recession in 2008. The New York City economy may be particularly susceptible to a downturn because of difficulties in the financial services industry. Furthermore, to the extent that personal disposable income declines as a result of rising unemployment, higher taxes, reduced bonus income, falling housing prices, higher consumer debt levels, increased energy costs or other macroeconomic factors, we could experience lower profit margins, lower sales (particularly in front-end merchandise) and increased levels of inventory shrink. Because most of our stores are located in the highly urbanized areas throughout New York City and the surrounding metropolitan area, our stores experience a higher rate of inventory shrink than our national competitors.

Our sales and profitability have in the past been affected by events and other factors that affect New York City. Examples include smoking-ban legislation, the August 2003 Northeast power blackout, significant non-recurring increases in real estate taxes and insurance costs and the 2004 Republican National Convention. In

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2005, our results were negatively affected by increased labor costs associated with the ongoing shortage of pharmacists in the New York City metropolitan area and increases in New York state and to a lesser extent New Jersey state minimum wage rates. We have continued to experience cost pressures from increased pharmacist salary and benefit costs as well as further increases in minimum wage rates. Any increases in federal taxes or in city or state taxes in New York City or the Tri-State Area resulting from state or local government budget deficits may further reduce consumers disposable income, which could have a further negative impact on our business. Any other unforeseen events or circumstances that affect the New York City metropolitan area could also materially adversely affect our revenues and profitability.

In addition, perceived instability in our business and in the financial health of New York City and the surrounding areas may negatively affect our relations with our suppliers and trade creditors. As a result, our suppliers or trade creditors may present us with terms that are materially more disadvantageous to us than those we currently enjoy, which may have a negative impact on our ability to operate our business and manage our liquidity.

Continued volatility and disruption to the global capital and credit markets may adversely affect our results of operations and financial condition, as well as our ability to access credit and the financial soundness of our customers, third party providers and vendors.

Recently, the global capital and credit markets have been experiencing a period of unprecedented turmoil and upheaval, characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. These conditions could adversely affect the demand for our products and services and, therefore, reduce purchases by our customers, which would negatively affect our revenue growth and cause a decrease in our profitability. In addition, reduced consumer spending may drive us and our competitors to offer additional products at promotional prices, which would have a negative impact on our operations. A continued softening in consumer sales may adversely affect our industry, business and results of operations.

In addition, interest rate fluctuations, financial market volatility or credit market disruptions may limit our access to capital and may also negatively affect our customers and our vendors ability to obtain credit to finance their businesses on acceptable terms. As a result, our customers needs and ability to purchase our products may decrease, and our vendors may increase their prices, reduce their output or change their terms of sale. If our third party providers or vendors operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, our third party providers may not be able to pay, or may delay payment of, accounts receivable owed to us, and our vendors may restrict credit or impose different payment terms. Any inability of customers to pay us for our products, or any demands by vendors for different payment terms, may adversely affect our operations and cash flow.

Declining economic conditions may also increase our costs. If the economic conditions do not improve or continue to deteriorate, our results of operations or financial condition could be adversely affected.

We require a significant amount of cash flow from operations and third party financing to pay our indebtedness, to execute our business plan and to fund our other liquidity needs.

We may not be able to generate sufficient cash flow from operations, our suppliers may not continue to extend us normal trade payments terms, and future borrowings may not be available to us under our asset-based revolving loan facility or otherwise in an amount we will need to pay our indebtedness, to execute our business plan or to fund our other liquidity needs. As of June 27, 2009, on an as-adjusted basis, we had $143.4 million available under our asset-based revolving loan facility. We spent $47.0 million in 2008 on capital expenditures, lease acquisitions, pharmacy customer file acquisitions and other capital items and expect to invest approximately $60.0 million in 2009. We also require working capital to support inventory for our existing stores. In addition, we may need to refinance some or all of our indebtedness or our preferred stock at or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms or at all. Failure to generate or raise sufficient funds may require us to modify, delay or abandon some of our future business initiatives or expenditure plans.

Our operations are subject to trends in the healthcare industry.

Pharmacy sales, which typically generate lower margins than front-end sales, represent a significant percentage of our total sales. Pharmacy sales, including resales of certain retail inventory, accounted for approximately 46.1% of total sales in the fiscal year ended December 27, 2008, approximately 46.0% of total sales in the fiscal year ended December 29, 2007, approximately 46.5% of total sales in the fiscal year ended December 30, 2006, approximately 47.0% of total sales for the twenty-six weeks ended June 27, 2009 and approximately 45.6% of total sales for the twenty-six weeks ended June 27, 2008. Pharmacy sales not only have lower margins than non-pharmacy sales but are also subject to increasing margin pressure, as managed care organizations, insurance companies, government funded programs, employers and other third party payers, which collectively we call third-party plans, have become prevalent in the New York greater metropolitan area and as these plans continue to seek cost containment. Also, any substantial delays in reimbursement or significant reduction in coverage or payment rates from third-party plans may have a material adverse effect on our business. In addition, an increasing number of employers are now requiring participants in their plans to obtain some of their prescription drugs, especially those for non-acute conditions, through mail-order providers. Medicare Part D benefits for senior citizens that became available in January 2006 resulted in lower reimbursement rates than the non-third party plan and state Medicaid reimbursement rates they replaced. These factors and other factors related to pharmacy sales described below may have a negative impact on our pharmacy sales in the future. See *We face a high level of competition in our markets* for further discussion on drugstore retail trends. Sales to third-party prescription plans, which include government-paid plans, represented 93.4% of our prescription drug sales for the fiscal year ended December 27, 2008, 93.0% of our prescription drug sales for the fiscal year ended December 29, 2007, 92.8% of our prescription drug sales for the fiscal year ended December 30, 2006, 94.0% of our prescription drug sales for the twenty-six weeks ended June 27, 2009 and 93.2% of our prescription drug sales for the twenty-six weeks ended June 27, 2008.

The continued conversion of various prescription drugs to over-the-counter medications may materially reduce our pharmacy sales and customers may seek to purchase such medications at non-pharmacy stores. Also, if the rate at which new prescription drugs become available slows or if new prescription drugs that are introduced into the market fail to achieve popularity, our pharmacy sales may be adversely affected. The withdrawal of certain drugs from the market or concerns about the safety or effectiveness of certain drugs or negative publicity surrounding certain categories of drugs may also have a negative effect on our pharmacy sales or may cause shifts in our pharmacy or front-end product mix. For example, the rate of growth in our pharmacy sales declined in 2005 due to a number of factors, including a decline in demand for hormonal replacement medications, increasing third party plan co-payments, negative publicity surrounding certain arthritis medications, conversion of certain prescription drugs to over-the-counter status and increased mail-order and internet-based penetration.

Healthcare reform and enforcement initiatives sponsored by federal and state governments may also affect our revenues from prescription drug sales. These initiatives include:

- proposals designed to significantly reduce spending on Medicare, Medicaid and other government programs;
- changes in programs providing for reimbursement for the cost of prescription drugs by third-party plans;
- the Medicare Modernization Act;
- increased scrutiny of, and litigation relating to, prescription drug manufacturers pricing and marketing practices; and
- regulatory changes relating to the approval process for prescription drugs.

These initiatives could lead to the enactment of, or changes to, federal regulations and state regulations in New York and New Jersey that could adversely impact our prescription drug sales and, accordingly, our results of operations. It is uncertain at this time what additional healthcare reform initiatives, if any, will be implemented, or whether there will be other changes in the administration of governmental healthcare programs or interpretations of governmental policies or other changes affecting the healthcare system. Future healthcare or budget legislation or other changes, including those referenced above, may materially adversely impact our pharmacy business.

Changes in reimbursement levels for certain prescription drugs continue to reduce our margins on pharmacy sales and could have a material adverse effect on our overall performance.

During the fiscal years ended December 27, 2008, December 29, 2007 and December 30, 2006 and the twenty-six weeks ended June 27, 2009 and June 28, 2008, we were wholly or partially reimbursed by third-party plans for approximately 93.4%, 93.0%, 92.8%, 94.0% and 93.2%, respectively, of the prescription drugs that we sold. The percentage of prescription sales reimbursed by third-party plans has been increasing, and we expect that percentage to continue to increase. Prescription sales reimbursed by third-party plans, including Medicare and Medicaid plans, have lower reimbursement rates than other pharmacy sales. Third-party plans may not increase reimbursement rates sufficiently to offset expected increases in prescription acquisition costs, thereby reducing our margins and adversely affecting our profitability. In addition, continued increases in co-payments by third-party plans may result in decreases in drug usage.

In particular, Medicare and Medicaid programs are subject to statutory and regulatory changes, retroactive and prospective reimbursement rate adjustments, administrative rulings, executive orders and freezes and funding restrictions, all of which may significantly impact our pharmacy operations. For the 2008 fiscal year, approximately 27% of our total prescription sales were paid for by Medicaid or Medicare. Over the last several years, a number of states experiencing budget deficits have moved to reduce Medicaid prescription reimbursement rates. Over the past several years, New York State reduced Medicaid and EPIC prescription reimbursement rates, adversely impacting our pharmacy profitability. Under the New York State Medicaid Program, reimbursement for a multiple source prescription drug for which a federal upper limit has been set by the Centers for Medicare & Medicaid Services (CMS) will be in an amount equal to the specific federal upper limit for the multiple source prescription drug. For a multiple source prescription drug or a brand name prescription drug for which no specific federal upper limit has been set, the lower of the estimated cost of each drug to pharmacies or the dispensing pharmacy s usual and customary price charged to the public will be applied.

In July 2007, CMS issued a final rule that may negatively affect our level of reimbursements for certain generic drugs by setting an upper limit on the amount of reimbursement for such drugs based on the Average Manufacturer Price. As a result of a lawsuit brought by the National Association of Chain Drug Stores and the National Community Pharmacists Association to challenge the implementation of the new rule, a federal court temporarily enjoined the implementation of the new rule pending the outcome of the lawsuit and the lawsuit remains pending. In July 2008, Congress enacted H.R. 6331, the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA). The former President Bush subsequently vetoed MIPPA and, on July 15, 2008, Congress overrode the veto. MIPPA delayed the implementation of the use of Average Manufacturer Price with respect to payments made by State Medicaid Plans for multiple source generic drugs until September 30, 2009. MIPPA also prohibited the Secretary of Health and Human Services from making public any Average Manufacturer Price information that was previously disclosed to the Secretary of Health and Human Services. The outcomes of the lawsuit and the impact of MIPPA are uncertain at this time, so we currently are unable to determine what effect the new rule will ultimately have on our business.

The Medicare Modernization Act created a Medicare Part D benefit that expanded Medicare coverage of prescription drugs for senior citizens as well as for certain dual eligible individuals that were previously covered under state administered Medicaid plans. This Medicare coverage has resulted in decreased pharmacy margins resulting from lower reimbursement rates than our current margins on state Medicaid prescriptions. The Medicare Part D program has grown rapidly since taking effect in 2006. The program s growth may continue as more seniors have become eligible and enroll for the coverage.

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In recent years, Congress has passed a number of federal laws that have created major changes in the healthcare system. In December 2000, the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000, or BIPA, was signed into law. Generally, BIPA addressed attempts to modify the calculation of average wholesale prices of drugs, or AWPs, upon which Medicare and Medicaid pharmacy reimbursement has been based. The federal government has been actively investigating whether pharmaceutical manufacturers have been improperly manipulating average wholesale prices, and several pharmaceutical manufacturers have paid significant civil and criminal penalties to resolve litigation relating to allegedly improper practices affecting AWP. In October 2006, in connection with a class action filed in the United States District for the District of Massachusetts, First Data Bank, which is one of two primary sources of AWP price reporting, announced that it had entered into a settlement agreement related to its reporting of average wholesale prices, subject to final court approval. Under the terms of the proposed settlement agreement, First Data Bank agreed to reduce the reported AWP of certain drugs by four percent and to discontinue the publishing of AWP at a future time. In May 2007, in connection with a separate class action filed in the same court, Medi-Span, the other primary source of average wholesale price reporting, entered into a similar settlement agreement, also subject to final court approval.

In January 2008, the court denied approval of the First Data Bank and Medi-Span settlements as proposed. Subsequently, new settlement agreements were submitted to the court. On March 17, 2009, the court issued an order approving the revised settlements. Some parties appealed the court s ruling. On September 3, 2009, the Court of Appeals affirmed the decision of the District Court approving the settlements. Pursuant to the settlements, as approved, First Data Bank and Medi-Span have agreed to reduce the reported AWP for certain drugs by four percent. Separately, and not pursuant to the settlement agreements, First Data Bank and Medi-Span have indicated that they will also reduce the reported AWP for a large number of additional drugs not covered by the settlement agreements and that they intend to discontinue the reporting of AWP in the future. The settlement agreements became effective on September 26, 2009.

A number of contracts with third-party plans contain provisions that allow us to adjust our pricing to maintain the relative economics of the contract in light of a change in AWP methodology. Most of our contracts with both private and governmental plans also include provisions that allow us to terminate the contracts unilaterally, either because parties cannot renegotiate our pricing to account for the change in AWP methodology or for any reason upon 30 to 90 days notice. While we are currently negotiating with many of the various governmental and non-governmental third-party plans for adjustments relating to the expected changes to AWP, we cannot be certain that these negotiations will be successful. In addition, the New York State Legislature is currently considering legislation that would modify the formula upon which New York Medicaid bases its reimbursement rates, which, if passed, will move pharmacy reimbursement rates with respect to Medicaid at or near the pre-settlement levels. However, at this time there is no assurance that this legislation would be ultimately passed by the New York State Legislature or if passed, will be in its current form. In late September 2009, New York Medicaid began to implement the AWP reductions. Although there is some uncertainty due to the pending legislation at the New York State Legislature, we expect a moderate impact on the profitability of our pharmacy operations in the remainder of fiscal 2009 and a more significant impact in fiscal 2010.

If we fail to comply with all of the government regulations that apply to our business, we could incur substantial reimbursement obligations, damages, penalties, injunctive relief and/or exclusion from participation in federal or state healthcare programs.

Our pharmacy operations are subject to a variety of complex federal, state and local government laws and regulations, including federal and state civil fraud, anti-kickback, false claims and other laws. We endeavor to structure all of our relationships to comply with these laws. However, if any of our operations are found to violate these or other government regulations, we could suffer severe penalties, including suspension of payments from government programs; loss of required government certifications; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; loss of licenses; and significant fines or monetary penalties for anti-kickback law violations, submission of false claims or other failures to meet reimbursement program requirements. There is an initiative announced by the Office of the New York State Medicaid Inspector General to recover and recoup significant amounts of Medicaid payments that were allegedly improperly paid to New York State retail pharmacies. As is the case with most of our competitors, we are undergoing pharmacy audits pursuant to this initiative.

In addition to the regulations relating to the conduct of our pharmacy business, our pharmacists are subject to licensing requirements and are required to comply with various federal and state laws regarding compliance with dispensing procedures, anti-fraud statutes, false claims and other rules and regulations. Although we have a compliance program in place, in the event that a pharmacist is determined to not have a valid license for purposes of processing certain state and federal claims or is listed on a federal or state excluded provider list, we could be subject to significant fines and penalties. On a regular basis, including currently, we are subject to various internal and external reviews regarding pharmacist licensing, excluded provider lists and other such matters. The outcome of such reviews could result in significant refunds, fines and penalties.

Federal and state laws that require our pharmacists to offer free counseling to their customers about medication, dosage, delivery systems, common side effects and other information the pharmacists deem significant can impact our business. Our pharmacists may also have a duty to warn customers regarding any potential negative effects of a prescription drug if the warning could reduce or negate these effects. Violations of federal, state, and common law privacy protections and the Health Insurance Portability and Accountability Act of 1996, as amended (HIPAA), and other similar state statutes and regulations could give rise to significant damages, penalties, and/or injunctive relief. Additionally, we are subject to federal and state regulations relating to our pharmacy operations, including purchasing, storing and dispensing of controlled substances. Laws governing our employee relations, including minimum wage requirements, overtime and working conditions also impact our business. Increases in the federal minimum wage rate, employee benefit costs or other costs associated with employees could significantly increase our cost of operations, which could materially adversely affect our level of profitability.

The various governmental agencies with which we do business may seek to reduce health care expenditures or change the terms of their payments to us. Any such reductions could negatively impact our business.

Both state and federal government sponsored payers may seek to reduce their health care expenditures by renegotiating the terms of their payments with us.

Over the past several years, New York State reduced Medicaid and EPIC prescription reimbursement rates, and increased the number of generic drugs subject to maximum allowable cost reimbursement limitations. These actions have adversely impacted our pharmacy profitability. The current economic downturn may result in additional similar reductions in prescription reimbursement rates or a further increase in the number of generic drugs subject to limitations on maximum allowable cost reimbursement. Any such reductions or changes could have a further adverse effect on our business and our revenues, profitability and results of operations.

We could be materially and adversely affected if either of our distribution centers is shut down.

We operate two centralized distribution centers, one in Queens, New York and the other in North Bergen, New Jersey. We ship most of our non-pharmacy products to our stores through our distribution centers. If either of our distribution centers is destroyed, or shut down for any other reason, including because of weather or labor issues, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes for us to reopen or replace the centers. We maintain business interruption insurance to protect us from the costs relating to matters such as a shutdown, but our insurance may not be sufficient, or the insurance proceeds may not be timely paid to us, in the event of a shutdown.

We rely on a primary supplier of pharmaceutical products to sell products to us on satisfactory terms. A disruption in our relationship with this supplier could have a material adverse effect on our business.

We are party to multi-year, merchandise supply agreements in the normal course of business. The largest of these is with AmerisourceBergen, our primary pharmaceutical supplier, which supplied most of our pharmaceutical products during the first half of 2009 and in fiscal 2008 and 2007. Management believes that if

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any of these agreements were terminated or if any contracting party were to experience events precluding fulfillment of its obligations, we would be able to find a suitable alternative supplier. However, we may not be able to do so without significant disruption to our business. Finding suitable alternative suppliers could take a significant amount of time and result in a loss of customers.

We may be unable to attract, hire and retain qualified pharmacists, which could harm our business.

As our business expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified pharmacists. The competition for qualified pharmacists and other pharmacy professionals may make it difficult for us to attract, hire and retain qualified pharmacists. Although we generally have been able to meet our pharmacist staffing requirements in the past, our inability to do so in the future at costs that are favorable to us, or at all, could negatively impact our revenue, and our customers could experience lower levels of customer care.

Most of our employees are covered by collective bargaining agreements. A failure to negotiate new agreements when the existing agreements terminate could disrupt our business.

As of June 27, 2009, we had approximately 7,000 employees. Unions represent approximately 5,200 of our employees. Non-union employees include employees at corporate headquarters, store and warehouse management and all of our store pharmacists. The distribution facility employees are represented by the International Brotherhood of Teamsters, Chauffeurs and Warehousemen and Helpers of America, Local 210 under a collective bargaining agreement that expires on August 31, 2011. Local 210 represents approximately 400 employees in our Maspeth, New York and North Bergen, New Jersey warehouse facilities. At June 27, 2009, employees in 140 stores were represented by the RWDSU/Local 338 and employees in 113 stores were represented by Local 340A New York Joint Board, UNITE AFL-CIO. The collective bargaining agreements with RWDSU/Local 338 and Local 340A will expire on December 31, 2012.

Although we believe that our relations with our employees are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time, and we may be unable to reach new collective bargaining agreements on terms favorable to us. Our business operations may be interrupted as a result of labor disputes, strikes, work stoppages or difficulties and delays in the process of renegotiating our collective bargaining agreements.

Costs related to multiemployer pension plans could increase, which could negatively affect our results of operations.

We contribute to three union-sponsored multiemployer defined benefit pension plans pursuant to obligations arising under our collective bargaining agreements, which are regulated by ERISA. These multiemployer pension plans are not administered by or controlled by us and have actuarial liabilities for accumulated benefits that are in excess of plan assets. Our required contributions to these plans could increase or decrease, depending upon the outcome of collective bargaining, actions taken by trustees who manage the plans, governmental regulations, market conditions, the actual return on assets held in the plans and the continued viability and contributions of other employers which contribute to the plans. Under certain circumstances, we could be required to contribute more than the negotiated contributions in order to help one or more of the plans satisfy ERISA s minimum funding requirements, and we would face penalty taxes if we failed to do so. Because of financial market conditions and the condition of the economy, we may be required to make such extra contributions in the future.

In addition, under ERISA, an employer that withdraws or partially withdraws from a multiemployer pension plan may incur a withdrawal liability to the plan, which represents the portion of the plan s underfunding that is allocable to the withdrawing employer. A withdrawal liability may be incurred under a variety of circumstances, including selling, closing or substantially reducing employment at a facility (such as a warehouse or the stores) or if the plan is terminated. If incurred, a withdrawal liability is generally payable in installments over a period of years, the amount and duration of the installments being determined under relevant statutory rules. Potential exposure to withdrawal liabilities may influence business decisions and could cause us to forgo business opportunities. Increased contributions to plans and/or the occurrence of withdrawal liabilities could have an adverse effect on our results of operations.

We may be subject to significant liability should the consumption of any of our products cause injury, illness or death.

Products that we sell could become subject to contamination, product tampering, mislabeling or other damage requiring us to recall our private label products. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury or death. Product liability claims may be asserted against us with respect to any of the products or pharmaceuticals we sell and we may be obligated to recall our private label products. A product liability judgment against us or a product recall could have a material adverse effect on our business, financial condition or results of operations.

We depend on our management team, and the loss of their services could have a material adverse effect on our business.

Our success depends to a large extent on the continued service of our executive management team. Departures by our executive officers could have a negative impact on our business, as we may not be able to find suitable management personnel to replace departing executives on a timely basis. We do not maintain key-man life insurance on any of our executive officers.

Continued volatility in insurance related expenses and the markets for insurance coverage could have a material adverse effect on us.

The costs of employee health, workers compensation, property and casualty, general liability, director and officer and other types of insurance could rise, while the amount and availability of coverage can decrease. These conditions are exacerbated by rising healthcare costs, legislative changes, economic conditions and the threat of terrorist attacks such as that which occurred on September 11, 2001. If our insurance-related costs increase significantly, or if we are unable to obtain adequate levels of insurance, our financial position and results of operations could be materially adversely affected.

Certain risks are inherent in providing pharmacy services, and our insurance may not be adequate to cover any claims against us.

Pharmacies are exposed to risks inherent in the packaging, dispensing and distribution of pharmaceuticals and other healthcare products. Although we maintain professional liability and errors and omissions liability insurance, the coverage limits under our insurance programs may not be adequate to protect us against future claims, and we may not have the ability to maintain this insurance on acceptable terms in the future, which could materially adversely affect our business.

We are subject to trends in the retail industry and changes in consumer preferences, and a failure to anticipate such changes or react to such changes in a timely manner may have a material adverse effect on our business.

Our success depends on our ability to respond to changing trends and shifting consumer demand. If we misjudge trends and are unable to adjust our product offerings in a timely manner, our sales may decline or fail to meet expectations and any excessive inventory may need to be sold at lower prices. For instance, over the past several years, our overall photofinishing business and sales of film have experienced significant declining sales as the industry as a whole experiences declines in the use of traditional technologies and as we have made the transition to digital photofinishing. We have placed self-serve kiosks in several of our store locations in an attempt to respond to the transition to digital photofinishing but our digital photofinishing business may not grow as expected. As a result, our business and prospects could suffer. Trends other than changes in product demand in the retail industry may also adversely affect our business. For example, changing demands for customer and ancillary services, developments in our loyalty card programs and other such trends may also affect the business.

Our operations are also impacted by consumer spending levels, which are affected by general economic conditions, consumer confidence, employment levels, availability of consumer credit and interest rates on that credit, consumer debt levels, cost of consumer staples, including food and energy, cost of other goods, adverse weather conditions and other factors over which we have little or no control.

The outcome of current and future litigations and other proceedings in which we are involved may have a material adverse effect on our results of operations and cash flow.

We are subject to various litigations and other proceedings in our business, which if determined unfavorably to us, could have a material adverse effect on our results of operations and cash flow. In addition, any of the current or possible future civil or criminal actions in which we may be involved could require significant management and financial resources, which could otherwise be devoted to the operation of our business. For a more detailed discussion of these litigations and other proceedings, see Business Legal Proceedings.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. These forward-looking statements relate to future events or our future financial performance with respect to our financial condition, results of operations, business plans and strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products such as private label merchandise, plans and objectives of management, capital expenditures, growth and maturation of our stores and other matters. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, could, would, should, expect, plan, anticipate, intend, believe, estimate, predict, potential, pro forma, as-adjusted, seek, or continue or the negative of those terms comparable terminology. These statements are only predictions and such expectations may prove to be incorrect. Some of the things that could cause our actual results to differ substantially from our expectations are:

- the ability to open and operate new stores on a profitable basis, the maturation of those stores and the ability to increase sales in existing stores;

- the competitive environment in the drugstore industry in general and in the New York greater metropolitan area;

- our significant indebtedness;

- the continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies and other third party payers to reduce prescription reimbursement rates and pricing pressure from internet-based and mail-order-based providers;

- the continued efforts of federal, state and municipal government agencies to reduce Medicaid reimbursement rates, modify Medicare benefits and/or reduce prescription drug costs and/or coverages;

- the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P.L. 108-179), or the Medicare Modernization Act, and the Medicare Part D benefit created thereunder;

- the impact of the initiative announced by the Office of the New York State Medicaid Inspector General to recover and recoup significant amounts of Medicaid payments that were allegedly improperly paid to New York State retail pharmacies;

- changes in pharmacy prescription reimbursement rates attributable to modifications in the definition of indexed pricing terms such as Average Wholesale Price or Average Manufacturer Price , including the impact of the court-approved settlement in the First Data Bank litigation relating to the reporting of Average Wholesale Prices;

- the impact of the changing regulatory environment in which our pharmacy department operates, especially the proposed implementation of the federally approved change in the pricing formula for generic pharmaceuticals supplied to Medicaid beneficiaries based on the use of Average Manufacturer Price, which could negatively affect the profitability of filling Medicaid prescriptions;

the impact of aggressive enforcement by federal, state and local law enforcement agencies of federal and state laws dealing with past and future matters related to submission of false claims, fraud and abuse, pharmacist licensing and excluded provider lists;

the strength of the economy in general and the economic conditions in the New York greater metropolitan area including, in particular, employment and income-related factors, seasonal and weather-related factors, special events, changes in consumer purchasing power and/or spending patterns;

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changes in the cost of goods and services;

trends in the healthcare industry, including the continued conversion of various prescription drugs to over-the-counter medications, negative publicity and the related sales declines for certain categories of drugs including, without limitation, certain pain medications and the increasing market share of internet-based and mail-order-based providers;

employment disputes and labor relations;

our ability to prevent fraud and limit inventory shrink;

changes in federal and state laws and regulations, including the potential impact of changes in regulations surrounding the importation of pharmaceuticals from foreign countries and changes in laws governing minimum wage requirements;

our ability to successfully execute our business plan;

the outcome of the arbitration proceeding that has been instituted against us by Anthony J. Cuti, a former Chairman, President and Chief Executive Officer;

the progress and outcome of the criminal indictments against former executives of ours by the United States District Attorney s Office for the Southern District of New York and the civil securities fraud charges filed by the SEC;

liability and other claims asserted against us, including the items discussed in Business Legal Proceedings ;

changes in our operating strategy or development plans;

our ability to attract, hire and retain qualified personnel, including our ability to attract qualified pharmacists at acceptable wage rates;

interest rate fluctuations and changes in capital market conditions or other events affecting our ability to obtain necessary financing on favorable terms to operate and fund the anticipated growth of our business or to refinance our existing debt;

the continuation or further deterioration of current credit market conditions under which business credit is severely restricted;

exposure to multiemployer pension plans as a result of current market conditions, including without limitation, possible increases in contributions and recorded expense related to our multiemployer pension funds if financial markets decline or asset values in the funds deteriorate, if other employers withdraw from these funds without providing for their share of the liability or should estimates prove to be incorrect;

the effects of the current economic recession on our customers and the markets we serve, particularly the difficulties in the financial services industry and the general economic downturn that began in the latter half of 2007 and which has significantly deteriorated during the fourth quarter of 2008 and the beginning of 2009;

the effects of increased energy, transportation or other costs, increased unemployment, decreases in housing prices, decreases in wages or other similar factors that may have a negative effect on the disposable income or spending patterns of our customers;

natural and man-made disasters and the continued impact of, or new occurrences of, terrorist attacks in the New York greater metropolitan area and any actions that may be taken by federal, state or municipal authorities in response to or in anticipation of such events and occurrences;

changes in levels of vendor rebates, allowances and related payment terms;

changes in timing of our acquisition of stores and prescription files and capital expenditure plans;

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- changes in real estate market conditions and our ability to continue to renew expiring leases or to secure suitable new store locations under acceptable lease terms;
- our ability to successfully implement and manage new computer systems and technologies;
- demographic changes; and
- other risks and uncertainties detailed elsewhere in this prospectus and from time to time in our filings with the SEC.

All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under the caption Risk Factors.

We caution you that the areas of risk described above may not be exhaustive. We operate in a continually changing business environment, and new risks emerge from time to time. Management cannot predict such new risks, nor can it assess the impact, if any, of such risks on our businesses or the extent to which any risk or combination of risks may cause actual results to differ materially from those projected in any forward-looking statements. In light of these risks, uncertainties and assumptions, you should keep in mind that any forward-looking statement made in this prospectus might not occur.

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USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the registration rights agreements entered into in connection with the offering of the initial notes. In consideration for issuing the exchange notes, we will receive initial notes in like aggregate principal amount.

The gross proceeds from the offering of the initial notes were approximately $292.3 million. The sources and uses of funds in connection with the offering of the initial notes are set forth below:

(dollars in millions)

Sources of Funds		**Uses of Funds**	
Initial notes(1)	$ 292.3	Purchase of the senior secured floating rate notes(2)	$ 210.0
Proceeds of the equity investment	125.0	Purchase of the senior subordinated notes	125.4
		Temporary repayment of the asset-based revolving loan facility	70.9
		Transaction costs and interest payments(3)	11.0
Total Sources	$ 417.3	Total Uses	$ 417.3

(1) The initial notes were offered at a price of 97.417% of their face value, resulting in approximately $292.3 million of gross proceeds.

(2) Includes the payment of approximately $205.0 million for the senior secured floating rate notes purchased in the offers to purchase and the optional redemption of the remaining approximately $5.0 million of senior secured floating rate notes on September 8, 2009 at a price equal to 100% of the principal amount thereof.

(3) Includes the payment of accrued and unpaid interest on the notes purchased in the offers to purchase through (but not including) August 7, 2009 and the payment of accrued and unpaid interest on the remaining senior secured floating rate notes that were called for redemption, through (but not including) September 8, 2009.

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CAPITALIZATION

The following table sets forth, as of June 27, 2009:

(1) our cash and cash equivalents and capitalization on an actual basis; and

(2) our cash and cash equivalents and capitalization on an as-adjusted basis to give effect to the offering of the initial notes, the offers to purchase and the equity investment taking into account:

- the issuance of $300.0 million of the initial notes at a discount of approximately $7.7 million;
- the payment of approximately $206.6 million for the senior secured floating rate notes purchased in the offers to purchase, together with accrued and unpaid interest through (but not including) August 7, 2009 and the optional redemption of the remaining $5.0 million of senior secured floating rate notes on September 8, 2009 at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest through (but not including) September 8, 2009;
- the payment of approximately $125.6 million for the senior subordinated notes purchased in the offers to purchase, which includes a consent payment, and the payment of accrued and unpaid interest through (but not including) August 7, 2009;
- a $125.0 million equity investment by entities associated with Oak Hill Capital Partners, L.P.;
- the temporary repayment of approximately $70.9 million in outstanding principal under our asset-based revolving loan facility using a portion of the proceeds of the equity investment; and
- the payment of $9.2 million in estimated fees and expenses.

	As of June 27, 2009	
	Actual	As-Adjusted
	(in thousands)	
Cash and cash equivalents	$ 1,365	$ 1,365
Debt (including current portion):		
Asset-based revolving loan facility(1)	$ 143,380	$ 72,497
11.75% senior secured notes due 2015(2)		292,251
Senior secured floating rate notes due 2010(3)	210,000	
9.75% senior subordinated notes due 2011	195,000	51,709
2.1478% senior convertible notes due 2022	34	34
Capitalized lease obligations	6,097	6,097
Total debt (including current portion)	554,511	422,588
Total stockholders deficit(4)	$ (175,336)	$ (138,211)
Total capitalization, excluding redeemable preferred stock	$ 379,175	$ 284,377

Redeemable preferred stock(5)	$ 39,400	$ 164,400
Total Capitalization	$ 418,575	$ 448,777

(1) Our asset-based revolving loan facility uses a pre-determined percentage of the current value of our inventory, selected accounts receivable and pharmacy prescription files to calculate the availability of funds eligible to be borrowed up to an aggregate principal amount of $225.0 million, which includes a $50.0 million sublimit for the issuance of letters of credit and a $25.0 million sublimit for swingline loans. Subject to the satisfaction of certain requirements, including those under the instruments governing our outstanding indebtedness, and to obtaining the agreement of the lender to provide such incremental commitments, we have an option to request that total commitments be increased to $250.0 million. The facility matures on July 21, 2011. As of June 27, 2009, on a historical basis, there was $67.5 million available and, on an as-adjusted basis, $143.4 million available under our asset-based revolving loan facility, net of outstanding letters of credit.

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(2) The initial notes have a face value of $300.0 million, but were offered at a discount of approximately $7.7 million. This discount will accrete and be included in interest expense while the notes are outstanding.

(3) Represents $160.0 million aggregate principal amount of the senior secured floating rate notes issued in December 2004 and $50.0 million aggregate principal amount of the senior secured floating rate notes issued in August 2005 (which were issued at an issue price of 95.5%).

(4) The as-adjusted stockholders deficit balance reflects (i) interest expense through (but not including) August 7, 2009, which includes regularly-scheduled interest payments on the existing notes, (ii) interest expense through (but not including) September 8, 2009 for the remaining $5.0 million of senior secured floating rate notes called for redemption on September 8, 2009, (iii) amortization of deferred financing costs through August 6, 2009, (iv) an estimated gain on the repurchase of $143.3 million aggregate principal amount of senior subordinated notes at a 12.5% discount to the par value and (v) a portion of the proceeds from the fair value of warrants associated with the equity investment.

(5) Represents the liquidation preference value of the redeemable preferred stock, exclusive of any accrued but unpaid dividends as of the redemption date. Each series of the preferred stock will be immediately redeemable from time to time without penalty at our option, and we will also be required to redeem all outstanding shares of the preferred stock upon a change of control. The Series A redeemable preferred stock has a mandatory redemption date of 12 years after the date of issuance and the Series B redeemable preferred stock has a mandatory redemption date of December 27, 2018. Each of the 525,334 shares of Series A redeemable preferred stock is immediately redeemable without penalty, at our option prior to the mandatory redemption date, at a liquidation preference of $75.00, per share plus any accrued but unpaid dividends as of the redemption date. Each of the 1,250,000 shares of Series B redeemable preferred stock is immediately redeemable without penalty, at our option prior to the mandatory redemption date, at a liquidation preference of $100 per share plus any accrued and unpaid dividends through the date of redemption subject to a minimum aggregate return on capital (including the value of the warrants) of two times the investment amount. We will not be required to redeem either series of preferred stock, upon a change of control or on the mandatory redemption date, or pay cash dividends at any time when such redemption or payment is expressly prohibited under the asset-based revolving loan facility.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical financial data presented below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes related to those statements contained elsewhere in this prospectus.

Duane Reade Inc. and its subsidiaries were acquired by affiliates of Oak Hill Capital Partners L.P. on July 30, 2004 (Acquisition). As a result of the Acquisition and the resulting change in control and change in historical cost basis of accounting, our operating results are presented separately for the predecessor period December 28, 2003 through July 30, 2004 and the successor periods following the closing date of the Acquisition (July 31, 2004 through December 25, 2004 and the fiscal years ending December 31, 2005, December 30, 2006, December 29, 2007 and December 27, 2008 and the twenty-six weeks ended June 28, 2008 and June 27, 2009). The financial statements and operating results identified as belonging to the predecessor, which are stated below, are those of Duane Reade Inc., the parent entity existing for all periods shown prior to the completion of the Acquisition. For the period following the Acquisition, the financial statements and operating results of the successor, which are stated below, are those of Duane Reade Holdings, Inc., the parent of Duane Reade Inc. Duane Reade Holdings, Inc. was formed in December 2003 to acquire Duane Reade Inc. and its subsidiaries. Duane Reade Holdings, Inc. had nominal activity and no operations prior to the completion of the Acquisition. Except where the context otherwise requires, all references to we, us, and our (and similar terms) in the data below and the related footnotes mean the successor for periods ending after July 30, 2004 and the predecessor for periods ending on or prior to July 30, 2004.

The selected historical consolidated financial and other data set forth below as of and for the periods from December 28, 2003 to July 30, 2004 and from July 31, 2004 to December 25, 2004 and for the fiscal years ended December 31, 2005, December 30, 2006, December 29, 2007 and December 27, 2008 have been derived from our audited consolidated financial statements. The selected consolidated financial and other data set forth below as of and for the twenty-six weeks ended June 28, 2008 and June 27, 2009 have been derived from our unaudited consolidated financial statements. To conform to our current presentation, we have removed the gross profit caption from the statement of operations data. The financial data set forth below as of and for the twenty-six-week periods are not necessarily indicative of the results of operations that would be achieved over the course of a full fiscal year.

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	Predecessor	Successor						
	Period from December 28, 2003 through July 30, 2004(2)	Period from July 31, 2004 through December 25, 2004(2)	Fiscal Year(1)				(Unaudited) Twenty-Six Weeks Ended	
			2005	2006	2007	2008	June 28, 2008	June 27, 2009
	(dollars in thousands, except percentages and store data)							
Statement of Operations Data								
Net sales	$ 927,801	$ 670,568	$ 1,589,451	$ 1,584,778	$ 1,686,752	$ 1,774,029	$ 878,532	$ 923,573
Costs and expenses:								
Cost of sales(3)	668,271	485,961	1,135,596	1,108,727	1,176,376	1,227,129	606,405	640,496
Selling, general & administrative expenses	219,970	162,067	425,931	426,532	446,696	476,574	236,450	244,415
Transaction expenses(4)	3,005	37,575	681					
Labor contingency expense (income)(5)	2,611	1,789	4,400	(18,004)				
Depreciation and amortization	21,396	27,009	70,594	71,932	73,080	68,539	35,593	35,342
Store pre-opening expenses	470	365	364	305	600	797	247	235
Gain on sale of pharmacy files					(1,337)			
Other expenses(6)		26,433	31,761	14,747	15,948	16,808	4,149	6,283
Operating income (loss)	12,078	(70,631)	(79,876)	(19,461)	(24,611)	(15,818)	(4,312)	(3,198)
Interest expense, net	7,977	15,880	50,004	56,947	60,977	54,915	27,281	24,191
Debt extinguishment(7)		7,525						
Income (loss) before income taxes	4,101	(94,036)	(129,880)	(76,408)	(85,588)	(70,733)	(31,593)	(27,389)
Income taxes	(1,046)	36,499	29,492	(2,956)	(2,192)	(2,045)	1,478	1,407
Net income (loss)	$ 3,055	$ (57,537)	$ (100,388)	$ (79,364)	$ (87,780)	$ (72,778)	$ (33,071)	$ (28,796)
Operating and Other Data								
Net cash provided by (used in) operating activities	$ 20,694	$ (11,561)	$ 3,004	$ 11,616	$ 19,271	$ 44,317	$ 26,767	$ 30,996
Net cash used in investing activities	$ (31,619)	$ (437,249)	$ (26,629)	$ (29,070)	$ (41,921)	$ (47,001)	$ (25,965)	$ (27,513)
Net cash provided by (used in) financing activities	$ 11,011	$ 448,801	$ 23,658	$ 17,487	$ 22,635	$ 2,734	$ (810)	$ (3,548)
Number of stores at end of period	N/A	255	251	248	242	251	241	253
Same store sales growth(8)	N/A	0.6%	1.9%	4.6%	7.4%	4.2%	4.6%	1.4%
Pharmacy same store sales growth(8)	N/A	5.0%	0.8%	2.6%	5.9%	3.1%	2.5%	3.6%
Front-end same store sales growth(8)	N/A	-2.8%	2.8%	6.2%	8.6%	5.0%	6.3%	(0.3)%
Average store size (selling square feet) at end of period	N/A	7,035	6,955	6,987	6,813	6,764	6,799	6,768
Sales per square foot	N/A	$ 813	$ 862	$ 881	$ 975	$ 1,010	N/A	N/A
Pharmacy sales as a % of net sales(9)	N/A	51.0%	48.1%	46.5%	46.0%	46.1%	45.6%	47.0%
Third party plan sales as a % of prescription sales	N/A	92.3%	92.7%	92.8%	93.0%	93.4%	93.2%	94.0%
Ratio of earnings to fixed charges(10)	1.1	(1.6)	(0.3)	0.3	0.2	0.3	0.4	0.4
Balance Sheet Data (at end of period)								
Working capital (deficit)(11)	N/A	$ 67,073	$ 50,384	$ 6,204	$ 8,611	$ (13,316)	$ (4,000)	$ (21,559)

Total assets	N/A	$ 953,918	$ 869,602	$ 798,581	$ 742,489	$ 712,600	$ 719,911	$ 701,655
Total debt and capital lease obligations	N/A	$ 511,690	$ 554,222	$ 572,464	$ 555,853	$ 555,652	$ 554,766	$ 554,511
Stockholders equity (deficit)	N/A	$ 181,961	$ 81,834	$ 2,737	$ (73,323)	$ (146,701)	$ (105,497)	$ (175,336)

(1) The 2005 fiscal year contains 53 weeks. All other fiscal years shown contain 52 weeks.

(2) Statistics shown in the successor period reflect data for the 12 months ended December 25, 2004, as we do not provide these statistics on a partial year basis. Items identified as N/A are not reported by us for the 2004 predecessor period.

(3) Shown exclusive of depreciation expense for our distribution centers which is included in the separate line item captioned depreciation and amortization.

(4) We incurred pre-tax expenses of approximately $0.7 million in fiscal 2005, $37.6 million in the period from July 31, 2004 through December 25, 2004 and $3.0 million in the period from December 28, 2003 through July 30, 2004 related to the Acquisition.

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(5) We recognized pre-tax income of $18.0 million in fiscal 2006 and incurred pre-tax charges of $4.4 million in fiscal 2005, $1.8 million in the period from July 31, 2004 through December 25, 2004 and $2.6 million in the period from December 28, 2003 through July 30, 2004 in connection with the recognition and subsequent resolution of a National Labor Relations Board decision in a litigation matter relating to our collective bargaining agreement with one of our former unions.

(6) Note 16 to the consolidated financial statements and Note 10 to the consolidated unaudited interim financial statements provide a detailed explanation of these charges.

(7) We incurred pre-tax expenses of approximately $7.5 million in the period from July 31, 2004 to December 25, 2004 related to the retirement of a portion of our debt.

(8) Same-store sales figures include stores that have been in operation for at least 13 months.

(9) Includes resales of certain retail inventory.

(10) In order to achieve a ratio of 1:1, we would have to have generated additional pre-tax income from continuing operations of $94.1 million, $130.0 million, $76.6 million, $88.1 million and $75.2 million in the period July 31, 2004 through December 25, 2004, fiscal years ended December 31, 2005, December 30, 2006, December 29, 2007 and December 27, 2008, respectively, and $33.8 million and $29.8 million for the twenty-six weeks ended June 28, 2008 and June 27, 2009, respectively.

(11) For the twenty-six-week period ended June 27, 2009 and June 28, 2008 and for the successor periods ended December 27, 2008, December 29, 2007, December 30, 2006, December 31, 2005 and December 25, 2004, working capital (deficit) reflects the classification of our asset-based revolving loan facility as a current liability, rather than as long-term debt, because cash receipts controlled by the lenders are used to reduce outstanding debt, and we do not meet the criteria of SFAS No. 6, *Classification of Short-Term Obligations Expected to be Refinanced An Amendment of ARB No. 43, Chapter 3A,* to classify the debt as long-term. At such dates, the revolving loan balance was $143.4 million, $142.2 million, $144.6 million, $141.4 million, $157.1 million, $135.7 million and $153.9 million, respectively.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion regarding our financial condition and results of operations for the fiscal years ended December 27, 2008, December 29, 2007 and December 30, 2006 and twenty-six weeks ended June 27, 2009 and June 28, 2008 should be read in connection with the more detailed financial information contained in our consolidated financial statements and notes related thereto included elsewhere in this prospectus. Certain of the statements in this section are forward-looking statements and involve numerous risks and uncertainties including, but not limited to, those described under the caption Risk Factors. See also Cautionary Statement Regarding Forward-Looking Information.

Executive Summary

General Description

Our business consists of the sale of a wide variety of health and beauty care products, convenience oriented food and general merchandise items and a pharmacy operation managed to supply customers with their prescription needs. We refer to the non-prescription portion of our business as front-end sales because most of these sales are processed through the front check-out sections of our stores. This portion of our business consists of brand name and private label health and beauty care items, food and beverages, tobacco products, cosmetics, housewares, greeting cards, photofinishing services, photo supplies, seasonal and general merchandise and other products for our customers daily needs. Health and beauty care products, including over-the-counter items, represent our highest volume categories within front-end sales. The front-end portion of our business represented 53.9% and 54.0% of our sales in fiscal 2008 and fiscal 2007, respectively, and 53.0% and 54.4% of our net sales in the twenty-six weeks ended June 27, 2009 and June 28, 2008, respectively. Our front-end business is generally more profitable as compared to our pharmacy or back-end business.

Because of our numerous convenient locations in high-traffic commercial and residential areas and the lack of other convenience-oriented retailers in our core market areas, our front-end business is generally a larger proportion of our total sales than for other major conventional drugstore chains, whose front-end sales average between 30% and 40% of total sales. Over the last few years, pharmacy sales growth has been adversely impacted by increases in third-party plan co-payments, reduced third-party reimbursement rates resulting from changes in regulations or cost-saving measures, limitations on maximum reimbursements for certain generic medications by third-party plans, increases in the percentage of sales represented by lower-priced generic medications and increased penetration by mail-order and internet-based pharmacies. In addition, growth in pharmacy sales has been adversely impacted by the slowing pace of approvals from the Food and Drug Administration. Our pharmacy sales include all items we sell by prescriptions filled at our retail locations or deliver direct to customers. In addition, we include in our pharmacy sales certain resales of retail pharmaceutical inventory. Sales processed through third-party, private and government-sponsored plans that contract with us as an authorized provider of prescriptions represented 93.4% of our pharmacy retail sales in 2008, 93.0% of our pharmacy retail sales in 2007, 94.0% of our pharmacy retail sales in the twenty-six weeks ended June 27, 2009 and 93.2% of our pharmacy retail sales in the twenty-six weeks ended June 28, 2008.

The Medicare Modernization Act created a Medicare Part D benefit that expanded Medicare coverage of prescription drugs for senior citizens as well as for certain dual eligible individuals that were previously covered under state administered Medicaid plans. This Medicare coverage has resulted in decreased pharmacy margins resulting from lower reimbursement rates than our current margins on state Medicaid prescriptions. The Medicare Part D program has grown rapidly since taking effect in 2006. The program s growth may continue as more seniors have become eligible and enroll for the coverage. While the program has had an adverse impact on our pharmacy margins, we expect that increased utilization of prescription drugs by senior citizens participating in the new programs who previously were cash paying customers will partially offset the effect of the lower margins, although we are not certain this will be the case. The Medicare Part D program represented approximately 13.0% of our retail pharmacy sales for the year ended December 27, 2008, 12.0% of our retail

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pharmacy sales for the year ended December 29, 2007, 13.0% of our retail pharmacy sales for the twenty-six weeks ended June 27, 2009 and 12.6% of our retail pharmacy sales for the twenty-six weeks ended June 28, 2008.

State administered Medicaid programs which provide prescription benefits to low income households and individuals represented approximately 14.0% of our retail pharmacy sales in 2008 and 2007, approximately 16.4% of our retail pharmacy sales in the twenty-six weeks ended June 27, 2009 and approximately 14.0% of our retail pharmacy sales in the twenty-six weeks ended June 28, 2008. Over the past several years, New York State reduced Medicaid and Elderly Pharmaceutical Insurance Coverage (EPIC) prescription reimbursement rates, and increased the number of generic drugs subject to maximum allowable cost reimbursement limits, adversely impacting our pharmacy profitability. Under the Medicaid guidelines, providers cannot refuse to dispense prescriptions to Medicaid recipients who claim they do not have the means to pay the required co-payments. Most Medicaid recipients do in fact decline to make the co-payments, resulting in the requirement for the provider to absorb this cost. The current economic downturn may result in additional reductions in New York Medicaid prescription reimbursements. The economic stimulus package passed by Congress and signed into law by President Obama could provide states with additional Medicaid funding and may reduce the extent of each state s proposed reductions in Medicaid reimbursements. Under the economic stimulus package, over $80 billion would be allocated to help states with Medicaid. In addition, the economic stimulus package includes provisions to subsidize health care insurance premiums for the unemployed under the COBRA program and provisions that will aid states in defraying budget cuts.

In July 2007, the Centers for Medicare & Medicaid Services, or CMS, issued a final rule that may negatively affect our level of reimbursements for certain generic drugs by setting an upper limit on the amount of reimbursement for such drugs based on the Average Manufacturer Price. As a result of a lawsuit brought by the National Association of Chain Drug Stores and the National Community Pharmacists Association to challenge the implementation of the new rule, a federal court temporarily enjoined the implementation of the new rule pending the outcome of the lawsuit and the lawsuit remains pending. In July 2008, Congress enacted H.R. 6331, the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA). The former President Bush subsequently vetoed MIPPA and, on July 15, 2008, Congress overrode the veto. MIPPA delayed the implementation of the use of Average Manufacturer Price with respect to payments made by State Medicaid Plans for multiple source generic drugs until September 30, 2009. MIPPA also prohibited the Secretary of Health and Human Services from making public any Average Manufacturer Price information that was previously disclosed to the Secretary of Health and Human Services. The outcome of the lawsuit and the impact of MIPPA are uncertain at this time, so we currently are unable to determine what effect the new rule will ultimately have on our business. See Business Company Operations Pharmacy.

In October 2006, in connection with a class action filed in the United States District for the District of Massachusetts, First Data Bank, which is one of two primary sources of AWP price reporting, announced that it had entered into a settlement agreement related to its reporting of average wholesale prices, subject to final court approval. Under the terms of the proposed settlement agreement, First Data Bank agreed to reduce the reported AWP of certain drugs by four percent and to discontinue the publishing of AWP at a future time. In May 2007, in connection with a separate class action filed in the same court, Medi-Span, the other primary source of average wholesale price reporting, entered into a similar settlement agreement, also subject to final court approval.

In January 2008, the court denied approval of the First Data Bank and Medi-Span settlements as proposed. Subsequently, new settlement agreements were submitted to the court. On March 17, 2009, the court issued an order approving the revised settlements. Some parties appealed the court s ruling. On September 3, 2009, the Court of Appeals affirmed the decision of the District Court approving the settlements. Pursuant to the settlements, as approved, First Data Bank and Medi-Span have agreed to reduce the reported AWP for certain drugs by four percent. Separately, and not pursuant to the settlement agreements, First Data Bank and Medi-Span have indicated that they will also reduce the reported AWP for a large number of additional drugs not covered by the settlement agreements and that they intend to discontinue the reporting of AWP in the future. The settlement agreements became effective on September 26, 2009.

A number of contracts with third-party plans contain provisions that allow us to adjust our pricing to maintain the relative economics of the contract in light of a change in AWP methodology. Most of our contracts with both private and governmental plans also include provisions that allow us to terminate the contracts unilaterally, either because parties cannot renegotiate our pricing to account for the change in AWP methodology or for any reason upon 30 to 90 days notice. While we are currently negotiating with many of the various governmental and non-governmental third-party plans for adjustments relating to the expected changes to AWP, we cannot be certain that these negotiations will be successful. In addition, the New York State Legislature is currently considering legislation that would modify the formula upon which New York Medicaid bases its reimbursement rates, which, if passed, will move pharmacy reimbursement rates with respect to Medicaid at or near the pre-settlement levels. However, at this time there is no assurance that this legislation would be ultimately passed by the New York State Legislature or if passed, will be in its current form. In late September 2009, New York Medicaid began to implement the AWP reductions. Although there is some uncertainty due to the pending legislation at the New York State Legislature, we expect a moderate impact on the profitability of our pharmacy operations in the remainder of fiscal 2009 and a more significant impact in fiscal 2010.

In an effort to offset some of the adverse impact on our pharmacy profitability from the trends discussed above, there has been an intensified effort on the part of retailers to support increased utilization of lower priced but higher margin generic prescriptions in place of branded medications. New generic drug introductions have also enabled retailers to increase the proportion of generic prescriptions to total prescriptions dispensed. Improved generic utilization rates as well as a combination of direct purchases and contractual wholesaler purchases enabled us to partially offset the adverse impact of Medicare Part D and reduced state Medicaid reimbursement rates during 2008 and 2007. In addition, we believe that the higher volume of pharmacy sales to third party plan customers helps to offset the related lower profitability and allows us to leverage other fixed store operating expenses. We believe that increased third-party plan sales also generate additional front-end sales by increasing customer traffic in our stores.

We are also impacted by legislation to increase the minimum hourly wages. New York State increased its minimum hourly wage from $5.15 to $6.00 on January 1, 2005, to $6.75 on January 1, 2006, and again to $7.15 on January 1, 2007. New Jersey increased its minimum hourly wage from $5.15 to $6.15 on October 1, 2005 and again to $7.15 on October 1, 2006. In addition, the federal minimum hourly wage was increased to $7.25 in July 2009. As a result, both New York State and New Jersey have increased their minimum hourly wage to $7.25 effective July 24, 2009. While these increases have impacted our cost of labor, we have, and believe we can continue to, offset a significant portion of these cost increases through initiatives designed to further improve our labor efficiency.

As of June 27, 2009, we operated approximately 90% of our 253 stores in New York City and the remainder in the surrounding areas, and our financial performance is therefore heavily influenced by the local economy. We analyze a number of economic indicators specific to New York City to gauge the health of this economy, including unemployment rates, job creation, gross city product, hotel occupancy rates and bridge and tunnel commuter traffic volumes. We also analyze market share data, same-store sales trends, average store sales and sales per square foot data among other key performance indicators to monitor our overall performance.

Our primary assets are our ownership of 100% of the outstanding capital stock of Duane Reade Inc., which in turn owns 99% of the outstanding partnership interest of Duane Reade GP and all of the outstanding common stock of DRI I Inc. DRI I Inc. owns the remaining 1% partnership interest in Duane Reade GP. Substantially all of our operations are conducted through Duane Reade GP. In August 1999, we established two new subsidiaries, Duane Reade International, Inc. and Duane Reade Realty, Inc. Duane Reade GP distributed to Duane Reade Inc. and DRI I Inc. all rights, title, and interest in all its trademarks, trade names and all other intellectual property rights. In turn, Duane Reade Inc. and DRI I Inc. made a capital contribution of these intellectual property rights to Duane Reade International. This change created a controlled system to manage and exploit these intellectual property rights separate and apart from the retail operations. In addition, Duane Reade GP distributed some of its store leases to Duane Reade Inc. and DRI I Inc., which in turn made a capital contribution of these leases to

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Duane Reade Realty. Duane Reade Realty is the lessee under certain store leases entered into after its creation. Duane Reade Realty subleases to Duane Reade GP the properties subject to those leases.

Considerations Related to Operating in the New York City Marketplace

All of our operations are conducted within the New York greater metropolitan area. As a result, our performance will be substantially affected by economic conditions and other factors affecting the region such as the regulatory environment, unemployment levels, cost of energy, real estate, insurance, taxes and rent, weather, demographics, availability of labor, financial markets, levels of tourism and geopolitical factors such as terrorism.

Since the second half of 2004, the New York City economy began a gradual improvement from the economic downturn experienced in the aftermath of the 2001 World Trade Center attack to the point where it had essentially achieved a full recovery by the latter part of 2006. Strength in employment rates, tourism and overall commerce continued throughout 2007. In 2008, economic conditions worsened considerably, particularly so during the fourth quarter, and the level of national economic activity as measured by a number of key economic indicators shows that the economy entered into a recession in 2008. The recession has continued through the first half of 2009. The July 2009 unemployment data for New York City indicated an unemployment rate of 9.8%, compared to 7.2% in December 2008. The national rate of unemployment increased from 7.2% in December 2008 to 9.4% in July 2009.

Furthermore, because most of our stores are located in the highly urbanized areas throughout New York City and the surrounding metropolitan area, our stores experience a higher rate of inventory shrink than our national competitors.

Our sales and profitability have in the past been affected by events and other factors that affect New York City. Examples include smoking-ban legislation, the August 2003 Northeast power blackout, significant non-recurring increases in real estate taxes and insurance costs and the 2004 Republican National Convention. In 2005, our results were negatively affected by increased labor costs associated with the ongoing shortage of pharmacists in the New York City metropolitan area and increases in New York state and to a lesser extent New Jersey state minimum wage rates. We may also experience cost pressures from increased pharmacist salary and benefit costs as well as further increases in minimum wage rates. Any increases in federal taxes or in city or state taxes in New York City or the Tri-State Area resulting from state or local government budget deficits may further reduce consumers disposable income, which could have a further negative impact on our business. Any other unforeseen events or circumstances that affect the New York City metropolitan area could also materially adversely affect our revenues and profitability.

In addition, perceived instability in our business and in the financial health of New York City and the surrounding areas may negatively affect our relations with our suppliers and trade creditors. As a result, our suppliers or trade creditors may present us with terms that are materially more disadvantageous to us than those we currently enjoy, which may have a negative impact on our ability to operate our business and manage our liquidity.

Recent Developments

Offers to Purchase Prior Debt Securities

On August 7, 2009, pursuant to offers to purchase, we completed the repurchase of approximately $205.0 million of our senior secured floating rate notes due 2010 for total consideration of approximately $206.6 million and approximately $143.3 million of our 9.75% senior subordinated notes due 2011, for a total consideration of approximately $125.6 million, in each case, including accrued and unpaid interest. On the same day, we called for redemption the remaining approximately $5.0 million of senior secured floating rate notes, which we purchased on September 8, 2009 for approximately $5.0 million. In connection with the offers to purchase, we eliminated substantially all of the restrictive covenants in the indenture governing the senior subordinated notes, of which approximately $51.7 million remain outstanding. The proceeds from the sale of the initial notes were used to fund, in part, the consideration for the above transactions.

Credit Agreement Amendment

On August 7, 2009, we entered into an amendment to our asset-based revolving loan facility. The credit agreement amendment permitted, among other things, the completion of the offers to purchase, the offering of the initial notes and other related transactions. In addition, as a result of the credit agreement amendment, the applicable margins on LIBOR-based loans increased from a range of 1.00% to 2.00% to a range of 2.25% to 3.25%, and the applicable margins on prime rate loans increased from a range of 0.00% to 0.50% to a range of 1.25% to 1.75%. Also, line fees and commitment fees increased from 0.30% to 0.50% per year.

Equity Investment

Concurrently with the completion of the offers to purchase, entities associated with Oak Hill Capital Partners, L.P. invested $125.0 million of redeemable preferred equity in Holdings. A portion of the proceeds of the equity investment was used to pay the total consideration in the offers to purchase. The remaining proceeds from the equity investment were used to reduce temporarily the amount of outstanding borrowings under our asset-based revolving loan facility.

Expected Effects of the Recent Transactions

As a result of the recent transactions described above, we expect that our annual interest expense payable in respect of our debt securities will increase during the remainder of 2009 and the first half of 2010 from approximately $29.8 million per year to approximately $40.3 million per year. Our overall level of indebtedness has decreased substantially as a result of the use of the proceeds of the equity investment to retire the senior subordinated notes at a discount and to reduce the amount outstanding under our asset-based revolving loan facility. As a result of the completion of the transactions described above, we expect to increase our 2009 capital spending to approximately $60 million, primarily to support growth-oriented projects.

Certain Line Items Presented

Net sales: Net sales include all front-end and pharmacy sales as well as certain resales of retail pharmaceutical inventory that are required to be reported on a gross basis in accordance with Emerging Issues Task Force Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. We refer to net sales excluding such resale activity as net retail sales and pharmacy sales excluding such resale activity as pharmacy net retail sales. Same-store sales represent sales for stores that have been open for at least 13 months and exclude any resale activity.

Cost of goods sold: Cost of goods sold includes all costs of products sold, net of any promotional income or rebates received from manufacturers or wholesalers. Cost of goods sold is shown exclusive of depreciation and amortization expense for our distribution centers, which is included in the separate line item captioned depreciation and amortization. Inventory shrink losses are also recorded in cost of goods sold.

Selling general & administrative expenses: SG&A includes employee wages and related costs, professional fees, store occupancy costs, advertising expenses, credit card fees and all other store and office-related operating expenses. In addition, real estate-related income is included in store occupancy costs.

Depreciation and amortization: Depreciation and amortization consists primarily of depreciation of store fixtures and equipment and amortization of leasehold improvements as well as intangible assets, including pharmacy files and lease acquisition costs.

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Store pre-opening expenses: These expenses primarily represent the labor costs we incur related to our employees performing various tasks associated with the opening of a new location.

Results Of Operations

Overview of the Twenty-Six Weeks Ended June 27, 2009

For the first six months of 2009, we achieved net sales of $923.6 million and incurred a net loss of $28.8 million, as compared to net sales of $878.5 million and a net loss of $33.1 million in the first six months of 2008. Pharmacy resale activity included in net sales was $46.6 million in the first six months of 2009, compared to $31.5 million in the first half of 2008. The improvement in our net loss is primarily attributable to the following factors:

- the benefits of the $45.0 million increase in net sales of which $30 million was in our net retail store sales; and
- a $3.1 million decrease in interest expense resulting from lower interest rates applicable to our variable rate borrowings as compared to the prior year.

The positive impact of these items was partially offset by an increase in selling, general and administrative expenses of $8.0 million, primarily due to an increase in store occupancy costs for our new stores as well as additional payroll and related selling costs associated with the new stores and increased sales. In addition, other expenses increased $2.1 million in the first half of 2009, as compared to the first half of 2008, primarily due to additional expenses relating to litigation activities associated with a former CEO and additional closed store costs.

2008 Overview

For the 2008 fiscal year, we achieved net sales of $1.774 billion and incurred a net loss of $72.8 million, as compared to net sales of $1.687 billion and a net loss of $87.8 million in the 2007 fiscal year. The reduction in our net loss for the 2008 fiscal year, as compared to fiscal 2007, was primarily attributable to the following factors:

- the benefits of the $87.3 million increase in net sales, of which $66.5 million was in our net retail store sales;
- a decrease in cost of sales as a percentage of net sales, primarily attributable to improved front-end assortments, higher rates of generic drug utilization and reductions in the level of inventory shrink losses;
- a decrease in interest expense of $6.1 million that was primarily due to lower interest rates applicable to our variable rate debt and reduced levels of borrowing on our revolving credit facility; and
- a decrease in non-cash depreciation and amortization expenses of $4.5 million in 2008. The decrease is primarily due to reduced amortization expense for certain intangible assets which became fully amortized.

The positive impact of the above items was partially offset by an increase in selling, general and administrative expenses of $29.9 million, primarily due to the following factors:

- an increase of $14.4 million for additional store payroll and related costs associated with an increased number of stores as well as wage and salary rate increases;

an increase of $10.2 million in store occupancy costs related to new stores, relocations and reduced real estate related income; and

higher general and administrative costs associated with a $3.5 million litigation settlement charge for two class action lawsuits and additional recruitment fees and relocation costs paid in connection with the hiring of senior management executives.

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The 2007 fiscal year also included a $1.3 million gain from the sale of several pharmacy prescription files, which did not recur in the 2008 fiscal year.

2007 Overview

For the 2007 fiscal year, we achieved net sales of $1.687 billion and incurred a net loss of $87.8 million, as compared to net sales of $1.585 billion and a net loss of $79.4 million in the 2006 fiscal year. The increased net loss sustained in the 2007 fiscal year was primarily attributable to a pre-tax labor contingency credit of $18.0 million recorded in 2006 that resulted from the favorable settlement of the National Labor Relations Board (NLRB) litigation. Excluding the impact of this credit, our net loss would have declined by $9.6 million as compared to the 2006 fiscal year. Following are the other major factors impacting our results in fiscal 2007, compared to fiscal 2006:

- an increase in net sales of $102.0 million, of which $92.8 million was in our net retail store sales;

- a decrease in cost of sales as a percentage of net sales, reflecting a continuation of the improved trend of front-end sales and product mix assortments, partially offset by lower pharmacy reimbursement rates;

- an increase in selling, general and administrative expenses of $20.2 million, primarily reflecting increased pharmacist s labor costs, increases in minimum wage rates, union contract wage increases and payroll costs associated with additional corporate staffing to support the continued implementation of the Duane Reade Full Potential program;

- the sale of several pharmacy prescription files in 2007 that resulted in a separately reported gain of $1.3 million;

- an increase in other expenses of $1.2 million in 2007, which consists of increases in our closed store costs of $4.3 million, expenses related to a former CEO, Mr. Cuti, of $4.7 million and accounting investigation costs of $1.4 million. This was partially offset by a decrease in asset impairment charges of $9.3 million in 2007;

- an increase in non-cash depreciation and amortization expenses of $1.1 million in 2007. The increase is primarily due to the recent new store openings, renovations, and other capital spending in recent periods as well as the $1.0 million cumulative depreciation adjustment recorded in the third quarter of 2006 resulting from the Audit Committee s accounting investigations. For further discussion, see Note 2 to our consolidated financial statements included elsewhere in this prospectus;

- an increase in interest expense of $4.0 million that was primarily attributable to higher non-cash interest expense associated with the preferred stock offering completed during the second quarter of 2007; and

- a decrease in the income tax provision of $0.8 million that was primarily attributable to a lower estimated effective tax rate.

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The following sets forth our results of operations in dollars (in thousands) and as a percentage of sales for the periods indicated.

	Fiscal Year Ended December 27, 2008		Fiscal Year Ended December 29, 2007		Fiscal Year Ended December 30, 2006		(Unaudited) For the 26 Weeks Ended June 27, 2009		(Unaudited) For the 26 Weeks Ended June 28, 2008	
	Dollars	**% of Sales**	**Dollars**	**% of Sales**	**Dollars**	**% of Sales**	**Dollars**	**% of Sales**	**Dollars**	**% of Sales**
Net sales	$ 1,774,029	100.0%	$ 1,686,752	100.0%	$ 1,584,778	100.0%	$ 923,573	100.0%	$ 878,532	100.0%
Costs and expenses:										
Cost of sales (exclusive of depreciation and amortization shown separately below)	1,227,129	69.2%	1,176,376	69.7%	1,108,727	70.0%	640,496	69.3%	606,405	69.0%
Selli										