DUANE READE REALTY INC
Form 424B3
November 06, 2009
Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-162549

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 December 8, 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to this exchange offer are satisfied, we will exchange all of our initial notes, that are validly tendered and not withdrawn for the exchange notes.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 November 6, 2009.

Table of Contents

TABLE OF CONTENTS

	Page
Industry and Market Data	1
Prospectus Summary	2
Summary of the Exchange Offer	10
Summary Historical Consolidated Financial Data	18
Risk Factors	22
Cautionary Statement Regarding Forward-Looking Information	42
Use of Proceeds	45
Capitalization	46
Selected Historical Consolidated Financial Data	48
Management s Discussion and Analysis of Financial Condition and Results of Operations	51
Business	78
Management	96
Certain Relationships and Related Transactions	130
Principal Stockholders	133
Description of Other Indebtedness	135
The Exchange Offer	137
Description of Notes	145
Book-Entry, Delivery and Form	207
Certain United States Federal Income Tax Consequences	211
Plan of Distribution	218
Legal Matters	219
Where You Can Find More Information	219
Experts	219
Index to Consolidated Financial Statements	F-1
Appendix A Financial Information Relating to the Thirteen and Thirty-Nine Weeks Ended September 26, 2009 (Unaudited)	A-1

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Results of Operations and other Financial Data as of and for the quarter and nine months ended September 26, 2009

On November 3, 2009, Duane Reade Holdings, Inc. issued a press release to report its results of operations and other financial information for the quarter and nine months ended September 26, 2009. The following information has been derived from that press release. Attached as Appendix A is the financial information related to the quarter and nine months ended September 26, 2009.

Third Quarter Results

Net retail store sales, which exclude pharmacy resale activity, increased 3.7% to $429.2 million from $414.1 million in the third quarter of 2008. Total net sales increased 4.2% to $448.9 million from $431.0 million in the third quarter of 2008. Total same-store sales increased by 0.7% during the third quarter of 2009, with a front-end same-store sales decrease of 2.7% and a pharmacy same-store sales increase of 5.3%. During the third quarter, we opened three new stores and closed two stores. At the end of the third quarter, we operated 254 stores, compared to 251 stores at December 27, 2008 and 245 stores at the end of the third quarter of 2008.

Total front-end sales increased by 1.0%, primarily due to the opening of new stores, as the difficult economy and reduced levels of consumer spending restrained front-end same-store sales growth. The pharmacy same-store sales growth reflects an increase in the average number of prescriptions filled per store and the effects of branded drug inflation, which has increased the average sale per prescription. During the third quarter of 2009, the average same-store weekly prescriptions filled per store increased 1.6%. Generic drugs, which typically sell at lower prices but yield higher profitability than brand-name drugs, represented approximately 62.5% of pharmacy prescriptions for the third quarter, compared to approximately 60.2% in the third quarter of 2008. The higher proportion of generics adversely impacted pharmacy same-store sales growth by 2.8%.

Cost of sales as a percentage of total net sales was 68.9% for the third quarter of 2009, compared to 68.7% during the third quarter of 2008. Excluding pharmacy resale activity, cost of sales as a percentage of net retail store sales improved slightly, reflecting improved front-end product mix and lower inventory shrink losses, partially offset by lower third party reimbursement rates. As a percentage of net sales, selling, general and administrative expenses improved to 27.1% from 27.3% in the prior year quarter. The improvement reflects the benefits of cost savings resulting from previously announced initiatives implemented by us that were designed to mitigate the impact of the challenging economic conditions. The improvement was partially offset by increased occupancy costs associated with new stores, lease renewals and store expansions.

Table of Contents

Third quarter 2009 FIFO EBITDA, which excludes a $12.5 million gain on debt extinguishment due to the August 2009 debt refinancing transactions, increased 74.1% to $16.7 million, compared to $9.6 million in the prior year period. As used herein, FIFO EBITDA is calculated as described in Note (7) to the Summary Historical Consolidated Financial Data in this prospectus. The following items may be considered in addition to FIFO EBITDA:

	(Unaudited) Thirteen Weeks Ended	
	September 26, 2009	September 27, 2008
	(dollars in thousands)	
Non-cash rent expense	$ 3,093	$ 3,523
Former CEO (Mr. Cuti) matters	561	2,602
Oak Hill management fee	313	313
Asset impairment charges		3,405
Closed store costs	1,024	190
Stock option expense	202	179
Miscellaneous other items	462	1,373

Third quarter 2009 operating loss was $3.0 million, compared to an operating loss of $7.9 million in the prior year period. The improvement in operating loss was primarily driven by a $5.5 million reduction in other expenses and was partially offset by increased depreciation and amortization expense. The detailed breakdown of other expenses compared to the previous year is provided on Table 5 in Appendix A.

The net loss for the third quarter of 2009 was $10.7 million, compared to $22.3 million in the prior year period. The reduced net loss is attributable to the improvement in operating loss and the $12.5 million gain on debt extinguishment and was partially offset by a $6.0 million increase in interest expense. The increase in interest expense was primarily due to an interest charge of $5.0 million resulting from the completion of the August 2009 debt refinancing transactions discussed in Offers to Purchase Prior Debt Securities, Credit Agreement Amendment and Equity Investment below and the issuance of initial notes. As a result of this debt refinancing, our interest rate collar no longer qualified for hedge accounting, and we reclassified the $5.0 million balance of our accumulated other comprehensive loss into third quarter 2009 interest expense.

Our net cash used in operating activities was $15.6 million compared to $6.0 million in the prior year third quarter. The increase was primarily attributable to the timing of pharmacy inventory purchases and resale activity, the timing of third party pharmacy plan payments, an increased investment in pharmacy inventory in support of maintaining higher in-stock conditions and the payment of a previously announced $3.5 million litigation settlement.

At the end of the third quarter, our total debt, including capital leases but excluding the liabilities associated with the redeemable preferred stock, was $464.7 million, reflecting a decrease of $90.9 million from the balance at the end of fiscal 2008. Availability under our asset-based revolving loan facility at quarter end was approximately $107.1 million.

Nine Months Results

For the nine month period, total net sales were $1.372 billion, reflecting an increase of 4.8% compared to $1.310 billion last year. Net retail store sales increased 3.6% to $1.306 billion, from $1.261 billion in the prior year period. Total same-store sales increased 1.2%. Reduced consumer spending resulting from higher rates of unemployment and a difficult economy combined to decrease front-end same-store sales by 1.1%. Pharmacy same-store sales increased by 4.2% and reflected the benefits of increased prescription counts and the effects of branded drug inflation.

Table of Contents

Cost of sales as a percentage of total net sales was 69.2% for the nine month period, compared to 68.9% in the prior year period, due to increased pharmacy resale activity. Excluding pharmacy resale activity, cost of sales as a percentage of net retail sales improved slightly during the thirty-nine weeks ended September 26, 2009. This improvement was attributable to an improved front-end product mix and reductions in inventory shrink losses, partially offset by lower third party pharmacy reimbursements rates. Selling, general and administrative expenses as a percentage of net sales decreased to 26.7% from 27.0% in the prior year period, primarily due to increased pharmacy resale activity. As a percentage of net retail store sales, selling, general and administrative expenses improved slightly to 28.0% from 28.1% in the prior year nine month period. The decrease is due to cost savings initiatives that we have implemented during fiscal 2009, partially offset by increased store occupancy expenses associated with new stores, store expansions and lease renewals.

FIFO EBITDA increased in the 2009 nine months by 19.4% to $50.7 million, or 3.7% of net sales, from $42.5 million, or 3.2% of net sales, in the prior year period. The following items may be considered in addition to FIFO EBITDA:

	(Unaudited) Thirty-nine Weeks Ended	
	September 26, 2009	September 27, 2008
	(dollars in thousands)	
Non-cash rent expense	$ 8,562	$ 9,339
Former CEO (Mr. Cuti) matters	3,453	3,903
Oak Hill management fee	938	938
Asset impairment charges		3,405
Closed store costs	3,790	2,307
Stock option expense	637	518
Miscellaneous other items	462	1,479

Operating loss was $6.2 million in the first nine months of 2009, compared to an operating loss of $12.2 million in the first nine months of 2008. The improvement in operating loss was primarily attributable to the benefits of the $62.9 million increase in our net sales, of which $45.1 million was in our retail stores, and a $3.4 million decrease in other expenses. The detailed breakdown of other expenses compared to the previous year is provided on Table 5 in Appendix A.

The net loss for the first nine months of 2009 was $39.5 million, compared to $55.4 million in the prior year period. The improvement is due to the reduced operating loss and the $12.5 million gain on debt extinguishment, partially offset by increased interest expense of $2.9 million primarily attributable to the third quarter interest charge related to the loss of hedge accounting discussed above.

We generated net cash flows from operating activities of $15.4 million during the first nine months of 2009 compared to $20.7 million in the first nine months of 2008. The change is primarily attributable to the increased investment in pharmacy inventory in support of maintaining higher in-stock conditions as well as the payment of a previously announced $3.5 million litigation settlement.

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,

Table of Contents

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.

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.

Table of Contents

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.

Table of Contents

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 December 8, 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,

Table of Contents

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,

Table of Contents

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.

Table of Contents

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.

Table of Contents

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;

Table of Contents

- 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.

Table of Contents

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

18

Table of Contents

	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.

Table of Contents

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.

(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.

Table of Contents

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

Table of Contents

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.

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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 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.*

Table of Contents

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

Table of Contents

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 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

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

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

Table of Contents

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 phar