DUANE READE REALTY INC
Form 424B3
November 06, 2009
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**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to this exchange offer are satisfied, we will exchange all of our initial notes, that are validly tendered and not withdrawn for the exchange notes.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.

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## INDUSTRY AND MARKET DATA

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

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

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## PROSPECTUS SUMMARY

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

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

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

### Our Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Recent Developments

### 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.

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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.

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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,

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of which approximately $51.7 million remain outstanding. The proceeds from the sale of the initial notes were used to fund, in part, the consideration for the above transactions.

**Credit Agreement Amendment**

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

**Equity Investment**

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

## Our Equity Sponsor

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

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### Sources and Uses

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

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

(dollars in millions)

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

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

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

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

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**Corporate Structure and Capital Structure**

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

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

**The Obligors**

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

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

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

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## SUMMARY OF THE EXCHANGE OFFER

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

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

| | |
|---|---|
| Exchange Offer | We will exchange our exchange notes for a like aggregate principal amount at maturity of our initial notes. |
| Expiration Date | This exchange offer will expire at 5:00 p.m., New York City time, on 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. |

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

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

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

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

- the exchange offer is not permitted by applicable law or SEC policy
- the exchange offer is not consummated within 270 days after the closing date of the offering of the initial notes;
- you are prohibited by applicable law or SEC policy from participating in the exchange offer
- you may not resell the exchange notes you acquire in the exchange offer to the public without delivering a prospectus and that the prospectus contained in the exchange offer registration statement is not appropriate or available for such resales by you; or
- you are a broker-dealer and hold initial notes acquired directly from us or one of our affiliates.

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

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

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

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

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

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

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

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

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

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

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

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

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**Summary of Terms of the Exchange Notes**

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

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

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

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

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

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

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

Ranking

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

- equally in right of payment with all of such Issuer s or guarantor s existing and future senior indebtedness;
- senior in right of payment to any of such Issuer s or guarantor s existing and future subordinated indebtedness (as the case may be);
- effectively subordinated to such Issuer s or guarantor s outstanding obligations under the asset-based revolving loan facility up to the maximum revolving debt amount, to the extent of the value of the collateral that secures revolving loan facility obligations;
- effectively senior to such Issuer s or guarantor s outstanding obligations under the asset-based revolving loan facility in excess of the maximum revolving debt amount, to the extent of the value of the collateral that secures revolving loan facility obligations;
- effectively senior to such Issuer s or guarantor s outstanding obligations under the asset-based revolving loan facility with respect to assets of such Issuer securing the exchange notes but not the asset-based revolving loan facility; and
- effectively senior to all existing and future senior unsecured debt of such Issuer or guarantor, to the extent of the value of the collateral securing the exchange notes.

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

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

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

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

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

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

- incur or guarantee additional indebtedness;

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

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

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

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

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## SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

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

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

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

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

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

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

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

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

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

(6) Includes resales of certain retail inventory.

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

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

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

- it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- it does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;
- it does not reflect limitations on or costs related to transferring earnings from our subsidiaries to us; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

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

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

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

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

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

(b) We recognized pre-tax income of $18.0 million in fiscal 2006 in connection with the recognition and subsequent resolution of a National Labor