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**FOR IMMEDIATE RELEASE**

**DUANE READE INC. REPORTS THIRD QUARTER AND NINE MONTH  
FINANCIAL RESULTS**

New York, New York, November 4, 2004 -- Duane Reade Inc. today reported financial results for the third quarter and nine months ended September 25, 2004.

**CHANGE IN OWNERSHIP**

On July 30, 2004, the Company completed its acquisition by Oak Hill Capital Partners, L.P. ("Oak Hill") and the change in ownership resulted in a new basis of accounting. This change will result in the application of purchase accounting which requires that various balance sheet account carrying values be adjusted to fair value as of the transaction date. In this press release, the Company has presented its three month and nine month results on a combined basis, with a separate breakout of both the predecessor periods (June 27, 2004 through July 30, 2004 and December 28, 2003 through July 30, 2004) and successor period (July 31, 2004 through September 25, 2004). It should be noted that the Company's operating results as reported under US GAAP within the Form 10-Q to be filed during November will present only separate operating results for the one month and year-to-date periods ended July 30, 2004, and the two months ended September 25, 2004 as a result of the difference in ownership and accounting basis regarding those respective periods.

**THIRD QUARTER RESULTS**

Net sales increased 3.3% to \$349.6 million, with pharmacy sales increasing 7.9% to comprise 45.9% of net sales. Same-store sales increased 0.5%, reflecting a 5.1% increase in pharmacy same-store sales and a 3.2% decline in front-end same-store sales. Approximately 1.0% of the front-end same-store sales decline was due to decreases in sales of tobacco products attributable to restrictions on smoking in certain public places that were enacted throughout New York City in 2003 along with increased tax rates on tobacco sales.

The net loss was \$38.1 million compared to net income of \$1.9 million in the third quarter of 2003. The net loss for the third quarter of 2004 includes (i) a pre-tax charge of \$37.5 million associated with expenses related to Oak Hill's acquisition of the Company on July 30, 2004 and (ii) \$24.5 million of pre-tax expenses related to the Company's exercise of its option to terminate the Chairman's supplemental executive retirement plan obligations. These charges were both taken, as anticipated, in connection with the Oak Hill transaction. The net loss also reflects a \$1.1 million labor contingency expense associated with the previously announced National Labor Relations Board (NLRB) administrative ruling. Excluding these charges, using a 46.0% assumed tax rate, the net loss was \$4.0 million. The previous year's third quarter net income included a pre-tax charge of \$0.7 million related to the retirement of debt.

Adjusted FIFO EBITDA, as defined on the attached schedule of operating data, was \$12.7 million, or 3.6% of sales, versus \$17.8 million, or 5.2% of sales, in the comparable period. The margin decline reflects reduced leveraging of expenses against lower than expected sales growth as well as delays in anticipated new store and pharmacy file acquisitions. Sales growth continued to be adversely affected by an improving but still weak New York City retail environment. Also impacting Adjusted FIFO EBITDA were increased selling expenses for the period associated with higher pharmacist labor rates and higher costs from increased promotional advertising activity. Adjusted FIFO EBITDA for the current year's third quarter also reflected a \$0.6 million charge related to a litigation settlement.

Cash flow used by operations was \$20.5 million, or 5.9% of sales, compared to cash flow provided by operations of \$15.8 million, or 4.7% of sales, in the comparable period. This differential is attributable to cash acquisition transaction expenses of \$35.6 million in the third quarter.

Pre-opening expenses amounted to \$0.5 million compared to \$0.2 million in the same period last year. The Company opened five new stores, acquired four stores and closed one store during the third quarter, compared to three new stores opened in the third quarter of the previous year. As of September 25, 2004, the Company operated 255 stores.

Commenting on the Company's results, Anthony J. Cuti, Chairman of the Board and Chief Executive Officer, stated, "The acquisition of the Company was consummated on July 30<sup>th</sup> after a prolonged period of negotiation and administrative filings with various regulatory bodies. As a result of the delayed closing of this transaction and this pending change in ownership, a number of strategic initiatives, most notably certain pharmacy file and new store acquisitions, occurred later than anticipated and adversely impacted our third quarter results. Additionally, although the New York City economy is showing some improvement, it continues to be relatively sluggish versus expectation, resulting in lower rates of sales growth and reduced leveraging of expenses.

"Nevertheless, with the benefit of a number of new store initiatives being introduced, we remain confident that fourth quarter results will be much improved as new stores, new service initiatives, and promotional improvements begin to take hold. Duane Reade continues to be New York City's preferred convenience drugstore and, accordingly, is well positioned to opportunistically grow its share of the pharmacy, health and beauty care, convenience item and services demand in the marketplace."

## **NINE MONTH RESULTS**

Net sales for the 39 weeks ended September 25, 2004 increased 3.6% to \$1.064 billion, compared with \$1.027 billion in the previous year. Pharmacy sales increased 8.2% to \$484.3 million and represented 45.5% of net sales. Front-end sales increased 0.1% to \$580.1 million, compared to \$579.6 million in the previous year. Same-store sales increased 0.8%, reflecting a 5.4% same-store increase in pharmacy sales and a 2.8% decline in front-end same-store sales. The aforementioned New York City restrictions on smoking and increased tobacco taxes accounted for approximately 1.3% of the front-end same-store sales decline.

The net loss was \$33.7 million compared to net income of \$9.1 million last year. The current year's results include \$40.1 million and \$24.5 million of pre-tax charges associated with the Oak Hill transaction and termination of the Chairman's SERP obligations, respectively, as well as \$3.3 million of charges related to labor contingency expenses in connection with the NLRB administrative ruling discussed above. Excluding these charges, using a 46.0% assumed tax rate, net income for the current year's nine month period would have been \$3.0 million. The previous year's nine month period included debt retirement expenses of \$0.8 million.

Adjusted FIFO EBITDA was \$53.3 million or 5.0% of sales, compared to \$58.2 million or 5.7% of sales in the previous year.

Cash flow used by operating activities in the year-to-date period was \$0.4 million, compared to cash flow provided by operations of \$29.8 million, or 2.9% of sales, in the previous year. The differential is attributable to cash acquisition transaction expenses of \$38.2 million.

The Company is in compliance with all of its debt related financial covenants.

During the first nine months of the year, the Company opened 11 stores, acquired five stores and closed two stores, compared with 12 new stores opened, two stores acquired and three stores closed in the prior year period. Pre-opening expenses were \$0.8 million in both the current and prior years.

## CURRENT OUTLOOK

While the Company expects to see modest improvement over the next year resulting from recently improved levels of employment in New York City as well as significant new management initiatives, it continues to experience restrained consumer demand in the near term. For the full year 2004, sales are expected to range between \$1.436 billion and \$1.442 billion, with a total same-store sales increase between 0.7% and 0.9%. Pharmacy same-store sales are anticipated to increase from 5.0% to 5.3%, while front-end same-store sales are projected to decline between 2.7% and 2.9%. Smoking restrictions and increased tobacco taxes are expected to impact annual front-end same-store sales performance by approximately 1.0%, which is reflected in this sales guidance. The impact of these items on tobacco sales should largely be cycled out of the same-store sales comparisons by the first quarter next year.

Subject to the finalization of purchase accounting adjustments, the net loss for the full year is expected to range between \$33.6 million and \$34.7 million.

For the full year, Adjusted FIFO EBITDA is projected to range between \$78.0 million, or 5.4% of sales, and \$80.0 million, or 5.6% of sales.

The Company projects that total current year capital spending, lease acquisitions and other investing activities will approximate \$57 million and expects to complete 17 new store openings. For fiscal 2005, capital spending, lease acquisitions and other investment spending are expected to decline to approximately \$39 million, reflecting the addition of approximately 10 new stores.

The Company's actual results for fiscal 2004 may differ from those projected as a result of various factors that are described in the last paragraph of this press release and that are more fully described in the Company's filings with the Securities and Exchange Commission.

The Company will hold a conference call on Thursday, November 4, 2004 at 10:00 AM Eastern Time to discuss financial results for the third quarter and nine months ended September 25, 2004 and to provide its outlook for the full year ended December 25, 2004. A live web cast of the call will be accessible from the Investor Information section of the Duane Reade website (<http://www.duanereade.com>) and the call will be archived on the website until November 18, 2004. Additionally, a replay of the conference call will be available from 12:00PM Eastern Time on November 4, 2004 until 12:00PM Eastern Time on November 8, 2004. The replay can be accessed by dialing (800) 934-8524, access code "DRD".

Founded in 1960, Duane Reade is the largest drug store chain in the metropolitan New York City area, offering a wide variety of prescription and over-the-counter drugs, health and beauty care items, cosmetics, greeting cards, photo supplies and photofinishing. As of September 25, 2004, the Company operated 255 stores. Duane Reade maintains a website at <http://www.duanereade.com>.

*Except for historical information contained herein, the statements in this release and the accompanying discussion on the earnings conference call are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In addition, this document may contain statements, estimates or projections that constitute "forward-looking" statements as defined under U.S. federal securities laws. Forward-looking statements involve known and unknown risks and uncertainties, which may cause the Company's actual results in future periods to differ materially from forecasted or expected results. Those risks include, among other things, the competitive environment in the drug store industry in general and in the New York metropolitan area, the ability to open and operate new stores, the continued efforts by payers and government agencies to reduce prescription reimbursement rates and prescription drug benefits, the strength of the economy in general, the economic conditions in the New York greater metropolitan area, changes in federal and state laws and regulations, including the potential impact of changes in regulations surrounding the importation of pharmaceuticals from foreign countries and changes in laws governing minimum wage requirements, the continuing impact of the restrictions on smoking in public places in the Company's markets, changes in the Company's operating strategy, capital expenditure plans or development plans, the Company's ability to attract, hire and retain qualified pharmacy and other personnel, the Company's significant indebtedness, labor disturbances, the continued impact of, or new occurrences of, terrorist attacks in the New York greater metropolitan area and any actions that may be taken in response, the Company's ability to successfully implement and manage new computer systems and technologies, demographic changes and the Company's ability to limit fraud and shrink. Those and other risks are more fully described in Duane Reade's reports filed with the SEC from time to time, including its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Except to the extent otherwise required by federal securities laws, we do not undertake to publicly update or revise any forward-looking statements.*

Tables to follow

**Duane Reade Inc.**  
**Consolidated Statements of Operations (Unaudited)**  
(In thousands, except per share amounts)

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2004 (1)	September 27, 2003	September 25, 2004 (1)	September 27, 2003
Net sales	\$ 349,641	\$ 338,630	\$ 1,064,398	\$ 1,027,398
Cost of sales	277,186	266,520	835,988	808,124
Gross profit	<u>72,455</u>	<u>72,110</u>	<u>228,410</u>	<u>219,274</u>
Selling, general & administrative expenses	61,081	56,296	179,648	167,130
Labor contingency expense	1,100	-	3,300	-
Transaction expense	37,504	-	40,123	-
Depreciation and amortization	10,876	8,162	29,182	23,874
Store pre-opening expenses	471	154	836	798
Other	25,291	-	25,291	-
	<u>136,323</u>	<u>64,612</u>	<u>278,380</u>	<u>191,802</u>
Operating (loss) income	(63,868)	7,498	(49,970)	27,472
Interest expense, net	7,566	3,386	14,260	10,452
Debt extinguishment	-	707	-	812
	<u>(71,434)</u>	<u>3,405</u>	<u>(64,230)</u>	<u>16,208</u>
(Loss) income before income taxes	(71,434)	3,405	(64,230)	16,208
Income tax (benefit) provision	<u>(33,373)</u>	<u>1,499</u>	<u>(30,493)</u>	<u>7,132</u>
Net (loss) income	<u>\$ (38,061)</u>	<u>\$ 1,906</u>	<u>\$ (33,737)</u>	<u>\$ 9,076</u>

- (1) In order to provide a more meaningful basis of comparing the Company's results of operations, the results of operations for the Company's "predecessor" periods for the quarter and year-to-date (June 27, 2004 to July 30, 2004 and December 28, 2003 to July 30, 2004, respectively) have been combined with the results of operations for the "successor" period (July 31, 2004 to September 25, 2004). The results of operations for the separate successor and predecessor periods are shown on page 5 of this release.

**Duane Reade Inc.**  
Consolidated Statements of Operations (Unaudited)  
(In thousands, except per share amounts)

	<u>Successor</u>	<u>Predecessor</u>		<u>Successor</u>	<u>Predecessor</u>	
	Period from July 31, 2004 through Sept. 25, 2004	Period from June 27, 2004 through July 30, 2004	Total Third Quarter 2004	Period from July 31, 2004 through Sept. 25, 2004	Period from Dec. 28, 2003 through July 30, 2004	Total Third Quarter 2004 Year-to-Date
Net sales	\$ 217,556	\$ 132,085	\$ 349,641	\$ 217,556	\$ 846,842	\$ 1,064,398
Cost of sales	<u>172,765</u>	<u>104,421</u>	<u>277,186</u>	<u>172,765</u>	<u>663,223</u>	<u>835,988</u>
Gross profit	<u>44,791</u>	<u>27,664</u>	<u>72,455</u>	<u>44,791</u>	<u>183,619</u>	<u>228,410</u>
Selling, general & administrative expenses	37,355	23,726	61,081	37,355	142,293	179,648
Labor contingency expense	689	411	1,100	689	2,611	3,300
Transaction expense	37,118	386	37,504	37,118	3,005	40,123
Depreciation and amortization	7,280	3,596	10,876	7,280	21,902	29,182
Store pre-opening expenses	366	105	471	366	470	836
Other	<u>25,291</u>	<u>-</u>	<u>25,291</u>	<u>25,291</u>	<u>-</u>	<u>25,291</u>
	<u>108,099</u>	<u>28,224</u>	<u>136,323</u>	<u>108,099</u>	<u>170,281</u>	<u>278,380</u>
Operating (loss) income	<u>(63,308)</u>	<u>(560)</u>	<u>(63,868)</u>	<u>(63,308)</u>	<u>13,338</u>	<u>(49,970)</u>
Interest expense, net	<u>6,283</u>	<u>1,283</u>	<u>7,566</u>	<u>6,283</u>	<u>7,977</u>	<u>14,260</u>
(Loss) income before income taxes	(69,591)	(1,843)	(71,434)	(69,591)	5,361	(64,230)
Income tax (benefit) provision	<u>(32,048)</u>	<u>(1,325)</u>	<u>(33,373)</u>	<u>(32,048)</u>	<u>1,555</u>	<u>(30,493)</u>
Net (loss) income	<u>\$ (37,543)</u>	<u>\$ (518)</u>	<u>\$ (38,061)</u>	<u>\$ (37,543)</u>	<u>\$ 3,806</u>	<u>\$ (33,737)</u>

**Duane Reade Inc.**  
**Consolidated Balance Sheets**  
(In thousands)

	September 25, 2004 (1)	December 27, 2003
	(Unaudited)	
<b>Current Assets</b>		
Cash	\$ 1,377	\$ 1,252
Receivables, net (2)	56,686	53,689
Inventories, net	264,064	259,765
Current Portion of Deferred Taxes (3)	20,590	8,150
Prepaid Expenses and Other Current Assets	19,224	19,504
Total Current Assets	361,941	342,360
Property and Equipment, net	194,809	189,469
Goodwill, net (4)	188,892	161,318
Deferred Taxes (3)	-	5,543
Other Assets (5)	217,508	88,836
Total Assets	\$ 963,150	\$ 787,526
<b>Current Liabilities</b>		
Accounts Payable	\$ 80,323	\$ 85,258
Accrued Expenses (6)	67,586	29,122
Current Portion of Capital Leases	762	422
Total Current Liabilities	148,671	114,802
Other Liabilities (7)	90,149	62,915
Deferred Taxes (3)	17,196	-
Long Term Debt and Capital Leases	505,180	272,488
Total Liabilities	761,196	450,205
Total Stockholders' Equity	201,954	337,321
Total Liabilities and Stockholders' Equity	\$ 963,150	\$ 787,526

Certain prior year amounts have been reclassified to conform to the current year's presentation.

- (1) Amounts shown as at September 25, 2004 reflect preliminary purchase accounting adjustments required under Financial Accounting Standard No. 141, in connection with the July 30, 2004 acquisition of the Company by Oak Hill Capital Partners, LP.
- (2) Includes third party pharmacy receivables of \$34,020 and \$33,672 at September 25, 2004 and December 27, 2003, respectively.
- (3) Change in deferred taxes from December 27, 2003 is primarily attributable to acquisition related transactions.
- (4) Increase in goodwill from December 27, 2003 is attributable to the preliminary purchase accounting adjustments recorded in connection with the acquisition.
- (5) Increase in other assets from December 27, 2003, is primarily due to the preliminary purchase accounting adjustments related to lease and prescription file valuations and deferred financing costs.
- (6) Increase in accrued expenses from December 27, 2003 primarily reflects the accrued settlement costs for termination of the Chairman's SERP (\$23.0 million), as well as the timing of the Company's payroll cycle, sales tax and interest payment dates versus December 2003.
- (7) Increase in other liabilities from December 27, 2003 is primarily due to anticipated lease termination costs and deferred rent on new stores opened since the prior year end, combined with the additional labor contingency accrual recorded during the same period.

**Duane Reade Inc.**  
**Operating Data (Unaudited)**  
(Dollars in thousands)

	13 Weeks Ended		39 Weeks Ended	
	Sept. 25, 2004	Sept. 27, 2003	Sept. 25, 2004	Sept. 27, 2003
EBITDA (LIFO Basis) (1)	\$ 10,112	\$ 15,660	\$ 47,135	\$ 51,346
add back LIFO Expense	240	150	720	450
EBITDA (FIFO Basis) (1)	\$ 10,352	\$ 15,810	\$ 47,855	\$ 51,796
FIFO EBITDA as a percentage of net sales	3.0%	4.7%	4.5%	5.0%
Adjusted FIFO EBITDA (2)	\$ 12,735	\$ 17,764	\$ 53,304	\$ 58,176
Adjusted FIFO EBITDA as a percentage of sales	3.6%	5.2%	5.0%	5.7%
Capital expenditures	\$ 5,941	\$ 8,728	\$ 22,123	\$ 34,523
Lease acquisitions and other investing activities	\$ 11,041	\$ 1,358	\$ 22,558	\$ 11,261
Same-store sales growth	0.5%	3.0%	0.8%	2.6%
Pharmacy same-store sales growth	5.1%	8.6%	5.4%	7.7%
Front-end same-store sales growth	-3.2%	-1.1%	-2.8%	-1.1%
Pharmacy sales as a % of net sales	45.9%	43.9%	45.5%	43.6%
Third Party sales as a % of pharmacy sales	92.3%	91.4%	92.2%	91.3%
Average weekly prescriptions filled per store (3)	794	820	838	868
Number of stores at end of period			255	239
Retail square footage at end of period			1,784,832	1,684,533
Average store size (sq.ft.) at end of period			6,999	7,048

(1) As used in this report, FIFO EBITDA means earnings before interest, income taxes, depreciation, amortization, debt extinguishment, expenses related to the acquisition transaction, labor contingency expense, 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. Targets and positive trends in FIFO EBITDA are used as performance measures for determining certain compensation of management. FIFO EBITDA is also used by some of our creditors in assessing debt covenant compliance.

We understand that, although security analysts frequently use FIFO EBITDA in the evaluation of companies, it is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. FIFO EBITDA is not intended as an alternative to net income as an indicator of our operating performance, or as an alternative to any other measure of performance in conformity with generally accepted accounting principles, nor as an alternative to cash flow from operating activities as a measure of liquidity.

Reconciliations of net income to FIFO EBITDA and operating cash flow for each period included above and highlighted elsewhere in this document are provided on pages 8, 9 and 10 of this press release.

(2) As used in this report, Adjusted FIFO EBITDA means FIFO EBITDA as defined above, adjusted to exclude non-cash rent expense and certain charges related to the acquisition transaction that are not excluded in the definition of FIFO EBITDA. Adjusted FIFO EBITDA is used for most of the same purposes for which we use FIFO EBITDA, as a further supplemental measure of our performance. Adjusted FIFO EBITDA plus certain other normalization adjustments specified in the senior term loan credit agreement are used by our senior term loan creditors in assessing debt covenant compliance. In addition, we use Adjusted FIFO EBITDA, together with certain adjustments, to measure covenant compliance under the indenture governing our senior subordinated notes.

(3) Comparative stores only, does not include new stores.

## Duane Reade Inc.

### Reconciliation of EBITDA to Net (Loss) Income and Net Cash (Used In) Provided by Operating Activities (Unaudited) (in thousands)

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2004 (1)	September 27, 2003	September 25, 2004 (1)	September 27, 2003
FIFO EBITDA	\$ 10,352	\$ 15,810	\$ 47,855	\$ 51,796
LIFO Expense	240	150	720	450
LIFO EBITDA	<u>10,112</u>	<u>15,660</u>	<u>47,135</u>	<u>51,346</u>
Depreciation and amortization	(10,876)	(8,162)	(29,182)	(23,874)
Labor contingency expense	(1,100)	-	(3,300)	-
Transaction expense	(37,504)	-	(40,123)	-
CEO SERP settlement	(24,500)	-	(24,500)	-
Debt extinguishment	-	(707)	-	(812)
Interest expense	(7,566)	(3,386)	(14,260)	(10,452)
Income taxes	33,373	(1,499)	30,493	(7,132)
Net (loss) income	<u>\$ (38,061)</u>	<u>\$ 1,906</u>	<u>\$ (33,737)</u>	<u>\$ 9,076</u>
Net (loss) income	(38,061)	1,906	(33,737)	9,076
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:				
Depreciation and amortization of property	6,400	5,385	18,877	15,862
Amortization of goodwill, intangibles and deferred financing costs	5,354	3,221	12,137	9,471
Deferred tax provision	(33,372)	2,889	(30,567)	5,706
Debt extinguishment	-	701	-	730
Non-cash rent expense	1,592	1,954	4,658	6,380
Changes in operating assets and liabilities (net of effect of acquisitions):				
Receivables	(1,623)	(890)	(2,997)	(1,117)
Inventories	(2,989)	(11,813)	(2,552)	(22,767)
Accounts payable	3,282	9,868	(4,935)	12,057
Prepaid and accrued expenses	30,299	2,970	33,699	(259)
Other assets/liabilities, net	8,635	(407)	4,972	(5,375)
Cash (used in) provided by operating activities	<u>\$ (20,483)</u>	<u>\$ 15,784</u>	<u>\$ (445)</u>	<u>\$ 29,764</u>
Calculation of Adjusted FIFO EBITDA				
FIFO EBITDA as above	\$ 10,352	\$ 15,810	\$ 47,855	\$ 51,796
Non-cash rent expense	1,592	1,954	4,658	6,380
CEO long term cash award	156	-	156	-
Oak Hill management fee	216	-	216	-
CEO life insurance policy conversion cost	419	-	419	-
Adjusted FIFO EBITDA	<u>\$ 12,735</u>	<u>\$ 17,764</u>	<u>\$ 53,304</u>	<u>\$ 58,176</u>

(1) In order to provide a more meaningful basis of comparing the Company's operating cashflow, the operating cashflow for the Company's "predecessor" periods for the quarter and year-to-date (June 27, 2004 to July 30, 2004 and December 28, 2003 to July 30, 2004, respectively) have been combined with the operating cashflow for the "successor" period (July 31, 2004 to September 25, 2004). The operating cashflow for the separate successor and predecessor periods are shown on page 9 of this release.

## Duane Reade Inc.

### Reconciliation of EBITDA to Net (Loss) Income and Net Cash (Used In) Provided by Operating Activities (Unaudited) (in thousands)

	<u>Successor</u> Period from July 31, 2004 through Sept. 25, 2004	<u>Predecessor</u> Period from June 27, 2004 through July 30, 2004	Total Third Quarter 2004	<u>Successor</u> Period from July 31, 2004 through Sept. 25, 2004	<u>Predecessor</u> Period from Dec. 28, 2003 through July 30, 2004	Total Third Quarter 2004 Year-to-Date
FIFO EBITDA	\$ 6,439	\$ 3,913	\$ 10,352	\$ 6,439	\$ 41,416	\$ 47,855
LIFO Expense	160	80	240	160	560	720
LIFO EBITDA	<u>6,279</u>	<u>3,833</u>	<u>10,112</u>	<u>6,279</u>	<u>40,856</u>	<u>47,135</u>
Depreciation and amortization	(7,280)	(3,596)	(10,876)	(7,280)	(21,902)	(29,182)
Labor contingency expense	(689)	(411)	(1,100)	(689)	(2,611)	(3,300)
Transaction expense	(37,118)	(386)	(37,504)	(37,118)	(3,005)	(40,123)
CEO SERP settlement	(24,500)	-	(24,500)	(24,500)	-	(24,500)
Debt extinguishment	-	-	-	-	-	-
Interest expense	(6,283)	(1,283)	(7,566)	(6,283)	(7,977)	(14,260)
Income taxes	32,048	1,325	33,373	32,048	(1,555)	30,493
Net (loss) income	<u>\$ (37,543)</u>	<u>\$ (518)</u>	<u>\$ (38,061)</u>	<u>\$ (37,543)</u>	<u>\$ 3,806</u>	<u>\$ (33,737)</u>
Net (loss) income	(37,543)	(518)	(38,061)	(37,543)	3,806	(33,737)
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:						
Depreciation and amortization of property	4,009	2,391	6,400	4,009	14,868	18,877
Amortization of goodwill, intangibles and deferred financing costs	4,149	1,205	5,354	4,149	7,988	12,137
Deferred tax provision	(32,047)	(1,325)	(33,372)	(32,047)	1,480	(30,567)
Debt extinguishment	-	-	-	-	-	-
Non-cash rent expense	1,254	338	1,592	1,254	3,404	4,658
Changes in operating assets and liabilities (net of effect of acquisitions):						
Receivables	(2,523)	900	(1,623)	(2,523)	(474)	(2,997)
Inventories	(6,567)	3,578	(2,989)	(6,567)	4,015	(2,552)
Accounts payable	14,842	(11,560)	3,282	14,842	(19,777)	(4,935)
Prepaid and accrued expenses	27,207	3,092	30,299	27,207	6,492	33,699
Other assets/liabilities, net	7,080	1,555	8,635	7,080	(2,108)	4,972
Cash (used in) provided by operating activities	<u>\$ (20,139)</u>	<u>\$ (344)</u>	<u>\$ (20,483)</u>	<u>\$ (20,139)</u>	<u>\$ 19,694</u>	<u>\$ (445)</u>
Calculation of Adjusted FIFO EBITDA						
FIFO EBITDA as above	\$ 6,439	\$ 3,913	\$ 10,352	\$ 6,439	\$ 41,416	\$ 47,855
Non-cash rent expense	1,254	338	1,592	1,254	3,404	4,658
CEO long term cash award	156	-	156	156	-	156
Oak Hill management fee	216	-	216	216	-	216
CEO life insurance policy conversion cost	419	-	419	419	-	419
Adjusted FIFO EBITDA	<u>\$ 8,484</u>	<u>\$ 4,251</u>	<u>\$ 12,735</u>	<u>\$ 8,484</u>	<u>\$ 44,820</u>	<u>\$ 53,304</u>

**Duane Reade Inc.**  
**Reconciliation of Range of Projected EBITDA**  
**to Net Loss (Unaudited)**  
(in thousands)

	For the 52 Weeks Ended December 25, 2004	
Annual sales	\$ 1,436,000	\$ 1,442,000
FIFO EBITDA	\$ 70,100	\$ 72,100
LIFO expense	(1,000)	(1,000)
LIFO EBITDA	69,100	71,100
Depreciation and amortization	(41,700)	(41,700)
Labor contingency expense	(4,400)	(4,400)
Transaction expense	(40,500)	(40,500)
CEO SERP settlement	(24,500)	(24,500)
Interest expense	(24,000)	(24,000)
Income taxes	31,260	30,420
Net loss	\$ (34,740)	\$ (33,580)

Calculation of Adjusted FIFO EBITDA

FIFO EBITDA as above	\$ 70,100	\$ 72,100
Non-cash rent expense	6,000	6,000
CEO long term cash award	400	400
Oak Hill management fee	550	550
CEO life insurance policy conversion cost	950	950
Adjusted FIFO EBITDA	\$ 78,000	\$ 80,000

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