

DUANE READE INC
Form PREM14A
March 19, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under § 240.14a-12

DUANE READE INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common stock, par value \$0.01 per share, of Duane Reade Inc.

(2) Aggregate number of securities to which transaction applies:
24,410,306 shares of Duane Reade Inc. common stock and options to purchase 2,090,498 shares of Duane Reade Inc. common stock.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
\$17.00, which represents the price per share of Duane Reade Inc.'s common stock to be paid in the merger (with respect to outstanding options, the per unit price is based on the excess of \$17.00 over the per share exercise price of the options).

(4)

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Proposed maximum aggregate value of transaction:

\$421,463,725

(5) Total fee paid:
\$53,400

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

440 Ninth Avenue
New York, NY 10001

[], 2004

Dear Duane Reade Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Duane Reade Inc. to be held on [], 2004 at [a.m.] Eastern Standard time at []. At this meeting, you will be asked to consider and vote upon a proposal to adopt an agreement and plan of merger entered into by and among Duane Reade, Duane Reade Shareholders, LLC and its indirect, wholly-owned subsidiary, Duane Reade Acquisition Corp. Duane Reade Shareholders, LLC is the owner of Duane Reade Holdings, Inc., which in turn owns Duane Reade Acquisition Corp. Duane Reade Shareholders, LLC is an affiliate of Oak Hill Capital Partners, L.P., a private equity firm. The merger agreement provides for the merger of Duane Reade Acquisition Corp. with and into Duane Reade, with Duane Reade continuing as the surviving corporation.

You also are being asked to grant to the proxy holders the authority to vote, in their sole discretion, to adjourn or postpone the special meeting for the purpose of soliciting additional proxies in the event that there are not sufficient votes at the time of the special meeting to adopt the merger agreement.

If the merger is consummated, each share of Duane Reade common stock issued and outstanding at the effective time of the merger, other than shares held by stockholders who perfect their appraisal rights under Delaware law, will be converted into the right to receive \$17.00 in cash, without interest. In general, stock options to purchase Duane Reade common stock outstanding at the effective time of the merger with an exercise price of less than \$17.00 will be converted into the right to receive an amount in cash equal to \$17.00 minus the per share exercise price of the stock option, multiplied by the number of shares of common stock issuable upon exercise of the stock option.

Following the merger, Duane Reade Shareholders, LLC will be owned by Oak Hill Capital Partners, L.P. and its affiliate, Oak Hill Capital Management Partners, L.P., as well as certain other investors who may participate as equity investors with Oak Hill. I will continue as Chairman of the Board, President and Chief Executive Officer of Duane Reade. In addition, I and certain members of management will have an interest in

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the value of Duane Reade after the merger and, in exchange for the relinquishment of certain rights and benefits, will receive cash payments and other consideration in connection with the merger. These are described in detail in the proxy statement.

The notice of meeting and proxy statement describe the merger agreement, the merger and related agreements. I urge you to read these materials carefully, as they set forth the specifics of the merger and other important information related to the merger.

The independent members of Duane Reade's board of directors carefully considered and negotiated the terms and conditions of the proposed merger. The independent directors unanimously determined that the terms of the merger agreement and the merger are advisable, fair to, and in the best interests of Duane Reade and its unaffiliated stockholders. In making this determination, the independent directors considered, among other things, an opinion received from Bear, Stearns & Co. Inc., the board of directors' financial advisor, to the effect that, as of the date of the opinion, and based upon and subject to the matters and assumptions set forth in the opinion, the \$17.00 per share to be received by Duane Reade stockholders in the merger is fair, from a financial point of view, to the Duane Reade stockholders, excluding certain stockholders who are members of Duane Reade's management.

ACCORDINGLY, THE INDEPENDENT MEMBERS OF THE BOARD OF DIRECTORS RECOMMEND THAT YOU VOTE "FOR" ADOPTION OF THE MERGER AGREEMENT.

Your vote is important. The board of directors appreciates and encourages stockholder participation in our affairs. We cannot consummate the merger without the approval of Duane Reade's stockholders who hold a majority of the outstanding Duane Reade stock. It is important that your shares are represented at the special meeting.

Whether or not you plan to attend the special meeting, please sign, date and return the enclosed proxy card in the accompanying addressed, postage pre-paid envelope or vote by telephone or the internet by following the instructions on the enclosed proxy card. If you attend the meeting, you may revoke your proxy and vote in person.

Failure to return a properly executed proxy card or to vote by telephone, the internet or at the special meeting will have the same effect as a vote against the approval of the merger agreement.

If you have any questions, or need assistance in voting your proxy, please call our proxy solicitor, [] toll-free at [].

Sincerely,

Anthony J. Cuti
Chairman of the Board,
Chief Executive Officer and President

THIS PROXY STATEMENT IS BEING MAILED, ALONG WITH A PROXY CARD, TO DUANE READE STOCKHOLDERS ON OR ABOUT [], 2004.

The merger and the merger agreement have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has any such commission passed upon the merits of the merger or the merger agreement nor upon the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offense.

DUANE READE INC.

440 Ninth Avenue
New York, NY 10001

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be held on [], 2004

To the Stockholders of Duane Reade Inc.:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Duane Reade Inc., a Delaware corporation, has been called by the Duane Reade board of directors. The details of the meeting are as follows:

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PLACE: _____
DATE: _____
TIME: _____

The purposes of the special meeting are:

1. To consider and vote on the proposal to adopt the agreement and plan of merger, dated as of December 22, 2003, by and among Duane Reade, Duane Reade Shareholders, LLC and Duane Reade Acquisition Corp. and the transactions contemplated by the merger agreement, including the merger.
2. To consider and vote on a proposal to authorize proxy holders to vote, in their sole discretion, to adjourn or postpone the special meeting, if necessary, for the purpose of soliciting additional votes for the adoption of the merger agreement.
3. To transact such other business as may properly come before the special meeting or any adjournment or postponement of the special meeting.

Only our stockholders of record at the close of business on [_____], 2004 are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. A list of stockholders will be available for inspection by stockholders of record during business hours at Duane Reade Inc., 440 Ninth Avenue, New York, NY, during the 10 days prior to the date of the special meeting and will also be available at the special meeting.

Stockholders of Duane Reade who do not vote in favor of adoption of the merger agreement will have the right to seek appraisal of the "fair value" of their shares if the merger is consummated, but only if they comply with all of the required procedures under Delaware law. See "Special Factors Appraisal Rights of Stockholders" in the proxy statement.

The independent members of Duane Reade's board of directors carefully considered and negotiated the terms and conditions of the merger agreement. The independent directors unanimously determined that the terms of the merger agreement and the merger are advisable, fair to, and in the best interests of Duane Reade and its unaffiliated stockholders. In making this determination, the independent directors considered, among other things, an opinion received from Bear, Stearns & Co. Inc., the board of directors' financial advisor, to the effect that, as of the date of the opinion, and based upon and subject to the matters and assumptions set forth in the opinion, the \$17.00 per share to be received by Duane Reade stockholders in the merger is fair, from a financial point of view, to the Duane Reade stockholders, excluding certain stockholders who are members of Duane Reade's management.

ACCORDINGLY, THE INDEPENDENT MEMBERS OF THE BOARD OF DIRECTORS RECOMMEND THAT YOU VOTE "FOR" ADOPTION OF THE MERGER AGREEMENT.

Please carefully read and consider the proxy statement. Whether or not you plan to attend the special meeting, we urge you to promptly sign, date and return the enclosed proxy card in the accompanying, addressed, postage-prepaid envelope or vote by telephone or the internet, in order for your shares to be represented at the special meeting. You may withdraw your proxy at or prior to the special meeting in the manner described in the proxy statement.

By Order of the Board of Directors,

Michelle D. Bergman
Vice President and Secretary

New York, NY

[_____], 2004

PLEASE VOTE "FOR" THE MERGER AGREEMENT BY MAILING YOUR PROXY OR VOTING BY TELEPHONE OR THE INTERNET... NOW!

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers briefly address some commonly asked questions about the special meeting and the merger. They may not include all the information that is important to you. You should carefully read this entire proxy statement, including the annexes and the other documents we refer to in this proxy statement.

Q: WHEN AND WHERE IS THE SPECIAL MEETING?

A: The special meeting of our stockholders will be held at [] a.m., Eastern Standard time, on [], 2004, at [].

Q: WHY IS DUANE READE PROPOSING THE MERGER?

A: Duane Reade believes that the cash consideration of \$17.00 per share of Duane Reade common stock will allow its stockholders to realize greater value from the proposed transaction than could be expected to be generated in a reasonable period were Duane Reade to remain an

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independent public company. To review the reasons for the merger in greater detail, see "Special Factors Recommendation of the Independent Directors; Reasons for Recommending the Adoption of the Merger Agreement."

Q: WHY IS THE DUANE READE BOARD OF DIRECTORS RECOMMENDING THAT I VOTE FOR THE MERGER AGREEMENT?

A: The independent members of Duane Reade's board of directors believe that the terms and provisions of the merger agreement and the merger are advisable, fair to, and in the best interests of, Duane Reade's unaffiliated stockholders. Accordingly, the board of directors, in a unanimous vote of the directors present (with Mr. Cuti not participating), approved the merger agreement and resolved to recommend that you vote "FOR" adoption of the merger agreement. To review the background and reasons for the merger in greater detail, see "Special Factors Background of the Merger" and "Special Factors Recommendation of the Independent Directors; Reasons for Recommending the Adoption of the Merger Agreement."

Q: WAS A SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS FORMED?

A: The board of directors did not form a special committee of directors to consider the merger. Other than Mr. Cuti, each member of the board of directors of Duane Reade is independent and will not receive any consideration in connection with the merger different from that received by any other Duane Reade public stockholder. The independent members of the board of directors, referred to as the "Independent Directors," negotiated and approved the merger agreement, without Mr. Cuti's participation. The Independent Directors made their evaluation of the merger based upon the factors discussed in this proxy statement, independent of Mr. Cuti, and with knowledge of the interests of members of management in the transaction.

Q: WHAT WILL I RECEIVE IN THE MERGER?

A: As a stockholder of Duane Reade, you will be entitled to receive \$17.00 in cash, without interest, in exchange for each of your shares of Duane Reade common stock outstanding at the effective time of the merger, unless you perfect your appraisal rights under Delaware law.

Q: WHAT WILL HAPPEN IN THE MERGER?

A: Pursuant to the terms of the merger agreement, Duane Reade Acquisition Corp. will merge with and into Duane Reade. Duane Reade will be the surviving corporation in the merger and will become a subsidiary of Duane Reade Holdings, Inc., which is a direct, wholly-owned subsidiary of Duane Reade Shareholders, LLC. Following the merger, Duane Reade will become a privately-held company indirectly owned by Oak Hill Capital Partners, L.P. and its affiliate, Oak Hill Capital Management

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Partners, L.P. (collectively, "Oak Hill"), and certain other investors who may participate as equity investors with Oak Hill, all of whom are referred to collectively as the "Investor Group." In addition, some members of management will receive options to acquire shares of Duane Reade Holdings, Inc. common stock, representing up to 8.5% of the common stock of Duane Reade Holdings, Inc. (on a fully diluted basis as of the effective date of the merger, referred to as "on a fully diluted basis"). Certain members of management will also receive additional equity interests in the form of phantom stock awards representing approximately 1.5% of the shares of common stock of Duane Reade Holdings Inc. (on a fully diluted basis). Separately, Mr. Cuti (the Chairman of the Board, President and Chief Executive Officer of Duane Reade, referred to as the "Chairman") will be granted a profits interest in Duane Reade Shareholders, LLC.

Q: DO ANY OF THE OFFICERS OR DIRECTORS OF DUANE READE HAVE INTERESTS IN THE MERGER THAT DIFFER FROM THOSE OF OTHER STOCKHOLDERS?

A: Yes. Our Chairman has entered into a new employment agreement with Duane Reade Acquisition Corp., Duane Reade Holdings, Inc. and Duane Reade Shareholders, LLC. Under the Chairman's new employment agreement, in exchange for his future performance at the company and relinquishing certain rights and benefits under his current employment agreement, he will receive, among other rights and benefits, cash payments and other consideration, a profits interest in Duane Reade Shareholders, LLC and options to purchase shares of the common stock of

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Duane Reade Holdings, Inc. In addition, upon consummation of the merger, Duane Reade's Senior Vice Presidents, in exchange for relinquishing certain payments, rights and other benefits to which they are entitled and for future service, will receive cash payments and awards of phantom stock representing shares of the common stock of Duane Reade Holdings, Inc. (the "SVP Phantom Stock"). In connection with the merger, Duane Reade's Senior Vice Presidents, together with other members of Duane Reade's management, will also receive options to acquire shares of the common stock of Duane Reade Holdings, Inc. (the "New Options"). The terms pursuant to which the Senior Vice Presidents will continue their employment with Duane Reade following the merger are set forth in letter agreements between each Senior Vice President and Duane Reade Acquisition Corp., referred to as the "SVP Employment Letters," that cover matters such as salary, incentive compensation, including stock options and bonuses, severance and other benefits. To review the interests of certain persons in the merger, see "Special Factors Interests of Certain Persons in the Merger."

Q: WHO WILL MANAGE DUANE READE AFTER THE MERGER?

A: It is expected that the current officers of Duane Reade will hold substantially similar positions after the completion of the merger.

Q: WHAT WILL HAPPEN TO STOCK OPTIONS IN THE MERGER?

A: The outstanding options to purchase shares of Duane Reade common stock with a per share exercise price of less than \$17.00, referred to as "Eligible Options," will be cancelled at the effective time of the merger and each holder of stock options will receive, for each share of Duane Reade common stock underlying an Eligible Option, an amount in cash equal to \$17.00 minus the per share exercise price of the stock option (and further reduced for any applicable withholding tax). Stock options with a per share exercise price greater than or equal to \$17.00 will be cancelled without any consideration being paid for those stock options.

Q: WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF THE MERGER TO ME?

A: Very soon after the merger, you will receive a cash payment for your shares of Duane Reade common stock that you may not otherwise have received. The merger consideration of \$17.00 per share represents a 22.8% premium over the \$13.84 per share average of the closing prices of Duane Reade common stock for the 30 trading days preceding the public announcement of the signing of the merger agreement on December 23, 2003, and an 11.7% premium over the \$15.22 per share closing price of

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Duane Reade common stock on December 22, 2003, the last trading day before the public announcement of the signing of the merger agreement. In addition, you will not bear the risk of any decrease in the value of Duane Reade common stock and you will be able to dispose of your shares of Duane Reade common stock without incurring any brokerage fees. You will not, however, have the opportunity to participate in Duane Reade's future earnings and growth, if any.

Q: IS THE MERGER SUBJECT TO THE FULFILLMENT OF CERTAIN CONDITIONS?

A: Yes. Before the transactions contemplated by the merger agreement can be consummated, Duane Reade and Duane Reade Shareholders, LLC must fulfill or waive (to the extent permitted by applicable law) several conditions precedent. These conditions include, among others, receiving Duane Reade stockholder and governmental regulatory approvals and all financing necessary to complete the transactions contemplated by the merger agreement. If any of the conditions to the merger is not fulfilled or, to the extent permitted, waived, the merger will not be consummated.

Q: WHEN DO YOU EXPECT THE MERGER TO BE CONSUMMATED?

A: We are working toward consummating the merger as quickly as possible. In addition to stockholder approval, we must also satisfy other conditions to the merger. If the conditions to the merger are satisfied or waived (to the extent permitted by applicable law), we expect to consummate the merger promptly after the special meeting.

Q: HOW WILL DUANE READE SHAREHOLDERS, LLC FINANCE THE MERGER?

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A: Duane Reade Shareholders, LLC estimates that up to approximately \$742 million will be required to consummate the merger (including the repayment of certain currently outstanding indebtedness of Duane Reade) and pay all related fees and expenses and transaction costs. Duane Reade Shareholders, LLC has received a written equity commitment from Oak Hill and Duane Reade Holdings, Inc. has received written debt commitments from a syndicate of financial institutions that is led by Banc of America Securities LLC, Banc of America Bridge LLC and Bank of America, N.A. (collectively, "Banc of America"), and also includes Credit Suisse First Boston, Citigroup Global Markets, Citicorp North America, Wells Fargo Bank, National Association, UBS Securities LLC and UBS Loan Finance LLC (collectively and together with Banc of America, the "Debt Financing Sources"). The Debt Financing Sources, together with Oak Hill, have committed to provide all of the funds necessary to consummate the merger. The equity and debt commitments are subject to the satisfaction of certain conditions. In addition to these funding commitments, Duane Reade is currently in discussions with Fleet National Bank to refinance its current credit agreement, which, if successful, would replace a portion of the funds available under the debt commitment.

Q:
WHO IS ENTITLED TO VOTE AT THE SPECIAL MEETING?

A: Holders of the common stock of Duane Reade as of the close of business on [], 2004, which is the record date for the special meeting, are entitled to vote at the special meeting. As of the record date, there were [] shares of common stock issued and outstanding and entitled to vote at the special meeting.

Q:
WHAT HAPPENS IF I SELL MY SHARES OF DUANE READE COMMON STOCK BEFORE THE SPECIAL MEETING?

A: The record date for the special meeting is earlier than the effective date of the merger. If you sell or transfer your shares of Duane Reade common stock after the record date but before the date the merger is effected, you will retain your right to vote at the special meeting but will transfer the right to receive the \$17.00 in cash per share to the person to whom you sell or transfer your shares.

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Q:
WHAT DO I NEED TO DO NOW?

A: After carefully reading and considering the information contained in this proxy statement, please vote "FOR" the merger by returning the enclosed proxy card or voting by telephone or the internet as soon as possible so that your shares are represented at the special meeting. If you choose to vote using the enclosed proxy card, please complete, date and sign the proxy card and then mail it in the enclosed, addressed, postage pre-paid envelope.

Q:
SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. If the merger is consummated, we will send you written instructions explaining how to exchange your Duane Reade stock certificates for cash.

Q:
HOW DO I VOTE?

A: You can vote by signing, dating and mailing your proxy card in the enclosed, addressed, postage pre-paid envelope or by telephone or the internet. See the proxy card for specific instructions. You also may vote in person if you attend the special meeting.

Q:
IF MY SHARES ARE HELD IN "STREET NAME," WILL MY BANK, BROKER OR OTHER NOMINEE VOTE MY SHARES FOR ME?

A: If your shares are held in "street name," which means your shares are held of record by a broker, bank or other nominee instead of in your own name, you must provide your nominee with instructions on how to vote. Any failure to instruct your nominee on how to vote with respect to the merger will have the effect of a vote "AGAINST" the merger agreement but will have no effect on any motion to adjourn or postpone the

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special meeting. You should follow the directions provided by your nominee on how to instruct your nominee to vote your shares.

Q: WHAT HAPPENS IF I VOTE AGAINST THE MERGER AGREEMENT PROPOSAL?

A: If you vote against the merger agreement but the required vote is obtained, the merger may be consummated and, if consummated, you will receive the merger consideration for your shares unless you have perfected your appraisal rights in accordance with Delaware law.

Q: MAY I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD OR VOTED BY TELEPHONE OR THE INTERNET?

A: Yes. You may revoke your vote at any time before the special meeting by:

delivering a written notice of revocation to the secretary of Duane Reade at our principal executive offices;

delivering a later proxy (whether by mail, telephone or internet) dated after the date of the previously submitted proxy; or

voting in person at the special meeting.

Q: WHAT HAPPENS IF I DO NOT SEND IN MY PROXY OR IF I ABSTAIN FROM VOTING?

A: If you do not send in your proxy or if you abstain from voting, it will have the effect of a vote "AGAINST" the merger agreement but will have no effect on any motion to adjourn or postpone the special meeting.

Q: WHAT IF THE MERGER AGREEMENT IS NOT APPROVED?

A: In the event that the merger agreement is not approved and the merger is not consummated, we will remain an independent public company and you will not receive any payment for your shares in connection with the merger, but we expect the shares will continue to be listed and traded on the New York Stock Exchange. If the merger is not consummated, we expect that management will operate the

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business in a manner similar to that in which it is being operated today and that Duane Reade stockholders will continue to be subject to the same risks and opportunities as they currently are, including, among other things, those relating to sales and profitability trends, trends in the retail drug industry generally, the regional focus of the company and the regional economic environment and the costs and other considerations associated with the upcoming expiration, modification or renewal of the Chairman's current employment agreement. There can be no assurance as to the effect of these risks and opportunities on the future value of your Duane Reade shares. If the merger agreement is not approved or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to Duane Reade will be offered or that the business, prospects or results of operations of Duane Reade will not be adversely impacted.

Q: WHAT SHOULD I DO IF I RECEIVE MORE THAN ONE SET OF VOTING MATERIALS?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each voting instruction card and each proxy card that you receive, or vote by telephone or the internet for each proxy card that you receive.

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Q: DO I HAVE APPRAISAL RIGHTS IN THE MERGER?

A: If you do not vote in favor of the merger and the merger is consummated, you may dissent and seek appraisal of the "fair value" of your shares under Delaware law. You must, however, comply with all of the required procedures set forth under "Special Factors Appraisal Rights of Stockholders" and in Annex E to this proxy statement.

Q: WHAT ARE THE TAX CONSEQUENCES OF THE MERGER?

A: The merger will be a taxable transaction to you for U.S. federal income tax purposes. A brief summary of the possible tax consequences to you is included in this proxy statement, see "Special Factors Material U.S. Federal Income Tax Consequences." You should consult your tax advisor as to the tax consequences given your particular circumstances.

Q: WHERE CAN I FIND MORE INFORMATION REGARDING THE MERGER?

A: The U.S. Securities and Exchange Commission, referred to as the "SEC," requires all affiliated parties involved in transactions such as the merger to file with it a transaction statement on Schedule 13E-3. Duane Reade, Duane Reade Shareholders, LLC, Duane Reade Holdings, Inc., Duane Reade Acquisition Corp. and the Chairman have filed a transaction statement on Schedule 13E-3 with the SEC, copies of which are available without charge at its website at www.sec.gov. In addition, the merger agreement is attached as Annex A to this proxy statement. You should carefully read the entire merger agreement because it is the legal document that governs the merger.

Q: WHO CAN HELP ANSWER MY QUESTIONS?

A: If you have any questions about the merger or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact:

[]
TOLL-FREE AT
(BANKS AND BROKERS, PLEASE CALL
COLLECT AT [])

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SUMMARY OF THE PROXY STATEMENT

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. So that you fully understand the merger, the merger agreement and the transactions contemplated thereby, and for a more complete description of the legal terms of the merger, you should carefully read this entire proxy statement, the annexes attached to this proxy statement and the documents to which we refer. See "Miscellaneous Other Information Where You Can Find More Information" beginning on page 99. In particular, you should carefully read the documents attached to this proxy statement, including the merger agreement and the Bear, Stearns & Co. Inc. fairness opinion, which are attached as Annexes A and B, respectively, and incorporated herein by reference. This summary and the balance of this proxy statement contain forward-looking statements about events that are not certain to occur as described or at all, and you should not place undue reliance on those statements. For a discussion of these forward-looking statements, please see "Cautionary Statement Concerning Forward-Looking Information" beginning on page 15. We have included page references in parentheses to direct you to the appropriate place in this proxy statement for a more complete description of the topics presented in this summary.

Information About the Transaction Participants (Page 93)

Duane Reade Inc.

Duane Reade Inc. ("Duane Reade," the "company," "us," "we" or "our") is a drug store chain principally located in the metropolitan New York City area. Duane Reade offers a wide variety of prescription and over-the-counter drugs, health and beauty care items, cosmetics, greeting cards, photo supplies and photo finishing services. As of December 27, 2003, Duane Reade operated 241 stores in New York City and its suburbs, including the Hudson River communities of northeastern New Jersey. Duane Reade maintains a web site at

<http://www.duanereade.com>.

Duane Reade Shareholders, LLC
Duane Reade Holdings, Inc.
Duane Reade Acquisition Corp.

Duane Reade Shareholders, LLC (formerly known as Rex Corner Holdings, LLC, "DRS, LLC"), Duane Reade Holdings, Inc. (formerly known as Rex Corner Holdings, Inc., "Duane Reade Holdings") and Duane Reade Acquisition Corp. (formerly known as Rex Corner Acquisition Corp., "Duane Reade Acquisition") were formed on December 19, 2003, solely for the purpose of consummating the merger. Immediately following the merger, Oak Hill will own substantially all of the membership interests in DRS, LLC, subject to any interests acquired by other investors who participate with Oak Hill as part of the Investor Group and to the Chairman's profits interest. DRS, LLC, in turn, will own substantially all of the outstanding common stock of Duane Reade Holdings, subject to options to acquire the common stock of Duane Reade Holdings that will be granted to members of Duane Reade's management, and Duane Reade Holdings will own 100% of the outstanding common stock of Duane Reade as a result of the merger of Duane Reade Acquisition with and into Duane Reade. The separate existence of Duane Reade Acquisition will cease upon consummation of the merger. None of DRS, LLC, Duane Reade Holdings and Duane Reade Acquisition has participated in any activities to date other than activities incident to their formation, the transactions contemplated by the merger agreement, the financing arrangements relating to the merger and employment arrangements with members of Duane Reade's management.

Oak Hill Capital Partners, L.P.
Oak Hill Capital Management Partners, L.P.

Oak Hill is a \$1.6 billion private equity fund formed in 1998 for the purpose of making control investments in operating companies through acquisitions, build-ups, recapitalizations, restructurings or

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significant minority positions. The partners of Oak Hill Capital Partners include a number of institutional and individual investors.

The Management Members

Anthony J. Cuti, the Chairman of the Board, President and Chief Executive Officer of Duane Reade, and Gary Charboneau, John K. Henry, Jerry M. Ray and Timothy R. LaBeau, the Senior Vice Presidents of Duane Reade, are collectively referred to as the "Management Members." In connection with the merger, the Management Members will receive cash payments and other consideration and will be granted options to purchase, and other equity interests in, shares of the common stock of Duane Reade Holdings. The Chairman will also have a profits interest in DRS, LLC.

Post-Merger Corporate Structure of the Transaction Participants

The following chart illustrates the corporate structure of the transaction participants after giving effect to the merger:

Vote Required; How Shares Are Voted (Page 18)

Under Delaware law, the affirmative vote of the holders of a majority of the shares of Duane Reade common stock outstanding as of the record date is required to adopt the merger agreement and the transactions contemplated by the merger agreement.

You are entitled to one vote per share of Duane Reade common stock you owned as of [], 2004, the record date.

As of March 5, 2004, Duane Reade's directors and executive officers beneficially owned an aggregate of approximately 2.9% of the outstanding common stock of Duane Reade in the form of shares and exercisable stock options. All of Duane Reade's directors and officers have informed Duane

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Reade that they intend to vote the shares of common stock owned by them, if any, in favor of the adoption of the merger agreement.

Purpose and Structure of the Transaction (Page 20)

The principal purpose of the merger is to provide you with the opportunity to receive a cash price for your shares at a premium over the market price at which Duane Reade common stock traded before the announcement of the merger agreement and to enable Duane Reade to become a privately held company principally owned by the Investor Group. The transaction has been structured as a cash merger with Duane Reade continuing as the surviving corporation.

Certain Effects of the Merger (Page 20)

The merger will result in:

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the conversion of each share of Duane Reade common stock issued and outstanding at the effective time of the merger (other than shares held by stockholders who perfect their appraisal rights under Delaware law) into the right to receive \$17.00 in cash, without interest;

Eligible Options to purchase Duane Reade common stock, whether or not then exercisable or vested, generally being cancelled and the holders receiving, in consideration for the cancellation of the stock option, an amount in cash equal to \$17.00 minus the applicable exercise price per share of the stock option, multiplied by the number of shares of Duane Reade common stock subject to the stock option (and further reduced for any applicable withholding tax);

each share of Duane Reade common stock that is held by Duane Reade as treasury stock, or by any of Duane Reade's subsidiaries, DRS, LLC, Duane Reade Holdings or Duane Reade Acquisition immediately before the effective time of the merger, automatically being cancelled and retired and ceasing to exist, and no consideration being delivered in exchange for those shares;

the Investor Group owning substantially all of the outstanding membership interests of DRS, LLC, subject to the Chairman's profits interest;

DRS, LLC owning substantially all of the outstanding shares of Duane Reade Holdings' common stock (excluding the stock options issued to management, including the Management Members);

Duane Reade Holdings owning 100% of the outstanding shares of the surviving corporation's common stock;

the Senior Vice Presidents being granted the SVP Phantom Stock representing in the aggregate approximately 1.5% of the shares of common stock of Duane Reade Holdings (on a fully diluted basis); and

members of management, together with the Management Members, being granted options to acquire shares representing up to 8.5% of the shares of common stock of Duane Reade Holdings (on a fully diluted basis), see "Special Factors Interests of Certain Persons in the Merger."

The merger will terminate all common equity interests in Duane Reade held by our current stockholders, other than the indirect interests that will be held by the Management Members and other members of management. Following the merger, the Investor Group, the Management Members and other members of management will be the sole owners of Duane Reade and its business. Although their equity investment in Duane Reade involves substantial risk resulting from, among other things, the limited liquidity of the investment and the high debt to equity ratio that will apply to Duane Reade following the merger, if Duane Reade is able to generate growth in earnings and cash flow sufficient to

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retire its debt, the Investor Group, the Management Members and other members of management will be the sole beneficiaries of the future earnings and growth of Duane Reade, if any.

Upon completion of the merger, Duane Reade will remove its common stock from listing on the New York Stock Exchange, and Duane Reade common stock will no longer be publicly traded.

Background of the Merger (Page 21)

For a description of the events leading to the approval of the merger agreement by the Independent Directors, you should refer to "Special Factors Background of the Merger."

Recommendation of the Independent Directors; Reasons for Recommending Adoption of the Merger Agreement (Page 30)

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After careful consideration, the Independent Directors unanimously approved the merger agreement and determined that the merger agreement and the merger are advisable, fair to and in the best interests of, Duane Reade's unaffiliated stockholders and unanimously recommend that Duane Reade stockholders vote "FOR" the adoption of the merger agreement. For a description of the matters considered by the Independent Directors in approving the merger agreement, you should refer to "Special Factors Recommendation of the Independent Directors; Reasons for Recommending the Adoption of the Merger Agreement."

Opinion of the Board of Directors' Financial Advisor (Page 34)

On December 22, 2003, Bear, Stearns & Co. Inc., referred to as "Bear Stearns," rendered its written opinion to Duane Reade's board of directors that, as of that date, and based upon and subject to the matters and assumptions set forth in the opinion, the consideration to be received by Duane Reade stockholders in the merger is fair, from a financial point of view, to the Duane Reade stockholders, excluding the Management Members.

The full text of the Bear Stearns opinion is attached as Annex B to this proxy statement and is available for inspection and copying at the company, see "Miscellaneous Other Information Where You Can Find More Information." You should carefully read the full opinion for a discussion of the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Bear Stearns in rendering its opinion.

Bear Stearns provided its opinion for the information and assistance of the Duane Reade board of directors in connection with the board of directors' consideration of the merger. The Bear Stearns opinion is not intended to be and does not constitute a recommendation to any Duane Reade stockholder as to how such stockholder should vote in connection with the merger agreement.

Interests of Certain Persons in the Merger (Page 43)

In considering the recommendation of the Independent Directors, you should be aware that certain persons have interests in the merger that are different from and/or in addition to your interests as a Duane Reade stockholder generally, including the following:

as of the record date, directors, executive officers and other management of Duane Reade held options to purchase [] shares of Duane Reade common stock with an exercise price less than \$17.00, [] of which will be cancelled at the effective time of the merger in consideration of a cash payment equal to the excess of \$17.00 per share over the exercise price of the underlying stock option (and further reduced by any applicable withholding tax). The aggregate amount to be paid to directors, executive officers and other management in connection with the cancellation of such stock options will be approximately \$[];

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in connection with the merger, the Chairman entered into an employment agreement on December 22, 2003, which was subsequently amended (as amended, the "2004 Employment Agreement") with Duane Reade Acquisition, Duane Reade Holdings and DRS, LLC. Under the 2004 Employment Agreement, the Chairman, in exchange for his future performance at Duane Reade and for relinquishing certain rights and benefits under his current employment agreement with the company (the "Current Employment Agreement"), will receive, among other things, cash payments and other consideration, options to acquire shares representing 4.0% of the common stock of Duane Reade Holdings (on a fully diluted basis) and a profits interest in DRS, LLC that, depending on the initial equity investment by the Investor Group and given a sufficient appreciation in the value of DRS, LLC following the merger, could result in his possession of an approximately 7.5% equity interest in DRS, LLC (on a fully diluted basis), which, as of the effective date of the merger, will be equivalent to approximately 6.9% of the aggregate ownership interest in Duane Reade on a consolidated basis. With respect to payments that may be received in addition to his salary, bonus and benefits, the 2004 Employment Agreement provides Duane Reade with an election to terminate the Chairman's existing supplemental retirement benefit obligations and related insurance arrangements. If Duane Reade makes this cancellation election, which DRS, LLC, the indirect parent of Duane Reade following the merger, is currently expecting to make, the 2004 Employment Agreement provides that the Chairman will waive his entitlement to his supplemental retirement benefits and release Duane Reade from all of its obligations to make premium payments (totaling a minimum of approximately \$30.0 million as of March 1, 2004) under the related insurance arrangements in exchange for, among other things, payments to the Chairman aggregating \$24.5 million (the "Prepayment Amount"). The Prepayment Amount will be paid in three installments following consummation of the merger with the final installment to be paid on June 30, 2005. In addition, in connection with the consummation of the merger, the Chairman will receive a payment of approximately \$5.9 million and he will relinquish certain payments to which he is otherwise entitled. For a description of the terms of the 2004 Employment Agreement, see "Special Factors Interests of Certain Persons in the

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Merger Employment and Other Arrangements 2004 Employment Agreement," and for a description of the Current Employment Agreement, see "Past Contacts, Transactions, Negotiations and Agreements Current Employment Agreement";

pursuant to their existing retention arrangements, upon consummation of the merger, Duane Reade's Senior Vice Presidents are entitled to receive a lump sum payment equal to the sum of their respective salaries during the prior 12 months plus their respective maximum annual target bonuses for the preceding calendar year (whether or not such bonus was earned or paid). In addition, some of Duane Reade's Senior Vice Presidents are entitled to payments under an existing supplemental retirement plan and related insurance arrangements as well as payments under existing price guarantees of stock options granted in May 1999. The payments described in the immediately preceding two sentences, together with payments of approximately \$2.2 million in respect of Eligible Options held by the Senior Vice Presidents, are collectively referred to as "SVP Payments." The aggregate amount of the SVP Payments is approximately \$9.8 million, a portion of which will be relinquished. In exchange for these relinquished SVP Payments and for their future service, the Senior Vice Presidents will receive, among other things, awards of the SVP Phantom Stock representing in the aggregate approximately 1.5% of the shares of common stock of Duane Reade Holdings (on a fully diluted basis). The Senior Vice Presidents have entered into the SVP Employment Letters that set forth the terms of their employment with Duane Reade following the merger, including salary, incentive compensation (consisting of the New Options, the SVP Phantom Stock and bonus opportunities), severance and other customary matters. For a description of the SVP Employment Letters, see "Special Factors Interests of Certain Persons in the Merger Employment and Other Arrangements Senior Vice President Arrangements";

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after consummation of the merger, members of management (other than the Chairman) will be eligible to receive an aggregate of approximately \$384,000 in base salary increases, with no individual being entitled to an increase of more than 25% of the individual's then current base salary;

pursuant to their respective retention arrangements, each of Duane Reade's Vice Presidents will, upon consummation of the merger, receive a lump sum payment equal to his or her maximum annual target bonus for the preceding calendar year (whether or not such bonus was earned or paid), and may receive a lump sum payment equal to his or her salary during the prior 12 months plus his or her annual target bonus for the preceding calendar year (whether or not such bonus was earned or paid) if his or her employment is terminated under certain circumstances within one year of a change in control;

the Senior Vice Presidents and other members of management will be granted New Options to purchase shares of Duane Reade Holdings common stock, representing in the aggregate up to 4.5% of the common stock of Duane Reade Holdings (on a fully diluted basis);

in connection with the consummation of the merger, Bear Stearns will receive a transaction fee of 0.75% of the aggregate consideration to be paid in the merger (including the amount of any debt assumed or acquired) and will be reimbursed for its out-of-pocket expenses (up to \$50,000). In addition, certain current employees of Bear Stearns, including one of the Senior Managing Directors of Bear Stearns advising Duane Reade in connection with the proposed merger, have non-substantial interests in one or more limited partnerships that own Duane Reade common stock. These Bear Stearns employees do not exercise voting or dispositive control over those shares of Duane Reade common stock held by the limited partnerships;

Andrew J. Nathanson, a Managing Partner of Oak Hill, also has a non-substantial interest in the limited partnerships described above. Mr. Nathanson does not exercise voting or dispositive control over those shares of Duane Reade common stock held by the limited partnerships. In addition, as a result of his position with Oak Hill, Mr. Nathanson may benefit from Duane Reade's future earnings and growth, if any; and

the surviving corporation will be obligated to continue to provide indemnification and related insurance coverage to former directors and officers of Duane Reade following consummation of the merger.

The Independent Directors were aware of these different and/or additional interests and considered them along with other matters in approving the merger and in recommending it to Duane Reade's stockholders.

Plans for Duane Reade Following the Merger (Page 53)

Following the merger, Duane Reade will remove its common stock from listing on the New York Stock Exchange, such stock will no longer be publicly traded on any exchange or market system, and the registration of Duane Reade common stock under the Securities Exchange Act of 1934, as amended, referred to as the "Exchange Act," will be terminated.

Material U.S. Federal Income Tax Consequences (Page 55)

The exchange of your Duane Reade common stock for cash in the merger will be a taxable event for U.S. federal income tax purposes. You will generally recognize a gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash you receive and your adjusted tax basis in the Duane Reade common stock you surrender in the merger. The federal income tax summary set forth below under "Special Factors Material U.S. Federal Income Tax Consequences" is for general information only. You should consult your tax advisor with respect to the particular tax

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consequences to you of the receipt of cash in exchange for Duane Reade common stock in the merger, including the applicability and effect of any state, local or foreign tax laws, and of changes in applicable laws.

Appraisal Rights of Stockholders (Page 56)

Under Delaware law, you are entitled to appraisal rights in connection with the merger.

You will have the right under Delaware law to have the "fair value" of your shares of Duane Reade common stock determined by the Delaware Chancery Court. This right to appraisal is subject to a number of restrictions and procedural requirements. Generally, in order to exercise your appraisal rights you must:

send a written demand to Duane Reade for appraisal in compliance with the Delaware General Corporation Law before the vote on the merger;

not vote in favor of the merger; and

continuously hold your Duane Reade common stock, from the date you make the demand for appraisal through the effective date of the merger.

Merely voting against the merger will not protect your rights to an appraisal, which requires you to take all the steps provided under Delaware law. Delaware law requirements for exercising appraisal rights are described in further detail in this proxy statement, see "Special Factors Appraisal Rights of Stockholders." The relevant section of Delaware law regarding appraisal rights is reproduced and attached as Annex E to this proxy statement.

If you vote for the merger, you will waive your rights to seek appraisal of your shares of Duane Reade common stock under Delaware law.

Regulatory Approvals (Page 59)

The merger is subject to the HSR Act. Duane Reade and Oak Hill have made the required filings with the U.S. Department of Justice and the Federal Trade Commission, and the applicable waiting period was terminated on January 27, 2004. The Department of Justice or the Federal Trade Commission, as well as a state or private person, may challenge the merger at any time before or after its completion.

In addition, the New Jersey Board of Pharmacy must approve the merger. Duane Reade received notification on March 8, 2004, that subject to receipt of certain required documentation, the New Jersey Board of Pharmacy has approved the merger.

Litigation Related to the Merger (Page 59)

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Seven purported class action lawsuits are pending relating to the merger. All of these complaints purport to be brought on behalf of Duane Reade common stockholders. The complaints seek a preliminary and permanent injunction to enjoin the merger and, in the event the merger is consummated, rescission and damages.

Financing for the Merger (Page 60)

Duane Reade and DRS, LLC estimate that the total amount of funds necessary to consummate the merger and related transactions will be approximately \$742 million, which will be funded by new credit facilities, private offerings of debt securities and equity financing. Funding of the equity and debt financing is subject to the satisfaction of the conditions set forth in the commitment letters pursuant to which the financing will be provided, see "Financing for the Merger." The following arrangements are

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in place to provide the necessary financing for the merger, including the payment of related transaction costs, charges, fees and expenses, and the repayment of Duane Reade's current indebtedness:

Equity Financing. DRS, LLC has received an equity commitment letter from Oak Hill, in which Oak Hill has agreed to make aggregate capital contributions of up to \$253.9 million, to DRS, LLC.

Debt Financing. Duane Reade Holdings has received a written commitment from the Debt Financing Sources to provide approximately \$500 million in cash through debt facilities. A portion of the commitment from the Debt Financing Sources may be reduced by funds available to Duane Reade if it successfully refinances its current credit agreement, dated as of July 21, 2003, with Fleet National Bank.

Conversion of Shares; Procedures for Exchange of Certificates (Page 68)

Following the effective time of the merger, a letter of transmittal will be mailed to all holders of Duane Reade common stock containing instructions for surrendering their certificates. Certificates should not be surrendered until the letter of transmittal is received, fully completed and returned as instructed in the letter of transmittal.

No Solicitation of Transactions (Page 74)

The merger agreement restricts Duane Reade's ability to, among other things, solicit, initiate, knowingly facilitate or knowingly encourage any competing acquisition inquiries, proposals or offers. However, Duane Reade may provide information in response to a request for information by a person who has made an unsolicited bona fide written acquisition proposal, or participate in discussions or negotiations with respect to an unsolicited bona fide written acquisition proposal, if the Independent Directors, acting in good faith, determine (after consultation with a financial advisor of nationally recognized reputation) that such proposal is reasonably likely to result in a transaction that is financially superior to the merger and determine (after consultation with outside legal counsel) that failure to take such action is reasonably likely to result in a breach of the fiduciary obligations of the directors. Duane Reade may enter into an agreement regarding a financially superior transaction if it complies with the requirements of the merger agreement, including the requirement to pay DRS, LLC a termination fee and a reimbursement of expenses. Duane Reade may withdraw or modify its recommendation in favor of the merger agreement if the Independent Directors determine in good faith (after consultation with outside legal counsel) that the failure to take such action would be reasonably likely to result in a breach of the fiduciary obligations of the directors. The taking by Duane Reade of any of these actions is subject to compliance by Duane Reade with the terms, conditions and procedures set forth in the merger agreement.

Conditions to the Merger (Page 76)

The parties' obligations to consummate the merger are subject to the prior satisfaction or waiver (to the extent permitted by applicable law) of each of the conditions specified in the merger agreement. The following conditions, in addition to other customary closing conditions, must be satisfied or waived (to the extent permitted by applicable law) before consummation of the merger:

the merger agreement must be adopted by the holders of a majority of the outstanding shares of Duane Reade common stock as of the record date;

there must not be any law or order prohibiting the merger;

the parties' respective representations and warranties in the merger agreement must be true and correct, without giving effect to any qualification as to materiality or material adverse effect, except where the failure to be true and correct would not reasonably be expected to have a material adverse effect, in each case as of the date of the merger agreement and as of the date

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the merger is to be consummated, provided that certain specified representations and warranties of Duane Reade must be true and correct in all material respects;

the parties must perform in all material respects their respective obligations set forth in the merger agreement;

there must be no law or order that would require DRS, LLC or Duane Reade to consent to any condition requiring any disposition of assets, prohibiting the acquisition of assets or requiring the termination of any contracts or relationships, in each case, that would reasonably be expected to materially impair the business, value or operations of Duane Reade and its subsidiaries, taken as a whole;

DRS, LLC must have received the equity and debt financing proceeds as contemplated in the merger agreement;

the 2004 Employment Agreement must be in full force and effect and the Chairman must be in a position to perform his obligations thereunder;

appraisal rights must not have been demanded with respect to more than 15% of the issued and outstanding Duane Reade shares;

the New Jersey Board of Pharmacy must approve the merger; and

there must be no legal action pending which was not previously disclosed to DRS, LLC that, in the good faith judgment of DRS, LLC, would reasonably be expected to have a material adverse effect on Duane Reade.

The merger agreement is attached to this proxy statement as Annex A, and you should carefully read the merger agreement in its entirety.

Termination of the Merger Agreement (Page 76)

The merger agreement may be terminated before the merger is consummated, before or after adoption by Duane Reade's stockholders, in several different circumstances. In certain circumstances, if the merger agreement is terminated, then we will be obligated to pay DRS, LLC a termination fee of \$10 million and to reimburse up to \$2 million of its expenses.

Payment of Fees and Expenses (Page 78)

Upon termination of the merger agreement under certain specified circumstances, Duane Reade has agreed to pay DRS, LLC a termination fee of \$10 million and to reimburse up to \$2 million of DRS, LLC's and its affiliates' expenses. In all other circumstances, the merger agreement provides that all fees and expenses relating to the merger will be paid by the party incurring them, except that the parties will split the cost of the fee relating to the required filing under the Hart-Scott-Rodino Improvements Act of 1976, as amended, referred to as the "HSR Act." In addition, in certain circumstances, Duane Reade will be entitled to a reimbursement of the expenses Duane Reade incurs in assisting Oak Hill with its financing of the merger.

Amendments, Extensions and Waivers (Page 79)

No amendment of the merger agreement, whether before or after adoption of the merger agreement by Duane Reade's stockholders, can be made without the authorization of Duane Reade. After adoption of the merger agreement by Duane Reade's stockholders, no amendment can be made that by law requires further approval by Duane Reade's stockholders without first obtaining the approval of Duane Reade's stockholders.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement and the other documents incorporated by reference in this proxy statement may contain forward-looking statements with respect to the financial condition, results of operations, business plans and strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management, markets for the stock of Duane Reade and other matters, including the projections set forth under "Special Factors - Certain Financial Projections" and statements relating to Duane Reade's plans, intentions and expectations to consummate the merger. We hereby identify statements in this proxy statement and the other documents incorporated by reference in this proxy statement that are not historical facts as forward-looking statements. These forward-looking statements, including, without limitation, those relating to future business prospects, the projections set forth under "Special Factors - Certain Financial Projections," revenues and income, in each case relating to Duane Reade, wherever they occur in this proxy statement or the other documents incorporated by reference in this proxy statement, are necessarily based on assumptions and estimates reflecting the best judgment of the management of Duane Reade and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Although we believe that Duane Reade's plans, intentions and expectations are reasonable, we can give no assurance that Duane Reade will achieve its plans, intentions and expectations. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this proxy statement and incorporated by reference in this proxy statement. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

the satisfaction of the conditions to consummate the merger, including, but not limited to, the availability of the financing to consummate the merger and receipt of the required stockholder or regulatory approvals;

the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement;

the outcome of the legal proceedings that have been instituted against Duane Reade and others following announcement of the merger agreement;

the failure of the merger to close for any other reason;

the amount of the costs, fees, expenses and charges related to the merger;

the competitive environment in the drugstore industry, in general, and in the metropolitan New York area, in particular;

the strength of the economy in general and the economic conditions in the metropolitan New York area, in particular, including changes in consumer purchasing power and/or spending patterns;

the continued impact of, or new occurrences of, terrorist attacks in the New York City metropolitan area;

the continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies and other third party payors to reduce prescription reimbursement rates;

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

increases in sales of pharmaceuticals through mail order and the internet;

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trends in the healthcare industry, including continued conversion of various prescription drugs to over-the-counter medications;

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

our significant indebtedness;

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

liability and other claims asserted against us;

changes in our operating strategy or development plans;

our ability to attract, hire and retain qualified personnel, including our ability to attract qualified pharmacists;

labor disturbances, including any resulting from the suspension or termination of our collective bargaining agreements;

changes in our acquisition and capital expenditure plans;

our ability to continue to secure suitable new store locations under acceptable lease terms;

our ability to open and operate new stores on a profitable basis and to increase sales in existing stores;

our ability to successfully implement and manage new computer systems and technologies;

demographic changes; and

changes in cost of goods and services.

In addition, actual results could differ materially from the forward-looking statements contained in this proxy statement as a result of the timing of the completion of the merger or the impact of the merger on operating results, capital resources, profitability, cash requirements, management resources and liquidity.

Words such as "estimate," "project," "plan," "intend," "expect," "anticipate," "believe" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this proxy statement and the other documents incorporated by reference in this proxy statement. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement, or, in the case of documents incorporated by reference, as of the respective dates of those documents. Neither Duane Reade, the Management Members nor any member of the Investor Group undertakes any obligation to publicly update or release any revisions to these forward-looking statements to reflect circumstances or events occurring after the date of this proxy

statement or to reflect the occurrence of unanticipated events, except as required by law.

INFORMATION CONCERNING THE SPECIAL MEETING

Date, Time and Place

We will hold the special meeting on [], []