



United States Attorney
Southern District of New York



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MANHATTAN FEDERAL JURY FINDS FORMER DUANE READE
CEO AND CFO GUILTY OF SECURITIES FRAUD

PREET BHARARA, the United States Attorney for the Southern District of New York, announced that ANTHONY CUTI, the former Chief Executive Officer ("CEO"), Chairman of the Board, and President of Duane Reade, Inc. ("Duane Reade"), and WILLIAM TENNANT, the former Chief Financial Officer ("CFO") and Senior Vice-President of Duane Reade, were found guilty today by a Manhattan jury of perpetrating a scheme to falsely inflate the income and reduce the expenses that Duane Reade reported.

According to the Indictment and evidence presented during the two-month trial in Manhattan federal court before United States District Judge DEBORAH A. BATTS:

From November 2000 through June 2005, CUTI and TENNANT engaged in a scheme to misrepresent Duane Reade's financial performance. The scheme involved: 1) the reporting of inflated income from fraudulent real estate transactions; and 2) the artificial reduction of expenses through fictitious credits from vendors who did work for Duane Reade.

Real Estate Transactions

With respect to the real estate transactions, CUTI and TENNANT engaged in fraudulent transactions pursuant to which Duane Reade sold to various brokers and real estate developers real estate rights, including remaining time on leases and options on retail locations. The rights being sold, however, were largely worthless for various reasons, including that there was little or no time left on the leases, the property subject to the transactions was unusable, or Duane Reade had already sold the rights previously. Accordingly, the income received for the sale of the real estate rights was not real income but rather fraudulently generated income.

In order to convince the brokers and developers to participate in these fraudulent transactions, CUTI promised, through various side agreements, to pay the third parties back

the cost of doing the transactions. TENNANT and CUTI carried out these promises by engaging in additional fraudulent transactions that were merely vehicles to return money to the third parties.

CUTI and TENNANT misled Duane Reade's auditors about the real estate transactions by failing to disclose that the real estate rights being sold were largely worthless and by failing to inform the auditors that they were reimbursing the brokers and developers for participating in the deals.

Fictitious Credits

CUTI also falsely inflated the income that Duane Reade reported to the investing public in a second way, by engaging in fraudulent vendor credit transactions. In these transactions, CUTI directed co-conspirator JERRY RAY to seek fictitious credits from vendors who did work for Duane Reade. RAY, who was a Senior Vice President at Duane Reade, pleaded guilty to conspiracy, cooperated with the Government, and testified as a Government witness at trial. At the same time, CUTI directed RAY to tell the vendors that they could recover the money from the fictitious credits by rebilling Duane Reade for the same amounts in later quarters without doing any additional work. The false credits were used to decrease Duane Reade's expenses, which had the effect of increasing the net income reported to the public.

As a result of both aspects of the scheme, materially false and misleading information about the company's true income and other financial results was provided to the investing public, Duane Reade shareholders and auditors, the SEC, and the private equity firm Oak Hill Capital Partners, L.P. ("Oak Hill"), which, in July 2004, purchased Duane Reade's publicly traded stock and took the company private.

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The jury found CUTI guilty of one count of conspiracy to make false statements in annual and quarterly SEC reports, to make false statements to auditors, and to make false entries in the books and records of Duane Reade; one count of securities fraud; and three counts of making false statements in SEC reports. The conspiracy count carries a maximum sentence of five years in prison and a fine of \$250,000 or twice the gross gain or gross loss from the offense. The securities fraud count and the false SEC filing counts each carry maximum sentences of 20 years in prison and fines of \$5 million.

The jury found TENNANT guilty of one count of

securities fraud, which carries a maximum sentence 20 years in prison and a fine of \$5 million. The jury found TENNANT not guilty on the conspiracy count.

CUTI, 64, of Saddle River, New Jersey, is scheduled to be sentenced on November 15, 2010, by Judge BATTIS. TENNANT, 62, of Richmond, Virginia, is scheduled to be sentenced on December 6, 2010.

U.S. Attorney PREET BHARARA stated: "When the top leaders of a major company try to pass off clear criminal conduct as routine business practice, every honest businessperson is cheated. Today's verdicts against Anthony Cuti and William Tennant show that cooking the company books is not a recipe for financial success; it is a ticket to prison. Together with our partners at the Federal Bureau of Investigation and the Securities and Exchange Commission, the Southern District of New York will bring to justice those who engage in sham transactions and financial trickery."

Mr. BHARARA praised the work of the Federal Bureau of Investigation and thanked the United States Securities and Exchange Commission for its assistance in this case.

This case was brought in coordination with President BARACK OBAMA's Financial Fraud Enforcement Task Force, on which Mr. BHARARA serves as a Co-Chair of the Securities and Commodities Fraud Working Group. President OBAMA established the interagency Financial Fraud Enforcement Task Force to wage an aggressive, coordinated, and proactive effort to investigate and prosecute financial crimes. The task force includes representatives from a broad range of federal agencies, regulatory authorities, inspectors general, and state and local law enforcement who, working together, bring to bear a powerful array of criminal and civil enforcement resources. The task force is working to improve efforts across the federal executive branch, and with state and local partners, to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes.

Assistant United States Attorneys JONATHAN R. STREETER and REBECCA MONCK RICIGLIANO and Special Assistant United States Attorney LUKE M. FITZGERALD, are in charge of the prosecution.