FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **2005-05-02** | Period of Report: **2005-01-01**
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FILER

DRUGMAX INC

CIK:**921878**| IRS No.: **341755390** | State of Incorp.:**NV** | Fiscal Year End: **0331**
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SIC: **5122** Drugs, proprietaries & druggists' sundries

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

FORM 10-K/A
AMENDMENT NO. 1

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 1, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 1-15445

DRUGMAX, INC.

(Name of registrant as specified in its charter)

STATE OF NEVADA	**06-1283776**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
312 Farmington Avenue Farmington, CT	**06032-1968**
(Address of Principal Executive Officers)	**(Zip Code)**

Issuer' s telephone number: (860) 676-1222

Securities registered pursuant to Section 12(b) of the Exchange Act: None.

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common stock, Par value $.001 per share

(Title of Class)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and will not be contained, to the best of registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b2 of the Act). Yes ☐ No ☒

The aggregate market value of the Common Stock, $.001 par value, held by non-affiliates of the Registrant based upon the last price at which the common stock was sold as of the last business day of the Registrant' s most recently completed second fiscal quarter, June 30, 2004, as reported on the NASDAQ Stock Market was approximately $28,716,032. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of common stock as of March 31, 2005 was 19,708,974

EXPLANATORY NOTE

This Form 10-K/A amends the Form 10-K annual report for the fiscal year ended January 1, 2005 filed by DrugMax, Inc. (the "Company" or "DrugMax") on April 19, 2005. This Form 10-K/A is being filed solely to set forth the information required by Items 10, 11, 12 and 13 of Part III of Form 10-K because a definitive proxy statement containing such information will not be filed within 120 days after the end of the fiscal year covered by the Company' s original Form 10-K filing. All other portions of the Company' s original Form 10-K filing remain in effect.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is the business experience and other biographical information regarding the Company' s executive officers and directors as of April 18, 2005:

Name	Age	Position
Edgardo Mercadante (3)	49	Co-Chairman of the Board and Chief Executive Officer
Jugal K. Taneja	60	Co-Chairman of the Board
Dale Ribaudo	47	Chief Financial Officer
William L. LaGamba	46	President and Chief Operating Officer
James Beaumariage	45	Senior Vice President Operations, Familymeds, Inc.
Philip Gerbino(2)(4)	57	Director
Peter Grua(1)(3)(4)	50	Director
James Searson(2)	52	Director
Rakesh Sharma(1)	47	Director
Mark Majeske(1)	47	Director
Laura Witt(2)(3)(4)	36	Director

(1) Member of Compensation Committee.
(2) Member of Audit Committee.
(3) Member of Executive Committee.
(4) Member of Nominating and Governance Committee.

Pursuant to the Company' s bylaws, each director serves for a term of one (1) year or until his successor is duly qualified. Officers are appointed annually by the Board of Directors (subject to the terms of any employment agreement), at the annual meeting of the Board, to hold such office until an officer' s successor is duly appointed and qualified, unless an officer sooner dies, resigns or is removed by the Board. There are no family relationships among any of the Company' s directors and executive officers. There are no arrangements or understandings between directors and any other person concerning service as a director.

Information regarding Directors, Nominees and Executive Officers:

Edgardo A. Mercadante has served as our Chief Executive Officer and Co-Chairman of the Board since the merger with Familymeds Group, Inc. ("FMG") on November 12, 2004. He served as FMG' s Chairman of the Board, Chief Executive Officer and President since 1997. Mr. Mercadante has over twenty-five years of experience in the prescription health care and managed care industries including significant experience in retail pharmacy. Mr. Mercadante was President of Arrow Corporation between the years of 1987 to 1996. He was President and Chief Executive Officer of APP, a pharmacy benefit management company, which he co-founded in 1991. Mr. Mercadante is active in many national and state professional pharmacy organizations. Mr. Mercadante is a licensed pharmacist and holds a B.S. in

Pharmacy from Philadelphia College of Pharmacy and Science. Mr. Mercadante served as Division Manager from 1980 to 1986 with Rite Aid Corporation. Mr. Mercadante holds directorships with General Nutrition Centers, MediBank, and ProHealth. He holds a Trusteeship with the University of Sciences in Philadelphia.

Jugal K. Taneja has served as the Company' s Co-Chairman of the Board since November 12, 2004. Previously, since April 1996, other than from March 2000 to October 2000, when Mr. LaGamba served as our Chief Executive Officer, Mr. Taneja served as our Chief Executive Officer. In addition to his service to DrugMax, Mr. Taneja operates several other companies. He is presently the Chairman of the Board of Dynamic Health Products, Inc. ("Dynamic"), a position he has held since Dynamic' s inception in 1991. From November 1991 to June 1998 he served as Chief Executive Officer of Dynamic. Dynamic, a publicly traded company, is a distributor of proprietary and nonproprietary dietary supplements, over-the-counter drugs, and health and beauty care products. Mr. Taneja has served as the Chairman of the Board of Innovative Companies, Inc., a publicly traded company that manufactures and distributes nutritional and health products since June 1998. Mr. Taneja holds degrees in Petroleum Engineering, Mechanical Engineering, and a Masters in Business Administration from Rutgers University.

William L. LaGamba has served as our President and Chief Operating Officer since October 2000. From March 2000 to October 2000, he served as the Company' s Chief Executive Officer. From November 1999 to October 2000, he also served as the Company' s Secretary and Treasurer. From June 1998 until joining the Company in November 1999, Mr. LaGamba served as Chief Executive Officer of Dynamic. He was also a founder and the President of Becan Distributors, Inc. ("Becan") from its inception in January 1997 until it was acquired by the Company in November 1999. For 14 years prior to January 1997, Mr. LaGamba served in various capacities for McKesson Drug Company, a large distributor of pharmaceuticals, health and beauty care products and services, and FoxMeyer Drug Company.

James S. Beaumariage joined Familymeds, Inc. in March 1996 and has served in a number of executive positions, currently as its Senior Vice President of Store Operations. Prior to joining Familymeds, Mr. Beaumariage served as Manager of Third-Party Administration for CVS, from June 1994 until January 1996, and as Manager of Pharmacy Development from February 1993 until June 1994. Mr. Beaumariage held the position of Regional Pharmacy Supervisor of CVS/People' s Drug from May 1988 until February 1993. Mr. Beaumariage is a licensed pharmacist. Mr. Beaumariage has served as a member of the Connecticut Department of Social Services Pharmacy Advisory Panel. Mr. Beaumariage holds a B.S. in Pharmacy from Duquesne University and has completed the J. L. Kellogg Graduate School of Management Executive Program at Northwestern University.

Philip P. Gerbino has served on our Board of Directors since November 12, 2004. Previously, he served as a director of FMG since December 1996. Dr. Gerbino has been President of the University of the Sciences in Philadelphia and the Philadelphia College of Pharmacy since January 1995. Dr. Gerbino is also a past president of the American Pharmaceutical Association and is a well established consultant in the pharmaceutical and health care industry. Dr. Gerbino serves on the board of NeighborCare, Inc. He earned his PharmD. in 1970 from the Philadelphia College of Pharmacy and Science.

Peter J. Grua has served on our Board of Directors since November 12, 2004. Previously, he served as a director of FMG. He also is a Managing Partner of HLM Venture Partners, where he has been employed since 1992. He has over 20 years of experience as an investor focused on the health care industry. From 1986 to 1992, he was a managing director and Senior Analyst at Alex Brown and Sons, where he led the firm' s health care services and managed care research efforts. Mr. Grua is also a director of Health Care REIT, Renal Care Group, and two other private companies. Mr. Grua holds an AB degree from Bowdoin College and an MBA from Columbia University.

James Searson has served on our Board of Directors since February 24, 2005. A Certified Public Accountant, Mr. Searson worked at Ernst & Young from 1975 through 2004, most recently as an audit partner who managed the firm' s office in Hartford, CT. He also served in Ernst & Young' s offices in Chicago, IL; Zurich, Switzerland; Hamburg, Germany; and Munich, Germany. During his tenure at Ernst & Young, Mr. Searson provided audit, accounting, financial due diligence and reporting counsel and services to multinational manufacturing, distribution and service companies. Mr. Searson has a BSBA degree in Accounting from John Carroll University, and also has completed the International Executive Management and Executive Management programs at Northwestern University. He is a member of the American Institute of Certified Public Accountants (AICPA).

Rakesh K. Sharma−Dr. Sharma has served on our Board of Directors since November 12, 2004. He is an Interventional Cardiologist and is a member of the medical staff of several hospitals in the Tampa Bay area, where he has practiced for over ten years. Since August, 1999, he has been a partner and director of The Heart and Vascular Institute of Florida, LLC. Dr. Sharma also is Chief-of-Staff Elect of Largo Medical Hospital, he serves on the board of trustees for Largo Medical Center and is the Director of Emergency Cardiac Services at Largo Medical Center. Since March, 1999, Dr. Sharma has served on the board of directors of Dynamic Health Products, Inc., a publicly traded company. He also is a director of Eonnet Media, Inc. Currently, Dr. Sharma also serves as chairman of the Credentialing Committee at Largo Medical Hospital and is a member of the American Association of Cardiologist of Indian Origin and the International Society of Intravascular Ultrasound.

Mark Majeske−Mr. Majeske has served on our Board of Directors since November 12, 2004. From July 1996 to June 2000, Mr. Majeske served as Group President of McKesson HBOC/Pharmaceutical Group. Prior to becoming Group President, Majeske served as Executive Vice President Customer Operations and Regional Executive Vice President for McKesson. Since leaving McKesson in 2000, he has been a private investor and advisor to startup companies and most recently served as Chief Executive Officer of Day Runner, Inc., which was sold to MeadWestvaco Corporation in late 2003.

Laura L. Witt−Ms. Witt has served on the Board of Directors since November 12, 2004. Previously, she served as a director of FMG. She is a General Partner of ABS Capital Partners, a private equity firm which she joined in 1997. Prior to joining ABS Capital Partners, Ms. Witt was a consultant with Monitor Company and with Oliver, Wyman & Company, strategy consulting firms. Ms. Witt received a Bachelor of Arts from Princeton University and an M.B.A. from the Wharton School of the University of Pennsylvania. She currently serves as a director of Cyveillance, Inc. and of NSI Software, Inc.

Code of Ethics

We have adopted a written code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer, responsive to Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC. A copy of our code of ethics is posted and publicly available on our internet website at www.drugmax.com. This website address is intended to be an inactive, textual reference only; none of the material on this website is part of this report. If there are any amendments to or waivers, of the code of ethics, we intend to promptly disclose the nature of any such amendment or waiver on our website.

Audit Committee Information

DrugMax has a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. Currently, DrugMax' s Audit Committee consists of Messrs. Searson and Gerbino and Ms. Witt. Each of the members of the Audit Committee is independent pursuant to Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. DrugMax has determined that it has at least one audit committee financial expert serving on its audit committee, as that term is defined by Item 401 of Regulation S-K. Currently, Mr. Searson serves as the audit committee' s financial expert. The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which has previously been filed with the SEC.

Compliance with Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company' s executive officers and directors, and persons who beneficially own more than 10% of the Company' s common stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than 10% beneficial owners are required by the Securities and Exchange Commission regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on the Company' s review of the copies of the forms furnished to it or written representations from the reporting persons that no reports were required, the Company believes that, during its fiscal year ended January 1, 2005, all of its executive officers, directors and greater than 10% beneficial owners complied with all applicable Section 16(a) filing requirements, except as noted below:

Mark Majeske, Rakesh Sharma and James Searson were late in filing their initial Forms 3, which forms were required to be filed within 2 days of being elected as directors of the Company. The required Forms 3 has since been filed.

Item 11. EXECUTIVE COMPENSATION

Compensation to Outside Directors

Upon election to the Board of Directors, each Outside Director, receives an award of restricted stock in the amount of $50,000. Such shares vest 1/3 upon the date of grant and 1/3 on the first and second anniversary thereafter. Further, on each year following his or her election to the Board, each Outside Director shall receive an award of restricted stock in the amount of $25,000. The foregoing shares are granted under the Company' s 2003 Restricted Stock Plan. In addition, each Outside Director shall be issued an option to purchase 10,000 shares of common stock annually each year following his or her election to the Board of Directors. Each Outside Director who serves as a member of a committee shall be issued an option to purchase 5,000 shares of the Company' s common stock annually. The chairperson of each committee, other than the Audit Committee, shall be issued an option to purchase an additional 5,000 shares of common stock annually. The chairperson of the Audit Committee and the Chairmen of the Board shall receive an option to purchase 10,000 shares of the Company' s common stock annually. The foregoing options are granted under the Company' s 1999 Stock Option Plan.

All of the Company' s Outside Directors receive $2,000 for each meeting of the Board of Directors that they attend, $5,000 per quarter and reimbursement of their reasonable out-of-pocket expenses incurred in connection with such meetings. In addition, each Outside Director who serves on a committee receives $1,000 for each meeting attended.

Compensation to Executive Officers

The following summary compensation table sets forth the cash and non-cash compensation paid during the past three fiscal years to (a) those individuals serving as the Company' s Chief Executive Officer during the fiscal year ended January 1, 2005 and (b) the four most highly compensative executive officers of the Company, receiving compensation of at least $100,000, during the fiscal year ended January 1, 2005 (the "Named Executive Officers"):

		Annual Compensation		Long Term Compensation		
Name and Principal Position	Fiscal Year Ended(2)	Salary	Bonus	Restricted Stock Awards (3)	Securities Underlying Options (#)	All Other Compensation (4)
Edgardo Mercadante, Co-Chairman of the Board and Chief Executive Officer (1)	2004	$340,157	$30,000	$ 966,348	–	$ 14,823
	2003	329,500	30,000	–	–	14,341
	2002	293,077	50,000	–	–	14,821
Jugal K. Taneja, Co-Chairman of the Board	2004	207,692	40,000	–	–	24,100
	2003	197,439	18,500	–	42,500	23,850
	2002	144,500	18,500	–	42,500	22,000
Dale Ribaudo, Chief Financial Officer (1)	2004	228,167	50,000	462,500	–	4,795
	2003	221,019	38,874	–	–	7,752
	2002	179,539	50,000	–	–	9,610
William L. LaGamba, President and Chief Operating Officer	2004	181,731	30,000	–	–	24,100
	2003	174,469	5,500	–	30,000	22,100
	2002	163,500	5,500	–	30,000	22,600
James Beaumariage, Senior Vice President, Familymeds, Inc. (1)	2004	188,395	20,000	185,000	–	5,050
	2003	182,492	20,000	–	–	6,338
	2002	151,731	30,000	–	–	5,231

(1) On November 12, 2004, FMG merged with and into the Company, and in connection therewith Messrs. Mercadante, Ribaudo and Beaumariage became officers of the Company. Prior to the merger, such officers served FMG in the same capacities that they currently serve the Company. The annual, long term and other compensation shown in this table includes the amount such officers received from FMG prior to the merger.

(2) On November 12, 2004, our board of directors converted our fiscal year end from March 31 to a 52-53 week fiscal year ending on the Saturday closest to December 31.

(3) Represents the value of vested restricted stock paid to the named executive officers based upon the closing prices of the Company' s common stock on the grant date of the shares. The restricted stock was granted under the Company' s 2003 Restricted Stock Plan in connection with the merger between the Company and FMG on November 12, 2004 and will vest on or before June 15, 2005. Based on the closing price of the Company' s stock ($3.28) on January 1, 2005, the aggregate number and value of all restricted stock held by the named executive officers as of that date were as follows: Mr. Mercadante, 261,175 shares, $856,654; Mr. Ribaudo, 125,000 shares, $410,000; Mr. Beaumariage, 50,000 shares, $164,000. For the restricted stock grants, the holder is not entitled to receive dividends during the vesting period.

(4) All Other Compensation for 2004 consists of Company-matched 401(k) plan contributions (Mr. Mercadante $4,100, Mr. Ribaudo $4,100 and Mr. Beaumariage $4,100), life insurance premiums in 2004 (Mr. Mercadante $10,723, Mr. Ribaudo $695 and Mr. Beaumariage $950) and director compensation (Mr. Taneja, $24,100 and Mr. LaGamba, $24,100).

OPTION GRANTS IN LAST FISCAL YEAR

The following table provides information as to options granted to each of the Named Executive Officers of the Company during fiscal year ended January 1, 2005. All such options were granted under the 1999 Stock Option Plan.

Name	Number of Securities Underlying Options Granted (1)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($ per Share)	Market Price per Share on Date of Grant	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2)		
						5%	10%	0%
Edgardo Mercadante	1,221,672	73 %	$ 0.57	$ 3.60	11/22/ 2014	$6,467,557	$10,710,976	$3,701,666
Jugal K. Taneja	–	–	–	–	–			
Dale Ribaudo	140,281	8 %	0.57	3.60	11/22/ 2014	742,651	1,229,910	425,051
William L. LaGamba	–	–	–	–	–			
James Beaumariage	143,314	9 %	0.57	3.60	11/22/ 2014	758,707	1,256,502	434,241

(1) The options were granted on November 12, 2004 in connection with the merger with FMG and became fully vested on the date of grant. All options may be exercised after January 4, 2006 and terminate on the tenth anniversary of the date of grant.

(2) Potential realizable value is based on the assumption that the Common Stock appreciates at the annual rate shown (compounded annually) from the due date of grant until the expiration of the option term. These numbers are calculated based on the requirements of the SEC and do not reflect the Company' s estimate of future price growth.

AGGREGATED OPTIONS EXERCISED IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

The following table provides information as to options exercised by each of the Named Executive Officers of the Company during the fiscal year ended January 1, 2005. The table sets forth the value of options held by such officers at year-end measured in terms of the closing price of the Company' s Common Stock on January 1, 2005.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Edgardo Mercadante	–	$ –	–	1,221,672	$ –	$ 3,310,731
Jugal K. Taneja	–	–	217,500	–	85,850	–
Dale Ribaudo	–	–	–	140,281	–	380,162

William L. LaGamba	–	–	160,000	–	–	–
James Beaumariage	–	–	–	143,314	–	388,381

Equity Compensation Plan Information

The following table summarizes the Company' s equity compensation plan information as of January 1, 2005. Information is included for both equity compensation plans approved by the Company' s shareholders and equity compensation plans not approved by the shareholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1) (c)
Equity compensation plan approved by securities holders (2)	3,969,940	$ 1.91	5,235,738
Equity compensation plan not approved by security holders (3)	294,322	$ 3.28	–
Total	4,264,262	2.16	5,235,738

1. Equity compensation plans approved by shareholders include the 1999 Stock Option Plan and the 2003 Restricted Stock Plan. All shares to be issued upon exercise in column (a) and the weighted average exercise price in column (b) represent shares to be issued upon the exercise of options granted under the 1999 Stock Option Plan.

2. The number of securities available for future issuance in column (c) were: 2,391,785 shares under the 1999 Stock Option Plan and 2,843,953 shares under the 2003 Restricted Stock Plan.

3. Reflects options to purchase shares of the Company' s common stock issued to a non-management employee. This was a one time grant of options.

Employment Agreements and Other Arrangements

Edgardo Mercadante– On November 12, 2004, FMG merged with and into the Company, and in connection therewith Mr. Mercadante became the Co-Chairman of the Board and Chief Executive Officer of the Company. The Company is currently negotiating a new employment agreement with Mr. Mercadante to replace Mr. Mercadante' s employment agreement with Familymeds, Inc. Mr. Mercadante entered into his employment agreement with Familymeds, Inc. in June 1998, as amended on June 30, 2000 and August 1, 2002. The amended agreement provides for a two-year term, and a minimum annual base salary, plus bonuses and stock options as determined by the Board of Directors. Mr. Mercadante' s employment agreement contains standard termination provisions for disability, for cause, and for good reason, and it also contains non-compete and confidentiality provisions that prohibit him from disclosing certain information belonging to the Company. DrugMax expects to negotiate a new employment agreement with Mr. Mercadante as required by, and in accordance with, the merger agreement between FMG and the Company.

Jugal K. Taneja– Mr. Taneja is DrugMax' s Co-Chairman of the Board. In April 2003, DrugMax entered into a new employment agreement with Mr. Taneja for an initial three-year term, and an initial annual base salary of $200,000, plus bonuses and stock options as determined by the Board of Directors in its sole discretion. Mr. Taneja' s employment agreement contains standard termination provisions for disability, for cause, and for good reason, and it also contains confidentiality provisions that prohibit him from disclosing certain information belonging to DrugMax. If the employment agreement is terminated other than for good reason or cause, Mr. Taneja is entitled to receive his base salary through the date of termination and for one year thereafter. DrugMax expects to negotiate a new employment agreement with Mr. Taneja as required by, and in accordance with, the merger agreement between FMG and the Company.

Dale Ribaudo– On November 12, 2004, FMG merged with and into the Company, and in connection therewith Mr. Ribaudo became the Chief Financial Officer of the Company. The Company is currently negotiating a new employment agreement with Mr. Ribaudo to replace his employment agreement with Familymeds, Inc. Mr. Ribaudo entered into his employment agreement with Familymeds, Inc. in November 2000, as amended on August 8, 2002 and August 13, 2004. The amended agreement provides for a two-year term, and a minimum annual base salary of $232,399, plus bonuses and stock options as determined by the Board of Directors. Mr. Ribaudo' s employment agreement contains standard termination provisions for disability, for cause, and for good reason, and it also contains confidentiality provisions that prohibit him from disclosing certain information belonging to the Company. DrugMax expects to negotiate a new employment agreement with Mr. Ribaudo as required by, and in accordance with, the merger agreement between FMG and the Company.

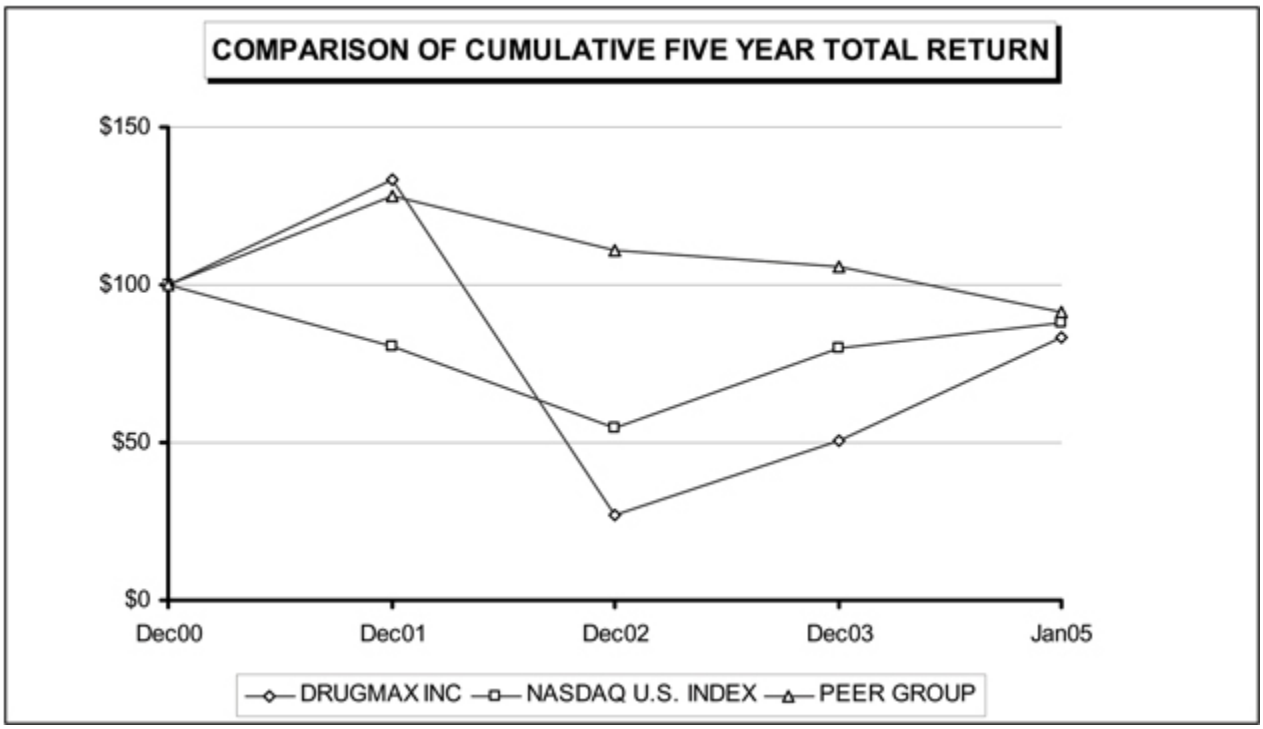
William L. LaGamba– Mr. LaGamba is DrugMax' s President and Chief Operating Officer. In April 2003, DrugMax entered into a new employment agreement with Mr. LaGamba for an initial three-year term and an initial annual base salary of $175,000, plus bonuses and stock options as determined by the Board of Directors in its sole discretion. Mr. LaGamba' s employment agreement contains standard termination provisions for disability, for cause, and for good reason, and it also contains confidentiality provisions that prohibit him from disclosing certain information belonging to DrugMax. If the employment agreement is terminated other than for good reason or cause, Mr. LaGamba is entitled to receive his base salary through the date of termination and for one year thereafter. DrugMax expects to negotiate a new employment agreement with Mr. LaGamba as required by, and in accordance with, the merger agreement between FMG and the Company.

James Beaumariage–Mr. Beaumariage is the Senior Vice President of Operations for Familymeds, Inc. In May 1998, Familymeds, Inc. entered into an employment agreement with Mr. Beaumariage which was amended on August 8, 2002 and August 13, 2004. The amended agreement provides for a two-year term, and a minimum annual base salary of $191,889, plus bonuses and stock options as determined by the Board of Directors. Mr. Beaumariage' s employment agreement contains standard termination provisions for disability, for cause, and for good reason, and it also contains non-compete and confidentiality provisions that prohibit him from disclosing certain information belonging to the Company.

PERFORMANCE GRAPH

The following graph shows a comparison of cumulative five-year total stockholder returns for DrugMax' s Common Stock, with the cumulative return of the Nasdaq Stock Market−U.S. Index and an industry peer group. The industry peer group of companies selected by DrugMax is made up of DrugMax' s publicly-held competitors in the specialty pharmacy and drug distribution industry: Accredo Health, Inc., BioScrip, Inc., Curative Health Services, Inc. and Priority Healthcare Corp. The graph assumes the investment of $100 on December 31, 2000. The comparisons reflected in the table and graph, however, are not intended to forecast the future performance of the Common Stock and may not be indicative of such future performance. Further, the comparability of DrugMax against the peer group should be considered in light of DrugMax' s recent merger. On November 12, 2004, FMG, a private specialty pharmacy Company, merged with and into the DrugMax, a public full-line wholesale distributor of pharmaceuticals and related products. For accounting purposes, FMG was deemed to be the acquirer. The industry peer group against which DrugMax is compared below includes companies that maintain pharmacy operations. However, prior to the merger on November 12, 2004, DrugMax did not have pharmacy operations.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
AMONG THE COMPANY, THE NASDAQ STOCK MARKET (U.S.) INDEX
AND A PEER GROUP



Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

To the knowledge of the Company, the following table sets forth, as of March 31, 2005, information as to the beneficial ownership of the Company' s voting securities by (i) each person known to the Company as having beneficial ownership of more than 5% of the Company' s voting securities, (ii) each person serving the Company as a director on such date, (iii) each person serving the Company as an executive officer on such date who qualifies as a Named Executive Officer, as defined in Item 403(a)(3) of Regulation S-K under the Securities Exchange Act of 1934, and (iv) all of the directors and executive officers of the Company as a group.

Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class (2)
Common Stock	ABS Capital Partners III, LP, 400 EAST PRATT ST STE 910 , BALTIMORE MD 21202 (3)	6,166,583	26.1 %
Common Stock	UNITED HEALTHCARE SERVICES INC., 9900 BREN ROAD E, MINNETONKA MN 55343 (4)	3,256,730	13.8 %
Common Stock	Laura Witt (5)	6,179,583	26.1 %
Common Stock	Peter Grua (6)	1,569,325	6.6 %
Common Stock	Jugal K. Taneja (7)	1,720,207	7.3 %
Common Stock	William J. LaGamba (8)	678,432	2.9 %
Common Stock	Ed Mercadante (9)	261,175	1.1 %
Common Stock	Dale Ribaudo (10)	125,000	*
Common Stock	James Beaumariage (11)	50,000	*
Common Stock	Phil Gerbino	18,000	*
Common Stock	James Searson	–	*
Common Stock	Mark Majeske	–	*
Common Stock	Rakesh Sharma	–	*

Common Stock	All Directors and Executive Officers as a group	10,479,260	44.3	%
Series A Preferred Stock	Midsummer Investment, Ltd., 485 Madison Avenue, 23rd Floor, New York, NY 10022	6,000	35.3	%
Series A Preferred Stock	Islandia L.P., 485 Madison Avenue, 23rd Floor, New York, NY 10022	4,000	23.5	%
Series A Preferred Stock	Casing & Co. c/o Wasatch Advisors, 150 Social Hall Avenue, 4th Floor, Salt Lake City, Utah 84111	3,200	18.8	%
Series A Preferred Stock	Bristol Capital Advisors, LLC, 10990 Wilshire Blvd, Suite 1410, Los Angeles, California 90024	880	5.2	%

* Less than 1%.

(1) Unless otherwise indicated, the address of each of the beneficial owners identified is 312 Farmington Avenue, Farmington, CT, 06032-1968.

(2) Based on 23,670,853 shares of Common Stock outstanding. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Pursuant to the rules of the Securities Exchange Commission, certain shares of Common Stock which a person has the right to acquire within 60 days of the date hereof pursuant to the exercise of stock options are deemed to be outstanding for the purpose of computing the percentage ownership of such person but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. To the Company' s knowledge, the persons named in this table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and except as indicated in the other footnotes to this table. Unless otherwise indicated, the business address of each of the beneficial owners named above is: c/o DrugMax, Inc., 312 Farmington Avenue, Farmington, CT 06032

(3) Includes 1,544,930 shares issuable upon the exercise of warrants to acquire common stock that are currently exercisable.

(4) Includes 815,917 shares issuable upon the exercise of warrants to acquire common stock that are currently exercisable.

(5) Includes 4,621,653 common shares and 1,544,930 warrants held by ABS Capital Partners III, LP. Ms. Witt is a general partner of ABS Capital Partners III, LP. She disclaims beneficial ownership of all such securities held by ABS Capital Partners III, L.P., except to the extent of her proportionate pecuniary interests therein.

(6) Includes the following shares and warrants beneficially owned by: HLM/CB Fund L.P., 241,802 common shares and 80,830 warrants; HLM/UH Fund L.P., 331,796 common shares and 110,913 warrants; and Validus L.P., 602,560 common shares and 201,424 warrants. Excludes 5,252 options issued to Peter Grua, as these options are not exercisable within 60 days. Ms. Grua is a general partner of all such limited partnerships. He disclaims beneficial ownership of all such securities held by all of such limited partnerships, except to the extent of her proportionate pecuniary interests therein.

(7) Includes the following shares and warrants beneficially owned: 21st Century Healthcare Fund LLC, 300,000; Carnegie Capital, 422,555; Dynamic Health Products, 122,462; First Delhi Trust, 48,378; Manju Taneja, his spouse, 469,510 and exercisable stock options, 217,500. Mr. Taneja disclaims beneficial ownership of all such securities held by his wife.

(8) Includes the following shares and warrants beneficially owned: Dynamic Health Products, 122,462; Michelle LaGamba, his spouse 122,868; 78,987 by his minor children and 160,000 exercisable stock options. Mr. LaGamba disclaims beneficial ownership of all such securities held by his wife.

(9) Excludes 1,221,672 stock options, as these options are not exercisable within 60 days.

(10) Excludes 140,281 stock options, as these options are not exercisable within 60 days.

(11) Excludes 143,314 stock options, as these options are not exercisable within 60 days.

Shares of the common stock of the Company are listed and traded on the Nasdaq Small Cap Market ("Nasdaq") under the symbol "DMAX."

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information set forth herein briefly describes certain relationships and related transactions during the last three fiscal years between the Company and its Directors, officers and stockholders owning 5% or more of the Company' s Common Stock. These relationships and transactions have been and will continue to be reviewed and approved by a majority of the Company' s independent Directors and the Audit Committee.

River Road Real Estate - In October 2001, prior to the Merger, the Company executed a commercial lease agreement with River Road Real Estate, LLC, an entity controlled by certain directors and officers of the Company at the time, to house the operations of Valley Drug Company South, the Company' s subsidiary in St. Rose, Louisiana. The lease is for an initial period of five years with a base monthly lease payment of $15,000, and an initial deposit of $15,000. During the period from November 12, 2004 to January 1, 2005, the Company recorded rent expense of $28,183 related to the lease. Management believes the terms of this agreement are comparable to those that the Company would have received from an unrelated, third party.

Becan Development LLC - In January 2004, prior to the Merger, the Company executed a second commercial lease agreement (the "Second Lease") with Becan Development, LLC, an entity controlled by certain directors and officers of the Company at the time. The Second Lease is for an initial period of fifteen years with a base monthly lease payment of $17,000. During the period from November 12, 2004 to January 1, 2005, the Company recorded rent expense of $25,500 related to the Second Lease. Management believes the terms of this agreement are comparable to those that the Company would have received from an unrelated, third party.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit and Related Fees

On November 12, 2004, FMG merged with and into the DrugMax. For accounting purposes, however, FMG was deemed to be the acquirer and therefore its financial results are included in the Form 10-K for the period ended January 1, 2005. In connection with the merger, the merged company retained FMG' s auditor (i.e., Deloitte & Touche LLP) and changed its fiscal year end to reflect FMG' s year end. The following tables set forth the aggregate fees billed by Deloitte & Touche LLP for the services indicated for the years ended January 1, 2005 and December 28, 2003. It does not include fees billed by BDO Seidman, LLP, DrugMax' s auditor prior to the merger.

	2004	2003
Audit	$365,087	$194,798
Audit Related	551,066	–
Total	$916,153	$194,798

Audit Fees. Audit fees were for professional services rendered for the audits of DrugMax' s consolidated financial statements and benefit plan audit for the years ended January 1, 2005 and December 28, 2003. Audit fees do not include fees related to services provided in connection with the FMG merger.

Audit Related Fees. Audit related fees for the year ended January 1, 2005 consist of fees for services provided in connection with the FMG merger and limited reviews of its unaudited condensed consolidated interim financial statements, issuance of consents and assistance with review of documents filed with the SEC.

DrugMax' s audit committee pre-approves all non-audit services provided to DrugMax by its independent accountants. According to its revised audit committee charter, a copy of which was previously filed with the SEC, this pre-approval authority may be delegated to a single member of the audit committee and then reviewed by the entire audit committee at the committee' s next meeting. Approvals of non-audit services will be publicly disclosed in DrugMax' s periodic reports filed with the SEC. For the fiscal year 2004, all non-audit services were pre-approved by the audit committee. The audit committee determined the rendering of the "audit related" work, listed above, by Deloitte & Touche LLP is compatible with maintaining the auditor' s independence.

PART IV

Item 15. EXHIBITS

10.1 Employment Agreement, as amended by and between Familymeds, Inc. and Edgardo Mercadante, effective as of June 8, 1998.*

10.2 Employment Agreement, as amended by and between Familymeds, Inc. and Dale Ribaudo, effective as of November 2000. *

10.3 Employment Agreement, as amended by and between Familymeds, Inc. and James Beaumariage effective as May 29, 1998. *

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DRUGMAX, INC.

Dated: April 29, 2005

By /s/ *Edgardo Mercadante*
Edgardo Mercadante, Chief Executive Officer and
Co-Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures	Title	Date
By: */s/ Edgardo Mercadante* Edgardo Mercadante	Co-Chairman of the Board, Chief Executive Officer and Director	April 29, 2005
By: */s/ William L. LaGamba* William L. LaGamba	President, Chief Operating Officer	April 29, 2005
By: */s/ Dale Ribaudo* Dale Ribaudo	Chief Financial Officer, Principal Accounting Officer	April 29, 2005
By: */s/ Jugal K. Taneja* Jugal K. Taneja	Co-Chairman of the Board and Director	April 29, 2005
By: */s/ Laura Witt* Laura Witt	Director	April 29, 2005
By: */s/ Philip Gerbino* Philip Gerbino	Director	April 29, 2005
By: */s/ Peter Grua* Peter Grua	Director	April 29, 2005
By: */s/ Rakesh Sharma* Rakesh Sharma	Director	April 29, 2005
By: */s/ James Searson* James Searson	Director	April 29, 2005
By: */s/ Mark Majeske* Mark Majeske	Director	April 29, 2005

Exhibit 10.1

EMPLOYMENT AGREEMENT
(CHIEF EXECUTIVE OFFICER)

Agreement made as of this 8th day of June, 1998, by and among Edgardo A. Mercadante of Farmington, Connecticut ("Employee") and The Arrow Corporation, a Connecticut corporation (the "Company").

PREAMBLE

The Board of Directors of the Company recognizes Employee' s past and potential contribution to the growth and success of the Company and desires to assure the Company of Employee' s employment in an executive capacity as Chief Executive Officer and to compensate him therefor. Employee wants to continue to be employed by the Company and to commit himself to serve the Company on the terms herein provided. Employee' s duties will expressly include growth and development, operations of Company' s Prescription Centers, including the development of new managed care methods in pharmaceutical care and retail pharmacy services on behalf of and for the account of the Company.

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements of the parties, the parties agree as follows:

1. Definitions.

"Benefits" shall mean all the fringe benefits established by the Company and approved by the Board of Directors for the benefit of the employees generally and/or for key employees of the Company as a class, including, but not limited to, regular holidays, vacations, absences resulting from illness or accident, health insurance, disability and medical plans (including dental and prescription drug), group life insurance, and pension, profit-sharing or their equivalent.

"Board" shall mean the Board of Directors of the Company, together with an executive committee thereof (if any), as the same shall be constituted from time to time.

"Cause" for termination shall mean (i) Employees' final conviction of a felony involving a crime of moral turpitude, (ii) acts of Employee which, in the judgment of the Board, constitute willful fraud on the part of Employee in connection with his duties under this Agreement, including but not limited to misappropriation or embezzlement in the performance of duties as an employee of the Company, or (iii) the continued failure or refusal by Employee to comply with a directive of the Board after having been given one (1) written notice of such failure or refusal by the Board.

"Change of Control" means (i) a merger or consolidation of the Company with or into another company which is not an affiliate of the Company or recapitalization or

reorganization of the Company and, immediately upon the consummation of such merger, consolidation, reorganization or recapitalization, the persons who were the shareholders of the Company immediately prior to such merger, consolidation, reorganization or recapitalization do not immediately thereafter own more than fifty percent (50%) of the total voting power of the merged, consolidated, reorganized or recapitalized Company' s voting securities entitled to vote generally in the election of directors; (ii) the sale of all or substantially all of the assets of the Company to another person or entity which is not an affiliate of the Company; (iii) the acquisition by any person, entity or "group" (excluding, for this purpose, the Company and any affiliate of the Company which acquires beneficial ownership of voting securities of the Company) within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of either fifty percent (50%) or more of the then outstanding shares of Common Stock or fifty percent (50%) or more of the combined voting power of the Company' s then outstanding voting securities entitled to vote generally in the election of directors, which, in the case of clause (i), (ii) and (iii) of this definition, such merger, consolidation, reorganization or recapitalization, sale or acquisition, as the case may be, is not approved by a vote of at least eighty percent (80%) of the directors that constitute the Board of Directors immediately prior to the effectiveness of such merger, consolidation, reorganization or recapitalization, sale or acquisition, as the case may be; or (iv) during any period of two consecutive years, if persons who at the beginning of such period constitute the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors unless the election, or the nomination for election by the Company' s shareholders, of each new director was approved by a vote of at least eighty percent (80%) of the directors then still in office who were directors at the beginning of such period. For purposes of this definition, (A) an "affiliate" is any person or entity which, directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company and "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise and (B) "Board of Directors" means the board of directors of the Company as constituted at the time a determination thereof is required to be made pursuant to this definition. Notwithstanding anything herein to the contrary, no change in the ownership of the Company or the Board of Directors pursuant to that certain Amended and Restated Shareholders Agreement dated June 8, 1998, among the Company and the "Shareholders," as defined therein, or pursuant to the Restated Certificate of Incorporation or pursuant to the Company' s initial or subsequent public offering of its capital stock, shall be deemed to be a "Change of Control" hereunder.

"Chief Executive Officer" shall mean the individual having responsibility to the Board for direction and management of the executive and operational affairs of the Company and who reports and is accountable only to the Board.

"Company" shall mean The Arrow Corporation, a Connecticut corporation.

"Disability" shall mean a written determination by a physician mutually agreeable to the Company and Employee (or, in the event of Employee' s total physical or mental disability; Employee' s legal representative) that Employee is physically or mentally unable to perform his duties of Chief Executive Officer under this Agreement and that such disability can reasonably be expected to continue for a period of six (6) consecutive months or for shorter periods aggregating one hundred and eighty (180) days in any twelve (12) month period.

"Employee" shall mean Edgardo A. Mercadante and, if the context requires, his heirs, personal representatives, and permitted successors and assigns.

"Person" shall mean any natural person, incorporated entity, limited or general partnership, business trust, association, agency (governmental or private), division, political sovereign, or subdivision or instrumentality, including those groups identified as "persons" in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934.

"Stock Purchase Agreement" shall mean, collectively, the Series A Convertible Preferred Stock and Common Stock Purchase Agreement dated December 18, 1996 among the Company, International Capital Partners, Inc., and the purchasers identified on Exhibit A thereto, and the Series B Convertible Preferred Stock Purchase Agreement dated as of June __, 1998 among the Company, Oxford Bioscience Partners II L.P., Oxford Bioscience Partners (Bermuda) II Limited Partnership, The Goldman Sachs Group, L.P., Pacific Venture Group, L.P., and PVG Associates, L.P.

"Territory" shall mean any state of the United States and any equivalent section or area of any country in which the Company has operating pharmacies.

2. Position, Responsibilities, and Terms of Employment.

2.01 Position. Employee shall serve as Chief Executive Officer and in such additional management position(s) as the Board shall designate. In this capacity Employee shall be subject to the bylaws of the Company, and to the directors of the Board, serve the Company by performing such duties and carrying out such responsibilities as are normally related to the position of Chief Executive Officer in accordance with the directives of the Board. Without limiting the foregoing, all other employees of the Company shall report to the Chief Executive Officer, who will report to the Board. In addition, the Chief Executive Officer shall be responsible for making recommendations to the compensation committee of the Board with respect to the compensation of the Company' s employees.

2.02 Best Efforts Covenant. Employee will, to the best of his ability, devote his full professional and business time and best efforts to the performance of his duties for the Company and its subsidiaries and affiliates.

2.03 Exclusivity Covenant. During the Agreement' s term, Employee will not undertake or engage in any other employment, occupation or business enterprise other than a business enterprise in which Employee does not actively participate. Further, Employee agrees not to acquire, assume, or participate in, directly or indirectly, any position, investment, or interest in the Territory adverse or antagonistic to the Company, its business prospects, financial or otherwise, or take any action towards any of the foregoing. The provisions of this Section 2.03 shall not prevent Employee from owning shares of any competitor of the Company as long as such shares (i) do not constitute more than 5% of the outstanding equity of such competitor, and (ii) are regularly traded on a recognized exchange, or listed for trading by NASDAQ in the over-the-counter market.

2.04 Post-Employment Noncompetition Covenant.

(a) Except with the prior written consent of the Board, Employee shall not engage in activities in the Territory either on Employee' s own behalf or that of any other business organization, which are in direct or indirect competition with the Company as specified in Section 2.04(b), for the term of this Agreement unless terminated and if terminated then for that applicable period as specified in Section 2.04(c) hereof, Employee and Company expressly declare that the territorial and time limitations contained in this Section 2.04 and the definition of "Territory" are entirely reasonable at this time and are properly and necessarily required for the adequate protection of the business and intellectual property of the Company. If such territorial or time limitations, or any portions thereof, are deemed to be unreasonable by a court of competent jurisdiction, whether due to passage of time, change of circumstances or otherwise, Employee and the Company agree to a reduction of said territorial and/or time limitations to such areas and/or periods of time as said court shall deem reasonable.

(b) For the applicable period specified in Section 2.04(c) hereof, Employee will not, without the express prior written approval of the Board, (i) directly or indirectly, in one or a series of transactions, recruit, solicit or otherwise induce or influence any proprietor, partner, stockholder, lender, director, officer, employee, sales agent, joint venturer, investor, lessor, supplier, customer, agent, representative or any other person which has a business relationship with the Company or had a business relationship with the Company within the twelve (12) month period preceding the date of the incident in question, to discontinue, reduce, or modify such employment, agency or business relationship with the Company, or (ii) employ or seek to employ or cause any business organization in direct or indirect competition with the Company to employ or seek to employ any person or agent who is then (or was at any time within six months prior to the date the Employee or the competitive business employs or seeks to employ such person) employed or retained by the Company. Notwithstanding the

foregoing, nothing herein shall prevent the Employee from providing a letter of recommendation to any employee with respect to a future employment opportunity.

(c) The periods applicable to Sections 2.04(a) and 2.04(b) above shall be as follows:

(i) If the Employee shall be terminated for any reason other than for Cause, then for the period of time the Employee shall receive the "Severance Payment," as defined in Section 5.02 hereof.

(ii) If the Employee shall be terminated for Cause, or if the Employee shall voluntarily terminate his employment, then for a period of one (1) year from the date of termination.

2.05 Confidential Information. Employee recognizes and acknowledges that the Company' s trade secrets and proprietary information and know-how, as they may exist from time to time ("Confidential Information"), are valuable, special and unique assets of the Company' s business, access to and knowledge of which are essential to the performance of Employee' s duties hereunder. Employee will not, during or after the term of his employment by the Company, in whole or in part, disclose such secrets, information or know-how to any Person for any reason or purpose whatsoever, nor shall Employee make use of any such property for his own purposes or for the benefit of any Person (except the Company) under any circumstances during or after the term of his employment, provided that after the term of his employment these restrictions shall not apply to such secrets, information and know-how which are then in the public domain (provided that Employee was not responsible, directly or indirectly, for such secrets, information or processes entering the public domain without the Company' s consent). Employee shall have no obligation hereunder to keep confidential any Confidential Information if and to the extent disclosure of any thereof is specifically required by law; provided, however, that in the event disclosure is required by applicable law, the Employee shall provide the Company with prompt notice of such requirement, prior to making any disclosure, so that the Company may seek an appropriate protective order. Employee agrees to hold as the Company' s property all memoranda, books, papers, letters, customer lists, processes, computer software, records, financial information, policy and procedure manuals, training and recruiting procedures and other data, and all copies thereof and therefrom, in any way relating to the Company' s business and affairs, whether made by him or otherwise coming into possession, and on termination of his employment, or on demand of the Company at any time, to deliver the same to the Company.

Employee shall use his best efforts to prevent the removal of any Confidential Information from the premises of the Company, except as required in his normal course of employment by the Company. Employee shall use his best efforts to cause all persons or entities to whom any Confidential Information shall be disclosed by him hereunder to observe

the terms and conditions set forth herein as though each such person or entity was bound hereby.

2.06 Nonsolicitation. Except with the prior written consent of the Board, Employee shall not solicit customers, clients, or employees of the Company or any of its affiliates for a period of twelve (12) months from the date of the expiration of this Agreement. Without limiting the generality of the foregoing, Employee will not willfully canvas, solicit nor accept any such business in competition with the business of the Company from any customers of the Company with whom the Employee has contact during, or of which Employee had knowledge solely as a result of, his performance of services for the Company pursuant to this Agreement. Employee will not directly or indirectly request, induce or advise any customers of the Company with whom Employee has contact during the term of this Agreement to withdraw, curtail or cancel their business with the Company. Employee will not induce or attempt to induce any employee of the Company to terminate his/her employment with the Company.

2.07 Records Files. All records, files, drawings, documents, equipment and the like relating to the business of the Company which are prepared or used by Employee during the term of his employment under this Agreement shall be and shall remain the sole property of the Company.

2.08 Hired to Invent. Employee agrees that every improvement, invention, process, apparatus, method, design, and any other creation that Employee may invent, discover, conceive, or originate by himself or in conjunction with any other Person during the term of Employee' s employment under this Agreement that relates to the business carried on by the Company during the term of Employee' s employment under this Agreement or contemplated by the Company during the term hereof even if not implemented during the term of this Agreement ("Work for Hire") shall be the exclusive property of the Company. Employee agrees to disclose to the Company every patent application, notice of copyright, or other action taken by Employee or any affiliate or assignee to protect intellectual property during the 12 months following Employee' s termination of employment at the Company, for whatever reason, so that the Company may determine whether to assert a claim under this Section 2.08 or any other provision of this Agreement. The Employee does hereby assign to the Company all of the Work For Hire and hereby appoints the Company as his attorney-in- fact coupled with an interest to execute such documents as may be required to evidence such assignment.

2.09 Equitable Relief by Company. Employee acknowledges that his services to the Company are of a unique character which give them a special value to the Company. Employee further recognizes that violations by Employee of any one or more of the provisions of this Section 2 may give rise to losses or damages for which the Company cannot be reasonably or adequately compensated in an action at law and that such violations may result in irreparable and continuing harm to the Company. Employee agrees that, therefore, in

addition to any other remedy which the Company may have at law and equity, including the right to withhold any payment of compensation under Section 3 or Section 5 of this Agreement, the Company shall be entitled to injunctive relief to restrain any violation, actual or threatened, by Employee of the provisions of this Agreement.

3. Compensation.

3.01 Minimal Annual Compensation. The Company shall pay to Employee for the services to be rendered herein a base salary, at the annual rate of One Hundred Sixty Eight Thousand Dollars ($168,000) ("Minimum Annual Compensation") effective as of June 8, 1998. Subject to the approval and discretion of the compensation committee of the Board, Employee shall be eligible to receive an annual increase not to exceed 5% of the then applicable base salary. At no time during the term of this Agreement shall Employee' s annual base salary fall below Minimum Annual Compensation. In addition, if the Board increases Employee' s Minimum Annual Compensation at any time during the term of this Agreement, such increased Minimum Annual Compensation shall become a floor below which Employee' s compensation shall not fall at any future time during the term of this Agreement and shall become Minimum Annual Compensation.

Employee' s salary shall be payable in periodic installments in accordance with the Company' s usual practice for similarly situated employees of the Company.

3.02 Incentive Compensation. In addition to Minimum Annual Compensation, Employee shall be entitled to receive payments in accordance with the attached Exhibit A entitled "Bonus or Performance Incentive Outline Terms."

3.03 Participating in Benefits. Employee shall be entitled to all Benefits for as long as such Benefits may remain in effect and/or any substitute or additional Benefits made available in the future to similarly situated employees of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such Benefits adopted by the Company. Benefits paid to Employee shall not be deemed to be in lieu of other compensation to Employee hereunder as described in this Section 3.

3.04 Specific Benefits. During the term of this Agreement (and thereafter to the extent this Agreement shall require):

(a) Employee shall be entitled to four (4) weeks of paid vacation time per year, to be taken at times mutually acceptable to the Company and Employee.

(b) The Company shall provide fully paid accident, long term disability and health insurance for Employee and his family with limits and extent of coverage similar to that as presently offered to him.

(c) The Company shall, at its expense, continue in effect and own (subject to Employee' s insurability) an insurance policy on the life of Employee in the total face amount of $2,000.000, which shall be collaterally assigned by the Company for the benefit of the Employee; provided, that the annual premium for such policy shall not exceed Three Thousand Dollars ($3,000.00). Employee shall have the exclusive right to designate the beneficiaries of such policy and change such beneficiaries from time to time. Such policy and the proceeds and cash value thereof shall be the sole property of Employee and the Company shall not retain any benefit therein. Upon the termination of Employee' s employment by the Company for whatever reason, such policy shall be the property of the Employee. This policy shall be fully funded after no more than five years of premium payments.

(d) Employee shall be entitled to sick leave benefits during the employment period in accordance with the customary policies of the Company for its executive officers, but in no event less than one (1) month per year.

(e) The Company will provide Employee with a new Company automobile of his choice every two (2) years provided that the cost of such automobile shall not, if purchased, exceed the list price or, if leased, exceed the leased price of a "fully equipped" new BMW 540 or equivalent. In addition, the Company will pay for the insurance, maintenance, and expenses of operating the automobile reasonably incurred by him in connection with the business of the Company during the term of this Agreement. Upon the termination of this Agreement for any reason. Employee may purchase from the Company or its agent the automobile provided to Employee at that time for the net book value of the automobile at that time.

(f) In addition to the vacation provided pursuant to Section 3.04(a) hereof, Employee shall be entitled to not less than seven (7) paid holidays (other than weekends) per year in accordance with the Company' s holiday schedule.

(g) Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him (in accordance with the policies and procedures established by the Company or the Board for the similarly situated employees of the Company) in performing services hereunder.

(h) The Company shall pay the reasonable costs of preparation by a professional of Employee' s choosing, of Employee' s annual and estimated federal income tax and Connecticut income tax returns.

(i) Employee shall be eligible to participate during the Employment Period in Benefits not inconsistent or duplicative of those set forth in this Section 3.04 as the Company shall establish or maintain for its employees or executives generally.

4. Registration Rights.

4.01 Certain Definitions. As used in this Section 4, the following terms shall have the following respective meanings:

(a) "Blue Sky laws" shall mean applicable state securities laws and the rules and regulations thereunder, all as the same shall be in effect from time to time.

(b) "Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

(c) "Employee" shall, for the purposes of this Section 4, include the Employee and his heirs, executors, administrators, successors and assigns.

(d) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

(e) The terms "Register", "Registered" and "Registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act ("Registration Statement"), and the declaration or ordering of the effectiveness of such Registration Statement.

(f) "Registrable Securities" shall mean all shares of the Company' s common stock, no par value, now or hereafter owned by Employee, which cannot legally be sold to the public without registration under the Securities Act; provided, however, that shares of Common Stock which are Registrable Securities shall cease to be Registrable Securities at such time and for so long as, such shares are eligible for sale pursuant to Rule 144(k) under the Securities Act and the Company shall have delivered to the Employee an opinion of counsel to such effect which opinion and counsel shall be reasonably satisfactory to the Employee.

(g) "Registration Expenses" shall mean all expenses incurred by the Company in complying with Section 4.02, including without limitation, all Federal and state registration, qualification, delivery expenses and filing fees, printing expenses, listing fees and disbursements of counsel for the Company, blue sky fees and expenses, and the fees and disbursements of all independent certified public accountants of the Company, and fees and disbursements of underwriters, selling brokers, dealers, managers or similar securities industry professionals relating to the distribution of Registrable Securities and shall not include Selling Expenses.

(h) "Securities Act" shall mean the Securities Act of 1933, as amended, or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

(i) "Selling Expenses" shall mean all underwriting discounts, selling commissions and counsel fees, if any, of the selling shareholders applicable to the sale of Registerable Securities pursuant to this Agreement.

4.02 Piggyback Registration.

(a) Notice of Piggyback Registration and Inclusion of Registerable Securities. Subject to the terms of this Agreement, in the event the Company decides to Register any of its Common Stock (either for its own account or, subject to Section 8.2(d) of the Stock Purchase Agreement, the account of a security holder exercising demand registration rights), other than (i) a Registration Statement which exclusively relates to the Registration of securities under an employee stock option, purchase, bonus or other benefit plan, or (ii) a Registration relating solely to a transaction under Rule 145 promulgated by the Commission, the Company will: (1) promptly give the Employee written notice thereof (which shall include a list of the jurisdictions in which the Company intends to attempt to qualify such securities under the applicable Blue Sky laws) and (2) include in such Registration (and any related qualification Blue Sky laws of other compliance), and in any underwriting involved therein, all the Registerable Securities specified in a written request delivered to the Company by the Employee within 15 days after delivery of such written notice from the Company; provided that the Company shall have the right to postpone or withdraw any Registration effected pursuant to this Section 4.02 without obligation to the Employee.

(b) Underwriting in Piggyback Registration.

(i) Notice of Underwriting. If the Registration of which the Company gives notice is a Registered public offering involving an underwriting, the Company shall so advise the Employee as a part of the written notice given pursuant to Section 4.02(a). In such event, the right of the Employee to Registration shall be conditioned upon such underwriting, and the inclusion of Employee' s Registrable Securities in such underwriting to the extent provided in this Section 4.02. The Employee shall, together with the Company, enter into an underwriting agreement with the underwriter' s representative for such offering. The Employee shall have no right to participate in the selection of the underwriters for an offering pursuant to this Section 4.02.

(ii) Marketing Limitation in Piggyback Registration. In the event the underwriter' s representative advises the Company and the Employee engaged in a Registration under Section 4.02(a) in writing that market factors (including, without limitation, the aggregate number of shares of Common Stock requested to be Registered, the general

condition of the market, and the status of the Persons proposing to sell securities pursuant to the Registration) require a limitation of the number of shares to be underwritten, the underwriter' s representative (subject to the allocation priority set forth in clause (iii) below) may exclude some or all of the Registrable Securities from such registration and underwriting.

(iii) Allocation of Shares in Piggyback Registration. In the event that the underwriter' s representative limits the number of shares to be included in a Registration pursuant to Section 4.02(a), the Employee shall be entitled to include a portion of the Registrable Securities requested to be included in such registration *pro rata* (based on the number of shares held) with all other requesting persons currently holding in writing similar piggyback registration rights requesting Registration pursuant to such piggyback registration rights. Unless all Registrable Securities and such other piggybacking shares requested to be included in such Registration are so included, no other securities may be included in the Registration Statement except for the Company' s shares and shares being registered pursuant to the exercise of demand registration rights.

(iv) Withdrawal in Piggyback Registration. If the Employee disapproves of the terms of any such underwriting, he may elect to withdraw therefrom at no cost to such Employee by written notice to the Company and the underwriter delivered at least 10 days prior to the effective date of the Registration Statement. Any Registrable Securities or other securities excluded or withdrawn from such underwriting shall be withdrawn from such Registration.

(v) Blue Sky in Piggyback Registration. In the event of any Registration of Registrable Securities pursuant to Section 4.02(a), the Company will exercise its best efforts to Register and qualify the securities covered by the Registration Statement under the Blue Sky laws of such jurisdiction as the Employee shall reasonably request and as shall be reasonably appropriate for the distribution of such securities; provided, however, that (i) the Company shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, and (ii) notwithstanding anything in this Agreement to the contrary, in the event any jurisdiction in which the securities shall be qualified imposes a non-waivable requirement that expenses incurred in connection with the qualification of the securities be born by selling shareholders, such expenses shall be payable *pro rata* by selling shareholders.

4.03 Expenses of Registration. All Registration Expenses incurred in connection with any Registration hereunder shall be borne by the Company. Selling Expenses shall be borne by the selling shareholders *pro rata* on the basis of the number of Registrable Securities registered by such selling shareholder.

4.04 Registration Generally. If and when the Company shall be required to effect the registration of Registrable Securities under the Securities Act pursuant to this Section 4, the Company will use its best efforts to effect such registration to permit the sale of such"

Registrable Securities in accordance with the intended method or methods of disposition thereof, and pursuant thereto it will, as expeditiously as possible:

(a) before filing a Registration Statement or prospectus or any amendments or supplements thereto, furnish to the Employee and the underwriters, if any, copies of all such documents proposed to be filed, which documents will be made available, on a timely basis, for review by Employee and underwriters and their respective legal counsel;

(b) prepare and file with the Commission such amendments and post-effective amendments to any Registration Statement, and such supplements to the prospectus, as may be reasonably requested by the Employee or any underwriter of Registrable Securities or as may be required by the rules, regulations, or instructions applicable to the registration form utilized by the Company or by the Securities Act, the Exchange Act or otherwise necessary to keep such Registration Statement effective for a period of not less than 120 days following the effective date of the respective Registration Statement and cause the prospectus as so supplemented to be filed pursuant to Rule 424 under the Securities Act;

(c) notify the Employee and the managing underwriters, if any, promptly and (if requested by any such person) confirm such advice in writing:

(i) when the prospectus or any prospectus supplement or post-effective amendment has been filed, and, with respect to the Registration Statement or any post-effective amendment, when the same has become effective;

(ii) of any request by the Commission for amendments or supplements to the Registration Statement or the prospectus or for additional information;

(iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose;

(iv) if at any time the representations and warranties of the Company contemplated by paragraph (m) below, to the knowledge of the Company, cease to be true and correct;

(v) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and

(vi) of the existence of any fact which, to the knowledge of the Company, results in the Registration Statement, the prospectus or any document incorporated therein by

reference containing an untrue statement of material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein not misleading;

(d) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of the Registration Statement or any qualification referred to in paragraph (c) at the earliest possible moment;

(e) if reasonably requested by the managing underwriter or underwriters or Employee, immediately incorporate in a prospectus supplement or post-effective amendment such necessary information as the managing underwriters or Employee reasonably requests to have included therein relating to the plan of distribution with respect to such Registrable Securities, including, without limitation, information with respect to the amount of other Registrable Securities being sold to such underwriters, the purchase price being paid therefor by such underwriters and with respect to any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Securities to be sold in such offering; and make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(f) at the request of Employee, furnish to Employee, without charge, at least one signed copy of the Registration Statement and any post-effective amendment thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits (including those incorporated by reference);

(g) deliver to Employee and the underwriters, if any, without charge, as many copies of the Registration Statement, each prospectus (including each preliminary prospectus) and any amendment or supplement thereto (in each case including all exhibits, except that the Company shall not be obligated to furnish Employee more than 3 copies of such exhibits other than incorporation documents), as he may reasonably request, together with such documents incorporated by reference in such Registration Statement or prospectus, and such other documents as he may reasonably request in order to facilitate the disposition of his Registrable Securities covered by such registration statement; the Company consents to the use of each prospectus or any amendment or supplement thereto by Employee and the underwriters, if any, in connection with the offering and sale of the Registrable Securities covered by each prospectus or any amendment or supplement thereto;

(h) cooperate with the Employee and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends; and enable such Registrable Securities to be in such denominations and registered in such names as the managing underwriters may request at least 3 days prior to any sale of Registrable Securities to the underwriters;

(i) use its best efforts to cause the Registrable Securities covered by the applicable Registration Statement to be registered with or approved by such United States,

state and local governmental agencies or authorities as may be necessary to enable the Employee or the underwriters, if any, to consummate the disposition of such Registrable Securities;

(j) if any fact contemplated by Section 4.04 (c)(vi) above shall exist, promptly notify Employee and prepare and furnish a supplement or post-effective amendment to the Registration Statement or the related prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities, the prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(k) cause all Registrable Securities covered by the Registration Statement to be listed on each securities exchange on which securities of the same class are then listed, if any;

(1) not later than the effective date of the applicable Registration Statement, provide a CUSIP number for all Registrable Securities and provide the applicable transfer agent with printed certificates for the Registrable Securities;

(m) enter into agreements (including underwriting agreements) and take all other appropriate actions in order to expedite or facilitate the disposition of such Registrable Securities and in such connection, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration;

(i) make such representations and warranties to the Employee and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in primary underwritten offerings;

(ii) obtain opinions of counsel to the Company and updates thereof, which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the managing underwriters, if any, and Employee, covering the matters customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by Employee and such underwriters;

(iii) obtain so-called “cold comfort” letters and updates thereof from the Company’ s independent certified public accountants addressed to the Employee and the underwriters, if any, such letters to be in customary form and covering matters of the type customarily covered in “cold comfort” letters to underwriters in connection with primary underwritten offerings; and

(iv) deliver such documents and certificates as may be reasonably requested by Employee, or the managing underwriters, if any, to evidence compliance with paragraph (m) above and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

The above shall be done at the effectiveness of such Registration Statement, each closing under any underwriting or similar agreement as and to the extent required thereunder and from time to time as may reasonably be requested by Employee in connection with the disposition of Registrable Securities pursuant to such Registration Statement, all in a manner consistent with customary industry practice;

(n) make available all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company' s officers, directors and employees to supply all information reasonably requested by any such representatives, underwriter, attorney or accountant in connection with the Registration, with respect to each at such time or times as the person requesting such information shall reasonably determine; provided, however, that any records, information or documents that are designated by the Company in writing as confidential shall be kept confidential by such persons unless disclosure of such records, information or documents is required by court or administrative order or applicable law or otherwise becomes public without breach of the provisions of this paragraph (n);

(o) otherwise comply with the Securities Act, the Exchange Act, all applicable rules and regulations of the Commissions and all applicable Blue Sky laws and other securities laws, rules and regulations, and make generally available to its security holders, earnings statements satisfying the provisions of Section 11(a) of the Securities Act, no later than 30 days after the end of any twelve month period (or 60 or 90 days if the end of such 12-month period coincides with the end of a fiscal quarter or fiscal year, respectively) of the Company (i) commencing at the end of any month in which Registrable Securities are sold to underwriters in an underwritten offering, or if not sold to underwriters in such an offering, (ii) beginning with the first month commencing after the effective date of the Registration Statement, which statements shall cover said twelve month period;

(p) cooperate and assist in any filings required to be made with the National Association of Securities Dealers, Inc. ("NASD") and in the performance of any due diligence investigation by any underwriter; and

(q) promptly prior to filing of any document which is being prepared for incorporation by reference into the Registration Statement (after the initial filing of the Registration Statement), provide copies of such document to counsel for Employee and to the

managing underwriters, if any, make the Company' s representatives available for discussion of such document, and make such changes in such document prior to the filing thereof as counsel for Employee or such underwriters may reasonably request.

4.05 Information Furnished by Purchaser. It shall be a condition precedent of the Company' s obligations under this Section 4 that the Employee furnish to the Company such information regarding the Employee and the distribution proposed by the Employee as the Company may reasonably request to effect any such Registration and as are customarily provided by selling shareholders.

4.06 Indemnification.

(a) Indemnification by the Company. In the event of the Registration of any Registrable Securities under the Securities Act pursuant to the provisions hereof, the Company will, to the extent permitted by law, indemnify and hold harmless the Employee as the seller of such Registrable Securities, from and against any losses, claims, damages, liabilities or expenses, to which the Employee may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained or incorporated by reference in any Registration Statement or prospectus or any amendment or supplement thereto or in any preliminary prospectus, or any document incorporated by reference therein, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any violation of any Federal, state or common law, rule or regulation applicable to the Company and will reimburse the Employee for any legal or any other expenses reasonably incurred by the Employee in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made or incorporated by reference in the Registration Statement, prospectus, amendment, supplement or in reliance upon and in conformity with written information furnished to the Company by the Employee stating specifically that it is for use in preparation thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Employee.

(b) Indemnification by Employee. In the event of the Registration of any Registrable Securities under the Securities Act pursuant to the provisions hereof, the Employee on whose behalf such Registrable Securities shall have been registered will, to the extent permitted by law, indemnify and hold harmless the Company, each director of the Company, each officer of the Company who signs the registration statement, each underwriter, broker and dealer, if any, who participates in the offering and sale of such Registrable Securities and each other person, if any, who controls the Company or any such underwriter, broker or dealer within the meaning of either Section 15 of the Securities Act or Section 20 of the

Exchange Act (each person being hereinafter sometimes referred to as an "indemnified person"), against any losses, claims, damages or liabilities, joint or several, to which the Company, such director, officer, underwriter, broker or dealer or controlling person may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained or incorporated by reference in any Registration Statement or prospectus or any amendment or supplement thereto or any document incorporated by reference therein, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, which untrue statement or alleged untrue statement or omission or alleged omission has been made or incorporated therein in reliance upon and in conformity with written information furnished to the Company by the Employee stating specifically that it is for use in preparation thereof and will reimburse the Company and each such indemnified person for any legal or any other expenses reasonably incurred by the Company or such indemnified person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the obligations of Employee hereunder shall be limited to an amount equal to the proceeds to Employee for securities sold as contemplated herein; and provided, further, that Employee shall not have any obligation hereunder or be liable with respect to consent shall not be unreasonably withheld, delayed or conditioned.

(c) Procedure. Promptly after receipt by an indemnified party of notice of the commencement of any action (including any governmental investigation or inquiry), such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to such indemnifying party of the commencement thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than pursuant to the provisions of this Section 4.06 except to the extent materially prejudiced thereby. In case any such action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party, the indemnifying party shall not, except as hereinafter provided, be responsible for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, other than reasonable costs of investigation. No indemnifying party will consent to entry of any judgment or enter into any settlement which (i) does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation or (ii) includes a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Such indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be the expense of such indemnified party unless (i) the Company has agreed to pay such fees and expenses or (ii) the Company shall have

failed to assume the defense of such action or proceeding or has failed to employ counsel satisfactory to such indemnified party in any such action or proceeding or (iii) the named parties to any such action or proceeding (including any impleaded parties) include both such indemnified party and the Company, and such indemnified party shall have been advised by counsel that representation of both parties by the same counsel would be inappropriate due to actual or potential material differing interests between them (in which case, if such indemnified party notifies the Company in writing that it elects to employ separate counsel at the expense of the Company, the Company shall not have the right to assume the defense of such action or proceeding on behalf of such indemnified party, it being understood, however, that the Company shall not, in connection with any such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one firm of attorneys at any time for such indemnified party and any other indemnified parties, which firm shall be designated in writing by such indemnified parties). The Company shall not be liable for any settlement of any such action or proceeding effected without its written consent, which consent shall not be unreasonably withheld, delayed or conditioned, but if settled with its written consent, or if there be a final judgment for the plaintiff in any such action or proceeding, the Company agrees to indemnify and hold harmless such indemnified parties from and against any loss or liability by reason of such settlement or judgment.

(d) Contribution. If the indemnification provided for in this Section 4.06 is unavailable to a party that would have been an indemnifying party under this Section 4.06 in respect of any losses, claims, damages, liabilities or expenses (or actions in respect thereof) referred to therein, then each party that would have been an indemnifying party thereunder shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and such indemnified party on the other in connection with the statement or omission which resulted in such losses, claims, damages, liabilities or expenses (or actions in respect thereof), as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or such indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The Company and each holder of Registrable Securities agrees that it would not be just and equitable if contribution pursuant to this Section 4.06(d) were determined by *pro rata* allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 4.06(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or expenses (or actions in respect thereof) referred to above in this

Section 4.06 shall include any legal or other expenses reasonably incurred by such indemnified party in connection with investigation or defending any such action or claim if the indemnifying party has assumed the defense of any such action in accordance with the provisions thereof). No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Indemnification or, if appropriate, contribution, similar to that specified in the preceding provisions of this Section 4.06(d) shall be given by the Company and each seller of Registrable Securities with respect to any required registration or other qualification of such securities under any federal or state law or regulation of governmental authority other than the Securities Act. In the event of any underwritten offering of Registrable Securities under the Securities Act pursuant to the provisions hereof, the Company and each person on whose behalf such Registrable Securities shall have been registered agree to enter into an underwriting agreement, in standard form, with the underwriters, which underwriting agreement may contain additional provisions with respect to indemnification and contribution in lieu hereof.

(e) Limitation on Liability. The liability of Employee pursuant to this Section 4.06 shall not exceed the net proceeds received by Employee from a sale of his Registrable Securities pursuant to a Registration hereunder.

4.07 Market Stand-Off. (a) Employee hereby agrees that, if so requested by the Company and the underwriter' s representative (if any), in connection with the Company' s initial underwritten public offering of the Company' s securities, he shall agree not to sell or otherwise transfer any Registrable Securities or other securities of the Company without the prior written consent of the Company and the underwriter' s representative during the ninety-day period following the effective date of a Registration Statement of the Company filed under the Securities Act.

(b) If Employee' s Registrable Securities are not covered by a Registration Statement, Employee agrees not to effect any public sale or distribution of Registrable Securities, including a sale pursuant to Rule 144 under the Securities Act, during the ninety-day period beginning on the effective date of such Registration Statement.

4.08 Current Public Information. At all times after the Company has filed a Registration Statement pursuant to the Securities Act, the Company will use its best efforts to file all reports required under the Securities Act or the Exchange Act and will take such further action as may be reasonably required to enable any holder of "restricted securities" (as defined in Rule 144 adopted by the Commission under the Securities Act) to sell such securities pursuant to Rule 144, as amended from time to time, or any similar rule or regulation hereafter adopted by the Commission.

5. Termination.

5.01 Termination by the Company for Cause; Voluntary Termination of Employment by Employee. The Board of Directors shall have the right to terminate the employment of Employee for Cause, and the Employee may voluntarily terminate his employment prior to the expiration of the term of this Agreement. Effective as of the date that the employment of Employee terminates by reason of Cause or his voluntary termination of his employment, this Agreement, except for Sections 2.03 through 2.09, shall terminate and no further payments of the compensation described in Section 3 (except for such remaining payments of Minimum Annual Compensation under Section 3.01 relating to periods during which Employee was employed by the Company) shall be made to Employee. Benefits which are required by applicable law to be continued, and reimbursement of prior expenses under Section 3.04, shall be made.

5.02 Termination by the Company without Cause; Termination in connection with a Change of Control.

(a) The Board of Directors shall have the right to terminate the employment of Employee at any time without Cause for any reason. Effective as of the date that the employment of Employee terminates without Cause, this Agreement, except as set forth in this Section 5.02 and in Sections 2.03 through 2.09, shall terminate and no further payments of the compensation described in Section 3 (except for such remaining payments of the Minimum Annual Compensation under Section 3.01 relating to periods during which Employee was employed by the Company and any Incentive Compensation as provided in Section 3.2 then earned as of such date of termination) shall be made to Employee. Reimbursement of prior expenses under Section 3.04 shall be made. Additionally, upon such termination without Cause, the Company shall pay to Employee at a rate equivalent to Employee' s Minimum Annual Compensation as in effect on the date of Employee' s cessation of services by reason of his termination without Cause for a period ending on the later of (i) twelve (12) months following the date of such termination and (ii) the number of months remaining in the initial term or the extended term, if any, of this Agreement in accordance with Section 6.02 hereof (the "Severance Payment").

(b) A termination of Employee in connection with a Change of Control shall be deemed to be a termination of Employee without Cause under this Section 5.02. For the duration of the period during which Employee shall receive the Severance Payment, the Company shall continue the benefits that the Employee received immediately prior to the date of termination without Cause, or otherwise substantially similar benefits, at the cost of the Company.

5.03 Termination on Account of Employee' s Death.

(a) In the event of Employee' s death during the term of this Agreement:

(i) This Agreement shall terminate except as provided in this Section 5.03; and

(ii) The estate of Employee shall retain the entire proceeds from the $2,000,000.00 life insurance policy on the life of Employee referred to in Section 3.04 of this Agreement.

(b) Employee may designate one or more beneficiaries for the purposes of this Section 5.03 by making a written designation and delivering such designation to a Vice President or the Treasurer of the Company. If Employee makes more than one such written designation, the designation last received before Employee' s death shall control.

5.04 Termination on Account of Employee' s Disability. If Employee ceases to perform services for the Company because of a Disability, the Company shall continue to pay Employee an amount equal to two-thirds (2/3) of Employee' s Minimum Annual Compensation as in effect on the date of Employee' s cessation of services by reason of Disability less any amounts paid to Employee as Workers Compensation, Social Security Disability benefits (or any other disability benefits) and any amount paid to Employee as disability payments under any disability plan or program for a period ending on the earlier of: (a) the date that Employee again becomes employed in a significant manner and on a substantially full-time basis; or (b) that date which is one (1) year from the date of determination of the Disability of Employee.

5.05 Constructive Discharge. If the Company fails to reappoint Employee to (or rejects Employee for) the position of Chief Executive Officer or fails to comply with the provisions of Section 3, Employee may, if the Company shall not cure such breach within thirty (30) days following notice thereof from Employee, at his option terminate his employment and such termination shall be considered to be a termination of Employee' s employment by the Company for reasons other than "Cause" and shall not be considered to be a voluntary termination of employment by Employee.

5.06 No Further Obligation. Except as expressly set forth in this Agreement, upon any termination of Employee by the Company, the voluntary termination of employment by Employee or upon the expiration of this Agreement, as the case may be, the Company shall have no further obligation to Employee, including without limitation, any obligation to pay a Severance Payment or to continue any benefits for Employee or his dependents.

6. Miscellaneous.

6.01 Assignment. This Agreement and the rights and obligations of the parties hereto shall bind and inure to the benefit of each of the parties hereto and shall also bind and inure to the benefit of any successor or successors of the Company in a reorganization, merger or consolidation and any assignee of all or substantially all of the Company' s business and properties, but, except as to any such successor of the Company, neither this Agreement nor any rights or benefits hereunder may be assigned by the Company or Employee.

6.02 Initial Term and Extensions. Except as otherwise provided in this Section 6.02 or Section 5, the term of this Agreement shall be two (2) years commencing with the effective date hereof. On each anniversary of the effective date thereafter commencing with June 8, 1999, the term of the Agreement shall be automatically extended for an additional year (such that the remaining term of the Agreement will be two (2) years) unless either party notifies the other in writing more than 10 days prior to the relevant anniversary date that the Agreement is no longer to be extended.

6.03 Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Connecticut.

6.04 Cooperation. The Employee shall offer all reasonable cooperation to the Company, at the request of the Board of Directors, in obtaining key man term life insurance on the life of the Executive at the expense and for the benefit of the Company or its lenders. Such key man life insurance shall be in addition to any key man life insurance which the Company shall maintain on the life of the Employee pursuant to Section 3.04(c) hereof.

6.05 Interpretation. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein.

6.06 Notice. Any notice required or permitted to be given hereunder shall be effective when received and shall be sufficient if in writing and if personally delivered or sent by prepaid cable, telex or registered air mail, return receipt requested, to the party to receive such notice at its address set forth at the end of this Agreement or at such other address as a party may by notice specify to the other.

6.07 Amendment and Waiver. This Agreement may not be amended, supplemented or waived except by a writing signed by the party against which such amendment or waiver is to be enforced. The waiver by any party of a breach of any provision

of this Agreement shall not operate to, or be construed as a waiver of, any other breach of that provision nor as a waiver of any breach of another provision.

6.08 Binding Effect. Subject to the provisions of Section 5 hereof, this Agreement shall be binding on the successors and assigns of the panics hereto.

6.09 Survival of Rights and Obligations. All rights and obligations of Employee or the Company arising during the term of this Agreement shall continue to have full force and effect after the termination of this Agreement unless otherwise provided herein.

6.10 Entire Agreement. This Agreement contains the entire agreement and understanding of the parties hereto, and supersedes any prior agreements or understandings between or among them, with respect to the subject matter hereof, including without limitation

that certain employment agreement dated as of the 18th day of December, 1996, between Employee and the Company, which agreement is terminated and superceded by this Agreement.

THE COMPANY

THE ARROW CORPORATION

By: /s/ Peter V. Evans

Name: Peter V. Evans

Title: Vice President

EMPLOYEE

/s/ Edgardo A. Mercadante

Edgardo A. Mercadante

ADDRESSES:

Company:
312 Fanmington Avenue
Fanmington, CT 06032
Attention: Peter C. Evans, Esq.,
General Counsel

with a copy to:

Oxford Bioscience Partners
45 Milk Street, 9th Floor
Boston, MA 02109
Attention: Jonathan Fleming, General Partner

and:

Rogin, Nassau, Caplan, Lassman & Hirtle, LLC
Cityplace I
185 Asylum Street
Hartford, CT 06103
Attention: Steven D. Bartelstone, Esq.

Employee:
23 Morgan Place
Unionville, CT 06085

AMENDMENT TO EMPLOYMENT AGREEMENT BY
AND BETWEEN THE ARROW CORPORATION
AND EDGARDO A. MERCADANTE DATED JUNE 8, 1998

This amendment to Employment Agreement by and between The Arrow Corporation (now known as Familymeds, Inc., the "Company") and Edgardo A. Mercadante (the "Employee") dated June 8, 1998 (the "Employment Agreement," a copy of which is attached hereto) is made between the Company and the Employee as of this 30th day of June, 2000.

WHEREAS, the parties desire to amend the Employment Agreement.

NOW THEREFORE, the parties agree to amend the Employment Agreement as follows.

1. In Section 1 the term "Benefits" shall include all that is listed in the Employment Agreement and (a) Employee' s car allowance; (2) Employee' s life insurance coverage paid for by the Company; (c) Employee' s unreimbursed medical expenses; and (d) Employee' s monthly in store pharmacy allowance.

2. In Section 1 the term "Cause" shall be amended by inserting "commercially reasonable" in front of "directive" in (iii).

3. Section 3.01 shall be deleted and replaced with the following:

"3.01 Minimum Annual Compensation. The Company shall pay to Employee for the services to be rendered herein a base salary, at the annual rate of Two Hundred Twenty Five Thousand Dollars ($225,000) ("Minimum Annual Compensation") effective as of May 1, 2000. Upon the closing of the D Round financing, Employee' s Minimum Annual Compensation shall be increased to Two Hundred Seventy Thousand Dollars ($270,000). Employee shall be entitled to an annual increase of five percent (5%) of the then applicable base salary. Annual increases greater than five percent (5%) may be granted to Employee subject to the approval and discretion of the compensation committee of the Board. At no time during the term of this Agreement shall Employee' s annual base salary fall below Minimum Annual Compensation. In addition, if the Board increases Employee' s Minimum Annual Compensation at any time during the term of this Agreement, such increased Minimum Annual Compensation shall become a floor below which Employee' s compensation shall not fall at any future time during the term of this Agreement and shall become Minimum Annual Compensation."

4. Exhibit A attached hereto shall amend and supersede Exhibit A of Section 3.02.

5. Subsection (j) shall be added to Section 3.04 as follows:

"(j) During the term of this Agreement, Employee' s Benefits shall at least equal the Benefits granted to any member of the senior management team of the Company."

6. Subsection (k) shall be added to Section 3.04 as follows:

"(k) Stock Option Grants. Employee shall be eligible to receive, at the discretion of the Compensation Committee of the Board of Directors, stock option grants as part of any overall award or stock option program established by the Company or its Board from time to time. Employee may recommend certain stock option grants for any employee of the Company to be considered by the Compensation Committee of the Board of Directors."

7. Section 6.02 shall be deleted and replaced with the following:

"6.02 Term. This Agreement shall commence on June 8, 1998 and shall expire on June 30, 2002."

8. Section 3.05 shall be added to the Agreement as follows:

"3.05 Stock Options. As of the effective date (the "Effective Date") of the Familymeds, Inc. (now known as Familymeds Group, Inc.) 2000 Stock Option Plan (the "Plan"), the Company grants to the Employee an option to purchase an aggregate of 100,000 shares of the Non-Voting Common Stock of the Company at $9.75 per share. The term during which the option shall be exercisable shall commence one (1) year from the Effective Date and expire five (5) years from the Effective Date (the "Expiration Date"), subject to earlier termination as provided in the Plan. The option shall vest one third (1/3) upon the Effective Date and one third (1/3) each year over a two (2) year period beginning one (1) year from the Effective Date, or earlier in the event of an underwritten initial public offering of the parent of the Company (an "IPO") or upon termination of employment of the Employee without Cause. In the event of an IPO or termination of employment without Cause, the option shall fully vest."

9. Section 5.02(a) and (b) shall be shall be deleted and replaced with the following:

"5.02 Termination by the Company without Cause: Termination in connection with a Change of Control."

(a) The Board of Directors shall have the right to terminate the employment of the Employee at any time without Cause for any reason. Effective as of the date that the employment of Employee terminates without Cause, this Agreement, except as set forth in this Section 5.02 and in Section 2.03 through 2.09, shall terminate and no further payments of the compensation described in Section 3 (except for such remaining payments of the Minimum Annual Compensation under Section 3.01 relating to periods during which Employee was employed by the Company and any Incentive Compensation as provided in Section 3.2 then earned as of such date of termination) shall be made to Employee. Additionally, upon such termination without Cause, the Company shall pay severance to the Employee in an amount equal to two times the Employee' s then prevailing Minimum Annual Compensation (the "Severance Payment"). The Severance Payment shall be paid to the Employee by the Company in a lump-sum within thirty (30) days of the date that the employment of the Employee terminates without Cause. For twenty four (24) months following the date the employment of Employee terminates without Cause, the Company shall continue the Benefits that the Employee

received immediately prior to the date of termination without Cause, or otherwise substantially Similar Benefits, at the cost of the Company.

(b) A termination of Employee in connection with a Change of Control or a material change in Employee' s position, job description or authority shall be deemed a termination of the employment of Employee without Cause under this Section 5.02.

(c) In the event Employee' s employment is terminated without Cause, the Company shall redeem at fair market value, at the option of the Employee, up to twenty five percent (25%) of his vested common shares and any vested common stock options, provided that if the Company is legally incapable of such redemption, the Company shall issue the Employee a promissory note for any amount not legally capable of being redeemed for such fair market value with an interest at a rate per annum equal to the prevailing applicable federal rate on unpaid principal to be paid at such time as the Company shall become legally capable of such redemption, but in no event later than five (5) years from the date of termination of the employment of Employee. Fair market value shall be established by the Company' s independent accountants."

10. All other terms and conditions of the Employment Agreement shall remain in full force and effect.

AGREED TO:

FAMILYMEDS, INC.

By
/s/ Peter Evans

Its Sr. Vice President

/s/ Edgardo A. Mercadante

Edgardo A. Mercadante

Exhibit A

BONUS OR PERFORMANCE INCENTIVE OUTLINE TERMS

Employee' s Incentive Compensation shall be no more than 50% of Employee' s Minimum Annual Compensation to be determined by the Compensation Committee of the Board of Directors of the Company as follows:

Seventy Five percent (75%) of the Employee' s Incentive Compensation shall be measured objectively on the basis on increasing shareholder value, increasing Earnings Before Interest Taxes Depreciation Amortization ("EBITDA") and increasing Company revenues all to be determined based upon the Company' s attainment of milestones and projections as may be set from time to time by management and approved by the Board of Directors.

Twenty Five percent (25%) of Employee' s Incentive Compensation shall be left to the discretion of the Compensation Committee of the Board of Directors.

The Employee may recommend bonuses for key management to be considered by the Compensation Committee of the Board of Directors.

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT is made as of the 1st day of August, 2002 between Edgardo A. Mercadante (the "Employee") and Familymeds, Inc. (the "Company"),

PREAMBLE

On June 8, 1998, the Employee and the Company entered into an Employment Agreement and on June 30, 2000, the Employee and the Company entered into an Amendment to Employment Agreement (collectively, the "Agreement") and the parties desire to further amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and the respective covenants and agreements of the parties, the parties agree as follows:

1. Definitions. For purpose of this Amendment, the following terms shall have the following meanings:

(a) Change of Control. For purposes of Section 4 of this Amendment, Change of Control shall have the same meaning as defined in Section 1 of Employee' s Agreement.

(b) EBITDA. For purposes of this Amendment, EBITDA means Earnings Before Interest Taxes Depreciation and Amortization, determined on a consolidated basis applied consistently with prior years and the 2002 "confidence budget", and as adjusted and reflected in the financial statements of the Company that have been audited, and opined upon without qualification that could reflect a potential misstatement of EBITDA, by the Company' s certified public accountants, which determination of EBITDA shall be binding and conclusive for purposes of this Amendment.

(c) Other Terms. All other capitalized terms not otherwise defined herein or elsewhere in this Amendment shall have the meaning ascribed to them in the Agreement.

2. Term. Paragraph 6.02 shall be deleted and replaced with the following:

"The term of this Agreement shall commence on June 8, 1998 and, unless sooner terminated as provided in Section 5 hereof, terminate on June 30, 2004; provided, however, that commencing with June 30, 2003 and every June 30th thereafter, (the "Anniversary Date") the term of this Agreement shall be automatically extended for an additional year (such that the remaining term of the Agreement will be two (2) years), without the necessity of any action or notice by either party to the other, except that either party may terminate this Agreement by giving the other

party written notice of its intention to terminate this Agreement at least ninety (90) days prior to any Anniversary Date."

3. Compensation.

(a) Minimum Annual Compensation. The parties acknowledge that as of the Effective Date of this Amendment, the Employee' s Minimum Annual Compensation is Two Hundred Eighty Three Thousand Five Hundred Dollars ($283,500.00).

(b) 2002 Incentive Bonus Program. Paragraph 3.02 is amended by adding the following paragraph to the end thereof;

"Employee shall be entitled to participate in the Company' s 2002 Incentive Bonus Program (the "2002 Program"), in a maximum amount of up to one hundred percent (100%) of Employee' s Minimum Annual Compensation (instead of the fifty percent (50%) limitation in Exhibit A), which shall be administered as follows:

(i) The Company shall allocate to the 2002 Program, an amount equal to fifty percent (50%) of the Company' s 2002 EBITDA in excess * * * Redacted * * * (the "Bonus Pool"). In computing EBITDA, no deduction shall be taken or allowance made for the payments required by this 2002 Program.

(ii) Up to Fifty percent (50%) of the Bonus Pool shall be allocated to Senior Management (the "Senior Management Share"), which for these purposes are defined as the President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President of Sales and Marketing and the Senior Vice President of Store Operations.

(iii) Employee' s share of the Senior Management Share shall be equal to the percentage that Employee' s Minimum Annual Compensation at the time of such allocation bears to the total Minimum Annual Compensation of all Senior Management entitled to participate in the 2002 Program.

(iv) The parties acknowledge that Employee has been paid a lump sum of Fifty Thousand Dollars ($50,000.00) as an advance payment of Employee' s share of the Senior Management Share of the Bonus pool, which amount Employee shall repay the Company in the event that before December 31, 2002, Employee voluntarily terminates employment. Otherwise, Employee' s remaining share of the Senior Management Share

Bonus Pool shall be payable in a lump sum by March 15, 2003, provided however that if the 2002 audit is not completed by such date, fifty percent (50%) of the amount determined to be payable to the Employee based on the Company' s internal year-end financials shall be paid to Employee with the balance payable on issuance of the 2002 audit; and further provided that if the Compensation Committee determines that the Company does not have sufficient cash to pay the Senior Management Share when due, then the Company shall pay at least twenty five percent (25%) of the amount due but may defer payment of the remaining up to seventy five (75%). The deferred amount, if any, shall be paid in one or more installments at such time as the Compensation Committee shall determine to be in the best interests of the Company, but in no event later than June 1, 2003, Any amount being deferred hereunder shall be evidenced by a letter of award to the Employee describing the amount to which the Employee is entitled and when it will be paid.

The 2002 Program shall survive until the Company' s fiscal year end 2003 unless superceded by a revised 2003 Program and Employee shall have the same ratable interest in the 2003 Program, provided however, that even if not superceded by a revised 2003 Program, the applicability of the 2002 Program for the Company' s 2003 year shall be subject to such changes in the EBIDTA threshold and allocation percentages as are determined in the sole discretion of the Compensation Committee based on the 2003 Budget."

(c) Change in Control Bonus. In addition to the changes to Paragraph 3.02 described in subparagraph (b) of this Amendment, the following paragraph also shall be added to paragraph 3.02:

"Employee shall be entitled to participate in any Senior Management Change of Control Bonus Pool adopted by the Company or its shareholders. At the election of Employee, the Company shall purchase an equivalent number of shares of stock in the Company held by Employee or under Employee' s control (based on the valuation of the Company at the time of the Change of Control) for a price equal to Employee' s allocable share of the Change of Control Bonus Pool."

4. Termination by Company for Other Than Cause. Paragraph 5.02(b) shall be deleted and replaced with the following:

"A termination of Employee in connection with a Change of Control or a material change in job description, compensation and benefits, with a provision for severance in the event of termination without Cause that is at least as favorable as that contained in this Agreement" shall be deemed a termination of the employment of Employee without Cause under this Section 5.02. In addition, all stock options granted to the Employee shall become fully vested as of such date.

Provided however, that if on a Change in Control, the Employee accepts a position, then notwithstanding Paragraph 5.02(e), Employee shall not be entitled to Benefits and the amount payable under Paragraph 5.02(a) upon a termination without Cause shall be reduced by twice the annual compensation and guaranteed bonus, if any, of that position, but all stock options of Employee shall become fully vested as of the Change in Control."

Paragraph 5.02 is further amended by adding subparagraphs (d) (e) as follows:

"5.02(d) A notice by the Company of termination of this Agreement under Paragraph 6.02 shall be deemed a termination without Cause for purposes of this Paragraph 5.02."

"5.02(e) If the Company terminates the employment of Employee and such termination is not for Cause, then Employee shall be entitled to the payments due hereunder with no duty to mitigate his damages by seeking or accepting other employment, nor will Employee' s severance pay or Benefits hereunder be reduced or offset by any such future earnings."

5. Effective Date of Amendment. This Amendment shall be effective as of the 1st day of March, 2002.

6. Miscellaneous. All other terms and conditions of the Agreement shall remain in full force and effect.

In Witness Whereof, the parties have executed this Amendment to Employment Agreement as of the day and year first above written.

COMPANY:
Familymeds, Inc.

By:
/s/ Nichola Sinaconi

Its Chairman Compensation Committee

EMPLOYEE

/s/ Edgardo A. Mercadante

Edgardo A. Mercadante

Exhibit 10.2

EMPLOYMENT AGREEMENT
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Agreement made as of this _____ day of November, 2000, by and between Dale J. Ribaudo, 26 Country Club Lane, East Granby, Connecticut 06026 (the "Employee") and Familymeds, Inc. (the "Company").

PREAMBLE

The Company desires to employ the Employee as Senior Vice President and Chief Financial Officer and to compensate him therefore. Employee desires to be employed by the Company and to commit himself to serve the Company on the terms herein provided. In connection with his employment, Employee shall be eligible to participate in the Company' s stock option programs and stock purchase programs which may be in effect from time to time for key employees, and performance bonus program in accordance with the terms and conditions adopted by the Company governing such programs.

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreement of the parties, the parties agree as follows:

1. Definitions.

"Affiliates" shall mean any corporation, partnership or other legal entity which is controlled by or under common control with the Company.

"Benefits" shall mean all the fringe benefits approved by the Board from time to time and established by the Company in its discretion for the benefit of the employees generally and/or for key employees of the Company as a class, including, but not limited to, regular holidays, vacations, absences resulting from illness or accident, health insurance, disability and medical plans (including dental and prescription drug), group life insurance, stock option plans and stock purchase plans, and pension, profit-sharing or their equivalent.

"Board" shall mean the Board of Directors of the Company, together with an executive committee thereof (if any), as the same shall be constituted from time to time.

"Cause" for termination shall mean (i) Employee' s final conviction of or admission to a felony involving a crime of moral turpitude, (ii) acts of Employee which, in the judgment of the Board, constitute willful fraud on the part of Employee in connection with his duties under this Agreement, including but not limited to misappropriation or embezzlement in the performance of duties as an employee of the Company, or (iii) intentional or repeated acts of the Employee which in the judgment of the Board are injurious to the Company including the Employee' s failure to perform his duties hereunder.

"Chairman" shall mean the person designated by the Board from time to time as its Chairman.

"Change of Control" shall mean the (i) a merger or consolidation of the Company with or into another corporation which is not an affiliate of the Company or a recapitalization or reorganization of the Company and, immediately upon the consummation of such merger, consolidation, reorganization or recapitalization, the persons who were the shareholders of the Company immediately thereafter own more than fifty percent (50%) of the total voting power of the merged, consolidated, reorganized or recapitalized Company' s voting securities entitled to vote generally in the election of directors; (ii) the sale of all or substantially all of the assets of the Company to another person or entity which is not an affiliate of the Company; (iii) the acquisition by any person, entity or "group" (excluding, for this purpose, the Company, any affiliate of the Company, or any employee benefit plan of the Company or of any affiliate of the Company which acquires beneficial ownership of voting securities of the Company) within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of either fifty percent (50%) or more of the then outstanding shares of Common Stock or fifty percent (50%) or more of the combined voting power of the Company' s then outstanding voting securities entitled to vote generally in the elation of directors, which, in the case of clause (i), (ii) and (iii) of this definition, such merger, consolidation, reorganization or recapitalization sale or acquisition is not approved by a vote of at least eighty percent (80%) of the directors that constitute the Board immediately prior to the effectiveness of such merger, consolidation, reorganization or recapitalization, sale or acquisition, as the case may be; or (iv) during any period of two consecutive years, if persons who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority of the Board unless the election, or the nomination for election by the Company' s shareholders, of each new director was approved by a vote of at least eighty percent (80%) of the directors then still in office who were directors at the beginning of such period. For purposes of this definition, (A) an "affiliate" is any person or entity which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company and "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise and (B) "Board" means the board of directors of the Company as constituted at the time a determination thereof is required to be made pursuant to this definition.

Notwithstanding anything herein to the contrary, no change in the ownership of the Company or to the Board of Directors pursuant to that certain Amended and Restated Shareholders Agreement, dated as of July 27, 2000, by and among the Company and the "Shareholders," as defined therein, or pursuant to the Company' s initial or subsequent public offering of its capital stock shall be deemed to be a "Change of Control" hereunder.

"Chief Executive Officer" shall mean the individual having responsibility to the Board for direction and management of the executive and operational affairs of the Company and who reports and is accountable only to the Board.

"Disability" shall mean a written determination by a physician mutually agreeable to the Company and Employee (or, in the event of Employee' s total physical or mental disability,

Employee' s legal representative) that Employee is physically or mentally unable to perform his duties of Senior Vice President and Chief Financial Officer under this Agreement and that such disability can reasonably be expected to continue for a period of six (6) consecutive months or for shorter periods aggregating one hundred and eighty (180) days in any twelve (12) month period.

"Employee" shall mean Dale J. Ribaudo and, if the context requires, his heirs, personal representatives, and permitted successors and assigns.

"Person" shall mean any natural person, incorporated entity, limited or general partnership, business trust, association, agency (governmental or private), division, political sovereign, or subdivision or instrumentality, including those groups identified as "persons" in Section 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934.

"Territory" shall mean the world wide web and any state of the United States and any equivalent section or area of any country in which the Company has operating brick and mortar pharmacies or has franchised brick and mortar operations at the time of the termination of this Agreement.

"Company" shall mean Familymeds, Inc., a Connecticut corporation, together with such subsidiaries or Affiliates of the Company as may from time to time exist.

2. Position, Responsibilities and Term of Employment

2.01 Position. Employee shall be engaged on a full time basis and shall serve as Senior Vice President and Chief Financial Officer and in such additional management position(s) as the Board shall designate. In this capacity, Employee shall be subject to the bylaws of the Company and to the direction of the Board. Employee shall serve the Company and any Affiliates by performing such duties and carrying out such responsibilities as are normally related to the position of Senior Vice President and Chief Financial Officer in accordance with the standards of the industry. The Employee shall report to the President and Chief Executive Officer. The Employee shall have such other responsibilities as the Company may reasonably determine from time to time, including, without limitation, such management duties as may be necessary or desirable to further the interests of the Affiliates of the Company. Nevertheless, it is understood and agreed that the Employee shall not be given duties or responsibilities that are inconsistent in any material way with his position as a member of the senior management of the Company. Employee' s responsibilities and capacities shall include, without limitation, the following:

(a) overall responsibility for all financial and accounting facts of the Company, including reporting, compliance and asset management;

(b) developing banking and financial investment relationships;

(c) treasury functions and activities;

(d) planning and strategic framework for all financial systems and control mechanisms;

(e) handling all banking and financial relationships;

(f) set standards for control and audit of Company financial matters;

(g) in conjunction with operations store-level accounting systems and controls; and

(h) overall supervision and responsibility for all accounting and finance staff.

2.02 Term. The term of this Agreement shall commence on October 30, 2000 and, unless sooner terminated as provided in Section 4 hereof, terminate on October 31, 2002.

2.03 Best Efforts Covenant. Employee will, to the best of his ability, devote his full professional and business time and best efforts to the performance of his duties for the Company and its Affiliates. The Employee shall at all times comply with all state and federal laws, rules and regulations with respect to the operations of the Company, or its Affiliates.

2.04 Exclusivity Covenant. During the Agreement' s term, Employee will not undertake or engage in any other employment, occupation or business enterprise other than a business enterprise in which Employee does not actively participate. Further, Employee agrees not to acquire, assume, or participate in, directly or indirectly, any position, investment, or interest adverse or antagonistic to the Company, its business prospects, financial or otherwise, or take any action towards any of the foregoing. The provisions of this Section shall not prevent Employee from owning shares of any competitor of the company as long as such shares (i) do not constitute more than 1% of the outstanding equity of such competitor, and (ii) are regularly traded on a recognized exchange, or listed for trading by NASDAQ in the over-the-counter market.

2.05 Post-Employment Noncompetition Covenant. Employee shall not engage in activities in the Territory either on Employee' s own behalf or that of any other business organization, which are in direct or indirect competition with the Company for a period of one (1) year from the termination of Employee' s employment for any reason or the expiration of the term of this Agreement; provided, that if the Employee has been terminated without Cause, the restriction in this sentence shall apply only during the Severance Period as defined in Section 4.01 below. Employee and the Company expressly declare that the territorial and time limitations contained in this Section and the definition of "Territory" are entirely reasonable at this time and are properly and necessarily required for the adequate protection of the business and intellectual property of the Company. If such territorial or time limitations, or any portions thereof, are deemed to be unreasonable by a court of competent jurisdiction, whether due to passage of time, change of circumstances or otherwise, Employee and the Company agree to a reduction of said territorial and/or time limitations to such areas and/or periods of time as said court shall deem reasonable.

For a period of one year subsequent to the termination of Employee' s employment for any reason or the expiration of the term of this Agreement, Employee will not without the express prior written approval of the Board (i) directly or indirectly, in one or a series of transactions, recruit, solicit or otherwise induce or influence any proprietor, partner, stockholder, lender, director, officer, employee, sales agent, joint venturer, investor, lessor, supplier, customer, agent, representative or any other person which has a business relationship with the Company or had a business relationship with the Company within the twelve (12) month period preceding the date of the incident in question, to discontinue, reduce, or modify such employment, agency or business relationship with the Company, or (ii) employ or seek to employ or cause any business organization in direct or indirect competition with the Company to employ or seek to employ any person or agent who is then (or was at any time within six months prior to the date the Employee or the competitive business employs or seeks to employ such person) employed or retained by the Company. Notwithstanding the foregoing, nothing herein shall prevent the Employee from providing a letter of recommendation to any employee with respect to a future employment opportunity.

2.06 Confidential Information. Employee recognizes and acknowledges that the Company' s trade secrets, proprietary information and know-how, as they may exist from time to time ("Confidential Information"), are valuable, special and unique assets of the Company' s business, and that access to and knowledge of the Confidential Information is the term of his employment by the Company, in whole or in part, disclose such secrets, information or know-how to any Person for any reason or purpose whatsoever, nor shall Employee make use of any such Confidential Information for his own purposes or for the benefit of any Person (except the Company) under any circumstances during or after the term of his employment. Notwithstanding the foregoing, after the term of Employee' s employment the foregoing restrictions shall not apply to such secrets, information and know-how which are then in the public domain (provided that Employee was not responsible, directly or indirectly, for such secrets, information or know-how entering the public domain without the Company' s consent). Employee shall have no obligation hereunder to keep confidential any Confidential Information if and to the extent its disclosure is specifically required by law; provided, however, that in the event disclosure is required by applicable law, the Employee shall provide the Company with prompt notice of such requirement, prior to making any disclosure, so that the Company may seek an appropriate protective order. Employee agrees to hold as the Company' s property all memoranda, books, papers, letters, customer lists, processes, computer software, records, financial information, policy and procedure manuals, training and recruiting procedures and other data, and all copies thereof and therefrom, in any way relating to the Company' s business and affairs, whether made by him or otherwise coming into his possession, and on termination of his employment, or on demand of the Company at any time, to deliver the same to the Company.

Employee shall use his best efforts to prevent any removal of any Confidential Information from the premises of the Company, except as required in his normal course of employment by the Company. Employee shall use his best efforts to cause all persons or entities to whom any Confidential Information shall be disclosed by him hereunder to observe the terms and conditions set forth herein as though each such person or entity was bound hereby.

2.07 Records, Files. All records, file drawings, documents, equipment and the like relating to the business of the Company which are prepared or used by Employee during the terms of this employment under this Agreement shall be and shall remain the sole property of the Company.

2.08 Hired to Invent. Employee agrees that every improvement, invention, process apparatus, method, design, and any other creation that Employee may invent, discover, conceive, or originate by himself or in conjunction with any other Person during the term of Employee' s employment under this Agreement that relates to the business carried on by the Company during the term of Employee' s employment under this Agreement or contemplated by the Company during the term hereof even if not implemented during the term of this Agreement ("Work For Hire") shall be the exclusive property of the Company. Employee agrees to disclose to the Company every patent application, notice of copyright, or other action taken by Employee or any affiliate or assignee to protect intellectual property during the 12 months following Employee' s termination of employment at the Company, for whatever reason, so that the Company may determine whether to assert a claim under this Section or any other provision of this Agreement. The Employee does hereby assign to the Company all of the Work For Hire and hereby appoints the Company as his attorney-in-fact coupled with an interest to execute such documents as may be required to evidence such assignment.

2.09 Equitable Relief. Employee acknowledges that his services to the Company are of a unique character which give them a special value to the Company. Employee further recognizes that violations by Employee of any one or more of the provisions of this Section 2 may give rise to losses or damages for which the Company cannot be reasonably or adequately compensated in an action at law and that such violations may result in irreparable and continuing harm to the Company. Employee agrees that, therefore, in addition to any other remedy which the Company may have at law and equity, including the right to withhold any payment of compensation under Section 3 of this Agreement, the Company shall be entitled to injunctive relief to restrain any violation, actual or threatened, by Employee of the provisions of this Agreement.

3. Compensation.

3.01 Minimum Annual Compensation. The Company shall pay to Employee for the services to be rendered herein a base salary at the initial annual rate of One Hundred Sixty Thousand ($160,000.00) Dollars ("Minimum Annual Compensation") effective as of the date hereof, which base salary shall be subject to annual review and increase to be determined by the Compensation Committee of the Board. Employee' s salary shall be payable bi-weekly.

3.02 Incentive Compensation. In addition to Minimum Annual Compensation, Employee shall be entitled to participate in, at the discretion of the Board, any bonus or incentive compensation plan adopted by the Compensation Committee of the Board for key employees of the Company, up to forty percent (40%) of Minimum Annual Compensation, provided the Employee attained the goals (the "Performance Goals") which may be set by the Board from time to time. A portion of the Incentive Compensation for the period from November 1, 2000 through October 31, 2001 shall be guaranteed. The guaranteed amount will be $25,000 paid to

the Employee within fifteen (15) days following the completion of the period specified. Further, as an additional inducement for the Employee' s execution of this Agreement, the Company shall subject to the approval of the Board, be granted an option to purchase an aggregate of 50,000 shares of the Non-Voting Common Stock of the Company (the "Common Stock") at a below market price to be determined by the Board.

3.03 Participating in Benefits. Employee shall be entitled to all Benefits made available to similarly situated employees of the Company for as long as such Benefits may remain in effect. In addition, Employee shall be entitled to any substitute or additional Benefits made available in the future to similarly situated employees of the Company. Employee' s entitlement to the aforementioned Benefits shall be subject to and on a basis consistent with the terms, conditions and overall administration of such Benefits adopted by the Company and in the discretion of the Company. Benefits paid to Employee shall not be deemed to be in lieu of other compensation to Employee hereunder as described in this Section 3.

3.04 Specific Benefits. During the term of this Agreement (and thereafter to the extent this Agreement shall require):

(a) Vacation. Commencing on January 1, 2001, Employee shall be entitled to four (4) weeks of paid vacation time per year, to be taken at time mutually acceptable to the Company and Employee.

(b) Insurance Policies. The Company may, at its discretion, and at any time after the execution of this Agreement, and for so long as Employee remains employed by the Company, apply for and procure, as owner and for its own benefit, insurance on the life of the Employee, in such amounts and in such form or forms as the Company may choose. The Employee shall have no interest whatsoever in the policy or policies, but the Employee shall, at the request of the Company, subject himself to such medical examinations, supply such information, and execute such documents as may be required by the insurance company or companies to which it has applied for such insurance. At the termination of employment hereunder either for cause or otherwise, the Company shall either: (i) surrender such policies to the issuer; or (ii) transfer ownership of any policies procured pursuant to this Agreement to the Employee who shall thereafter be responsible for the payment of any premiums thereunder. It is the intention of the parties that the Company shall retain no insurance on the life of the Employee after employment hereunder has been terminated for any reason whatsoever.

(c) Disability. If Employee is unable to perform his obligations under this Agreement because of illness and/or disability, Employee shall continue to receive his full compensation and benefits under this Agreement for a period not to exceed six (6) consecutive months; provided, however, Employee' s base salary from the Company shall be reduced by the amount, if any, of income payments received by Employee as a result of group or individual disability insurance coverage maintained at the cost of the Company.

(d) Purchasing Allowance. The Company shall reimburse Employee for expenditures made by the Employee at any Arrow Prescription Center location in an amount not to exceed Two Hundred Dollars ($200) per month.

(e) Medical Reimbursement. The Company shall reimburse Employee for medical expenses incurred by Employee for himself or his immediate family which are not covered expenses pursuant to the health insurance policies provided by Company pursuant to paragraph (b), above, in an amount not to exceed Three Thousand Dollars ($3,000) per annum.

(f) Expense Reimbursement. Employee shall be entitled to receive prompt reimbursements for all reasonable expenses incurred by him (in accordance with the policies and procedures established by the Company or the Board for the similarly situated employees of the Company) in performing services hereunder.

(g) Automobile Allowance. Company and Employee acknowledge that Employee currently receives an automobile benefit from his former employer. At the expiration of Employee' s current benefit, the Company and Employee shall mutually agree on an automobile allowance consistent with that provided to similarly situated officers of the Company.

4. Termination.

4.01 Termination by Company for Other Than Cause. If during the term of this Agreement the Company terminates the employment of Employee and such termination is not for Cause then the Company shall pay to Employee an amount equal to the monthly portion of Employee' s Minimum Annual Compensation multiplied by the greater of twelve (12) months or the number of months remaining in the term of this Agreement (the "Severance Period"). If during the term of this Agreement there is a Change of Control resulting in a change of position of Employee' s employment, and if Employee' s annual compensation in his new position shall be less than the Minimum Annual Compensation, then the difference shall be paid to Employee for the balance of the Severance Period. If the Employee' s employment in a new position shall terminate, then for the purposes of this paragraph 4.01, Employee shall be entitled to continuation of the Minimum Annual Compensation until the earlier of the conclusion of the Severance Period or the date when he shall again become reemployed, in which case only the difference shall be payable as aforesaid. If the Employee' s reemployment in a new position shall terminate, Employee shall use his best efforts to become reemployed as soon as reasonable possible in a position consistent with Employee' s experience and stature. Any amounts due hereunder shall be paid at such times and in such manner as the Employee had previously been paid his Minimum Annual Compensation. The payments provided herein are in lieu of any other payments due the Employee hereunder, including but not limited to, any claim for breach of contract.

4.02 Termination by the Company for Cause. The Company shall have the right to terminate the employment of Employee for Cause, however, nothing herein shall be deemed to constitute a waiver of the right of the Employee to challenge the Company' s determination of Cause. Effective as of the date that the employment of Employee terminates for Cause, this Agreement, except for Sections 2.04 through 2.09, shall terminate and no further payments of the Compensation described in Section 3 (except for such remaining payments of Minimum Annual Compensation under Section 3.01 relating to periods during which Employee

was employed by the Company, benefits which are required by applicable law to be continued, and reimbursement of prior expenses under Section 3.04) shall be made.

4.03 Termination on Account of Employee' s Death.

(a) In the event of Employee' s death during the term of this Agreement;

(1) This Agreement shall terminate except as provided in this Section; and

(2) The Company shall pay to Employee' s beneficiary or beneficiaries (or to his estate if he fails to make such designation) an amount equal to the Employee' s Minimum Annual Compensation as in effect on the date of his death. This amount shall be paid in one lump sum as soon as practicable after the date of his death.

(b) Employee may designate one or more beneficiaries for the purposes of this Section by making a written designation and delivering such designation to the Treasurer of the Company. If Employee makes more than one such written designation, the designation last received before Employee' s death shall control.

4.04 Termination on Account of Disability. The Company shall have the right to terminate the employment of Employee in case of Disability of the Employee. In such case, the provisions of Section 3.04(c) of this Agreement shall apply and the provisions of Section 4.01 of this Agreement shall not apply, notwithstanding the terms of said Section 4.01.

4.05 Benefits Upon Termination. Upon the termination of the Employee' s employment hereunder for Cause, the Employee shall not receive any other benefits except as required by law. In the case of termination without Cause, any health insurance, dental insurance, life insurance and disability insurance coverage provided under the Company' s benefit programs shall be continued for a period of twelve months or such earlier date that the Employee obtains other employment.

5. Miscellaneous.

5.01 Assignment. The Company shall have the right to assign all of its rights under this Agreement to any affiliate or to any purchaser of substantially all of the assets of the Company; provided, however, any such assignment shall not release the Company from any of its obligations under this Agreement. Upon any such assignment, this Agreement shall be binding upon and inure to the benefit of such assigns and the Employee. If any such purchaser of substantially all of the assets of the Company is unwilling to accept an assignment of this Agreement and to assume the obligations hereof, then Company shall remain fully liable hereunder notwithstanding the sale of its assets and the resulting cessation of its business operations. The Employee shall have no right to assign or delegate any rights or obligations under this Agreement.

5.02 Governing Law. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of Connecticut.

5.03 Interpretation. In case any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein.

5.04 Notice. Any notice required or permitted to be given hereunder shall be effective when received and shall be sufficient if in writing and if personally delivered or sent by prepaid cable, telex or registered air mail, return receipt requested, to the party to receive such notice at its address set forth at the end of this Agreement or at such other address as a party may by notice specify to the other.

5.05 Amendment and Waiver. This Agreement may not be amended, supplemented or waived except by a writing signed by the party against which such amendment or waiver is to be enforced. The waiver by any party of a breach of any provision of this Agreement shall not operate to, or be construed as a waiver of, any other breach of that provision nor as a waiver of any breach of another provision.

5.06 Binding Effect. This Agreement shall be binding on the successors and assigns of the parties hereto.

5.07 Survival of Rights and Obligations. All rights and obligations of Employee or the Company arising during the term of this Agreement shall continue to have full force and effect after the termination of this Agreement unless otherwise provided herein.

5.08 Entire Agreement. This Agreement contains the entire understanding of the parties and supersedes all prior agreements between the parties. There are no oral understandings, terms or conditions and no party has relied upon any representation, express or implied, not contained in this Agreement. The rights and protection afforded by any and all provisions of this Agreement shall inure to the benefit of (and may be fully enforced by) any Affiliate of the Company, it being understood such Affiliates are intended third party beneficiaries of this Agreement.

5.09 Partial Invalidity. The invalidity of one or more of the phrases, sentences, clauses, sections or articles contained in the Agreement shall not affect the validity of the remaining portions.

5.10 Genders. Any reference to the masculine gender shall be deemed to include the feminine and neuter genders, and vice versa, and any reference to the singular shall include the plural, and vice versa, unless the context otherwise requires.

5.11 Company Policies. The Company' s Policies as amended from time to time will govern all terms, privileges and conditions of employment of the Employment which are not specifically addressed in this Agreement and shall include all rules and regulations adopted by the Company from time to time in its sole discretion.

FAMILYMEDS, INC.

By: /s/ Edgardo Mercadante

Edgardo Mercadante

Its Chairman and Chief Executive Officer

/s/ Dale Ribaudo

Dale Ribaudo

ADDRESSES:

Company: 312 Farmington Avenue
Farmington, CT 06032

Employee: 26 Country Club Lane
East Granby, CT 06026

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT is made as of the 8th day of August, 2002, between Dale J. Ribaudo, 26 Country Club Lane, East Granby, Connecticut 06206 (the "Employee") and Familymeds, Inc. (the "Company").

PREAMBLE

In November, 2000, the Employee and the Company entered into an Employment Agreement (the "Agreement") and the parties desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and the respective covenants and agreements of the parties, the parties agree as follows:

1. Definitions. For purpose of this Amendment, the following terms shall have the following meanings:

(a) Benefits. In Section 1 of the Agreement, the term "Benefits" shall include all that is listed in the Agreement and (a) Employee' s automobile

allowance; (b) Employee' s medical expense reimbursements; and (c) Employee' s purchasing allowance.

(b) Change of Control. For purposes of Section 4 of this Amendment, Change of Control shall have the same meaning as defined in Section 1 of Employee' s Agreement.

(c) EBITDA. For purposes of this Amendment, EBITDA means Earnings Before Interest Taxes Depreciation and Amortization, determined on a consolidated basis applied consistently with prior years and the 2002 "confidence budget," and as adjusted and reflected in the financial statements of the Company that have been audited, and opined upon without qualification that could reflect a potential misstatement of EBITDA, by the Company' s certified public accountants, which determination of EBITDA shall be binding and conclusive for purposes of this Amendment.

(d) Other Terms. All other capitalized terms not otherwise defined herein or elsewhere in this Amendment shall have the meaning ascribed to them in the Agreement.

2. Term. Paragraph 2.02 shall be deleted and replaced with the following:

"The term of this Agreement shall commence on October 30, 2000 and, unless sooner terminated as provided in Section 4 hereof, terminate on March 31, 2003 (the "Initial Term"); provided, however, that this Agreement shall automatically renew for successive one (1) year periods thereafter without the necessity of any action or notice by either party to the other, except that either party may terminate this Agreement following the Initial Term by giving the other party written notice of its intention to terminate this Agreement at least ninety (90) days prior to the proposed termination date."

3. Compensation.

(a) Minimum Annual Compensation. The parties acknowledge that as of the Effective Date of this Amendment, the Employee' s Minimum Annual Compensation is One Hundred Sixty Eight Thousand Dollars ($168,000.00).

(b) 2002 Incentive Bonus Program. Paragraph 3.02 is amended by adding the following paragraph to the end thereof.

Employee shall be entitled to participate in the Company' s 2002 Incentive Bonus Program (the "2002 Program"), in a maximum amount of up to one hundred percent (100%) of Employee' s Minimum Annual Compensation (instead of the forty percent (40%) limitation in the first sentence of Paragraph 3.02), which shall be administered as follows:

(i) The Company shall allocate to the 2002 Program, an amount equal to fifty percent (50%) of the Company' s 2002 EBITDA in excess of Nine Hundred Fifteen Thousand Two Hundred Sixty-Two Dollars (Redacted). In computing EBITDA, no deduction shall be taken or allowance made for the payments required by this 2002 Program.

(ii) Up to fifty percent (50%) of the Bonus Pool shall be allocated to Senior Management (the "Senior Management Share"), which for these purposes are defined as the President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President of Sales and Marketing and the Senior Vice President of Store Operations.

(iii) Employee' s share of the Senior Management Share shall be equal to the percentage that Employee' s Minimum Annual Compensation at the time of such allocation bears to the total Minimum Annual Compensation of all Senior Management entitled to participate in the 2002 Program; provided that Employee shall be entitled to the first $25,000 allocated from the Senior Management Share as part of and not in addition to Employee' s share of the Senior Management Share of the Bonus Pool.

(iv) The parties acknowledge that Employee has been paid a lump sum of Fifty Thousand Dollars ($50,000.00) as an advance payment of Employee' s share of the Senior Management Share of the Bonus Pool, which amount Employee shall repay the Company in the event that before December 31, 2002, Employee voluntarily terminates employment.

Otherwise, Employee' s remaining share of the Senior Management Share of the Bonus Pool shall be payable in a lump sum by March 15, 2003, provided however that if the 2002 audit is not completed by such date, fifty percent (50%) of the amount determined to be payable to the Employee based on the Company' s internal year-end financials shall be paid to Employee with the balance payable on issuance of the 2002 audit; and further provided that if the Compensation Committee determines that the Company does not have sufficient cash to pay the Senior Management Share when due, then the Company shall pay at least twenty-five percent (25%) of the amount due but may defer payment of the remaining up to seventy-five percent (75%). The deferred amount, if any, shall be paid in one or more installments at such time as the Compensation Committee shall determine to be in the best interests of the Company, but in no event later than June 1, 2003. Any amount being deferred hereunder shall be evidenced by a letter of award to the Employee describing the amount to which the Employee is entitled and when it will be paid.

The 2002 Program shall survive until the Company' s fiscal year end 2003 unless superceded by a revised 2003 Program and Employee shall have the same ratable interest in the 2003 Program, provided however, that even if not superceded by a revised 2003 Program, the applicability of the 2002 Program for the Company' s 2003 year shall be subject to such changes in the EBITDA threshold and allocation percentages as are determined in the sole discretion of the Compensation Committee based on the 2003 budget."

(c) Change in Control Bonus. In addition to the changes to Paragraph 3.02 described in subparagraph (b) of this Amendment, the following paragraph also shall be added to paragraph 3.02:

"Employee shall be entitled to participate in any Senior Management Change of Control Bonus Pool adopted by the Company or its Stockholders."

4. Termination by Company for Other Than Cause. Paragraph 4.01 of the Agreement is deleted and in lieu thereof, the following shall be inserted:

"4.01 The Company shall have the right to terminate the employment of the Employee at any time without Cause for any reason. Effective as of the date that the employment of Employee terminates without Cause, this Agreement, except as set forth in this Section 4.01 and in Sections 2.04 through 2.09, shall terminate and no further payment of compensation described in Section 3 (except for such remaining payments of the Minimum Annual Compensation under Section 3.01 relating to periods during which Employee was employed by the Company and any Incentive Compensation as provided in Section 3.02 then earned as of the date of such termination) shall be made to Employee. In addition, if during the term of this Agreement, the Company terminates the employment of Employee and such termination is not for Cause, then for a period of one year (the "Severance Period") the Company shall pay Employee an amount equal to Employee' s then Minimum Annual Compensation at such times and in such manner as the Employee had previously been paid his Minimum Annual Compensation.

In addition, if during the term of this Agreement, there is a Change in Control and Employee is terminated or not offered a position that is at least the same as or better than Employee' s then current job description, compensation and benefits, with a provision for severance in the event of termination without Cause that is at least as favorable as that contained in this Agreement, then the Employee shall be deemed to have been terminated without Cause for purposes of this Agreement and the Company shall pay Employee an amount equal to his then Minimum Annual Compensation in a lump-sum within thirty (30) days of the Change of Control and all stock options granted to the Employee shall become fully vested as of such date; provided however, that if on a Change in Control, the Employee

accepts a position, then notwithstanding the last two paragraphs of this Paragraph 4.01, Employee shall not be entitled to Benefits and the amount payable hereunder shall be reduced by the annual compensation and guaranteed bonus, if any, of that position, but all stock options of Employee shall become fully vested as of the Change of Control.

A notice by the Company of termination of this Agreement under Paragraph 2.02 shall be deemed a termination without Cause for purposes of this Paragraph 4.01.

If the Company terminates the employment of Employee and such termination is without Cause, then for a period of one (1) year, the Company shall continue the Benefits that the Employee received immediately prior to the date of termination without Cause, or otherwise substantially similar Benefits, at the cost of the Company.

If the Company terminates the employment of Employee and such termination is not for Cause, then Employee shall be entitled to the payments due hereunder with no duty to mitigate his damages by seeking or accepting other employment, nor will Employee' s severance pay or Benefits hereunder be reduced or offset by any such future earnings.

5. Benefits.

(a) Medical Reimbursement. Paragraph 3.04(e) is amended by substituting "in an amount not to exceed the maximum amount allowed for senior management from time to time" for and in place of "in an amount not to exceed three thousand dollars ($3,000)."

(b) Automobile Allowance. The parties acknowledge that commencing with the execution of this Amendment, Employee shall be entitled to the use of a Company automobile, plus reimbursement for gas and other costs and expenses related to Employee' s use of such vehicle for business purposes.

6. Effective Date of Amendment. This Amendment shall be effective as of the 1st day of March 2002.

7. Miscellaneous. All other terms and conditions of the Agreement shall remain in full force and effect.

In Witness Whereof, the parties have executed this Amendment to Employment Agreement as of the day and year first above written.

COMPANY:
Familymeds, Inc.

By:
/s/ Edgardo A. Mercadante

Edgardo A. Mercadante

Its President and Chief Executive Officer

EMPLOYEE

/s/ Dale J. Ribaudo

Dale J. Ribaudo

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT is made as of the 13th day of August, 2004 between Dale J. Ribaudo (the "Employee") and Familymeds, Inc. (the "Company").

PREAMBLE

In November 2000, the Employee and the Company entered into an Employment Agreement and on August 8, 2002, the Employee and the Company entered into an Amendment to Employment Agreement (collectively, the "Agreement") and the parties desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and the respective covenants and agreements of the parties, the parties agree as follows:

1. Compensation.

   (a) Minimum Annual Compensation. The parties acknowledge that as of the Effective Date of this Amendment, the Employee' s Minimum Annual Compensation is Two Hundred Thirty Two Thousand Three Hundred Ninety Nine Dollars ($232,399).

2. Effective Date of Amendment. This Amendment shall be effective as of the 1st day of August 2004.

3. Miscellaneous. All other terms and conditions of the Agreement shall remain in full force and effect.

In Witness Whereof, the parties have executed this Amendment to Employment Agreement as of the day and year first above written.

COMPANY:
Familymeds, Inc.

By:
/s/ Edgardo A. Mercadante

Edgardo A. Mercadante

Its President and Chief Executive Officer

EMPLOYEE

/s/ Dale J. Ribaudo

Dale J. Ribaudo

Exhibit 10.3

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is made and entered into this 29th day of May, 1998, by and between The Arrow Corporation, a Connecticut corporation with its principal place of business at 312 Farmington Avenue, Farmington, Connecticut 06032 (the "Employer"), and James S. Beaumariage 14 Dover Circle, Franklin, MA 02038 (the "Employee).

WITNESSETH :

WHEREAS, the Employee desires to be employed by the Employer, and the Employer desires to continue to employ the Employee; and

WHEREAS, the parties acknowledge that the business of the Employer is highly competitive and that the success of such a business is significantly dependent upon the creation and maintenance of goodwill and customer relations; and

WHEREAS, the parties desire to protect the goodwill of the Employer by placing limitations on the activities of the Employee after his termination of employment with the Employer; and

WHEREAS, the parties have agreed upon mutually satisfactory terms of employment and wish to memorialize the terms of Employee' s employment as hereinafter provided,

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the parties agree as follows:

1. **Employment**. The Employer hereby employs the Employee and the Employee hereby accepts employment, effective as of March 1, 1998, as **Vice President-Managed Care and Business Operations** of the Employer upon the terms and conditions hereinafter set forth. The Employee shall render such services for the Employer in such position as may be requested by the Employer from time to time, including, but not limited to: management of activities related to managed care operations; coordination and management of all third-party affairs; pharmaceutical manufacturer supply coordination and negotiations; drug formulary implementation and management; and together with other senior corporate personnel, the coordination and management of all headquarters activities relating to the business operations and direction of Arrow Prescription Centers, Med Max Pharmacies and any other units owned by, or managed by Employer, including the oversight of merchandising and MIS departments.

2. **Performance of Duties**. the Employee shall promote the business of the Employer, perform his duties competently and diligently, and adhere to the policies as established by the Employer from time to time. The Employee shall use his best efforts in furtherance of the Employer' s interests and devote all of the time, attention, and energy of the Employee to the business of the Employer.

3. **Other Activities.** During the term of this Agreement, the Employee shall not, directly or indirectly, be engaged in any other business activity, whether or not such business activity is pursued for profit or other pecuniary advantage, without the prior written consent of the

Employer. The Employee may own stocks, bonds, real estate and other forms of passive investment.

4. **Term.** Subject to the provisions for termination as hereinafter provided, such employment shall commence upon the execution hereof and shall continue for a period of two (2) years and shall, thereafter, automatically renew for successive one (1) year periods without the necessity of any action or notice by either party to the other, except that either party may terminate this agreement following the initial two (2) year term by giving the other party written notice of its intention to terminate this Agreement at least one hundred twenty (120) days prior to the proposed termination date,

5. **Compensation**. For all services rendered by the Employee under this Agreement, the Employer shall pay and the Employee shall accept, subject to applicable withholding for taxes, the following:

A. **Base Salary**. The Employer shall pay to the Employee a base salary of One Hundred Ten Thousand Dollars ($110,000) per year. Such sum shall be payable in a manner consistent with, the Employer' s practice for similarly situated employees of the Employer.

B. **Additional Benefits**. The Employee shall also receive any other benefits generally available to other full-time employees of the Employer from time to time. Health/medical and short term disability insurance will be provided on a shared expense basis with the Employer. Life insurance equal to two hundred fifty percent (250%) of the Employee' s base salary will be provided at no cost to the Employee. The Employee may participate in any pension or stock option plan generally available to other full-time executives of the Employer from time to time. Employer shall be entitled to make changes in its employee benefit plans as effect, generally, the Employer' s employees.

C. **Expense Reimbursement**. Consistent with the Policies, the Employee may incur reasonable expenses for promoting the business of the Employer, including expenses for entertainment, travel, seminars and similar items. The Employer will reimburse or advance funds to the Employee for such approved expenses upon presentation by the Employee from time to time of an itemized account for such expense account expenditures in accordance with the Policies.

D. **Purchasing Allowance**. The Employer shall reimburse Employee for expenditures made by the Employee at any Arrow Prescription Center location in an amount not to exceed Two Hundred Dollars ($200) per month.

E. Medical Reimbursement. The Employer shall reimburse Employee for medical expenses incurred by Employee for himself or his immediate family which are not covered expenses pursuant to the health insurance policies provided by Company pursuant to paragraph (B), above, in an amount not to exceed Four Thousand Dollars ($4,000) per annum.

6. **Vacation.** The Employee shall be entitled to three (3) weeks of paid vacation each. year. Such vacation shall be taken at such times as are mutually convenient for the Employee and the Employer and if not taken, in the year in which it is earned, up to one (1) week may be carried over until the last day of January in the immediately following year, in addition to such vacation

time, the Employee shall be entitled to all legal holidays and other days on which the Employer is closed for business and such sick and/or personal days as are allowed for other employees.

7. **Covenant Not to Compete; Solicit,** During the period of the Employee' s employment hereunder and thereafter until the date which is twenty-four (24) months (the "Noncompete Period") from the date the Employee' s employment under this Agreement terminates for any reason whatsoever, except for a termination, by the Employer without Cause pursuant to Article 11, it being understood that Employee shall not be restricted by this Article 7 if Employee' s employment is terminated by the Employer without Cause as defined in Article 10, the Employee shall not, directly or indirectly:

A. except as a passive investor owning less than ten percent (10%) of the stock of a publicly held company;

   i. own, manage, operate, control or participate in the ownership, management, operation or control;

   ii. serve as an officer, director, partner, employee, agent, consultant, advisor, developer or in any similar capacity with; or

   iii. have any financial interest in or aid or assist anyone else in the conduct of (including, without limitation, soliciting the Employer' s customers),

   any business or business activities which is or may be reasonably construed to be competitive with the businesses of the Employer (including Affiliates thereof) as such businesses were conducted from time to time during Employee' s Term of employment if conducted within three (3) miles of any business facility owned, managed, operated (whether directly or indirectly such as through a license, franchise or similar arrangement) or under construction, development proposal, or planning, or under agreement, proposal, or offer or active consideration (as demonstrated by meaningful negotiations or other significant conduct by the Employer or for the Employer, its subsidiaries or Affiliates (collectively, the "Noncompete Facilities") as of the date of termination of this Agreement; or

B. solicit the employment of, negotiate with respect to employment with or employ any of the management or other key employees of the Employer its subsidiaries or Affiliates, other than on behalf of the Employer,

C.

The foregoing restrictions of this Article 7 shall not restrict Employee from accepting full-time employment with a manufacturer of prescription Pharmaceuticals (a "Drug Manufacturer"), a wholesaler of prescription Pharmaceuticals (a "Drug wholesaler") or a recognized drug chain with a national presence (a "National Chain") not acting as a franchisor, even if the retail store locations of such a National Chain are within the prohibited, three (3) mile radius of a Noncompete Facility, unless operated through a franchise or similar type arrangement. In addition, the foregoing restrictions of this Article 7 shall not restrict Employee from accepting full-time employment with a pharmacy benefit manager (a "PBM") provided that at the time Employee accepts such full-time

employment, the Employee is not, by itself or through any subsidiary or affiliate, actively engaged in business as a PBM. Although the noncompete restrictions of this Article 7 do not prohibit Employee from becoming a full-time employee of a Drug Manufacturer, Drug Wholesaler, National Chain or PBM, Employee shall remain obligated to the provisions of this Agreement prohibiting Employee from soliciting other employees of the Employer. Further, Employee shall not solicit any of the franchisees of the Employer or its or their customers during the Noncompete Period.

As of the date of any such termination, the Employee and the Employer shall in good faith prepare a written list of the Noncompete Facilities. For purposes of this Agreement, it shall not be deemed a competitive act prohibited by the foregoing provisions of this Agreement in the event Employee owns directly or indirectly real property which is leased to the Employer or its Affiliates.

8. **Confidential Information**. Except as required by the Employee' s duties to the Employer, the Employee shall not, whether during or at any time after the termination of this Agreement, directly or indirectly, use, disseminate or disclose any trade secret or other confidential or proprietary information or trade secrets of the Employer. Without limiting the generality of the foregoing, Employee shall be expressly prohibited from disclosing any and all terms of the franchise system employed from time to time between Employer and its franchisees.

The Employee and the Employer hereby specifically acknowledge and agree that trade secrets of the Employer shall be deemed to include any and all unique processes, techniques, methods, designs, materials, programs, contract forms, analyses, budgets, business or strategic plans, advertising formats, financial structures, program booklets, projections, marketing strategies, training programs, recording systems, accounting reports, management systems, computer programs, electronic media and the like used by and developed by or for the Employer or its subsidiaries or Affiliates in the conduct or promotion of its business (except to the extent that such materials have been part of the public domain); and that any and all such confidential information, material or matter, or trade secrets, from time to time developed or implemented by, or disclosed, divulged, communicated, furnished or made available to the Employee are to perform and discharge the duties and responsibilities of the Employee to the Employer, and that no such disclosure, divulgence, communication or the like shall in any manner whatsoever be deemed or construed to derogate from or affect any of the provisions set forth hereinabove,

9. **Enforcement**. The Employee agrees that the nature of the Employer' s business, the information with respect to methods, systems, processes, services and the like used by the Employer in its business are all of a confidential nature and agrees that the restrictive covenants contained in this Agreement are reasonable in scope, length of duration and territory included. The Employee further agrees that these restrictions are reasonably necessary for the protection of the business and goodwill of the Employer and that violation of a covenant by the Employee would cause irreparable damage to the Employer. The existence of any claim or cause of action by Employee against the Employer shall not constitute and shall not be asserted as a defense to the enforcement by the Employer of this Agreement.

The Employee acknowledges that the Employer will suffer irreparable harm as a result of a breach of such restrictive covenants by the Employee for which an adequate monetary remedy

does not exist and a remedy at law may prove to be inadequate. Accordingly, in the event of any actual or threatened breach by the Employee of any provision of this Agreement, the Employer shall, in addition to any other legal remedies permitted by law, be entitled to obtain equitable remedies, including, without limitation, specific performance, injunctive relief, a temporary restraining order, or a permanent injunction in any court of competent jurisdiction, to prevent or otherwise restrain a breach of Articles 7 8 and 10 without the necessity of proving damages, posting a bond or other security, and, if prevailing, to recover any and all costs and expenses, including reasonable counsel fees, incurred in enforcing this Agreement against the Employee, and the Employee hereby consents to the entry of such relief against him and agrees not to contest such entry, such relief shall be in addition to and not in substitution of any other remedies available to the Employer. The existence of any claim or cause of action of the Employee against the Employer, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of said covenants. The Employee shall not defend on the basis that there is an adequate remedy at law.

10. **Hired to Invent.** Employee agrees that every improvement, invention, process apparatus, method, design and other creation the Employee may invent, discover, conceive or originate by himself or in conjunction with another person during the term of Employee' s employment under this Agreement that relates to the business of the Employer carried on during the term hereof by the Employer or contemplated to be carried on, even if not implemented ("Work for Hire") shall be the exclusive property of the Employer. The Employee does hereby assign to the Employer all of the Work for Hire and hereby appoints the Employer to be his attorney-in- fact coupled with an interest to execute such documents as may be required to evidence such assignment.

11. **Termination.** The employment of the Employee shall continue as provided under this Agreement until the occurrence of any of the following events:

A. the written agreement of the Employee and the Employer to terminate this Agreement;

B. the termination of the employment of the Employee by the Employer for cause as defined in this Agreement;

C. the termination of employment by notice as provided in section 4. of this Agreement;

D. the termination of employment by the Employer because the Board of Directors of Employer has determined that such termination is in the best interests of the Employer and such termination is not for Cause, death or disability;

E. the death of the Employee; or

F. the physical or mental disability of the Employee for a period of three (3) consecutive months. As used in this Agreement, the term "disability" shall mean the inability of the Employee due to illness or physical or mental infirmity to perform his duties under this Agreement to the extent performed prior to such disability, and such illness or such physical or mental infirmity is expected to continue thereafter. For purposes of this Agreement, "disability" shall be determined in the reasonable discretion of the Employer or, at the request of Employee, by determination of a mutually agreeable physician, or in the absence of agreement, by a

majority of a three-person panel of physicians, one chosen by Employee, one by the Employer and the third by the two so chosen.

The Employer shall be obligated to pay such salary and vacation pay as shall have been earned by the Employee through the date of any such termination.

12. **Definition of Cause**. For purposes of this Agreement, "cause" for the termination of the employment of the Employee shall mean: (a) any material breach of this Agreement by the Employee, or the failure of the Employee to perform any material duty of the Employee as an officer or employee of the Employer which continues after the Employer gives notice to the Employee stating the facts which are alleged to provide cause for the termination; (b) competition by the Employee with the Employer; (c) the conviction of the Employee of any crime involving dishonesty, embezzlement, fraud, larceny, theft or moral turpitude; (d) the conviction of the Employee of a felony; (e) the willful misconduct or gross negligence of the Employee, or (f) any act or omission by the Employee which has a material adverse impact on the business or financial condition of the Employer. Any determination of whether there is cause for the termination of the employment of the Employee shall be made in the sole discretion of the employer.

13. **Payments to Employee Upon Termination of Employment**. Upon the termination of the Employee' s employment if such termination is without Cause pursuant to 11(D), the Employer shall pay to the Employee an amount equal to the monthly portion of Employee' s base salary on the date of termination multiplied by the lesser of twelve (12) months or the number of months remaining in the Term (the "Severance Period") Any amounts due hereunder shall be paid at such times and in such manner as the Employee had been previously paid his base salary. If, during the Severance Period, Employee obtains a new position but Employee' s annual compensation shall be less that the base salary provided herein, then Employer shall pay to Employee the difference for the balance of the Severance Period, "Difference" shall be defined as the difference between Employee' *s* base salary for any year or lesser period in which this Agreement would have been in effect and the annualized compensation payable to Employee in his new position during such period, Such Difference shall be paid to Employee in the same manner as base salary had been paid prior to such termination over the period of such reemployment over such period. If the Employee' s reemployment in a new position shall terminate, then for the purposes of this paragraph, Employee shall be entitled to continuation of his base salary until he shall again be reemployed, in which case only the Difference shall be payable as aforesaid. Employee shall at all times use his best efforts to become reemployed as soon as possible in a position consistent with Employee' s experience and stature. The payments provided herein are in lieu of any other payments due the Employee including, but not limited to, any claim for breach of contract.

14. **Property of Employer**. Upon the termination of the employment of the Employee for whatever reason, the Employee shall deliver and return to the Employer all keys, customer lists, mailing lists, price lists, cost lists, files, books of account, contracts, orders, reports, catalogues, brochures, manuals, memoranda, notes, correspondence, records, documents and all other papers of whatever nature, together with all existing copies thereof, which are then in the possession, custody or control of the Employee and which pertain to or contain information relative to the business of the Employer, whether or not prepared or compiled by the Employee. The Employee also shall deliver and return to the Employer upon the termination of the employment of the

Employee all other property belonging to the Employer or used in its business which is then in the Employee' s possession, custody or control.

15. **Indemnification by Employer**. The Employer shall defend, indemnify and hold the Employee harmless at all times against and in respect of all damages, losses, costs, expenses, liabilities, penalties, and other costs (the "damages"), arising out of the performance by Employee of the duties required within the scope of his employment as outlined herein or as amended from time to time.

16. **General Provisions**.

A. **Amendment**. No amendment or modification of this Agreement shall be binding unless it is in writing, signed by the party against whom enforcement of any amendment or modification is sought.

B. **Personnel Policies and Procedures**. The personnel policies and procedures of the Employer will govern all terms, privileges and conditions of the employment of the Employee which are not specifically addressed in this Agreement.

C. **Notices**. Any notice required or permitted to be given, under this Agreement shall be in writing and delivered personally or sent by certified mail, return receipt requested, in the case of the Employee to his last known home address or such other address as the Employee may specify in writing; or in the case of the Employer to its principal place of business.

D. **Waiver**. Failure by the parties to insist in any one or more instances upon the performance of any of the terms and conditions of this Agreement shall not be construed as a waiver or relinquishment of any right granted hereunder, or the future performance of any such term, covenant, condition or obligation of either party with respect hereto, and all terms and conditions of this Agreement shall continue in full force and effect.

E. **Entire Agreement**. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof.

F. **Severability**. In the event that any one or more of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal, or unenforceable, the same shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein. This Agreement shall further be deemed severable as to the length of time and the activities protected, so that the covenants shall not be deemed invalid if the provisions protected against are unreasonably protective and the court shall reduce or limit the protective provisions so as to make said provisions valid under Connecticut law. it is agreed and understood that these covenants are not intended to and do not restrict the Employee from earning a living in his field of employment.

G. **Successors and Assigns**. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Employer, and shall inure to the benefit of and be binding upon the Employee and his heirs, executors and administrators.

H. **Applicable Law**. This agreement is entered into and shall be construed and performed in accordance with the laws of the State of Connecticut.

IN WITNESS WHEREOF, the parties have executed this Agreement in duplicate as of the day and year first above written.

Employer:

By: /s/ Edgardo A. Mercadante

Employee:

/s/ James S. Beaumariage

5/29/98

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT is made as of the 8th August, 2002 between James S. Beaumariage (the "Employee") and Familymeds, Inc. (the Company").

PREAMBLE

On May 29, 1998, the Employee and the Company entered into an Employment Agreement (the "Agreement') and the parties desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and the respective covenants and agreements of the parties, the parties agree as follows:

1. Definitions. For purpose of this Amendment, the following terms shall have the following meanings:

"Affiliates" shall mean any corporation, partnership or other legal entity which is controlled by or under common control with the Company.

"Benefits" shall mean all the fringe benefits approved by the Board from time to time and established by the Company in its discretion for the benefit of the employees generally and/or for key employees of the Company as a class, including, but not limited to, regular holidays, vacations, absences resulting from illness or accident, health insurance, disability and medical plans (including dental and prescription drug), group life insurance, stock option plans and stock purchase plans, and pension, profit-sharing or their equivalent, automobile allowance, medical reimbursement, and employee' s purchasing allowance.

"Change of Control" shall mean the (i) a merger or consolidation of the Company with or into another corporation which is not an affiliate of the Company or a recapitalization or reorganization of the Company and, immediately upon the consummation of such merger, consolidation, reorganization or recapitalization, the persons who were the shareholders of the Company immediately prior to such merger, consolidation, reorganization or recapitalization do not immediately thereafter own more than fifty percent (50%) of the total voting power of the merged, consolidated, reorganized or recapitalized Company' s voting securities entitled to vote generally in the election of directors; (ii) the sale of all or substantially all of the assets of the Company to another person or entity which is not an affiliate of the Company; (iii) the acquisition by any person, entity or "group" (excluding, for this purpose, the Company, any affiliate of the Company, or any employee benefit plan of the Company or of any affiliate of the Company which acquires beneficial ownership of voting securities of the Company) within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of either fifty percent (50%) or more of the then outstanding shares of Common Stock or fifty percent (50%) or more of the combined voting power of the Company' s then outstanding voting securities entitled to vote generally in the election of directors, which, in the case of clause (i), (ii) and (iii) of this definition, such merger, consolidation, reorganization or recapitalization, sale or acquisition is not approved by a vote of at least eighty percent (80%) of the directors that constitute the Board immediately prior to the

effectiveness of such merger, consolidation, reorganization or recapitalization, sale or acquisition, as the case may be; or (iv) during any period of two consecutive years, if persons who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority of the Board unless the election, or the nomination for election by the Company' s shareholders, of each new director was approved by a vote of at least eighty percent (80%) of the directors then still in office who were directors at the beginning of such period. For purposes of this definition, (A) an "affiliate" is any person or entity which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Company and "control" (including the terms "controlling", "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise and (B) "Board" means the board of directors of the Company as constituted at the time a determination thereof is required to be made pursuant to this definition. Notwithstanding anything herein to the contrary, no change in the ownership of the Company or to the Board of Directors pursuant to the Company' s initial or subsequent public offering of its capital stock shall be deemed to be a "Change of Control" hereunder.

"Company" shall mean Familymeds.com, Inc., a Connecticut corporation, together with such subsidiaries or Affiliates of the Company as may from time to time exist.

"EBITDA" shall mean Earnings Before Interest Taxes Depreciation and Amortization, determined on a consolidated basis applied consistently with prior years and the 2002 "confidence budget", and as adjusted and reflected in the financial statements of the Company that have been audited, and opined upon without qualification that could reflect a potential misstatement of EBITDA by the Company' s certified public accountants, which determination of EBITDA shall be binding and conclusive for purposes of this Amendment.

All other capitalized terms not otherwise defined herein or elsewhere in this Amendment shall have the meaning ascribed to them in the Agreement.

2. Term. Paragraph 4 shall be deleted and replaced with the following:

"Subject to the provisions for termination as hereinafter provided, such employment shall commence upon the execution hereof and shall continue for a period of two (2) years and shall, thereafter, automatically renew on the following March 31 and for successive one (1) year periods thereafter without the necessity of any action or notice by either party to the other, except that either party may terminate this Agreement following the initial two (2) year term by giving the other party written notice of its intention to terminate this Agreement at least ninety (90) days prior to the proposed termination date,"

3. Employment The parties acknowledge that as of the Effective Date of this Amendment, Employee is employed in the position of Senior Vice President of Store Operations.

4. Compensation.

(a) Minimum Annual Compensation. The parties acknowledge that as of the Effective Date of this Amendment, the Employee' s base salary ("Minimum Annual Compensation") is One Hundred Fifty Thousand Dollars ($150,000.00) per year.

(b) 2002 Incentive Bonus Program, Paragraph 5 is amended by adding the following paragraph to the end thereof:

"F. 2002 Incentive Program. Employee shall be entitled to participate in the Company' s 2002 Incentive Bonus Program (the "2002 Program"), in a maximum amount of up to one hundred percent (100%) of Employee' s Minimum Annual Compensation, which shall be administered as follows:

(i) The Company shall allocate to the 2002 Program, an amount equal to fifty percent (50%) of the Company' s 2002 EBITDA in excess of Nine Hundred Fifteen Thousand Two Hundred Sixty Two Dollars (Redacted). In computing EBITDA, no deduction shall be taken or allowance made for the payments required by this 2002 Program.

(ii) Up to Fifty percent (50%) of the Bonus Pool shall be allocated to Senior Management (the "Senior Management Share"), which for these purposes are defined as the President and Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Senior Vice President of Sales and Marketing and the Senior Vice President of Store Operations.

(iii) Employee' s share of the Senior Management Share shall be equal to the percentage that Employee' s Minimum Annual Compensation at the time of such allocation bears to the total Minimum Annual Compensation of all Senior Management entitled to participate in the 2002 Program.

(iv) The parties acknowledge that Employee has been paid a lump sum of Thirty Thousand Dollars ($30,000.00) as an advance payment of Employee' s share of the Senior Management Share of the Bonus Pool, which amount Employee shall repay the Company in the event that before December 31, 2002, Employee voluntarily terminates employment. Otherwise, Employee' s remaining share of the Senior Management Bonus Pool shall be payable in a lump sum by March 15, 2003, provided however that if the 2002 audit is not completed by such date, fifty percent (50%) of the amount determined to be payable to the Employee based on the Company' s internal year-end financials shall be paid to Employee with the balance payable on issuance of the 2002 audit; and further provided that if the Compensation Committee determines that the Company does not have sufficient cash to pay the Senior Management Share when due, then the Company shall pay at least twenty five percent (25%) of the amount due but may defer payment of the remaining up to seventy five (75%). The deferred amount, if any, shall paid in one or more installments at such time as the Compensation Committee shall determine to be in the best interests of the Company, but in no

event later than June 1, 2003. Any amount being deferred hereunder shall be evidenced by a letter of award to the Employee describing the amount to which the Employee is entitled and when it will be paid.

The 2002 Program shall survive until the Company' s fiscal year end 2003 unless superceded by a revised 2003 Program and Employee shall have the same ratable interest in the 2003 Program, provided however, that even if not superceded by a revised 2003 Program, the applicability of the 2002 Program for the Company' s 2003 year shall be subject to such changes in the EBITDA threshold and allocation percentages as are determined in the sole discretion of the Compensation Committee based on the 2003 budget."

(c) Change in Control Bonus. In addition to the changes to Paragraph 5 described in subparagraph F of this Amendment, the following paragraph also shall be added to paragraph 5:

G. "Senior Management Change of Control Bonus Pool. Employee shall be entitled to participate in any Senior Management Change of Control Bonus Pool adopted by the Company or its Stockholders."

5. Termination by Company for Other Than Cause. Paragraph 13 of the Agreement is deleted and in lieu thereof, the following shall be inserted:

Effective as of the date that the employment of Employee terminates without Cause, this Agreement, except as set forth in this Section 13 and in Sections 7 through 10, shall terminate and no further payment of compensation described in Section 5 (except for such remaining payments of the Minimum Annual Compensation relating to periods during which Employee was employed by the Company and any Incentive Compensation as provided in Section 3 hereof then earned as of the date of such termination) shall be made to Employee, In addition, if during the term of this Agreement, the Company terminates the employment of Employee and such termination is not for Cause, then for a period of one year (the "Severance Period") the Company shall pay Employee an amount equal to Employee' s then Minimum Annual Compensation at such times and in such manner as the Employee had previously been paid his Minimum Annual Compensation.

In addition, if during the term of this Agreement, there is a Change in Control and Employee is terminated or not offered a position that is at least the same as or better than Employee' s then current job description, compensation and benefits, with a provision for severance in the event of termination without Cause that is at least as favorable as that contained in this Agreement, then the Employee shall be deemed to have been terminated without Cause for purposes of this Agreement and the Company shall pay Employee an amount equal to his then Minimum Annual Compensation in a lump-sum within thirty (30) days of the Change of Control and all stock options granted to the Employee shall become fully vested as of such date; provided however, that if on a Change in Control, the Employee accepts a position, then notwithstanding the last two paragraphs of this Paragraph

4.01, Employee shall not be entitled to Benefits and the amount payable hereunder shall be reduced by the annual compensation and guaranteed bonus, if any, of that position, but all stock options of Employee shall become fully vested as of the Change of Control.

A notice by the Company of termination of this Agreement under Paragraph 2 hereof shall be deemed a termination without Cause for purposes of this Paragraph 13.

If the Company terminates the employment of Employee and such termination is without Cause, then for a period of one (1) year, the Company shall continue the Benefits that the Employee received immediately prior to the date of termination without Cause, or otherwise substantially similar Benefits, at the cost of the Company.

If the Company terminates the employment of Employee and such termination is not for Cause, then Employee shall be entitled to the payments due hereunder with no duty to mitigate his damages by seeking or accepting other employment, nor will Employee' s severance pay or Benefits hereunder be reduced or offset by any such future earnings."

6. Benefits. Subparagraph E of Paragraph 5 is amended by adding to the end of the sentence, the following language: "or the maximum amount allowed for senior management from time to time, if higher."

7. Effective Date of Amendment. This Amendment shall be effective as of the 1st day of March, 2002.

8. Miscellaneous. All other terms and conditions of the Agreement shall remain in full force and effect

In Witness Whereof, the parties have executed this Amendment to Employment Agreement as of the day and year first above written,

COMPANY:

Familymeds, Inc.

By: /s/Edgardo A. Mercadante

Edgardo A. Mercadante

Its President and Chief Executive Officer

EMPLOYEE

James S. Beaumariage

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

This AMENDMENT TO EMPLOYMENT AGREEMENT is made as of the 13th day of August, 2004 between James S. Beaumariage (the "Employee") and Familymeds, Inc. (the Company").

PREAMBLE

On May 29,1998, the Employee and the Company entered into an Employment Agreement and on August 8, 2002, the Employee and the Company entered into an Amendment to Employment Agreement (Collectively the "Agreement') and the parties desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the foregoing and the respective covenants and agreements of the parties, the parties agree as follows:

1. Compensation.

(a) Minimum Annual Compensation. The parties acknowledge that as of the Effective Date of this Amendment, the Employee' s Minimum Annual Compensation is One Hundred Ninety One Thousand Eight Hundred Eighty-Nine dollars ($191,889).

2. Effective Date of Amendment, This Amendment shall be effective as of the 1st day of August, 2004.

3. Miscellaneous. All other terms and conditions of the Agreement shall remain in full force and effect.

In Witness Whereof, the parties have executed this Amendment to Employment Agreement as of the day and year first above written.

COMPANY:

Familymeds, Inc.

By: /s/Edgardo A. Mercadante

EMPLOYEE

/s/James S. Beaumariage

James S. Beaumariage