FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-01-05** | Period of Report: **1993-11-27**
SEC Accession No. 0000950152-94-000008

FILER

DRUG EMPORIUM INC/DE
CIK:**832922**| IRS No.: **311064888** | State of Incorp.:**DE** | Fiscal Year End: **0228**
Type: **10-Q** | Act: **34** | File No.: **000-16998** | Film No.: **94500447**
SIC: **5912** Drug stores and proprietary stores

Business Address
155 HIDDEN RAVINES DR
POWELL OH 43065
6145487080

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED November 27, 1993 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ___________________ TO ___________________

Commission File Number 0-16998

DRUG EMPORIUM, INC.

(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

Delaware	31-1064888
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

</TABLE>

<TABLE>
<S> <C>

155 Hidden Ravines Drive, Powell, Ohio	43065
(Address of principal executive offices)	(Zip Code)

</TABLE>

Registrant's telephone number, including area code (614) 548-7080

____
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 X NO ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

<TABLE>
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Class	Outstanding at 11/27/93
Common Stock, $.10 par value	13,136,085 shares

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DRUG EMPORIUM, INC.

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DRUG EMPORIUM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	November 27, 1993 (Unaudited)	February 27, 1993 (Audited)
	(000's omitted)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 530	$ 723
Accounts receivable	8,758	5,847
Inventories	151,186	146,807
Deferred income taxes and other	4,781	4,546
Total current assets	165,255	157,923
Property and equipment, net	30,351	32,072
Goodwill and other assets	5,587	5,630
Total Assets	$201,193	$195,625
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts and notes payable	$ 42,940	$ 33,594
Other accrued expenses	21,434	22,698
Revolving credit line	25,380	27,000
Current maturities of long-term debt	2,267	2,377
Total current liabilities	92,021	85,669
Convertible subordinated debt	50,791	50,748
Long-term debt, other	4,243	5,832
Minority interest	3,553	3,281
Shareholders' equity		
Preferred stock, authorized 2,000,000 shares, none issued	-	-
Common stock stated value $.10 per share, authorized 28,000,000 shares; issued and outstanding 13,136,000 and 13,117,000, respectively	1,313	1,312
Additional paid-in capital	31,972	31,909
Retained earnings	17,300	16,874
Total shareholders' equity	50,585	50,095
Total Liabilities and Shareholders' Equity	$201,193	$195,625

The accompanying notes are an integral part of the condensed consolidated financial statements.

DRUG EMPORIUM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Three Months Ended November 27 (28),		Nine Months Ended November 27 (28),	
	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
	(000's omitted, except per share data)			
<S>	<C>	<C>	<C>	<C>
Net sales	$181,250	$183,305	$550,332	$555,405
Cost of sales	142,347	145,355	434,012	442,921
	38,903	37,950	116,320	112,484
Selling, administrative and occupancy expense	37,260	39,226	110,999	113,245
Interest expense, net	1,463	1,508	4,339	4,058
Minority interest	32	103	272	261
Income (loss) before income taxes	148	(2,887)	710	(5,080)
Provision (benefit) for income taxes	59	(697)	284	(1,530)
Net income (loss)	$ 89	$ (2,190)	$ 426	$ (3,550)
Net income (loss) per share	$ .01	$ (.17)	$ .03	$ (.27)
Weighted average number of common and common equivalent shares	13,131	13,116	13,127	13,114

</TABLE>

The accompanying notes are an integral part of the condensed consolidated financial statements.

DRUG EMPORIUM, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Nine Months Ended November 27 (28), 1993	1992
	(Unaudited) (000's omitted)	
<S>	<C>	<C>
Operating activities:		
Net income (loss).	$ 426	$ (3,550)
Add (deduct) non-cash charges (credits):		
Depreciation and amortization.	5,133	4,678
Minority interest.	272	261
LIFO provision	2,400	3,614
Cash provided by (used for) current assets and liabilities:		
Accounts receivable.	(2,911)	2,352
Inventories.	(6,779)	(28,972)
Deferred income taxes and other. . .	(881)	(1,481)
Accounts payable and accrued expenses	8,082	14,916
Net cash provided by operating activities	5,742	(8,182)
Investing activities:		
Purchase of property and equipment, net.	(2,723)	(4,597)
Financing activities:		
Net borrowings under revolving credit agreement.	(1,620)	15,265
Net repayments, other.	(1,656)	(1,906)
Net proceeds from exercise of common stock options.	64	26
Cash dividends paid	-	(524)
Net cash used for financing activities .	(3,212)	12,861
Change in cash and cash equivalents, net	(193)	82
Cash and cash equivalents, beginning of period .	723	466
Cash and cash equivalents, end of period	$ 530	$ 548

</TABLE>

The accompanying notes are an integral part of the condensed consolidated financial statements.

DRUG EMPORIUM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. The accompanying financial statements include the accounts of Drug Emporium, Inc. and Subsidiaries.

The information furnished reflects all adjustments which are, in the opinion of management, necessary to fairly present the condensed consolidated financial position, results of operations, and cash flows on a consistent basis. Certain reclassifications have been made to selected financial statement groupings to make them consistent with the current period.

The Company's cost of sales is computed using the gross profit method. The gross profit percentage used is validated by physical inventories conducted twice a year primarily in the second and fourth quarters and the actual results of the LIFO calculations in the fourth quarter.

The accompanying unaudited consolidated financial statements are presented in accordance with the requirements for Form 10-Q and consequently do not include all the disclosures normally required by generally accepted accounting principles. Reference should be made to the Company's Form 10-K for fiscal year ended February 27, 1993 (File No. 0-16998) for additional disclosures including a summary of the Company's accounting policies, which have not significantly changed.

2. On December 3, 1993, the Company acquired substantially all the remaining minority shares of the Drug Emporium franchise which operates eleven stores in the Cincinnati and Dayton, Ohio areas for $6.7 million. The cash transaction was financed utilizing the Company's existing revolving credit line.

3. The Company signed a new bank credit agreement (Agreement) on January 4, 1994. The Agreement increases the available borrowings and replaces the previous bank credit agreement that was due to expire August 31, 1996.

The Agreement allows for a total credit facility of $45,000,000, depending on available collateral, consisting of a revolving credit line (Revolver) of up to $30,000,000 and $15,000,000 of term debt. The Revolver expires on February 28, 1997, while the term debt is due in quarterly installments, as follows: $500,000 during fiscal 1995, $750,000 during fiscal 1996 and fiscal 1997, and $875,000 during fiscal 1998 and 1999. The interest rate on the Revolver and the term debt float at the bank's prime rate (Prime) and Prime plus 1/4%, respectively. The agreement requires a commitment fee on the Revolver (.375% on the first $20,000,000 and .25% on the last $10,000,000) and has no compensating balance requirements.

Borrowings made pursuant to the Agreement are secured by inventory and accounts receivable. The Agreement contains certain covenants pertaining to, among other things, the Company's investments, net worth, working capital, indebtedness and fixed charge coverage. The Agreement also restricts payment of dividends, stock repurchases and acquisition of the Company's convertible subordinated debt to 50% of the cumulative net income (as defined).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The following table sets forth selected items from the Company's

Consolidated Statement of Operations expressed as a percentage of net sales for the periods indicated.

	Three Months Ended November 27 (28),		Nine Months Ended November 27 (28),	
	1993	1992	1993	1992
Net sales	100.0%	100.0 %	100.0%	100.0%
Cost of sales	78.5	79.3	78.9	79.7
Selling, administrative and occupancy expenses	20.6	21.4	20.2	20.4
Other expenses, net	.8	.9	.8	.8
Total costs and expenses	99.9	101.6	99.9	100.9
Income (loss) before income taxes	.1	(1.6)	.1	(.9)
Provision (benefit) for income taxes	-	(.4)	-	(.3)
Net income (loss)	.1%	(1.2)%	.1%	(.6)%
Provision (benefit) for income taxes as a percentage of income (loss) before income taxes	39.9%	(24.1)%	40.0%	(30.1)%

The following table lists store openings and store closings during the specified period.

	Three Months Ended November 27 (28),		Nine Months Ended November 27 (28),	
	1993	1992	1993	1992
Number of Stores at Beginning of Period	133	132	132	128
Stores Opened	2	4	7	11
Stores Closed	(1)	(1)	(5)	(4)
Total Stores at End of Period	134	135	134	135

Net store sales decreased in the third quarter and for the nine months ended November 27, 1993, due to: (1) a decline in comparable store sales of (.8%) and (2.5%), respectively; (2) an overall weakness in consumer spending; and (3) a decline in the number of Company-owned stores in operation.

The table below sets forth net sales by Company-owned stores and franchise fees and royalties earned during the specified period.

	Three Months Ended November 27 (28),		Nine Months Ended November 27, (28),	
	1993	1992	1993	1992
	(000's omitted)			
Net store sales	$180,210	$182,358	$546,798	$552,554
Franchise fees and royalties. . . .	1,040	947	3,534	2,851
Total net sales	$181,250	$183,305	$550,332	$555,405

Cost of sales as a percentage of net sales decreased for the third quarter and nine months ended November 27, 1993, versus the similar prior year periods. This is primarily due to lower product costs, private label and selectively strengthened product pricing.

The Company uses the LIFO method of accounting for its inventories. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs. The Company, in computing its LIFO provision throughout the fiscal year, uses an estimated percentage rate of inflation. The LIFO provision is adjusted at each year end based upon the actual weighted average percentage rate of inflation during the fiscal year. Cost of sales has been impacted by the estimated LIFO provision as noted in the following table:

	Three Months Ended November 27 (28),		Nine Months Ended November 27 (28),	
	1993	1992	1993	1992
	(000's omitted)			
LIFO provision	$780	$538	$2,400	$3,613

Selling, administrative and occupancy expenses declined for the third quarter and for the nine months ended November 27, 1993, as compared to the similar prior year periods, on a per-store basis and in total, due to: (1) staff reductions and efficiencies realized from the centralization that began during fiscal 1993, (2) controlling net advertising expense; partially offset by (3) an increase in occupancy costs on stores opened.

Liquidity and Capital Resources

On December 3, 1993, the Company acquired substantially all the remaining minority shares of the Drug Emporium franchise which operates eleven stores in the Cincinnati and Dayton, Ohio areas for $6.7 million. The cash transaction was financed utilizing the Company's existing revolving credit line.

The Company signed a new bank credit agreement (Agreement) on January 4, 1994. The Agreement increases the available borrowings and replaces the previous bank credit agreement that was due to expire August 31, 1996.

The Agreement allows for a total credit facility of $45,000,000, depending on available collateral, consisting of a revolving credit line (Revolver) of up to $30,000,000 and $15,000,000 of term debt. The Revolver expires on February 28, 1997, while the term debt is due in quarterly installments, as follows: $500,000 during fiscal 1995, $750,000 during fiscal 1996 and fiscal 1997, and $875,000 during fiscal 1998 and 1999. The interest rate on the Revolver and the term debt float at the bank's prime rate (Prime) and Prime plus 1/4%, respectively. The Agreement requires a commitment fee on the Revolver (.375% on the first $20,000,000 and .25% on the last $10,000,000) and has no compensating balance requirements.

Borrowings made pursuant to the Agreement are secured by inventory and accounts receivable. The Agreement contains certain covenants pertaining to, among other things, the Company's investments, net worth, working capital, indebtedness and fixed charge coverage. The Agreement also restricts payment of dividends, stock repurchases and acquisition of the Company's convertible subordinated debt to 50% of the cumulative net income (as defined). The Company believes that internally generated funds and borrowings available under its Agreement are sufficient to finance the Company's current operations.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See the Form 10-Q for the quarter ended August 28, 1993 for a discussion of certain legal proceedings.

Item 6. Exhibits and Reports on Form 8-K

(a) The following Exhibits are included herein:

--Exhibit 11. Computation of earnings (loss) per share

(b) No report on Form 8-K was filed during the quarter ended November 27, 1993.

SIGNATURES

Pursuant to the requirements 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.

DRUG EMPORIUM, INC.

(Registrant)

<TABLE>

Date January 5, 1994	By /s/ David Kriegel
	David Kriegel Chairman Chief Executive Officer
Date January 5, 1994	By /s/ Keith E. Alessi
	Keith E. Alessi Chief Financial Officer

</TABLE>

<TABLE>

DRUG EMPORIUM, INC. AND SUBSIDIARIES
COMPUTATION OF EARNINGS (LOSS) PER SHARE

<CAPTION>

	Three Months Ended November 27 (28),		Nine Months Ended November 27 (28),	
	1993	1992	1993	1992
	(000's omitted, except per share data)			
Primary:				
Weighted average number of common shares outstanding	13,131	13,116	13,127	13,114
Net effect of dilutive stock options--based on treasury stock method using estimated average market price	(a)	(a)	(a)	(a)
Weighted average common and common equivalent shares	13,131	13,116	13,127	13,114
Net income (loss)	$ 89	$(2,190)	$ 426	$(3,550)

	======	=======	======	=======
Net income (loss) per common and common equivalent share	$ .01	$ (0.17)	$ .03	$(0.27)
	======	=======	======	======
Fully Diluted:				
Weighted average number of common shares outstanding	13,131	13,116	13,127	13,114
Net effect of dilutive stock options--based on treasury stock method using an estimated period - end market price	(a)	(a)	(a)	(a)
	------	------	------	------
Fully diluted shares	13,131	13,116	13,127	13,114
	======	======	======	======
Net income (loss)	$ 89	$(2,190)	$ 426	$(3,550)
	======	=======	======	=======
Net income (loss) per common share assuming full dilution	$ .01	$(0.17)	$ .03	$(0.27)
	======	======	======	======

<FN>

(a) Excluded since amounts are antidilutive.
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