

SECURITIES AND EXCHANGE COMMISSION

FORM DEF 14A

Definitive proxy statements

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FILER

DRUG EMPORIUM INC/DE

CIK: **832922** | IRS No.: **311064888** | State of Incorpor.: **DE** | Fiscal Year End: **0228**
Type: **DEF 14A** | Act: **34** | File No.: **000-16998** | Film No.: **94529102**
SIC: **5912** Drug stores and proprietary stores

Mailing Address
*155 HIDDEN RAVINES DR
POWELL OH 43065*

Business Address
*155 HIDDEN RAVINES DR
POWELL OH 43065
6145487080*

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant /X/

Filed by a Party other than the Registrant / /

Check the appropriate box:

/ / Preliminary Proxy Statement

/X/ Definitive Proxy Statement

/ / Definitive Additional Materials

/ / Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

DRUG EMPORIUM, INC.

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DRUG EMPORIUM, INC.

(NAME OF PERSON(S) FILING PROXY STATEMENT)

Payment of Filing Fee (Check the appropriate box):

/X/ \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(j)(2).

/ / \$500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i)(3).

/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:
Not Applicable

(2) Aggregate number of securities to which transaction applies:
Not Applicable

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:*
Not Applicable

(4) Proposed maximum aggregate value of transaction:
Not Applicable

*Set forth the amount on which the filing fee is calculated and state how it was determined.

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

(1) Amount Previously Paid:
Not Applicable

(2) Form, Schedule or Registration Statement No.:
Not Applicable

(3) Filing Party:
Not Applicable

(4) Date Filed:

DRUG EMPORIUM, INC.
155 Hidden Ravines Drive
Powell, Ohio 43065
Telephone: (614) 548-7080

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO THE STOCKHOLDERS:

The Annual Meeting of Stockholders of Drug Emporium, Inc., a Delaware corporation (the "Company"), will be held at Worthington Hills Country Club, 920 Clubview Blvd., Worthington, Ohio, on the 23rd day of June, 1994, at 9:00 a.m. Eastern Daylight Savings Time, for the following purposes:

1. To elect three (3) Class Two directors to the Board of Directors for terms of three (3) years and until their successors are elected and qualified;
2. To approve and ratify the appointment of Ernst & Young as independent auditors for the fiscal year ending February 25, 1995; and
3. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

Only stockholders of record at the close of business on April 29, 1994 are entitled to notice of and to vote at the Annual Meeting or any adjournments thereof. The stock transfer books will not be closed.

The Proxy Statement, Proxy and the Annual Report of the Company for the fiscal year ended February 26, 1994 are being mailed with this Notice of Annual Meeting of Stockholders.

BY ORDER OF THE BOARD OF DIRECTORS

JANE H. LAGUSCH, Secretary

Powell, Ohio
May 18, 1994

IMPORTANT
PLEASE VOTE, SIGN, DATE AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN THE ENCLOSED POSTAGE-PAID, ADDRESSED ENVELOPE WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. IF YOU ATTEND THE ANNUAL MEETING AND SO DESIRE, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON.

THANK YOU FOR ACTING PROMPTLY

DRUG EMPORIUM, INC.
155 Hidden Ravines Drive
Powell, Ohio 43065
Telephone: (614) 548-7080

PROXY STATEMENT

The accompanying Proxy is solicited by the Board of Directors of Drug Emporium, Inc. (the "Company"), for use at the Annual Meeting of Stockholders to be held on June 23, 1994, at 9:00 a.m. Eastern Daylight Savings Time, at Worthington Hills Country Club, 920 Clubview Blvd., Worthington, Ohio, or at any adjournments thereof. When the Proxy is properly executed and returned to the Company, the shares it represents will be voted at the Annual Meeting in accordance with the directions noted thereon or, if no direction is indicated, such shares will be voted in favor of the proposals set forth in the Notice of Annual Meeting of Stockholders attached hereto. Any stockholder may revoke his

or her Proxy at any time before it is voted by executing and delivering a later Proxy or notice of revocation to the Secretary of the Company at the Company's principal office, or by giving notice of revocation or voting in person at the Annual Meeting. The cost of the solicitation of Proxies will be borne by the Company.

Only stockholders of record at the close of business on April 29, 1994 will be entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

The Company has outstanding only common stock (the "Common Stock"), of which 13,155,585 shares were issued and outstanding at the close of business on April 29, 1994. Each outstanding share of Common Stock is entitled to one vote.

This Proxy Statement, together with the Notice of Annual Meeting of Stockholders, Proxy and Annual Report of the Company was first mailed to stockholders on or about May 18, 1994. Stockholders are referred to the Annual Report for financial and other information concerning the activities of the Company. The Annual Report is not incorporated by reference into this Proxy Statement and is not deemed a part hereof.

ELECTION OF DIRECTORS

GENERAL

The Bylaws of the Company provide for a Board of Directors composed of three to fifteen directors, with a seven member board unless otherwise fixed by the directors.

Gary Wilber has decided not to seek reelection as a director of the Company when his term expires at the 1994 Annual Meeting. The Board of Directors has nominated Macy T. Block as Mr. Wilber's replacement.

The Restated Certificate of Incorporation of the Company designates three classes of directors, with each class serving a term of three years. Three persons will stand for election at this Annual Meeting as Class Two directors: Macy T. Block, John B. Gerlach and David L. Kriegel. Directors are elected by a plurality of the votes cast at the meeting; the three individuals who receive the largest number of votes cast will be elected as directors.

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Unless otherwise directed, the proxyholders will vote the Proxies received by them FOR the election of the nominees set forth in the table below for terms of three years, and until their successors are duly elected and qualified. Although the Board of Directors has no reason to believe that any of the nominees will decline or be unavailable to serve as a director, should that occur before the Annual Meeting, the Proxies will be voted by the proxyholders for such other person or persons as may be designated by the present Board of Directors.

INFORMATION REGARDING NOMINEES AND CONTINUING DIRECTORS

The following information was supplied to the Company by the listed nominees and continuing directors of the Company and is current as of April 29, 1994. The Common Stock ownership information includes current stockholdings plus shares which the listed individuals have the right to acquire within 60 days of April 29, 1994.

<TABLE>

NOMINEES

<CAPTION>

| NAME | AGE | PRINCIPAL OCCUPATION | FIRST YEAR ELECTED DIRECTOR | COMMON STOCK BENEFICIALLY OWNED | PERCENT OF CLASS |
|--------------------|-----|--|-----------------------------|---------------------------------|------------------|
| CLASS TWO: | | | | | |
| TERM EXPIRES 1997: | | | | | |
| Macy T. Block | 68 | Chairman and Chief Executive Officer Sun Television and Appliances, Inc. | -- | 307,000 | 2.3% |
| John B. Gerlach | 67 | President of Lancaster Colony Corporation | 1985 | 1,248,211 (1) | 9.5% |
| David L. Kriegel | 48 | Chairman and Chief Executive Officer of the Company | 1983 | 1,500,000 (2) | 11.0% |

</TABLE>

<TABLE>

CONTINUING DIRECTORS

<CAPTION>

| NAME | AGE | PRINCIPAL OCCUPATION | FIRST YEAR ELECTED DIRECTOR | COMMON STOCK BENEFICIALLY OWNED | PERCENT OF CLASS |
|------------------------------------|-----|--|-----------------------------|---------------------------------|------------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| CLASS THREE: TERM EXPIRES 1995: | | | | | |
| Robert S. Meeder, Sr. | 65 | Chairman and Chief Executive Officer Muirfield Investors, Inc. | (3) | 6,000 | * |
| William L. Sweet | 46 | Partner, Barrett & McNagny | 1993 | 20,000 | * |

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<TABLE>

<CAPTION>

| NAME | AGE | PRINCIPAL OCCUPATION | FIRST YEAR ELECTED DIRECTOR | COMMON STOCK BENEFICIALLY OWNED | PERCENT OF CLASS |
|----------------------------------|-----|---|-----------------------------|---------------------------------|------------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| CLASS ONE: TERM EXPIRES 1996: | | | | | |
| Walter E. Sinterman | 75 | President of Sinco, Inc. | 1983 | 598,103 (4) | 4.3% |
| V.J. Wiechart, Sr. | 67 | Chairman and Chief Executive Officer of Wiechart Pharmacy, Inc. | 1993 | 9,000 (5) | * |

<FN>

* Less than 1%

- (1) The number of shares beneficially owned by Mr. Gerlach includes 2,000 shares owned by Mr. Gerlach's wife, the beneficial ownership of which Mr. Gerlach disclaims, 24,000 shares held by Mr. Gerlach as guardian and 5,211 shares that would result upon conversion of \$80,000 in principal amount of the Company's 7.75% Convertible Subordinated Debentures held by Mr. Gerlach, Mrs. Gerlach and Mr. Gerlach as guardian.
- (2) The number of shares beneficially owned by Mr. Kriegel includes 246,660 shares held by Kriegel Holding Company, Inc., 20,000 shares held by Mr. Kriegel's wife, 200 shares owned by Mr. Kriegel's son, 18,000 shares held by two trusts, and 500,000 shares which are the subject of options exercisable within 60 days.
- (3) Mr. Meeder was a director of the Company from 1983 to 1988 and was appointed by the Board of Directors on April 28, 1993 to fill a vacancy in Class Three.
- (4) The number of shares beneficially owned by Mr. Sinterman includes 312,610 shares owned by his wife and 1,629 shares that would result upon conversion of \$25,000 in principal amount of the Company's 7.75% Convertible Subordinated Debentures.
- (5) The number of shares beneficially owned by Mr. Wiechart includes 1,000 shares owned by his wife.

</TABLE>

MACY T. BLOCK

Mr. Block is Chairman, Chief Executive Officer and a director of Sun Television and Appliances, Inc., a specialty retailer of consumer electronics and home appliances.

JOHN B. GERLACH

Mr. Gerlach is President and Chief Executive Officer of Lancaster Colony Corporation, a publicly owned conglomerate dealing primarily in specialty foods, automotive aftermarket products and housewares. Mr. Gerlach is a director of

DAVID L. KRIEDEL

Since December 1992, Mr. Kriegel has been the Chairman and Chief Executive Officer of the Company. Mr. Kriegel is Chairman and Chief Executive Officer of Kriegel Holding Company, Inc., a privately owned corporation dealing with consumer products, real estate and distribution. Until January, 1993, Mr. Kriegel was Vice President of Cardinal Health and Marketing Group, a division of Cardinal Distribution, Inc., a publicly owned company. From September 1988 to December 1990, Mr. Kriegel was Corporate Vice President of Roundy's Inc., a cooperative food distributor. Mr. Kriegel is a director of Bank One, Lima, N.A.

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WILLIAM L. SWEET, JR.

Mr. Sweet is an attorney and Partner in the law firm of Barrett & McNagny in Fort Wayne, Indiana.

ROBERT S. MEEDER, SR.

Mr. Meeder is Chairman and Chief Executive Officer of Muirfield Investors, Inc. and Chairman of its operating subsidiaries: R. Meeder & Associates, Inc., Meeder Advisory Services, Mutual Fund Services Company and OMCO, Inc. Mr. Meeder is also President and a trustee of the Flex-Funds, a registered investment company sponsored by R. Meeder & Associates, Inc.

WALTER E. SINTERMAN

Mr. Sinterman is a private investor and President of Sinco, Inc., a consulting company.

V.J. WIECHART, SR.

Mr. Wiechart is Chairman and Chief Executive Officer of Wiechart Pharmacy, Inc. and Chairman and Chief Executive Officer of Lima Medical Supply, Inc.

MEETINGS AND COMMITTEES OF THE BOARD; DIRECTOR FEES AND PAYMENTS

The Board of Directors, pursuant to its powers, has designated a Compensation Committee (which also serves as the Stock Option Committee and Nominating Committee), an Audit Committee and an Executive Committee. The Board of Directors held five regularly scheduled meetings and took one action in writing without a meeting during the year ended February 26, 1994. Each member of the Board attended at least 75% of the aggregate number of meetings of the Board and the number of meetings held by all committees of the Board on which he served.

The Compensation Committee is responsible for making recommendations to the Board of Directors regarding salaries and bonuses to be paid to Company executive officers. In addition, the Compensation Committee has responsibility for administering the Company's stock option plans. During the year ended February 26, 1994, this committee held three meetings. Messrs. Gerlach, Meeder and Sinterman are presently members of this committee.

The Audit Committee is responsible for reviewing the plan of audit and scope of the independent auditor's examination, meeting with the independent auditors to review internal controls, reviewing the scope of internal audit procedures and reviewing the annual financial statements and reporting thereon to the Board of Directors. The Audit Committee also makes recommendations to the Board of Directors regarding the selection of the Company's independent auditors. During the year ended February 26, 1994, the committee held three meetings. Messrs. Sweet, Sinterman and Wiechart are presently members of this committee.

The Executive Committee works with management regarding the Company's strategic planning and reviews leases and proposed capital expenditures. Messrs. Gerlach, Kriegel, Meeder, and Wilber are presently members of this committee. The committee held no meetings during the last fiscal year.

Directors who are not Company officers are paid a fee of \$2,500 per Board meeting attended plus expenses. In addition, such directors receive a fee of \$750 for each committee meeting attended.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to each person known to the Company to be the beneficial owner of more than five percent of the issued and outstanding Common Stock of the Company as of April 29, 1994 and the stock ownership of the executive officers of the Company named in the Summary Compensation Table set forth below. Information regarding stock ownership of directors is set forth under "Information Regarding Nominees and Continuing Directors." The Common Stock ownership and percentage information includes current shareholdings as of April 29, 1994 (unless otherwise noted) plus shares eligible for purchase within 60 days pursuant to exercisable stock options and shares available upon conversion of the Company's 7.75% Convertible Subordinated Debentures.

<TABLE>
<CAPTION>

| NAME AND ADDRESS OF BENEFICIAL OWNER | NUMBER OF SHARES BENEFICIALLY OWNED | PERCENT OF OUTSTANDING COMMON STOCK |
|---|--|---|
| <S> | <C> | <C> |
| David L. Kriegel..... 155 Hidden Ravines Drive Powell, OH 43065 | 1,500,000 (1) | 11.0% |
| John B. Gerlach..... 37 West Broad Street Columbus, OH 43215 | 1,248,211 (2) | 9.5% |
| Gary Wilber..... 155 Hidden Ravines Drive Powell, OH 43065 | 509,885 (3) | 3.9% |
| Keith E. Alessi..... 155 Hidden Ravines Drive Powell, Ohio 43065 | 128,258 (4) | * |
| Robert E. Lyons..... 155 Hidden Ravines Drive Powell, OH 43065 | 74,800 (5) | * |
| Directors, nominees and executive officers as a group (11 persons)..... | 4,417,994 (6) | 32.0% |

<FN>

* Less than one percent.

- (1) The number of shares owned by Mr. Kriegel includes 246,660 shares held by the Kriegel Holding Company, Inc., 20,000 shares held by Mr. Kriegel's wife, 200 shares owned by Mr. Kriegel's son, 18,000 shares held by two trusts and 500,000 shares subject to options exercisable within 60 days.
- (2) The number of shares beneficially owned by Mr. Gerlach includes 2,000 shares owned by Mr. Gerlach's wife, the beneficial ownership of which Mr. Gerlach disclaims, 24,000 shares held by Mr. Gerlach as guardian and 5,211 shares that would result upon conversion of \$80,000 in principal amount of the Company's 7.75% Convertible Subordinated Debentures held by Mr. Gerlach, Mrs. Gerlach and Mr. Gerlach as guardian.

</TABLE>

- (3) The number of shares beneficially owned by Mr. Wilber includes 241,910 shares owned by a trust of which Mr. Wilber is co-trustee.
- (4) The number of shares owned by Mr. Alessi includes 75,000 shares which are subject to options exercisable within 60 days and 3,258 shares which would result upon conversion of \$50,000 in principal amount of the Company's 7.75% Convertible Subordinated Debentures.
- (5) The number of shares owned by Mr. Lyons includes 45,000 shares which are subject to options exercisable within 60 days.

(6) The number of shares beneficially owned by all directors, nominees and executive officers as a group includes 2,000 shares as to which beneficial ownership is disclaimed, 630,000 shares subject to options exercisable within 60 days, and 10,098 shares that would result upon conversion of \$155,000 in principal amount of the Company's 7.75% Convertible Subordinated Debentures.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended February 26, 1994 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with; except that one report was filed late by Mr. Alessi reporting the purchase of 10,000 shares of Company Common Stock and two reports were filed late by Mr. Wilber reporting the sale of 30,000 shares and 90,000 shares of Common Stock, respectively.

EXECUTIVE COMPENSATION

REMUNERATION OF EXECUTIVE OFFICERS

The following table sets forth as to the Chief Executive Officer and the most highly compensated executive officers of the Company whose annual salary and bonus exceeded \$100,000 for the last fiscal year information concerning all forms of compensation paid or payable by the Company for services in all capacities for the fiscal years indicated:

SUMMARY COMPENSATION TABLE

<TABLE>

<CAPTION>

| NAME AND PRINCIPAL POSITION | ANNUAL COMPENSATION | | | LONG TERM COMPENSATION AWARDS |
|-----------------------------|---------------------|-------------|----------------|--|
| | YEAR | SALARY (\$) | BONUS (\$) (1) | SECURITIES UNDERLYING OPTIONS/SARS (#) |
| <S> | <C> | <C> | <C> | <C> |
| David L. Kriegel | 1994 | 275,000 | -0- | 250,000 (2) |
| Chairman | 1993 | 64,166 | -0- | -0- |
| Chief Executive Officer | 1992 | --0- | -0- | -0- |
| Gary Wilber | 1994 | 175,000 | -0- | -0- |
| Vice Chairman | 1993 | 237,449 | -0- | -0- |
| Treasurer | 1992 | 250,000 | -0- | -0- |
| Keith E. Alessi | 1994 | 145,000 | -0- | 75,000 |
| Chief Financial Officer | 1993 | 22,500 | -0- | -0- |
| | 1992 | -0- | -0- | -0- |
| Robert E. Lyons | 1994 | 175,000 | -0- | -0- |
| Senior Vice President | 1993 | 195,832 | -0- | -0- |
| | 1992 | 200,000 | -0- | -0- |

<FN>

(1) A bonus program in which executive officers may participate requires each executive officer to submit management objectives which he or she intends to fulfill during the fiscal year. The objectives are reviewed, revised and

approved by the Chief Executive Officer, and the Compensation Committee in the case of the Chief Executive Officer. Bonuses are subjectively determined based on amounts available and evaluation of performance based upon the agreed upon management objectives. The maximum bonus achievable is 50% of base compensation. Participation of Company executive officers in the bonus plan is in the discretion of the Compensation Committee and the Chief Executive Officer. Although management objectives were obtained in most cases, no executive officers named in the Summary Compensation Table received a bonus in the bonus program during the 1994 fiscal year.

(2) On April 21, 1994 Mr. Kriegel received an option to purchase an additional 250,000 shares of Company Common Stock.

</TABLE>

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STOCK OPTIONS

The table below sets forth information concerning individual grants of stock options during the last fiscal year to the individuals named in the Summary Compensation Table.

<TABLE>

OPTION/SAR GRANTS IN LAST FISCAL YEAR

<CAPTION>

INDIVIDUAL GRANTS

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#) (1) | % OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR | EXERCISE BASE PRICE (\$/SH) | EXPIRATION DATE | GRANT DATE PRESENT VALUE (2) |
|-----------------------|--|---|-----------------------------|-----------------|------------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| David L. Kriegel..... | 250,000 | 36% | 4.125 | 4/30/97 | \$440,000 |
| Keith E. Alessi..... | 75,000 | 11% | 5.00 | 4/28/2004 | 265,500 |

<FN>

(1) All options are nonqualified stock options and are fully vested.

(2) Grant date present value is determined using the Black-Scholes Model. The Black-Scholes option pricing model relies on several key assumptions to estimate the present value of options, including the volatility of and dividend yield on the security underlying the option, the risk free rate of return on the date of grant and the term of the option. In the table, a factor of 47% has been assigned to the volatility of the Company's Common Stock (based on monthly stock closing prices beginning June 30, 1988), the risk free rate of return has been fixed at 5.07% and 6.63% for the grants respectively, no dividend yield, and the exercise of the option at four and 11 years, respectively. Consequently, the grant date present values set forth in the table are only theoretical values and may not accurately determine present value. The actual value, if any, an optionee will realize will depend upon the excess of the market value of the Common Stock over the exercise price on the date the option is exercised.

</TABLE>

STOCK OPTION VALUES AND EXERCISES

The following table provides information regarding the year end value of unexercised options for the individuals named in the Summary Compensation Table. No stock options were exercised by the named executive officers during the 1994 fiscal year.

<TABLE>

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION/SAR VALUES

<CAPTION>

| NAME | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS FOR YEAR END (#) | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS FOR YEAR END (\$) | |
|------|---|---------------|--|---------------|
| | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |

| <S> | <C> | <C> | <C> | <C> |
|-----------------------|---------|-----|---------|-----|
| David L. Kriegel..... | 250,000 | 0 | 296,875 | 0 |
| Keith E. Alessi..... | 75,000 | 0 | 23,437 | 0 |
| Robert E. Lyons..... | 45,000 | 0 | 1,260 | 0 |

</TABLE>

EMPLOYMENT AGREEMENTS

The Company entered into an Employment Agreement with David L. Kriegel dated as of March 11, 1993, and amended on April 21, 1994. Pursuant to the terms of this agreement, Mr. Kriegel has agreed to perform the duties of Chief Executive Officer for an annual minimum salary of \$275,000 with an annual bonus in an amount up to 100% of salary as determined by the Board of Directors. Mr. Kriegel has also received nonqualified stock options to purchase 500,000 shares of Company Common Stock exercisable until April 30, 1997 or ninety (90) days following termination of his employment, whichever occurs first. Mr. Kriegel is also entitled to such employee benefits as are available for senior members of management. The employment agreement may be terminated at any time by the Board of Directors and may be terminated by Mr. Kriegel upon 60 days' notice. The agreement contains no change of control provisions, but does provide that if Mr. Kriegel is terminated without cause, as defined in the agreement, or if he dies or is permanently disabled, his salary will be continued for one year.

The Company has entered into a severance agreement with Gary Wilber, the Vice Chairman of the Company, who has decided to retire from the Company effective April 29, 1994. Under the terms of the severance agreement, Mr. Wilber will continue to receive his base salary and will continue to receive certain insurance benefits for a period of eight months beginning April 30, 1994. The total value of the severance package is approximately \$121,500.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The compensation program for the executive officers of the Company is the responsibility of the Compensation Committee composed of three members of the Board of Directors: Messrs. Gerlach, Meeder and Sinterman. Compensation for executive officers is recommended by the Chief Executive Officer and reviewed by the Compensation Committee, which passes its recommendations to the full Board of Directors for approval. The Chief Executive Officer's compensation is determined by the Compensation Committee based in part on his employment agreement, which provides for a base salary of \$275,000.

The Company's primary objective in the area of compensation is to provide a compensation program that will attract, retain, motivate and reward executives with the experience and capabilities of providing outstanding leadership to the Company's employees and excellent returns for the Company's stockholders. The key components of the compensation program, which are evaluated annually, include base salary, bonus opportunities and longer term equity incentives such as stock options. The Company believes its compensation package provides incentives for causing both short term and long term improvement in the Company's earnings, cash flow and net return on equity. The Committee currently has under consideration the impact of the new tax laws relating to deductibility of executive compensation in excess of \$1,000,000 and is evaluating the necessity and desirability of qualifying the Company's compensation plans under the new law.

In determining annual compensation, the same standards are applied to the Chief Executive Officer as to the other executive officers. Salaries are determined by evaluating the scope of responsibilities of the executive's position, experience, recent past performance, length of service, contribution to corporate performance and the development and execution of business strategies. There are no specific defined targets or other criteria which tie corporate performance to executive compensation. Compensation is subjectively measured by individual qualitative measures, with no specific weight given to any particular factor. Meaningful differences in individual performance and contribution to long-term stockholder value are recognized. The salary and cash bonus components are intended to reward short term or long term improvements in the Company's performance attributable to the recent efforts of the officer. Equity based

compensation is intended to provide a long-term link between executive performance with a view toward maximization of long term stockholder value and rewards provided to the executives.

For the fiscal year ended February 26, 1994, Mr. Kriegel's salary was the amount agreed upon in his employment agreement. Pursuant to his employment agreement, Mr. Kriegel received options to purchase 250,000 shares of Company stock. While the Compensation Committee did not take into consideration compensation paid to executives in peer group retail companies in determining compensation for the Company's executive officers, the Committee notes that the Company's executive officers are generally compensated below the levels paid to peer group executives. No executive officer received a salary increase or a cash incentive award in 1994.

The Committee will continue to review the elements of the Company's executive compensation program to ensure that the total program, and each element thereof, meets the Company's business objectives and philosophy.

Respectfully submitted,
COMPENSATION COMMITTEE

Walter E. Sinterman
John B. Gerlach
Robert S. Meeder, Sr.

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COMPARISON OF CUMULATIVE STOCKHOLDER RETURN

The following graph compares the yearly percentage change in the cumulative stockholder return on the Company's Common Stock since February 28, 1990 as measured against the Center for Research in Securities Prices Total Return Index for The NASDAQ Stock Market for U.S. Companies and with an index of peer companies. The Company has selected as its index of peer companies the NACDS Peer Group Index of the twelve publicly-held chain drug companies. This industry peer group consists of the Company and the following other chain drug companies: Arbor Drugs, Inc., Big B Inc., Fay's Incorporated, Genovese Drug Stores, Inc., Hook SuperX Inc., Longs Drug Stores, F&M Distributors, Inc.,¹ Perry Drug Stores, Inc., Revco D.S., Inc., Rite Aid Corporation and Walgreen Co. The comparison of total return (change in year end stock price plus reinvested dividends) for each of the years assumes that \$100 was invested on February 28, 1990 in each of the Company, the NASDAQ Index, and the Peer Group Index.

1 F&M Distributors, Inc. replaced Medicine Shoppe in the peer group on the basis of its greater similarity to the business of the other peer group members.

THE GRAPH DISPLAYED BELOW IS PRESENTED IN ACCORDANCE WITH THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION. STOCKHOLDERS ARE CAUTIONED AGAINST DRAWING ANY CONCLUSIONS FROM THE DATA CONTAINED THEREIN, AS PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. THIS GRAPH IN NO WAY REFLECTS THE COMPANY'S FORECAST OF FUTURE FINANCIAL PERFORMANCE.

<TABLE>

<CAPTION>

| Measurement Period (Fiscal Year Covered) | Nasdaq | NACDS PEER | Drug Emporium |
|---|--------|------------|---------------|
| <S> | <C> | <C> | <C> |
| 1989 | 100 | 100 | 100 |
| 1990 | 108 | 109 | 72 |
| 1991 | 119 | 146 | 76 |
| 1992 | 170 | 166 | 83 |
| 1993 | 181 | 172 | 40 |
| 1994 | 213 | 184 | 55 |

</TABLE>

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INDEPENDENT PUBLIC ACCOUNTANTS

The stockholders are asked to approve and ratify the Board of Directors' reappointment of Ernst & Young as the independent auditors of the Company for the purpose of auditing and reporting upon the financial statements of the

Company for the fiscal year ending February 25, 1995. Representatives of the firm of Ernst & Young are expected to be present at the Annual Meeting. At such time, the representatives will have an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions.

An affirmative vote of the holders of a majority of shares of Common Stock present or represented and entitled to vote at the Annual Meeting is required for approval. THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE IN FAVOR OF THE APPROVAL AND RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG AS INDEPENDENT AUDITORS OF THE COMPANY. If the resolution is not adopted, the Board will consider the selection of another public accounting firm for fiscal 1995 and future years.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The law firm in which William L. Sweet, a director of the Company, is a partner supplied legal services to the Company during fiscal 1994.

STOCKHOLDERS' PROPOSALS

Stockholders intending to bring any business before an Annual Meeting of Stockholders of the Company, including nominations of persons for election as directors, must give written notice to the Board of Directors of the business to be presented. The notice must be delivered within the time periods specified in the Company's Bylaws. A copy of the Bylaws may be obtained by writing to the Secretary of the Company.

Proposals of stockholders that are intended to be included in the Company's proxy materials for the 1995 Annual Meeting of Stockholders pursuant to the Securities and Exchange Commission's stockholder proposal rule must be received at the Company's executive offices not later than January 12, 1995.

VOTING AND SOLICITATION OF PROXIES

The presence, in person or by proxy, of the holders of a majority of shares of Company Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting.

The persons named in the Proxy, which is solicited by management, will vote all properly executed Proxies. If a stockholder specifies on such Proxy a choice with respect to a proposal to be acted upon, the Proxy will be voted in accordance with such specification. Where no choice is specified, the Proxy will be voted in favor of all proposals. In accordance with Delaware law, a stockholder entitled to vote for the election of directors can withhold authority to vote for certain nominees for directors. The shares represented by any Proxy which directs abstention on any proposal will not be voted on such proposal, but will be included in calculating the shares represented by proxy at the Annual Meeting. Broker non-votes on the proposals are treated as shares as to which voting power has been withheld by the beneficial holders of those shares and, therefore, will be counted for purposes of establishing a quorum, but will not be voted on any proposal.

The Proxy confers discretionary authority to vote on other matters which may properly come before the meeting or an adjournment thereof, but the Board of Directors does not know of any matter to be brought

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before the meeting other than the matters referred to in the Notice of Annual Meeting of Stockholders and matters incident thereto. If any matter not set forth in the Notice of Annual Meeting of Stockholders is properly brought before the meeting, the proxyholders will vote thereon in accordance with their best judgment.

In addition to solicitation of stockholders by the use of the mails, the Company may request brokers and banks to forward copies of proxy materials to persons for whom they hold Common Stock and to obtain authority for the execution and delivery of Proxies. Several officers and employees of the Company may, to a limited extent, solicit Proxies by personal delivery of material and by telephone, facsimile or mail.

BY ORDER OF THE BOARD OF DIRECTORS

JANE H. LAGUSCH, Secretary

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DRUG EMPORIUM, INC.
 PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR
 ANNUAL MEETING OF STOCKHOLDERS

JUNE 23, 1994

The undersigned hereby appoints Jane H. Lagusch and Keith E. Alessi and each of them, with full power of substitution, as proxies to represent the undersigned at the Annual Meeting of Stockholders of Drug Emporium, Inc. (the "Company") and any adjournments thereof and to vote all shares of common stock the undersigned would be entitled to vote as indicated upon all matters referred to herein and in their discretion upon any other matters which may properly come before the meeting.

1. ELECTION OF DIRECTORS:

| | | |
|---|--|---|
| / / FOR all nominees listed below (except as marked to the contrary below) | | / / WITHHOLD AUTHORITY to vote for all nominees listed below. |
|---|--|---|

Macy T. Block John B. Gerlach David L. Kriegel

(INSTRUCTION: To withhold authority to vote for any individual nominee write the nominee's name on the space provided below.)

2. To approve and ratify the appointment of Ernst & Young as independent auditors for the fiscal year ending February 25, 1995.

/ / For / / Against / / Abstain

3. To take action and vote in their discretion upon such other matters as may properly come before the Annual Meeting or any adjournments thereof.

(continued on reverse side)

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS INDICATED, THE SHARES WILL BE VOTED "FOR" PROPOSALS 1 AND 2.

Dated: _____, 1994

Signed

Signed

If the shares are issued in the names of two or more persons, each person should sign the Proxy. If the shares are issued in the name of a corporation or a partnership, please sign in the corporate name, by president or other authorized officer, or in the partnership name, by an authorized person.

Please sign exactly as your name appears and return this Proxy promptly in the accompanying postage-paid envelope. When signing as an Attorney, Executor, Administrator, Trustee, Guardian or in any other representative capacity, please give your full title as such.

PLEASE DATE, SIGN AND MAIL YOUR PROXY PROMPTLY