

WALGREEN CO

FORM 10-Q (Quarterly Report)

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Address	200 WILMOT RD DEERFIELD, IL 60015
Telephone	8479402500
CIK	0000104207
Symbol	WAG
SIC Code	5912 - Drug Stores and Proprietary Stores
Industry	Retail (Drugs)
Sector	Services
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)



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

FOR THE QUARTER ENDED November 30, 2009

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
1-604



WALGREEN CO.

(Exact name of registrant as specified in its charter)

Illinois

(State of Incorporation)

36-1924025

(I.R.S. Employer Identification No.)

200 Wilmot Road, Deerfield, Illinois

(Address of principal executive offices)

60015

(Zip Code)

(847) 914-2500

(Registrant's telephone number, including area code)

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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of shares outstanding of the registrant's Common Stock, \$.078125 par value, as of November 30, 2009 was 985,173,937.

WALGREEN CO.

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PART 1. FINANCIAL INFORMATION

Item 1. WALGREEN CO. AND SUBSIDIARIES CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The consolidated condensed financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. The Consolidated Condensed Balance Sheets as of November 30, 2009, August 31, 2009 and November 30, 2008, the Consolidated Condensed Statements of Earnings for the three months ended November 30, 2009 and 2008, and the Consolidated Condensed Statements of Cash Flows for the three months ended November 30, 2009 and 2008, have been prepared without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

In the opinion of the Company, the consolidated condensed statements for the unaudited interim periods presented include all adjustments, consisting of normal recurring adjustments, necessary to present a fair statement of the results for such interim periods. Because of the influence of certain holidays, seasonal and other factors on the Company's operations, net earnings for any interim period may not be comparable to the same interim period in previous years or necessarily indicative of earnings for the full year.

WALGREEN CO. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)
(In millions, except per share amounts)

	November 30, 2009	August 31, 2009	November 30, 2008
Assets			
Current Assets:			
Cash and cash equivalents	\$ 2,552	\$ 2,087	\$ 886
Short term investments	600	500	-
Accounts receivable, net	2,577	2,496	2,776
Inventories	7,474	6,789	8,298
Other current assets	170	177	199
Total Current Assets	13,373	12,049	12,159

Non-Current Assets:

Property and equipment, at cost, less accumulated depreciation and amortization	10,865	10,802	10,150
Goodwill	1,467	1,461	1,433
Other non-current assets	843	830	771
Total Non-Current Assets	13,175	13,093	12,354
Total Assets	\$ 26,548	\$ 25,142	\$ 24,513

Liabilities & Shareholders' Equity**Current Liabilities:**

Short-term borrowings	\$ 13	\$ 15	\$ 1,080
Trade accounts payable	5,043	4,308	5,026
Accrued expenses and other liabilities	2,446	2,406	2,246
Income taxes	320	40	144
Total Current Liabilities	7,822	6,769	8,496

Non-Current Liabilities:

Long-term debt	2,366	2,336	1,337
Deferred income taxes	275	265	154
Other non-current liabilities	1,464	1,396	1,395
Total Non-Current Liabilities	4,105	3,997	2,886

Commitments and Contingencies (see Note 12)**Shareholders' Equity:**

Preferred stock \$.0625 par value; authorized 32 million shares, none issued	-	-	-
Common stock \$.078125 par value; authorized 3.2 billion shares; issued 1,025,400,000 at November 30, 2009, August 31, 2009 and November 30, 2008	80	80	80
Paid-in capital	633	605	593
Employee stock loan receivable	(127)	(140)	(47)
Retained earnings	15,679	15,327	14,088
Accumulated other comprehensive income	36	37	9
Treasury stock, at cost; 40,226,063 shares at November 30, 2009, 36,838,610 at August 31, 2009 and 38,655,129 at November 30, 2008	(1,680)	(1,533)	(1,592)
Total Shareholders' Equity	14,621	14,376	13,131
Total Liabilities & Shareholders' Equity	\$ 26,548	\$ 25,142	\$ 24,513

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREEN CO. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(UNAUDITED)
(In millions, except per share amounts)

	Three Months Ended November 30,	
	2009	2008
Net sales	\$ 16,364	\$ 14,947
Cost of sales	11,826	10,796
Gross Profit	4,538	4,151
Selling, general and administrative expenses	3,741	3,482
Operating Income	797	669
Interest expense, net	21	15
Earnings Before Income Tax Provision	776	654
Income tax provision	287	246
Net Earnings	\$ 489	\$ 408
Net earnings per common share – basic	\$.49	\$.41
Net earnings per common share – diluted	\$.49	\$.41

Dividends declared	\$.1375	\$.1125
Average shares outstanding	988.4	988.6
Dilutive effect of stock options	5.0	1.6
Average shares outstanding assuming dilution	993.4	990.2

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREEN CO. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions)

	Three Months Ended November 30,	
	2009	2008
Cash Flows from Operating Activities :		
Net earnings	\$ 489	\$ 408
Adjustments to reconcile net earnings to net cash provided by operating activities		
-		
Depreciation and amortization	257	236
Deferred income taxes	(4)	16
Stock compensation expense	24	32
Income tax savings from employee stock plans	3	-
Other	5	4
Changes in operating assets and liabilities -		
Accounts receivable, net	(54)	(313)
Inventories	(682)	(1,036)
Other assets	3	15
Trade accounts payable	735	736
Accrued expenses and other liabilities	65	21
Income taxes	259	210
Other non-current liabilities	68	(17)
Net cash provided by operating activities	<u>1,168</u>	<u>312</u>
Cash Flows from Investing Activities :		
Purchases of short-term investments held to maturity	(600)	-
Proceeds from short-term investments held to maturity	500	-
Additions to property and equipment	(304)	(638)
Proceeds from sale of assets	5	15
Business and intangible asset acquisitions, net of cash received	(32)	(61)
Net cash used for investing activities	<u>(431)</u>	<u>(684)</u>
Cash Flows from Financing Activities :		
Net proceeds from short-term borrowings	-	998
Stock purchases	(195)	(99)
Proceeds related to employee stock plans	63	32
Cash dividends paid	(136)	(111)
Other	(4)	(5)
Net cash provided by (used for) financing activities	<u>(272)</u>	<u>815</u>
Changes in Cash and Cash Equivalents :		
Net increase in cash and cash equivalents	465	443
Cash and cash equivalents at September 1	2,087	443
Cash and cash equivalents at November 30	<u>\$ 2,552</u>	<u>\$ 886</u>

The accompanying Notes to Consolidated Condensed Financial Statements are an integral part of these Statements.

WALGREEN CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) The consolidated condensed financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated. The consolidated condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates. For a complete discussion of all our significant accounting policies please see our 2009 annual report on Form 10-K.

In accordance with Accounting Standard Codification (ASC) topic 855 (formerly Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events*), the Company has evaluated subsequent events through the date the financial statements were issued on January 5, 2010.

(2) On October 30, 2008, we announced a series of strategic initiatives, approved by the Board of Directors, to enhance shareholder value. One of these initiatives was a program designed to reduce cost and improve productivity through strategic sourcing of indirect spend, reducing corporate overhead and work throughout our stores, rationalization of inventory categories, and transforming the community pharmacy.

We have recorded the following pre-tax charges associated with our restructuring initiatives within the Consolidated Condensed Statements of Earnings (In millions):

	Three Months Ended	
	November 30, 2009	November 30, 2008
Severance and other benefits	\$ 7	\$ -
Inventory charges	19	-
Restructuring expense	26	-
Consulting	7	14
Restructuring and restructuring related costs	<u>\$ 33</u>	<u>\$ 14</u>
Cost of sales	\$ 19	\$ -
Selling, general and administrative expense	14	14
	<u>\$ 33</u>	<u>\$ 14</u>

The \$7 million of severance and other benefits includes the charges associated with 72 employees who were separated from the Company. To date, 769 employees have been separated from the Company.

Inventory charges consist of on-hand inventory that has been reduced from cost to current selling prices and the loss we incurred on the sale of inventory below cost.

Additionally, in conjunction with our Customer Centric Retailing (CCR) initiative, we are enhancing the store format to ensure we have the proper assortments, better category layouts and adjacencies, better shelf height and sight lines and better assortment and brand layout, all of which are designed to positively enhance the shopper experience and increase customer frequency and purchase size. This format will be rolled out to approximately 5,500 to 6,000 stores. The first quarter of fiscal 2010 included 241 stores and to date we have remodeled 443 stores. We plan to enhance approximately 2,400 stores in the next nine months of fiscal 2010 and the remaining stores in fiscal 2011. Although we will continue to refine our estimates as the rollout progresses, based on our experience with the first 443 stores, we expect the total cost, which includes both selling, general and administrative expense and capital, to be \$30 thousand to \$50 thousand per store. For the three months ended November 30, 2009, we incurred \$11 million in total program costs, of which \$8 million was included in selling, general and administrative expenses and \$3 million in capital costs.

We have recorded the following balances in accrued expenses and other liabilities on our Consolidated Balance Sheets (In millions):

	August 31, 2009	Charges	Cash Payments	November 30,
	Reserve Balance			2009 Reserve Balance
Severance and other benefits	\$ 4	\$ 9	\$ (12)	\$ 1

(3) Short-term investments at November 30, 2009, include Treasury Bills totaling \$600 million maturing in January and February 2010. The interest rate on the Treasury Bill is less than one percent. The investments are held to maturity and recorded at cost in accordance with ASC topic 320 (formerly SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). The fair value of the Treasury Bills at

November 30, 2009 approximated cost.

(4) Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At November 30, 2009, August 31, 2009 and November 30, 2008, inventories would have been greater by \$1,273 million, \$1,239 million and \$1,110 million respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. LIFO inventory costs can only be determined annually when inflation rates and inventory levels are finalized; therefore, LIFO inventory costs for interim financial statements are estimated. Inventory includes product cost, inbound freight, warehousing costs and vendor allowances not included as a reduction of advertising expense.

(5) The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Trust to which both the Company and participating employees contribute. The Company's contribution, which has historically related to pre-tax income and a portion of which is in the form of a guaranteed match, is determined annually at the discretion of the Board of Directors. The profit-sharing provision was \$69 million for the first quarter compared to \$58 million last year. The Company made no cash or other contributions during the first quarter of fiscal 2010 or 2009.

(6) The Company granted 6,950,306 and 16,349,716 stock options under the Walgreen Co. Executive Stock Option Plan and the Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) for the quarters ended November 30, 2009 and 2008, respectively. Total stock-based compensation expense was \$24 million for the quarter ended November 30, 2009 compared to \$32 million last year. In accordance with ASC topic 718 (formerly SFAS No. 123(R), *Share-Based Payment*), compensation expense is recognized on a straight-line basis over the employee's vesting period or to the employee's retirement eligible date, if earlier. For the quarters ended November 30, 2009 and 2008, the Company fully recognized retiree eligible expenses of \$6 million and \$14 million, respectively. Therefore, compensation expense for the quarters ended November 30, 2009 and 2008 are not representative of compensation expense for the entire fiscal year. There have been no material changes in the assumptions used to compute compensation expense during the current quarter.

The Company granted 599,117 restricted stock units under the Walgreen Co. Restricted Stock Unit Award Program and 602,568 performance shares under the Walgreen Co. Performance Share Program for the quarter ended November 30, 2009. In the prior year's period the Company granted 477,321 restricted stock units and 501,522 performance shares.

Compensation expense is recognized on a straight line basis based on a three year cliff vesting schedule for the Restricted Stock Unit Award Program and straight line over a three year vesting schedule for the Performance Share Program. For the quarters ended November 30, 2009 and 2008 the Company recognized expense related to these plans of \$3 million and \$5 million, respectively.

(7) The dilutive effect of outstanding stock options on earnings per share is calculated using the treasury stock method. Stock options are anti-dilutive and excluded from the earnings per share calculation if the exercise price exceeds the average market price of the common shares for the periods presented. At November 30, 2009 and 2008, outstanding options to purchase common shares of 21,820,384 and 49,251,284, respectively were excluded from the calculation.

(8) The Company provides certain health insurance benefits for retired employees who meet eligibility requirements, including age, years of service and date of hire. The costs of these benefits are accrued over the period earned. The Company's postretirement health benefit plans are not funded.

Components of Net Periodic Benefit Costs (In millions)	Three Months Ended November 30,	
	2009	2008
Service cost	\$ 3	\$ 3
Interest cost	5	7
Amortization of actuarial loss	2	1
Amortization of prior service cost	(3)	(1)
Total postretirement benefit cost	<u>\$ 7</u>	<u>\$ 10</u>

(9) Short-term borrowings and long-term debt consists of the following at November 30, 2009, August 31, 2009 and November 30, 2008 (In millions):

	November 30, 2009	August 31, 2009	November 30, 2008
Short-Term Borrowings -			
Commercial paper	\$ -	\$ -	\$ 1,068
Current maturities of loans assumed through the purchase of land and buildings; various interest rates from 5.00% to 8.75%; various maturities from 2010 to 2035	9	10	8
Other	4	5	4
Total short-term borrowings	<u>\$ 13</u>	<u>\$ 15</u>	<u>\$ 1,080</u>
Long-Term Debt -			
4.875% unsecured notes due 2013 net of unamortized discount and interest rate swap fair market value adjustment (see Note 10)	\$ 1,325	\$ 1,294	\$ 1,295
5.250% unsecured notes due 2019 net of unamortized discount	995	995	-

Loans assumed through the purchase of land and buildings; various

interest rates from 5.00% to 8.75%; various maturities from 2010 to 2035	55	57	50
	2,375	2,346	1,345
Less current maturities	(9)	(10)	(8)
Total-long term debt	<u>\$ 2,366</u>	<u>\$ 2,336</u>	<u>\$ 1,337</u>

Short-term borrowings under the Company's commercial paper program had the following characteristics (In millions):

	November 30, 2009	August 31, 2009	November 30, 2008
Balance outstanding at end of period	\$ -	\$ -	\$ 1,068
Maximum outstanding at any month-end	-	1,068	1,068
Average daily short-term borrowings	-	272	641
Weighted-average interest rate	-	1.51%	1.80%

We had no commercial paper outstanding at November 30, 2009. In connection with our commercial paper program, we maintain two unsecured backup syndicated lines of credit that total \$1,200 million. The first \$600 million facility expires on August 9, 2010, and allows for the issuance of up to \$400 million in letters of credit, which reduce the amount available for borrowing. The second \$600 million facility expires on August 12, 2012. Our ability to access these facilities is subject to our compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require us to maintain certain financial ratios related to minimum net worth and priority debt, along with limitations on the sale of assets and purchases of investments. As of November 30, 2009, we were in compliance with all such covenants. The Company pays a facility fee to the financing bank to keep these lines of credit active. As of November 30, 2009, there was \$191 million in letters of credit issued against these credit facilities. We do not expect any borrowings under these facilities, together with our outstanding commercial paper, to exceed \$1,200 million.

On July 17, 2008, we issued notes totaling \$1,300 million bearing an interest rate of 4.875% paid semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2009. The notes will mature on August 1, 2013. We may redeem the notes, at any time in whole or from time to time in part, at our option at a redemption price equal to the greater of: (1) 100% of the principal amount of the notes to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, plus 30 basis points, plus accrued interest on the notes to be redeemed to, but excluding, the date of redemption. If a change of control triggering event occurs, unless we have exercised our option to redeem the notes, we will be required to offer to repurchase the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption. The notes are unsecured senior debt obligations and rank equally with all other unsecured senior indebtedness of the Company. The notes are not convertible or exchangeable. Total issuance costs relating to this offering were \$9 million, which included \$8 million in underwriting fees. The fair value of the notes as of November 30, 2009, was \$1,452 million. Fair value for these notes was determined based upon discounted future cash flows using available market data.

On January 13, 2009, we issued notes totaling \$1,000 million bearing an interest rate of 5.25% paid semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2009. The notes will mature on January 15, 2019. We may redeem the notes, at any time in whole or from time to time in part, at our option at a redemption price equal to the greater of: (1) 100% of the principal amount of the notes to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, plus 45 basis points, plus accrued interest on the notes to be redeemed to, but excluding, the date of redemption. If a change of control triggering event occurs, unless we have exercised our option to redeem the notes, we will be required to offer to repurchase the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of redemption. The notes are unsecured senior debt obligations and rank equally with all other unsecured senior indebtedness of the Company. The notes are not convertible or exchangeable. Total issuance costs relating to this offering were \$8 million, which included \$7 million in underwriting fees. The fair value of the notes as of November 30, 2009, was \$1,118 million. Fair value for these notes was determined based upon discounted future cash flows using available market data.

(10) We use a derivative instrument to manage our interest rate exposure associated with some of our fixed-rate borrowings. We do not use derivative instruments for trading or speculative purposes. All derivative instruments are recognized in the consolidated balance sheets at fair value. We designate interest rate swaps as fair value hedges of fixed-rate borrowings. For derivatives designated as fair value hedges, the change in the fair value of both the derivative instrument and the hedged item are recognized in earnings in the current period. At the inception of a hedge transaction, we formally document the hedge relationship and the risk management objective for undertaking the hedge. In addition, we assess both at inception of the hedge and on an ongoing basis, whether the derivative in the hedging transaction has been highly effective in offsetting changes in fair value of the hedged item and whether the derivative is expected to continue to be highly effective. The impact of any ineffectiveness is recognized currently in earnings.

Counterparties to derivative financial instruments expose us to credit-related losses in the event of nonperformance, but we currently do not expect any counterparties to fail to meet their obligations given their high credit ratings.

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings.

The notional amounts of derivative instruments outstanding as of November 30, 2009, were as follows (In millions):

	<u>Notional Amount</u>
Derivatives designated as hedges:	
Interest rate swaps	\$ 1,300

The changes in fair value of the notes as a result of the derivative instrument are included in long-term debt on our Consolidated Condensed Balance Sheets, (see Note 9) and amortized through maturity. As of November 30, 2009, we had net unamortized fair value changes of \$28 million.

The fair value and balance sheet presentation of derivative instruments as of November 30, 2009, were as follows (In millions):

	<u>Location in Consolidated Balance Sheet</u>	<u>Fair Value</u>
Asset derivatives designated as hedges:		
Interest rate swaps	Other non-current assets	\$ 28

Gains and losses on derivative instruments are recorded in interest expense on our consolidated statement of earnings. The amount recorded for the quarter ended November 30, 2009, was immaterial.

(11) In the first quarter of fiscal 2010, we adopted the full provisions of ASC topic 820 (formerly SFAS No. 157, *Fair Value Measurements*) for assets and liabilities. ASC topic 820 defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In addition, it establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

Level 1 -Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 -Observable inputs other than quoted prices in active markets.

Level 3 -Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value on a recurring basis were as follows (In millions):

	<u>November 30, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Interest rate swaps	\$ 28	-	\$ 28	-

Interest rate swaps are valued using future LIBOR rates.

Our debt instruments are not reported at fair value in our statement of financial position and as a result, we will continue to report under the guidance of ASC topic 825 (formerly SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*) that requires us to disclose the fair value of our debt in the footnotes.

(12) The Company is involved in legal proceedings, and is subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, incidental to the normal course of the Company's business.

On April 16, 2008, the Plumbers and Steamfitters Local No. 7 Pension Fund filed a putative class action suit against the Company and its former and current chief executive officers in the United States District Court for the Northern District of Illinois. The plaintiffs amended the complaint on October 16, 2008, which upon the Company's motion the District Court dismissed on September 24, 2009. Subsequently, the plaintiffs moved for the District Court to reconsider the dismissal and to allow plaintiffs leave to further amend the complaint. The District Court granted plaintiffs' motion on November 11, 2009. The second amended complaint was then filed on behalf of purchasers of Company common stock during the period between June 25, 2007 and October 1, 2007. As in the first amended complaint, the second amended complaint charges the Company and its former and current chief executive officers with violations of Section 10(b) of the Securities Exchange Act of 1934, claiming that the Company misled investors by failing to disclose (i) declining rates of growth in generic drug sales and (ii) increasing selling, general and administrative expenses in fourth quarter of 2007, which allegedly had a negative impact on earnings. The Company is vigorously contesting these charges.

On August 31, 2009, a Walgreen Co. shareholder named Dan Himmel filed a lawsuit, purportedly on the Company's behalf, against several current and former officers and directors (each, an "Individual Defendant"). The case is captioned *Himmel v. Wasson, et. al.* and was filed in the Circuit Court of Lake County, Illinois. The allegations in the lawsuit are similar to the securities fraud lawsuit described above. Himmel alleges that Walgreens management: (i) knew, or was reckless in not knowing, that selling, general and administrative expenses in the fourth quarter of 2007 were too high, in light of decreased profits from generic drug sales; (ii) knew, or was reckless in not knowing, that the Company would not realize gross profits near what many Wall Street analysts were predicting; and (iii) the directors and officers had a duty both to prevent the drop in gross profits and to disclose the expected drop to the public and failed to do either. The Company's investigation to date suggests that the allegations are without merit, and that the Individual Defendants acted in good faith, exercised prudent business judgment and acted in a manner that they reasonably believed to be in the Company's best interests during the period at issue. The Company intends to

vigorously contest the allegations.

Although the outcome in the Himmel suit, the Plumbers and Steamfitters suit, and other legal proceedings and investigations to which the Company is subject, cannot be forecast with certainty, management believes the final disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company guarantees a credit agreement on behalf of SureScripts-RxHub, LLC, which provides electronic prescription data services. This credit agreement, for which SureScripts-RxHub, LLC is primarily liable, has an expiration date of June 30, 2011. The liability was \$10 million at November 30, 2009, \$10 million at August 31, 2009 and \$9 million at November 30, 2008. The maximum amount of future payments that could be required under the guaranty is \$25 million, of which \$13 million may be recoverable from another guarantor. In addition, under certain circumstances the Company may be required to provide an additional guarantee of up to \$10 million, of which \$8 million may be recoverable from other guarantors. This guarantee arose as a result of a business decision between parties to ensure that the operations of SureScripts-RxHub, LLC would have additional support to access financing. Should SureScripts-RxHub, LLC default or become unable to pay its debts, the Company would be required to fulfill our portion of this guarantee.

(13) The Company tests long-lived assets for impairment whenever events or circumstances indicate that a certain asset may be impaired. Store locations that have been open at least five years are reviewed for impairment indicators at least annually. Once identified, the amount of the impairment is computed by comparing the carrying value of the assets to the fair value, which is based on the discounted estimated future cash flows. The impaired asset reserve for the periods ended November 30, 2009, August 31, 2009 and November 30, 2008 was \$47 million, \$47 million and \$48 million, respectively.

The Company also provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. The store closings reserve for the periods ended November 30, 2009, August 31, 2009 and November 30, 2008 was \$111 million, \$99 million and \$74 million, respectively.

(14) We have recorded the following depreciation and amortization expense in the Consolidated Condensed Statements of Earnings (In millions):

	Three Months Ended November	
	30,	
	2009	2008
Depreciation expense	\$ 207	\$ 191
Intangible asset amortization	39	35
Amortization of system development costs	11	10
Total depreciation and amortization expense	<u>\$ 257</u>	<u>\$ 236</u>

(15) Cash interest paid for the three month period ended November 30, 2009 was \$2 million compared to \$5 million in the prior year's three month period. Cash paid for income taxes was \$18 million and \$20 million for the three months ended November 30, 2009 and 2008, respectively.

(16) In June 2009, the Financial Accounting Standards Board (FASB) issued ASC topic 810 (formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under ASC topic 810. The application of the new provisions under this topic, which will be effective for the first quarter of fiscal 2011, is not expected to have a material impact on our consolidated financial position or results of operations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

Walgreens is principally a retail drugstore chain that sells prescription and non-prescription drugs and general merchandise. General merchandise includes, among other things, household items, personal care, convenience foods, beauty care, photofinishing, candy and seasonal items. Customers can have prescriptions filled in retail pharmacies, as well as through the mail, by telephone and via the Internet. As of November 30, 2009, we operated 7,649 locations in 50 states, the District of Columbia, Guam and Puerto Rico. Total locations do not include 355 convenient care clinics operated by Take Care Health Systems, Inc.

Location Type	Number of Locations	
	November 30, 2009	November 30, 2008
Drugstores	7,147	6,630
Worksite Facilities	382	368
Home Care Facilities	104	110
Specialty Pharmacies	14	13
Mail Service Facilities	2	2
Total	<u>7,649</u>	<u>7,123</u>

The drugstore industry is highly competitive. In addition to other drugstore chains, independent drugstores and mail order prescription providers, we compete with various other retailers including grocery stores, convenience stores, mass merchants and dollar stores.

The long-term outlook for prescription utilization is strong due in part to the aging population and the continued development of innovative drugs that improve quality of life and control health care costs. Certain provisions of the Deficit Reduction Act of 2005 seek to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. These changes are expected to result in reduced Medicaid reimbursement rates for prescription drugs. Also, in conjunction with a class action settlement with two entities that publish the average wholesale price (AWP) of pharmaceuticals, the methodology used to calculate the AWP, a pricing reference widely used in the pharmacy industry, was changed in a way that reduced the AWP for many brand-name prescription drugs effective September 26, 2009. The Company has reached understandings with most of its third-party payors to adjust reimbursements to correct for this change in methodology, but state Medicaid programs that utilize AWP as a pricing reference have not taken action to make similar adjustments, resulting in reduced Medicaid reimbursement for drugs affected by the change. In addition, the federal government has been considering proposals to reform the U.S. health care system. These proposals may increase government involvement in health care, increase regulation of pharmacy services, result in changes to pharmacy reimbursement rates or otherwise change the way we do business. The effect of these proposals could have an impact on our results of operations.

Total front-end sales have continued to grow due to new store openings and core categories, such as over-the-counter non-prescription drugs, convenience foods, personal care products and candy. Walgreens strong name recognition continues to drive private brand sales, which are included in these core categories.

We continue to expand into new markets and increase penetration in existing markets. To support our growth, we are investing in prime locations, technology and customer service initiatives. Retail organic growth continues to be our primary growth vehicle; however, consideration is given to retail and other acquisitions that provide unique opportunities and fit our business strategies.

RESTRUCTURING CHARGES

On October 30, 2008, we announced a series of strategic initiatives, approved by the Board of Directors, to enhance shareholder value. One of these initiatives was a program designed to reduce cost and improve productivity through strategic sourcing of indirect spend, reducing corporate overhead and work throughout our stores, rationalization of inventory categories, and transforming the community pharmacy.

We have recorded the following pre-tax charges associated with our restructuring initiatives within the Consolidated Condensed Statements of Earnings (In millions):

	Three Months Ended	
	November 30, 2009	November 30, 2008
Severance and other benefits	\$ 7	\$ -
Inventory charges	19	-
Restructuring expense	26	-
Consulting	7	14
Restructuring and restructuring related costs	<u>\$ 33</u>	<u>\$ 14</u>
Cost of sales	\$ 19	\$ -
Selling, general and administrative expense	14	14
	<u>\$ 33</u>	<u>\$ 14</u>

The \$7 million of severance and other benefits includes the charges associated with 72 employees who were separated from the Company. To date, 769 employees have been separated from the Company.

Inventory reserve charges consist of on-hand inventory that has been reduced from cost to current selling prices and the loss we incurred on the sale of inventory below cost. In addition, as a part of our restructuring efforts we sold an incremental amount of inventory below traditional retail prices. The dilutive effect of these sales on gross profit was \$9 million in the current quarter.

We incurred pre-tax costs of \$42 million (\$33 million of restructuring and restructuring related costs, and \$9 million of gross profit dilution) in the first quarter of fiscal 2010. To date we have incurred \$294 million (\$253 million of restructuring and restructuring related costs, and \$41 million of gross profit dilution). We anticipate approximately \$100 million of pre-tax restructuring and restructuring related costs and gross profit dilution in the remaining months of fiscal 2010.

We have recorded the following balances in accrued expenses and other liabilities on our Consolidated Balance Sheets (In millions):

	August 31, 2009 Reserve Balance	Charges	Cash Payments	November 30, 2009 Reserve Balance
Severance and other benefits	\$ 4	\$ 9	\$ (12)	\$ 1

We have realized savings related to these initiatives of approximately \$133 million (\$118 million in selling general and administrative expense

and \$15 million in cost of sales) in the current quarter. The savings are primarily the result of reduced store labor, strategic expense initiatives and personnel reductions.

Additionally, in conjunction with our Customer Centric Retailing (CCR) initiative, we are enhancing the store format to ensure we have the proper assortments, better category layouts and adjacencies, better shelf height and sight lines and better assortment and brand layout, all of which are designed to positively enhance the shopper experience and increase customer frequency and purchase size. This format will be rolled out to approximately 5,500 to 6,000 stores. The first quarter of fiscal 2010 included 241 stores and to date we have remodeled 443 stores. We plan to enhance approximately 2,400 stores in the next nine months of fiscal 2010 and the remaining stores in fiscal 2011. Although we will continue to refine our estimates as the rollout progresses, based on our experience with the first 443 stores, we expect the total cost, which includes both selling, general and administrative expense and capital, to be \$30 thousand to \$50 thousand per store. For the three months ended November 30, 2009, we incurred \$11 million in total program costs, of which \$8 million was included in selling, general and administrative expenses and \$3 million in capital costs.

OPERATING STATISTICS

	Percentage Increases/ (Decreases)	
	Three Months Ended November 30,	
	2009	2008
Net Sales	9.5	6.6
Net Earnings	19.6	(10.4)
Comparable Drugstore Sales	4.9	1.7
Prescription Sales	10.0	6.2
Comparable Drugstore Prescription Sales	6.1	2.6
Front-End Sales	8.5	7.2
Comparable Drugstore Front-End Sales	2.7	0.0
Gross Profit	9.3	5.9
Selling, General and Administrative Expenses	7.4	9.1

	Percent to Net Sales	
	Three Months Ended November 30,	
	2009	2008
Gross Margin	27.7	27.8
Selling, General and Administrative Expenses	22.8	23.3

	Other Statistics	
	Three Months Ended November 30,	
	2009	2008
Prescription Sales as a % of Net Sales	66.2	65.9
Third Party Sales as a % of Total Prescription Sales	94.7	95.4
Total Number of Prescriptions (in millions)	174	156
30 Day Equivalent Prescriptions (in millions) *	194	173
Total Number of Locations	7,649	7,123

* Includes the adjustment to convert prescriptions greater than 84 days to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.

RESULTS OF OPERATIONS

Net earnings for the first quarter ended November 30, 2009 were \$489 million or \$0.49 per share (diluted). This was a 19.6% increase over the same quarter last year. The net earnings increase in the quarter was attributed to a higher rate of sales growth and lower selling, general and administrative expenses as a percentage of sales, partially offset by lower gross margins and higher interest costs. Additionally, in the current quarter we recorded \$33 million in restructuring and restructuring related expenses and \$9 million in margin dilution related to our restructuring activities. This compares to \$14 million in restructuring and restructuring related expenses in the prior year's quarter.

Net sales for the three month period ended November 30, 2009 increased by 9.5% to \$16,364 million. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Sales in comparable drugstores were up 4.9% for the quarter. Comparable drugstores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or a natural disaster in the

past twelve months. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition. We operated 7,649 locations (7,147 drugstores) as of November 30, 2009, compared to 7,123 locations (6,630 drugstores) a year earlier.

Prescription sales increased by 10.0% for the first quarter and represented 66.2% of total sales. In the prior year, prescription sales increased 6.2% for the quarter and represented 65.9% of total sales. Comparable drugstore prescription sales were up 6.1%. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.3% in the current quarter versus 2.3% in the prior year's quarter. The effect of generics on total sales was a reduction of 1.4% in the current quarter compared to 1.4% in the prior year's quarter. Third party sales, where reimbursement is received from managed care organizations as well as government and private insurance, were 94.7% of prescription sales for the quarter compared to 95.4% in the prior year. The total number of prescriptions filled for the first quarter was approximately 174 million compared to 156 million for the same period last year. Prescriptions adjusted to 30 day equivalents were 194 million in the first quarter versus 173 last year.

Front-end sales increased 8.5% for the current quarter and were 33.8% of total sales. In comparison, prior year front end sales increased 7.2% and comprised 34.1% of total sales. The increase is due in part to new store openings and improved sales dollars related to non-prescription drugs, convenience foods, personal care products and candy. Comparable drugstore front-end sales increased 2.7% for the current quarter. The prior year's comparable front-end sales increase was flat. The increase in fiscal 2010 comparable front-end sales was primarily due to non-prescription drugs, convenience foods and personal care.

Gross margin as a percent of sales was 27.7% in the current quarter compared to 27.8% last year. Overall margins were negatively impacted by lower front-end margins due to product mix, non-retail businesses, which have lower margins and are becoming a greater part of the total business and restructuring and restructuring related costs. These items were partially offset by an improvement in retail pharmacy margins, which were positively influenced by generic drug sales and higher year over year seasonal flu shot vaccinations, but to a lesser extent negatively influenced by lower market driven reimbursements and a lower provision for LIFO.

We use the LIFO method of inventory valuation, which can only be determined annually when inflation rates and inventory levels are finalized; therefore, LIFO inventory costs for the interim financial statements are estimated. Cost of sales included a LIFO provision of \$34 million for the quarter ended November 30, 2009 versus \$43 million a year ago. Our estimated annual inflation rate at November 30, 2009 was 1.75% compared to 2.25% in the prior year's period. The decrease is attributed to lower anticipated inflation for non-prescription drugs.

Gross profit increased 9.3% in the quarter versus a 5.9% increase in the same period last year. The change from the prior year is primarily due to higher sales growth partially offset by lower gross margins.

Selling, general and administrative expenses as a percentage of sales were 22.8% for the first quarter compared to 23.3% a year ago. As a percentage of sales, the current quarter decrease was due to lower store level salaries and related store supervision as a result of our restructuring activities, partially offset by higher employee benefit plan and insurance expenses.

Selling, general and administrative expenses increased 7.4% in the first quarter ended November 30, 2009 compared to 9.1% a year ago. The decrease in the rate of growth was due to savings from our restructuring activities, primarily in store payroll.

Interest was a net expense of \$21 million and \$15 million for the periods ending November 30, 2009 and 2008, respectively. The increase in interest expense is primarily attributed to the issuance of long-term debt. The current year's interest expense is net of \$3 million, which was capitalized to construction projects, versus \$5 million capitalized last year.

The effective tax rate was 37.0% compared to 37.6% a year ago. The decrease in rate primarily attributable to prior year state tax matters.

CRITICAL ACCOUNTING POLICIES

The consolidated condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates. Management believes that any reasonable deviation from those judgments and estimates would not have a material impact on our consolidated financial position or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of earnings and corresponding balance sheet accounts would be necessary. These adjustments would be made in future statements. For a complete discussion of all our significant accounting policies please see our 2009 annual report on Form 10-K. Some of the more significant estimates include goodwill and other intangible asset impairment, allowance for doubtful accounts, vendor allowances, liability for closed locations, liability for insurance claims, cost of sales, and income taxes. We use the following methods to determine our estimates:

Goodwill and other intangible asset impairment -

Goodwill and other indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As part of our impairment analysis for each reporting unit, we engaged a third-party appraisal firm to assist in the determination of estimated fair value for each unit. This determination included estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to: the selection of appropriate peer group companies; control premiums appropriate for acquisitions in the industries in which we compete; the discount rate; terminal growth rates; and forecasts of revenue, operating income, depreciation and amortization and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among other, purchased prescription files, customer relationships and trade names. Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. We also compared the sum of the estimated fair values of the reporting units to the Company's total value as implied by the market value of the Company's equity and debt securities. This comparison indicated that, in total, our assumptions and estimates were reasonable. However, future declines in the overall market value of the Company's equity and debt securities may indicate that the fair value of one or more reporting units has declined below its carrying value.

We have not made any material changes to the method of evaluating goodwill and intangible asset impairments during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine impairment.

Allowance for doubtful accounts -

The provision for bad debt is based on both specific receivables and historic write-off percentages. We have not made any material changes to the method of estimating our allowance for doubtful accounts during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the allowance.

Vendor allowances -

Vendor allowances are principally received as a result of purchase levels, sales or promotion of vendors' products. Allowances are generally recorded as a reduction of inventory and are recognized as a reduction of cost of sales when the related merchandise is sold. Those allowances received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, general and administrative expenses to the extent of advertising incurred, with the excess treated as a reduction of inventory costs. We have not made any material changes to the method of estimating our vendor allowances during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimate or assumptions used to determine vendor allowances.

Liability for closed locations -

The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. We have not made any material changes to the method of estimating our liability for closed locations during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the liability.

Liability for insurance claims -

The liability for insurance claims is recorded based on estimates for claims incurred and is not discounted. The provisions are estimated in part by considering historical claims experience, demographic factors and other actuarial assumptions. We have not made any material changes to the method of estimating our liability for insurance claims during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the liability.

Cost of sales -

Drugstore cost of sales is derived based on point-of-sale scanning information with an estimate for shrinkage and adjusted based on periodic inventories. Inventories are valued at the lower of cost or market determined by the last-in, first-out (LIFO) method. We have not made any material changes to the method of estimating cost of sales during the last three years. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine cost of sales. Cost of sales will continue to be impacted by our restructuring initiatives which include inventory rationalization and the subsequent write-down of inventory to the lower of cost or market.

Income taxes -

We are subject to routine income tax audits that occur periodically in the normal course of business. U.S. federal, state and local and foreign tax authorities raise questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the tax benefits associated with our various tax filing positions, we record a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. Adjustments are made to our liability for unrecognized tax benefits in the period in which we determine the issue is effectively settled with the tax authorities, the statute of limitations expires for the return containing the tax position or when more information becomes available. Our liability for unrecognized tax benefits, including accrued penalties and interest, is included in other long-term liabilities on our consolidated balance sheets and in income tax expense in our consolidated statements of earnings.

In determining our provision for income taxes, we use an annual effective income tax rate based on full year income, permanent differences between book and tax income, and statutory income tax rates. The effective income tax rate also reflects our assessment of the ultimate outcome of tax audits. Discrete events such as audit settlements or changes in tax laws are recognized in the period in which they occur. Based on current knowledge, we do not believe there is a reasonable likelihood that there will be a material change in the estimate or assumptions used to determine income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$2,552 million at November 30, 2009, compared to \$886 million at November 30, 2008. Short-term

investment objectives are to minimize risk, maintain liquidity and maximize after-tax yields. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in U.S. Treasury market funds and Treasury Bills.

Net cash provided by operating activities for the three months ending November 30, 2009 improved \$856 million to \$1,168 million compared to \$312 million a year ago. The increase is primarily attributable to working capital improvements. For the three months ended November 30, 2009, we generated \$326 million in cash flow from working capital improvements, as compared to the prior year where working capital was a use of \$367 million in cash. Additionally, net earnings positively impacted cash flow from operations. Cash provided by operations is the principal source of funds for expansion, acquisitions, remodeling programs, dividends to shareholders and stock repurchases. In fiscal 2009 we supplemented cash provided by operations with long-term debt.

Net cash used for investing activities was \$431 million versus \$684 million last year. In the current year, we invested \$600 million in short-term Treasury Bills and \$500 million matured. Additions to property and equipment were \$304 million compared to \$638 million last year. During the first quarter we added a total of 184 locations (153 net) compared to 220 last year (189 net). There were 30 owned locations added during the quarter and 50 under construction at November 30, 2009 versus 59 owned locations added and 82 under construction last year.

	Drugstores	Worksites	Home Care	Specialty Pharmacy	Mail Service	Total
August 31, 2009	6,997	377	105	15	2	7,496
New/Relocated	170	9	2	-	-	181
Acquired	2	-	1	-	-	3
Closed/Replaced	(22)	(4)	(4)	(1)	-	(31)
November 30, 2009	7,147	382	104	14	2	7,649

Business acquisitions this year were \$32 million versus \$61 million in the prior year. Business acquisitions in the current and prior year were primarily prescription files.

Capital expenditures throughout fiscal 2010 are expected to be \$1.6 billion, excluding business acquisitions and prescription file purchases. We expect new drugstore organic growth of between 4.5 percent and 5.0 percent in fiscal 2010 and between 2.5 percent and 3.0 percent in 2011. In the first quarter, we added a total of 184 locations, of which 172 were new, relocated or acquired drugstores, with a net gain of 150 drugstores after relocations and closings. We are continuing to relocate stores to more convenient and profitable freestanding locations. In addition to new stores, expenditures are planned for distribution centers and technology.

Net cash used for financing activities was \$272 million compared to the prior year where financing activities provided net cash of \$815 million. There were no short-term borrowings in the current fiscal year compared to proceeds of \$998 million a year ago. On October 14, 2009, our Board of Directors approved a long-term capital policy. Our long-term capital policy is to maintain a strong balance sheet and financial flexibility; reinvest in our core strategies; invest in strategic opportunities that reinforce our core strategies and meet return requirements; and return surplus cash flow to shareholders in the form of dividends and share repurchases over the long term. In connection with our capital policy, our Board of Directors authorized a new stock repurchase program ("2009 repurchase program") and set a long-term dividend payout ratio target between 30 and 35 percent. The 2009 repurchase program, allows for the repurchase of up to \$2,000 million of the Company's common stock prior to its expiration on December 31, 2013. Shares totaling \$150 million were purchased in conjunction with the 2009 repurchase program in the current quarter. In addition, we will continue to repurchase shares to support the needs of the employee stock and option plans. Shares totaling \$45 million were purchased to support the needs of the employee stock plans during the current period as compared to \$99 million a year ago. In the first three months of the current year, we had proceeds related to employee stock plans of \$63 million versus \$32 million for the same period last year. Cash dividends paid were \$136 million during the first three months versus \$111 million for the same period a year ago.

We had no commercial paper outstanding at November 30, 2009. In connection with our commercial paper program, we maintain two unsecured backup syndicated lines of credit that total \$1,200 million. The first \$600 million facility expires on August 9, 2010, and allows for the issuance of up to \$400 million in letters of credit, which reduce the amount available for borrowing. The second \$600 million facility expires on August 12, 2012. Our ability to access these facilities is subject to our compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require us to maintain certain financial ratios related to minimum net worth and priority debt, along with limitations on the sale of assets and purchases of investments. As of November 30, 2009, we were in compliance with all such covenants. The Company pays a facility fee to the financing bank to keep these lines of credit active. As of November 30, 2009, there was \$191 million in letters of credit issued against these credit facilities. We do not expect any borrowings under these facilities, together with our outstanding commercial paper, to exceed \$1,200 million.

Our current credit ratings are as follows:

Rating Agency	Long-Term Debt		Commercial Paper	
	Rating	Outlook	Rating	Outlook
Moody's	A2	Stable	P-1	Stable
Standard & Poor's	A+	Negative	A-1	Negative

In assessing our credit strength, both Moody's and Standard & Poor's consider our business model, capital structure, financial policies and financial statements. Our credit ratings impact our future borrowing costs, access to capital markets and operating lease costs.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table lists our contractual obligations and commitments as of November 30, 2009:

	Payments Due by Period (In millions)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating leases (1)	\$ 34,561	\$ 2,022	\$ 4,141	\$ 4,009	\$ 24,389
Purchase obligations (2):					
Open inventory purchase orders	1,659	1,659	-	-	-
Real estate development	442	227	177	38	-
Other corporate obligations	452	266	111	46	29
Long-term debt*(3)	2,355	9	4	1,304	1,038
Interest payment on long-term debt	752	113	232	168	239
Insurance*	519	160	142	88	129
Retiree health*	334	10	23	27	274
Closed location obligations*	111	25	31	18	37
Capital lease obligations *(1)	38	2	3	3	30
Other long-term liabilities reflected on the balance sheet* (4)	698	49	136	119	394
Total	\$ 41,921	\$ 4,542	\$ 5,000	\$ 5,820	\$ 26,559

* Recorded on balance sheet.

- (1) Amounts for operating leases and capital leases do not include certain operating expenses under the leases such as common area maintenance, insurance and real estate taxes. These expenses for the Company's most recent fiscal year were \$335 million.
- (2) The purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including open purchase orders.
- (3) Total long-term debt on the Consolidated Condensed Balance Sheet includes a \$28 million fair market value adjustment and \$9 million of unamortized discount.
- (4) Includes \$63 million (\$29 million due in 1-3 years, \$23 million due in 3-5 years and \$11 million due in over 5 years) of unrecognized tax benefits recorded under ASC topic 740.

OFF-BALANCE SHEET ARRANGEMENTS

Letters of credit are issued to support purchase obligations and commitments (as reflected on the Contractual Obligations and Commitments table) as follows (In millions):

Insurance	\$ 235
Inventory obligations	47
Real estate development	13
Other	8
Total	\$ 303

At November 30, 2009, \$191 million of insurance letters of credit were issued under the provisions of our \$600 million credit facility that expires on August 9, 2010.

We have no off-balance sheet arrangements other than those disclosed on the Contractual Obligations and Commitments table and a credit agreement guaranty on behalf of SureScripts-RxHub, LLC. This agreement is described more fully in Note 12 in the Notes to Consolidated Condensed Financial Statements.

Both on-balance sheet and off-balance sheet financing are considered when targeting debt to equity ratios to balance the interests of equity and debt (including real estate) investors. This balance allows us to lower our cost of capital while maintaining a prudent level of financial risk.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued ASC topic 810 (formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under ASC topic 810. The application of the new provisions under this topic, which will be effective for the first quarter of fiscal 2011, is not expected to have a material impact on our consolidated financial position or results of operations.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this quarterly report on Form 10-Q, as well as in other public filings, the Company website, press releases and oral

statements made by our representatives, is forward-looking information based on the Company's current expectations and plans which involve risks and uncertainties. Forward-looking information includes statements concerning pharmacy sales trends, prescription margins, number and location of new store openings, outcomes of litigation, the level of capital expenditures, and demographic trends. Forward looking information includes statements with words such as "expects," "estimates," "intends," "believes," "plans," "anticipates" or similar language. For such statements, we claim the protection of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve risks and uncertainties, known or unknown to the Company that could cause results to differ materially from management expectations as projected in such forward-looking statements. These risk and uncertainties are discussed in Item 1A of the Company's annual report on Form 10-K for the fiscal year ended August 31, 2009 as well as other documents filed with the Securities and Exchange Commission. Unless otherwise required by applicable securities laws, the Company assumes no obligation to update its forward-looking statements to reflect subsequent events or circumstances.

Item 3. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

In July 2009, we entered into five interest rate swap transactions converting our \$1,300 million 4.875% fixed rate notes to a floating interest rate tied to the one month LIBOR plus a constant spread. These financial instruments are sensitive to changes in interest rates. On November 30, 2009, we had \$1,047 million in long-term debt obligations that had fixed interest rates. A one percentage point increase or decrease in interest rates would increase or decrease the annual interest expense we recognize and the cash we pay for interest expense by approximately \$13 million.

Item 4. CONTROLS AND PROCEDURES

Based on their evaluation as of November 30, 2009, pursuant to Exchange Act Rule 13a-15(b), the Company's management, including its Chief Executive Officer and Chief Financial Officer, has concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) are effective.

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the Company's management, including its Chief Executive Officer and Chief Financial Officer, no changes during the quarter ended November 30, 2009 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The information in response to this item is incorporated herein by reference to Note 12 of the Consolidated Condensed Financial Statements of this Quarterly Report.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases by the Company during the quarter ended November 30, 2009 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
9/1/2009 - 9/30/2009	-	-	-	\$ 2,000,000,000
10/1/2009 - 10/31/2009	-	-	-	\$ 2,000,000,000
11/1/2009 - 11/30/2009	4,957,429	\$ 39.33	3,817,429	\$ 1,850,000,169
Total	4,957,429	\$ 39.33	3,817,429	\$ 1,850,000,169

- (1) The Company purchased 1,140,000 shares of its common stock in open-market transactions to satisfy the requirements of the Company's employee stock purchase and option plans, as well as the Company's Nonemployee Director Stock Plan.
- (2) On October 14, 2009, the Board of Directors authorized a new stock repurchase program ("2009 repurchase program") which replaced the 2007 repurchase program. The 2009 repurchase program allows for the repurchase of up to \$2,000 million of the Company's common stock prior to its expiration on December 31, 2013. The total remaining authorization under the repurchase program is \$1,850 million as of November 30, 2009.

Item 6. EXHIBITS

(a) Exhibits

- 3.1 Articles of Incorporation of Walgreen Co., as amended, filed with the Securities and Exchange Commission as Exhibit 3(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1999 (File No. 1-00604), and incorporated by reference herein.
- 3.2 Amended and Restated By-Laws of Walgreen Co., as amended effective as of September 1, 2008, filed with the Securities and Exchange Commission on September 5, 2008 as Exhibit 3.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.
- 10.1 Amended and Restated Senior Executive Severance Agreement effective as of July 31, 2006 between Medmark, Inc. and Stanley B. Blaylock.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

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.

WALGREEN CO.
(Registrant)

Dated: 1/5/10

/s/ W.D. Miquelon
W.D. Miquelon
Executive Vice President
(Chief Financial Officer)

Dated: 1/5/10

/s/ M.M. Scholz
M.M. Scholz
Controller
(Chief Accounting Officer)

**AMENDED AND RESTATED
SENIOR EXECUTIVE SEVERANCE AGREEMENT**

This Amended and Restated Senior Executive Severance Agreement (the "Agreement") is made effective as of July 31, 2006 between Medmark Inc., a Delaware corporation (the "Company"), and Stanley B. Blaylock ("Executive").

WHEREAS, Executive is currently employed by the Company and was party to a previous Amended and Restated Senior Executive Severance Agreement with the Company dated June 28, 2006 (the "Previous Agreement") which Executive agreed to terminate;

WHEREAS, pursuant to the terms of the Stock Purchase Agreement by and among Walgreen Co. ("Walgreens"), Medmark Holdings Inc. (the Company's parent company), and the stockholders of Medmark Holdings Inc., Walgreens is, as of the date hereof, purchasing all of the outstanding stock of the Company (the "Walgreens Stock Purchase");

WHEREAS, the execution of this Agreement is necessary for the protection of the Company's legitimate and protectible business interests in its customers, prospective customers, accounts and confidential, proprietary, and trade secret information; and

WHEREAS, the parties desire to enter into this Agreement to replace the Previous Agreement.

NOW THEREFORE, for the consideration set forth herein, the receipt, adequacy and legal sufficiency of which are acknowledged by the parties, and intending to be legally bound hereby, the Company and Executive agree as follows:

1. DEFINITIONS.

As used throughout this Agreement:

- (a) "Board" means the Board of Directors of the Company.
- (b) "Closing" means the official closing of the transaction contemplated by the Walgreens Stock Purchase.
- (c) "Company" means Medmark Inc. prior to the Effective Date. After the Effective Date, Company means Medmark Inc. or such other Walgreens business unit that includes the operations of the Medmark business unit and that engages in the "Specialty Pharmacy Business," as defined in the Stock Purchase Agreement. For purposes of Executive's obligations under Paragraphs 7 and 8, Company shall also include any other Walgreens business operation engaged in the "Specialty Pharmacy Business," as defined in the Stock Purchase Agreement.
- (d) "Confidential Information" includes, but is not limited to, any information, in whole or part, concerning the Company's accounts, sales methods, sales proposals, customers or prospective customers, prospect lists, price lists, manuals, formulae, products, processes, plans, designs, methods, financial information or data (including financial statements, financial projections and budgets, historical and projects sales, and capital spending budgets and plans), marketing data, compositions, ideas, improvements, inventions, research and development, computer software and programs (including object code and source code), computer software and database technologies, computer related information or data, system documentation, patented products, copyrighted information, know how, and operating and distribution methods and any trade secret or other proprietary information belonging to the Company or relating to the Company's business and affairs; provided, that Confidential Information does not include any such information that is or becomes generally known to and available for use by the public other than as a result of Executive's fault or the fault of any other Person bound by or under duty of confidentiality to the Company.
- (e) "Customer" means any Person, in its capacity as a customer, whether a for-profit or not-for-profit entity, meeting any one or more of the following:
 - (i) the Company contracted with such Person during the period of Executive's employment; provided, however, that such Person shall not be deemed to be a Customer for purposes of this Paragraph 1(b)(i) if any such contract with the Company had been terminated for more than a two (2) year period preceding the termination of Executive's employment; or
 - (ii) such Person was (A) a Prospective Customer, (B) a customer, or (C) an acquisition candidate for the Company which held direct discussions with the Company, in each case during the one (1) year period preceding the termination of Executive's employment.
- (f) "Competing Business" means any business engaged in the specialty pharmacy distribution or mail order pharmacy business or any other business engaged in by the Company during the term of Executive's employment.
- (g) "Effective Date" means the effective date of the Closing.
- (h) "Executive Invention" means any invention, technique, modification, process or improvement (whether patentable or not)

and any work of authorship (whether or not copyright protection may be obtained for it) created; conceived, or developed by the Executive, either solely or in conjunction with others, during the employment period of Executive covered hereunder and in connection with, arising out of, or relating to the Company's business.

- (i) "Person" means any individual, corporation, partnership, limited liability company or other entity.
- (j) "Post-Employment Period" means:
 - (A) for all purposes under this Agreement, 24 months if Executive's employment with the Company ends for any reason prior to the two-year anniversary of the Effective Date;
 - (B) for purposes of Paragraph 7 of this Agreement, 18 months if Executive's employment with the Company ends for any reason on or after the two-year anniversary of the Effective Date;
 - (C) for purposes of Paragraph 9 of this Agreement, 18 months if Executive's employment with the Company ends for any reason on or after the two-year anniversary of the Effective Date but prior to the five-year anniversary of the Effective Date; and
 - (D) for purposes of Paragraph 9 of this Agreement, zero months if Executive's employment with the Company ends for any reason on or after the five-year anniversary of the Effective Date.
- (k) "Prospective Customer" means a Person with whom the Company has had significant discussions regarding the provision of services or products related to the specialty pharmacy distribution or mail order business or any other business engaged in by the Company during the term of Executive's employment.

2. EFFECTIVENESS AND TERM OF AGREEMENT.

This Agreement will become effective as of the Effective Date. This Agreement shall remain in effect indefinitely, subject to the termination provisions of Paragraph 9, and subject to the expiration of Executive's severance rights after five years, as provided in Paragraph 9.

3. EMPLOYMENT DUTIES AND RESPONSIBILITIES.

Executive is employed as an at-will employee and shall perform such duties and responsibilities as are commensurate with and required by his or her position, and any such other duties as may be assigned to Executive by his or her direct and indirect supervisors from time to time.

Executive further agrees to devote all of Executive's business time, skill, energy, and attention exclusively to the business of the Company. During Executive's employment with the Company, Executive will not engage in any other business for Executive's own account (except for Executive's personal investment activities, subject to the restrictions in Paragraph 7 below) or accept any employment from any other Person, or render any services, give any advice or serve in a consulting capacity, whether gratuitously or otherwise, to or for any other Person, other than as a volunteer for charitable organizations or as a member of the board of directors for the companies listed on Schedule A hereto, without the prior written approval in accordance with Walgreens written policies concerning such matters. Notwithstanding any other provision in the Agreement, upon the Closing, Executive agrees to continue in good faith with his or her responsibilities and duties hereunder, including using his or her commercially reasonable efforts to assist Walgreens with the transition for a period of twelve (12) months following the Effective Date; provided that the foregoing shall no longer apply following the termination of Executive's employment without Cause or for Good Reason, pursuant to Paragraph 9(b) or 9(c) below.

4. COMPENSATION.

As of the Effective Date, Executive's annual base salary shall be \$250,000.00, and Executive's bonus opportunity shall continue under the Company program in place prior to the Effective Date. As of January 1, 2007, Executive shall be eligible for an annual bonus opportunity consistent with what is provided to similarly-situated employees of Walgreens Health Services. Initially, it is expected that this bonus opportunity shall be pursuant to the Walgreens corporate bonus program, subject to pro-ration for the initial partial fiscal year of participation, and subject to a vesting requirement providing for 100% of the bonus for the first fiscal year of participation. Executive shall receive such other compensation, if any, as determined pursuant to Walgreens management from time to time. Executive's compensation is subject to review and modification by the Company at any time and without notice. The Company shall be entitled to withhold from any or all compensation payments to Executive any amounts required by any applicable taxing or other authority, and any amounts owed by Executive to the Company that are past due.

5. BENEFITS.

Executive shall be eligible for the standard benefits that apply to similarly situated Company employees at the same salary grade level, which benefits may be offered, modified, and/or discontinued by the Company at any time in without notice where permitted by law. Initially as of the Effective Date, such benefits shall include, without limitation, the applicable Walgreens stock purchase and stock option programs, medical, prescription and dental coverage, life insurance coverage, disability and personal accident insurance coverage, vacation, personal and sick days, and such other benefits that are generally available to Company employees. In addition, Executive's annual vacation benefit shall be a minimum of four weeks (to the extent Executive is not otherwise entitled to four weeks' annual vacation under Walgreens policy).

For purposes of eligibility and participation under Walgreens benefits (except for retiree health coverage), Executive's service with the Company prior to the Effective Date shall be counted to the extent such service is generally credited to Company employees in connection with the Walgreens Stock Purchase (subject to the applicable five-year service credit cap).

6. POLICIES AND PRACTICES.

Executive agrees to comply at all times with all rules, regulations, policies, practices, and procedures of Walgreens, any Walgreens affiliate and the Company that apply to similarly-situated Company employees and are in effect from time to time (the "Company's Policies"). Walgreens or the Company, as applicable, may alter, amend, add, and supplement the Company's Policies at any time in its sole discretion; provided, that the Company or Walgreens shall provide reasonable advance written notice to Executive of any such amendments.

7. RESTRICTIVE COVENANTS.

In order to protect the legitimate business interests and goodwill of the Company, and to protect Confidential Information, Executive covenants and agrees that for the entire period of his or her employment with the Company, and for the applicable Post-Employment Period after termination of such employment by either party for any reason, Executive will not:

- (a) (i) contact any Customer of the Company for the benefit of a Competing Business or (ii) interfere with, or attempt to disrupt the relationship, contractual, or otherwise, between the Company and any of its Customers.
- (b) hire employees of the Company. This restriction includes without limitation a prohibition on directly or indirectly employing, or knowingly permitting any Person or business directly or indirectly controlled by Executive, regardless of whether such Person or business is a Competing Business, from employing, any person who is employed by the Company. For the period following the termination of Executive's employment with the Company, the term "employee" means an individual employed by the Company as of the date of, or within 90 days of, Executive's termination.
- (c) solicit employees of the Company. This restriction includes without limitation a prohibition on directly or indirectly (i) interfering with, or attempting to disrupt the relationship, contractual, or otherwise, between the Company and any of its employees, and (ii) soliciting, inducing, or attempting to induce employees of the Company to terminate employment with the Company and become self-employed by a Competing Business.
- (d) compete with the Company. This restriction includes without limitation a prohibition on directly or indirectly engaging or investing in, owning, managing, operating, financing, controlling, participating in the ownership, management, operation, financing or control of, or being associated or in any manner connected with, any Competing Business, whether as a consultant, independent contractor, agent, employee, officer, partner, director, shareholder (except (i) limited partnership investments in private equity funds which may invest in venture capital-backed companies (where Executive's investment represents less than 1% percent ownership interest of any such company) or (ii) investments of less than 1% ownership interest of the outstanding securities of a corporation or other entity whose securities are listed on a stock exchange or quotation system and such entity files periodic reports with the Securities and Exchange Commission), distributor, representative, or otherwise, alone or in association with any other Person(s).

Executive agrees that the restrictions contained in paragraphs 7(a), 7(b), and 7(c) have no geographic limitation. Executive agrees that the restrictions contained in Paragraph 7(d) are geographically limited to (a) the entirety of the United States and (b) any country if the Company conducted business within such country at any time during Executive's employment with the Company.

Executive acknowledges that (i) the Company's business is and following the date hereof will be national in scope, (ii) the Company's products and services are and following the date hereof will be marketed throughout the United States and (iii) the Company has competed and following the date hereof will compete with other businesses that are or could be located in any part of the United States. Executive further covenants and agrees that restrictive covenants contained in this Agreement are reasonable and necessary to protect the legitimate business interests of the Company because of the nature and scope of the Company's business.

If a court or arbitrator of competent jurisdiction determines that one or more of the provisions of this Paragraph 7 are invalid, illegal, or unenforceable for any reason, then such provision or provisions shall be deemed to be reduced in scope or length, as the case may be, to the extent required to make this Paragraph enforceable. If Executive violates the provisions of this Paragraph 7, the periods described therein shall be extended by that number of days which equals the aggregate of all days during which at any time any such violations occurred.

8. NONDISCLOSURE AND NONUSE OF CONFIDENTIAL INFORMATION; INVENTIONS.

(a) During the term of Executive's employment with the Company and at all times thereafter, Executive shall not, directly or indirectly, divulge, furnish or make accessible to any other Person, or use in any way any Confidential Information that Executive acquires or becomes acquainted with or will acquire or become acquainted with as a result of employment with the Company; provided, however, that Executive is authorized to disclose Confidential Information if such disclosure is: (i) authorized by the Company in writing, (ii) to professionals engaged by the Company, such as attorneys, accountants, and other professionals, who need to know such information to provide services to the Company and who are required to maintain the confidentiality of such information, (iii) to any regulatory or governmental authority in the ordinary course of the Company's business, (iv) reasonably necessary in the ordinary course of the Company's business or (v) required by law. The Confidential Information is the property of the Company, and Executive agrees that the use, misappropriation or disclosure of the Confidential Information (other than pursuant to the proviso in the immediately preceding sentence) would constitute a breach

of trust, a breach of Executive's fiduciary duty to the Company, and would constitute irreparable injury to the Company. Executive agrees to return all Confidential Information to the Company immediately upon the termination of Executive's employment with the Company, including the return of all passwords and codes necessary for the Company to access electronic files and information used by Executive for Company purposes, including all internet and electronic mail accounts where Executive has stored electronic information that may constitute Confidential Information. Furthermore, Executive acknowledges that during the course of employment with the Company, Executive may be exposed to the confidential information of customers and other third parties, and Executive agrees to maintain the confidentiality of this information and will only use it as necessary to carry out the work for the Company consistent with the Company's arrangement with these customers and third parties.

(b) Each Executive Invention, whether now existing or hereafter created, does and will belong exclusively to the Company. If it is determined that any such works are not works made for hire, the Executive hereby assigns to the Company all of the Executive's right, title, and interest, including all rights of copyright, patent, and other intellectual property rights, to or in such Executive Inventions. The Executive covenants that he or she will promptly: (i) disclose to the Company in writing any Executive Invention; (ii) assign to the Company or to a party designated by the Company, at the Company's request and without additional compensation, all of the Executive's right to the Executive Invention for the United States and all foreign jurisdictions; (iii) execute and deliver to the Company such applications, assignments, and other documents as the Company may request in order to apply for and obtain patents or other registrations with respect to any Executive Invention in the United States and any foreign jurisdictions; (iv) sign all other papers necessary to carry out the above obligations; and (v) give testimony and render any other assistance but without expense to the Executive in support of the Company's rights to any Executive Invention.

9. TERMINATION AND SEVERANCE.

The rights and obligations of the parties regarding termination of Executive's employment with the Company are as follows.

(a) Termination by the Company with Cause.

The Company has the right to terminate Executive's employment at any time if the Board determines in good faith that there is "Cause" for termination. There is Cause for termination if the Board determines in good faith that any one or more of the following have occurred:

- (i) Executive has been indicted or convicted of, or entered a plea of guilty or nolo contendere to, any crime (A) constituting a felony under any state or federal law or (B) involving fraud, embezzlement or an act of moral turpitude, whether or not in connection with the performance by Executive of his or her duties or obligations to the Company (if Executive is charged with such a crime, the Company may suspend him or her with pay until the charges are resolved);
- (ii) Executive (A) commits an act of fraud with respect to a material aspect of the Company's business, even if not criminally charged, indicted, or convicted therefor; or (B) has engaged in any willful misconduct, even if not criminal in nature, that brings the Company or any of its officers, directors, subsidiaries or shareholders into public disgrace or disrepute in any material respect; or
- (iii) Executive has (A) been grossly negligent in the performance of his or her duties and obligations; (B) breached any obligation contained in Paragraph 7, 8 or 20 herein; or (C) breached any obligation contained in Paragraph 6 herein, but only to the extent that such breach constitutes a material violation of one or more significant Company Policies and such policy violation is such that, under typical circumstances, immediate termination of employment would result.

The Company shall give written notice to Executive of a determination by the Board that there is Cause for termination. Such notice shall be given by the Company's most senior officer or any member of the Board. A termination for Cause is effective as of the date that notice is sent to Executive, regardless of the date on which Executive receives such notice. If Executive's employment is terminated for Cause, Executive will receive no severance or separation pay of any sort after the effective date of the termination, except for base salary earned with respect to services performed prior to the date of termination and, to the extent not previously paid, reimbursement of any expenses incurred by Executive in the normal course consistent with the Company's Policies.

Executive acknowledges and agrees that if the Company terminates Executive's employment with Cause, Executive has continuing post-employment obligations and restrictions under this Agreement after the termination of employment, including, but not limited to, the obligations and restrictions contained in Paragraphs 7, 8 and 20 of this Agreement.

(b) Termination by the Company Without Cause.

The Company has the right to terminate Executive's employment at any time without Cause.

The Company shall give written notice to Executive of a termination without Cause. Such notice shall be given by the Company's most senior officer or any member of the Board. Such termination will be effective thirty (30) calendar days after Executive receives such notice. In the Company's sole discretion, the Company may require that Executive continue performing such duties as may reasonably be assigned to Executive for the thirty (30) days after Executive receives notice of a termination without Cause.

If Executive's employment is terminated without Cause, for the Post-Employment Period, Executive will be entitled to (i) "Severance Pay" and (ii) the payment by the Company of Executive's premiums with respect to health insurance coverage under COBRA. As used herein, "Severance Pay" means an amount, in the aggregate, equal to Executive's then current base salary, not including bonus payments, equity

awards, expense reimbursements, or any other form of compensation or benefits, payable over the Post-Employment Period. Executive will receive the Severance Pay in equal payments over the course of the Post-Employment Period, paid in accordance with the Company's normal payroll practices. Executive will not be eligible for, nor will Executive have any right to receive, any other severance from the Company. Specifically, during the Post-Employment Period, Executive will not be eligible for, nor will Executive have any right to receive, expense reimbursement, bonus payments of any nature, equity awards, or any other payment or benefit of any nature other than the Severance Pay set forth above, except for compensation earned with respect to services performed prior to the date of termination and, to the extent not previously paid, reimbursement of any expenses incurred by Executive prior to the date of termination in the normal course consistent with the Company's Policies.

Executive acknowledges and agrees that if the Company terminates Executive's employment without Cause, Executive has continuing post-employment obligations and restrictions under this Agreement after the termination of employment, including, but not limited to, the obligations and restrictions contained in Paragraphs 7, 8 and 20 of this Agreement. Executive's compliance with these post-employment obligations and restrictions is mandatory condition precedent to Executive's right to receive any portion of the Severance Pay. Should Executive breach any such post-employment obligations and restrictions, the Company will immediately cease making payments of the Severance Pay. If the Company fails to pay any severance payments within thirty (30) days of the relevant due date, Executive shall immediately be released from all post-employment obligations and restrictions set forth in Paragraph 7 above.

(c) Termination by Executive for Good Reason.

Executive has the right to terminate Executive's employment for "Good Reason" at any time after the Effective Date and prior to the five-year anniversary of the Effective Date. As used herein, "Good Reason" means that any one or more of the following have occurred:

- (i) Without Executive's oral or written agreement, the Company has reduced Executive's annual base salary, not including bonus payments, equity awards, expense reimbursements, or any other form of compensation or benefits, by an amount equal to 15% or more.
- (ii) Without Executive's oral or written agreement, the Company has relocated the location of Executive's office to a location that increases Executive's normal work commute (one-way) by more than fifty (50) miles.

Executive shall give written notice to the Company of a termination for Good Reason to the Company's most senior officer or any member of the Board. Such termination will be effective thirty (30) calendar days after the Company receives such notice. In the Company's sole discretion, the Company may require that Executive continue performing such duties as may reasonably be assigned to Executive for the thirty (30) days after the Company receives notice of a termination for Good Reason.

If Executive terminates employment for Good Reason, Executive will be entitled to receive "Severance Pay" and subsidized COBRA coverage in the same amount and in the same manner as a termination by the Company without Cause, as set forth above in Paragraph 9(b).

Executive acknowledges and agrees that if Executive terminates employment for Good Reason, Executive has continuing post-employment obligations and restrictions under this Agreement after the termination of employment, including, but not limited to, the obligations and restrictions contained in Paragraphs 7, 8 and 20 of this Agreement. Executive's compliance with these post-employment obligations and restrictions is a mandatory condition precedent to Executive's right to receive any portion of the Severance Pay. Should Executive breach any such post-employment obligations and restrictions, the Company will immediately cease making payments of the Severance Pay. If the Company fails to pay any severance payments within thirty (30) days of the relevant due date, Executive shall immediately be released from all post-employment obligations and restrictions set forth in Paragraph 7 above.

(d) Termination by Executive Without Good Reason.

Executive has the right to terminate Executive's employment at any time without Good Reason.

Executive shall give written notice to the Company of a termination without Good Reason to the Company's most senior officer or any member of the Board. Such termination will be effective thirty (30) calendar days after the Company receives notice. In the Company's sole discretion, the Company may require that Executive continue performing such duties as may reasonably be assigned to Executive for the thirty (30) days after the Company receives notice of a termination without Good Reason.

If Executive terminates employment without Good Reason, Executive will receive no severance or separation pay of any sort after the effective date of the termination, except for base salary earned with respect to services performed prior to the date of termination and, to the extent not previously paid, reimbursement of any expenses incurred by Executive in the normal course consistent with the Company's Policies.

Executive acknowledges and agrees that if Executive terminates employment without Good Reason, Executive has continuing post-employment obligations and restrictions under this Agreement after the termination of employment, including, but not to limited, the obligations and restrictions contained in Paragraphs 7, 8 and 20 of this Agreement.

(e) Termination Upon Total Disability, Retirement, or Death.

Executive's employment with the Company will terminate upon Executive's "Total Disability," retirement, or death.

As used herein, "Total Disability" means (i) if Executive is covered under a long-term disability plan which is paid for by the Company, Executive is totally disabled under the terms of that plan; or (ii) if no such plan exists, Executive's inability to perform the important

functions or duties of his or her job or position by reason of a physical or mental condition for one hundred eighty (180) calendar days, which need not be consecutive, during any twelve (12) consecutive month period (the effective date of such Total Disability shall be the day next following such one hundred eightieth (180th) day). Executive acknowledges that any accommodation for a disability that resulted in Executive's inability to perform the essential functions of the position for more than such one hundred eighty (180) day period would constitute an undue hardship on the Company.

The Company shall give written notice to Executive of a termination due to Total Disability. Such notice shall be given by the Company's most senior officer or any member of the Board. A termination due to Total Disability is effective as of the date that notice is sent to Executive, regardless of the date on which Executive receives such notice. If Executive's employment is terminated due to Total Disability, Executive will receive no severance or separation pay of any sort after the effective date of the termination, except for base salary earned with respect to services performed prior to the date of termination and, to the extent not previously paid, reimbursement of any expenses incurred by Executive in the normal course consistent with the Company's Policies. In addition, Executive will remain entitled to salary continuation payments or other benefits under any applicable Company plan providing disability benefits.

Executive acknowledges and agrees that if the Company terminates Executive's employment due to Total Disability, Executive has continuing post-employment obligations and restrictions under this Agreement after the termination of employment, including, but not limited to, the obligations and restrictions contained in Paragraphs 7, 8 and 20 of this Agreement.

Executive's employment with the Company will automatically terminate if Executive retires from employment with the Company (in accordance with Walgreens policies defining qualification for retirement). Executive will receive no severance or separation pay of any sort after the date of retirement, except for base salary earned with respect to services performed prior to the date of termination and, to the extent not previously paid, reimbursement of any expenses incurred by Executive in the normal course consistent with the Company's Policies. Executive will remain entitled to salary continuation payments or other benefits under any applicable Company plan providing retirement benefits.

Executive acknowledges and agrees that in the event of a termination of employment due to retirement, Executive has continuing post-employment obligations and restrictions under this Agreement after the termination of employment, including, but not limited to, the obligations and restrictions contained in Paragraphs 7 and 8 above.

Executive's employment with the Company will automatically terminate if Executive dies while employed by the Company. Executive's estate will receive no severance or separation pay of any sort after the date of death, except for base salary earned with respect to services performed prior to the date of termination and, to the extent not previously paid, reimbursement of any expenses incurred by Executive in the normal course consistent with the Company's Policies. In addition, Executive's estate will remain entitled to salary continuation payments or other benefits under any applicable Company plan providing death benefits.

10. NOTIFICATION TO OTHER PARTIES.

In the event of Executive's termination of employment with the Company for any reason, Executive consents to the Company communicating with any new employer about the restrictions and obligations imposed on Executive under this Agreement.

11. EQUITABLE RELIEF; FEES AND EXPENSES.

Executive stipulates and agrees that any breach of Paragraph 7, 8 or 20 of this Agreement by Executive will result in immediate and irreparable harm to the Company, the amount of which will be extremely difficult to ascertain, and that the Company could not be reasonably or adequately compensated by damages in an action at law. For these reasons, the Company shall have the right, without objection from Executive, to obtain such preliminary, temporary or permanent injunctions or restraining orders or decrees from any court of competent jurisdiction as may be necessary to protect the Company against, or on account of, any breach by Executive of the provisions of this Agreement. Such right to equitable relief is in addition to all other legal remedies the Company may have to protect its rights. In the event of a dispute under this Agreement, the non-prevailing party shall be responsible for reimbursing the reasonable attorney's fees and costs of the prevailing party. Executive further covenants and agrees that any order of court or judgment obtained by the Company which enforces the Company's rights under this Agreement may be transferred, without objection or opposition by Executive, to any court of law or other appropriate law enforcement body located in any other state in the United States or any other country in the world where Company does business, and that said court or body shall give full force and effect to said order and/or judgment.

12. DISPUTE RESOLUTION PROCEDURE.

If the Company and Executive mutually agree to arbitrate a dispute, such dispute shall be arbitrated in accordance with the rules of the American Arbitration Association. The Company and Executive agree that any dispute arbitrated will be heard solely through arbitration, and not by a court.

13. NO ORAL MODIFICATIONS.

This Agreement can be modified, amended, or supplemented only by a writing signed by the party to be bound. No waiver of any of the provisions of this Agreement shall be deemed to or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided. Any failure by the Company to insist upon Executive's strict compliance with any of the terms and conditions of this Agreement shall not be deemed a waiver of any such terms or conditions, nor shall it be deemed a waiver of the terms and conditions of the Agreement in whole or in part.

14. ACKNOWLEDGEMENTS OF EXECUTIVE.

Executive hereby acknowledges and agrees that: (a) this Agreement is necessary for the protection of the legitimate business interests of the Company; (b) the restrictions contained in this Agreement may be enforced in a court of law whether or not Executive is terminated with or without Cause or terminates this Agreement for or without Good Reason; (c) Executive has no intention of competing with the Company within the limitations set forth above; (d) Executive has received adequate and valuable consideration in exchange for his or her obligations under this Agreement; (e) Executive's covenants shall be construed as independent of any other provision in this Agreement (other than the last paragraph in each of Paragraphs 9(b) and 9(c)) and the existence of any claim or cause of action Executive may have against the Company, whether predicated on this Agreement or not, shall not constitute a defense to the enforcement by Company of these covenants; and (f) Executive's continued employment with the Company is not guaranteed for any term or time period whatsoever.

15. FULL UNDERSTANDING.

Executive acknowledges that Executive has been afforded the opportunity to seek legal counsel regarding this Agreement and the terms it contains, that Executive has carefully read and fully understands all of the provisions of this Agreement, and that Executive, in consideration for the compensation and benefits set forth herein, is voluntarily entering into this Agreement.

16. ENTIRE AGREEMENT; SEVERABILITY.

This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and supersedes the Existing Agreement and all other prior agreements, written, or oral, between the parties hereto concerning the subject matter hereof. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality, or unenforceability shall not affect any other provision or any other jurisdiction, but this Agreement shall be reformed, construed, and enforced in such jurisdiction as if such invalid, illegal, or unenforceable provision had never been contained herein, subject to the provisions of Paragraph 7 above. The restrictive covenants stated herein may be read as if separate and apart from this Agreement and shall survive the termination of Executive's employment with the Company for any reason.

17. OTHER AGREEMENTS.

Executive represents and warrants that Executive is not a party to or otherwise subject to or bound by the terms of any contract, agreement, or understanding that would affect Executive's right or abilities to perform under this Agreement. Executive specifically represents that Executive will not use any confidential information obtained from Executive's prior employer(s) in the performance of Executive's duties herein.

18. CHOICE OF LAW, JURISDICTION AND VENUE.

The parties agree that this Agreement shall be deemed to have been made and entered into in Allegheny County, Pennsylvania and that law of the Commonwealth of Pennsylvania shall govern this Agreement, without regard to conflict of laws principles. Jurisdiction and venue is exclusively limited in any proceeding by the Company or Executive to enforce their rights hereunder to any court or arbitrator geographically located in Allegheny County, Pennsylvania. Executive hereby waives any objections to the jurisdiction and venue of the courts in or for Allegheny County, Pennsylvania, including any objection to personal jurisdiction, venue, and/or forum non-conveniens, in any proceeding by the Company to enforce its rights hereunder filed in or for Allegheny County, Pennsylvania. Executive agrees not to object to any petition filed by the Company to remove an action filed by Executive from a forum or court not located in Allegheny County, Pennsylvania.

19. ASSIGNMENT; SUCCESSORS IN INTEREST.

This Agreement is binding upon the parties hereto and shall inure to their respective heirs, personal representatives, successors, and permitted assigns. The Company shall have the right to assign this Agreement, including without limitation the restrictions set forth in Paragraphs 7, 8 and 20, in connection with a merger, consolidation or restructuring involving the Company, or a sale or transfer of the business and/or any assets of the Company, and Executive agrees to be obligated by this Agreement, including without limitation the restrictions set forth in Paragraphs 7, 8 and 20, to any successor, assign, or surviving entity. Any successor to the Company is an intended third party beneficiary of this Agreement. Executive may not assign this Agreement.

20. NON-DISPARAGEMENT.

During the term of Executive's employment with the Company and at all times thereafter, Executive agrees that Executive will not disparage or subvert the Company or its affiliated corporations or entities, or make any statement reflecting negatively on the Company, its affiliated corporations or entities, or any of their officers, directors, employees, agents, or representatives, including, but not limited to, any matters relating to the operation or management of the Company, Executive's employment and the termination of Executive's employment, irrespective of the truthfulness, or falsity of such statement.

During the term of Executive's employment with the Company and at all times thereafter, the Company agrees that it will not disparage or subvert Executive, or make any statement reflecting negatively on Executive, including, but not limited to, any matters relating to Executive's employment and the termination of Executive's employment, irrespective of the truthfulness, or falsity of such statement.

21. COUNTERPARTS; FACSIMILE.

This Agreement may be executed in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument. Delivery of executed signature pages by facsimile transmission will constitute effective and binding execution and delivery of this Agreement.

22. HEADINGS.

The headings used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Senior Executive Severance Agreement as of the day and year first above written.

MEDMARK INC.

EXECUTIVE

By: /s/ Barbara Beaudin
Name: Barbara Beaudin
Title: CFO/Secretary

/s/ Stanley B. Blaylock
Stanley B. Blaylock

Approved on behalf of WALGREEN CO.

By: _____
Name:
Title:

WALGREEN CO. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Three Months Ended	
	11/30/2009	11/30/2008
Income before income taxes and minority interest	\$ 776	\$ 654
Add:		
Minority interest	-	-
Fixed charges	264	237
Less: Capitalized interest	(3)	(5)
Earnings as defined	<u>\$ 1,037</u>	<u>\$ 886</u>
Interest expense, net of capitalized interest	\$ 22	\$ 16
Capitalized interest	3	5
Portions of rentals representative of the interest factor	239	216
Fixed charges as defined	<u>\$ 264</u>	<u>\$ 237</u>
Ratio of earnings to fixed charges	<u>3.93</u>	<u>3.74</u>

CERTIFICATION

I, Gregory D. Wasson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreen Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gregory D. Wasson President and Chief Executive Officer
Gregory D. Wasson

Date: January 5, 2010

CERTIFICATION

I, Wade D. Miquelon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreen Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Wade D. Miquelon Executive Vice President and Chief
Wade D. Miquelon Financial Officer

Date: January 5, 2010

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreen Co., an Illinois corporation (the "Company"), on Form 10-Q for the quarter ended November 30, 2009 as filed with the Securities and Exchange Commission (the "Report"), I, Gregory D. Wasson, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gregory D. Wasson
Gregory D. Wasson
Chief Executive Officer
Dated: January 5, 2010

A signed original of this written statement required by Section 906 has been provided to Walgreen Co. and will be retained by Walgreen Co. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreen Co., an Illinois corporation (the "Company"), on Form 10-Q for the quarter ended November 30, 2009 as filed with the Securities and Exchange Commission (the "Report"), I, Wade D. Miquelon, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wade D. Miquelon
Wade D. Miquelon
Chief Financial Officer
Dated: January 5, 2010

A signed original of this written statement required by Section 906 has been provided to Walgreen Co. and will be retained by Walgreen Co. and furnished to the Securities and Exchange Commission or its staff upon request.