

# 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
Fiscal Year	08/31

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 Quarterly Period Ended May 31, 2011

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 May 31, 2011 was 905,418,846.

**WALGREEN CO.**

**FORM 10-Q FOR THE QUARTER ENDED MAY 31, 2011**

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## PART I. FINANCIAL INFORMATION

### Item 1. Consolidated Condensed Financial Statements (Unaudited)

The consolidated condensed financial statements of Walgreen Co. and subsidiaries 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 May 31, 2011, August 31, 2010 and May 31, 2010, the Consolidated Condensed Statements of Earnings for the three and nine months ended May 31, 2011 and 2010, and the Consolidated Condensed Statements of Cash Flows for the nine months ended May 31, 2011 and 2010, 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)

	May 31, 2011	August 31, 2010	May 31, 2010
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 2,652	\$ 1,880	\$ 1,712
Short-term investments	-	-	600
Accounts receivable, net	2,598	2,450	2,729
Inventories	7,552	7,378	7,110
Other current assets	203	214	185
Total Current Assets	<u>13,005</u>	<u>11,922</u>	<u>12,336</u>
<b>Non-Current Assets:</b>			
Property and equipment, at cost, less accumulated depreciation and amortization	11,130	11,184	11,154
Goodwill	1,898	1,887	1,894
Other non-current assets	1,283	1,282	1,323
Total Non-Current Assets	<u>14,311</u>	<u>14,353</u>	<u>14,371</u>
<b>Total Assets</b>	<u>\$ 27,316</u>	<u>\$ 26,275</u>	<u>\$ 26,707</u>
<b>Liabilities &amp; Shareholders' Equity</b>			
<b>Current Liabilities:</b>			
Short-term borrowings	\$ 11	\$ 12	\$ 9
Trade accounts payable	5,015	4,585	4,584
Accrued expenses and other liabilities	2,809	2,763	2,531
Income taxes	83	73	217
Total Current Liabilities	<u>7,918</u>	<u>7,433</u>	<u>7,341</u>
<b>Non-Current Liabilities:</b>			
Long-term debt	2,384	2,389	2,359
Deferred income taxes	419	318	268
Other non-current liabilities	1,872	1,735	1,627
Total Non-Current Liabilities	<u>4,675</u>	<u>4,442</u>	<u>4,254</u>
<b>Commitments and Contingencies (see Note 13)</b>			
<b>Shareholders' Equity:</b>			
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 May 31, 2011, August 31, 2010 and May 31, 2010	80	80	80
Paid-in capital	741	684	669

Employee stock loan receivable	(46)	(87)	(101)
Retained earnings	18,289	16,848	16,543
Accumulated other comprehensive (loss) income	(22)	(24)	35
Treasury stock, at cost; 119,981,154 shares at May 31, 2011, 86,794,947 at August 31, 2010 and 52,221,907 at May 31, 2010	(4,319)	(3,101)	(2,114)
Total Shareholders' Equity	14,723	14,400	15,112
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 27,316</b>	<b>\$ 26,275</b>	<b>\$ 26,707</b>

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 May 31,		Nine Months Ended May 31,	
	2011	2010	2011	2010
Net sales	\$ 18,371	\$ 17,199	\$ 54,217	\$ 50,550
Cost of sales	13,217	12,450	38,794	36,366
Gross Profit	5,154	4,749	15,423	14,184
Selling, general and administrative expenses	4,203	3,920	12,324	11,474
Operating Income	951	829	3,099	2,710
Interest expense, net	18	24	56	67
Earnings Before Income Tax Provision	933	805	3,043	2,643
Income tax provision	330	342	1,121	1,022
Net Earnings	\$ 603	\$ 463	\$ 1,922	\$ 1,621
Net earnings per common share – basic	\$ .66	\$ .47	\$ 2.08	\$ 1.65
Net earnings per common share – diluted	\$ .65	\$ .47	\$ 2.07	\$ 1.64
Dividends declared	\$ .1750	\$ .1375	\$ .5250	\$ .4125
Average shares outstanding	911.3	976.4	922.2	984.5
Dilutive effect of stock options	10.9	5.6	6.8	6.1
Average shares outstanding assuming dilution	922.2	982.0	929.0	990.6

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)**

Nine Months Ended May 31,	
2011	2010

**Cash Flows from Operating Activities :**

Net earnings	\$ 1,922	\$ 1,621
Adjustments to reconcile net earnings to net cash provided by operating activities -		
Depreciation and amortization	798	768
Deferred income taxes	136	(19)
Stock compensation expense	67	64
Income tax savings from employee stock plans	5	6
Other	34	28
Changes in operating assets and liabilities -		
Accounts receivable, net	(114)	(139)
Inventories	(151)	(37)
Other assets	(8)	41
Trade accounts payable	430	163
Accrued expenses and other liabilities	51	64
Income taxes	(29)	139
Other non-current liabilities	140	120
Net cash provided by operating activities	<u>3,281</u>	<u>2,819</u>

**Cash Flows from Investing Activities :**

Purchases of short-term investments held to maturity	-	(2,400)
Proceeds from short-term investments held to maturity	-	2,300
Additions to property and equipment	(699)	(786)
Proceeds from sale of assets	54	29
Business and intangible asset acquisitions, net of cash received	(182)	(764)
Other	(17)	(31)
Net cash used for investing activities	<u>(844)</u>	<u>(1,652)</u>

**Cash Flows from Financing Activities :**

Payments of debt	-	(576)
Stock purchases	(1,393)	(754)
Proceeds related to employee stock plans	203	206
Cash dividends paid	(488)	(407)
Other	13	(11)
Net cash used for financing activities	<u>(1,665)</u>	<u>(1,542)</u>

**Changes in Cash and Cash Equivalents :**

Net increase (decrease) in cash and cash equivalents	772	(375)
Cash and cash equivalents at beginning of year	1,880	2,087
Cash and cash equivalents at end of period	<u>\$ 2,652</u>	<u>\$ 1,712</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**

**Note 1. Basis of Presentation**

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 significant accounting policies, please see the Company's 2010 Annual Report on Form 10-K.

**Note 2. Restructuring**

On October 30, 2008, the Company announced a series of strategic initiatives, approved by the Board of Directors, to enhance shareholder value. One of these initiatives was a program known as "Rewiring for Growth", which was designed to reduce cost and improve productivity through strategic sourcing of indirect spend, reducing corporate overhead and work throughout the Company's stores, rationalization of inventory categories, and transforming community pharmacy.

The following pre-tax charges associated with Rewiring for Growth have been recorded in the Consolidated Condensed Statements of Earnings (In millions):

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
Severance and other benefits	\$ -	\$ 3	\$ 2	\$ 15
Inventory charges	-	-	-	19
Restructuring expense	-	3	2	34
Consulting	10	10	21	34
Restructuring and restructuring related expenses	\$ 10	\$ 13	\$ 23	\$ 68
Cost of sales	\$ -	\$ -	\$ -	\$ 19
Selling, general and administrative expenses	10	13	23	49
	\$ 10	\$ 13	\$ 23	\$ 68

Severance and other benefits include the charges associated with employees who were separated from the Company. In the current fiscal year, 39 employees have been separated from the Company. Since inception, a total of 929 employees have been separated from the Company as a result of these initiatives.

Inventory charges relate to on-hand inventory that has been reduced from cost to a selling price below cost.

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

	Severance and Other Benefits
May 31, 2010 reserve balance	\$ -
Charges	2
Cash payments	(2)
August 31, 2010 reserve balance	-
Charges	2
Cash payments	(2)
May 31, 2011 reserve balance	\$ -

Additionally, as a part of the Company's Customer Centric Retailing (CCR) initiative, it is modifying the store format to enhance category layouts and adjacencies, shelf heights and sight lines, and brand and private brand assortments, all of which are designed to positively impact the shopper experience and increase customer frequency and purchase size. The Company expects this format will be rolled out to over 5,500 existing stores. At May 31, 2011, in total, the Company has converted 3,301 stores and opened 475 new stores with the CCR format. The Company expects to convert approximately 1,800 stores and open approximately 60 new stores with the CCR format in the remaining months of fiscal 2011. For the remaining remodels, the Company expects the average total cost, which includes both selling, general and administrative expenses and capital, to be approximately \$45 thousand per store. For the three months ended May 31, 2011, the Company incurred \$46 million in total program costs, of which \$33 million was included in selling, general and administrative expenses and \$13 million in capital costs. For the nine months ended May 31, 2011, the Company incurred \$63 million in total program costs, of which \$43 million was included in selling, general and administrative expenses and \$20 million in capital costs. In the prior year's quarter, the Company incurred \$29 million in total program costs, of which \$20 million was included in selling, general and administrative expenses and \$9 million in capital costs. In the prior year's nine month period, the Company incurred \$41 million in total program costs, of which \$28 million was included in selling, general and administrative expenses and \$13 million in capital costs.

### Note 3. Inventories

Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At May 31, 2011, August 31, 2010 and May 31, 2010, inventories would have been greater by \$1,527 million, \$1,379 million and \$1,318 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 costs, inbound freight, warehousing costs and vendor allowances not included as a reduction of advertising expense.

### Note 4. Future Costs Related to Closed Locations

The Company 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. During the three and nine month periods ended May 31, 2011, the Company recorded charges of \$5 million and \$42 million, respectively, for facilities that were closed or relocated under long-term leases. This compares to \$11 million and \$35 million, respectively, for the three and nine month periods ended May 31, 2010. These charges are reported in selling, general and administrative expenses on the Consolidated Condensed Statement of Earnings.

The changes in reserve for facility closings and related lease termination charges include the following (In millions):

	May 31, 2011	August 31, 2010	May 31, 2010
Balance – beginning of period	\$ 151	\$ 99	\$ 99

Provision for present value of non-cancellable lease payments of closed facilities	38	77	27
Assumptions about future sublease income, terminations and changes in interest rates	(13)	(9)	(9)
Interest accretion	17	22	17
Cash payments, net of sublease income	(45)	(45)	(32)
Reserve acquired through acquisition	-	7	7
Balance – end of period	<u>\$ 148</u>	<u>\$ 151</u>	<u>\$ 109</u>

#### Note 5. Employee Retirement Plan

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 \$83 million for the quarter and \$271 million for the nine month period of 2011 compared to \$72 million and \$235 million, respectively, in the same periods last year. The Company's contributions, which are made annually in the second quarter, were \$322 million during the nine month period ended May 31, 2011. This compares to \$293 million for the prior year.

#### Note 6. Stock Based Compensation

The Company granted 334,344 and 8,632,845 stock options under the Walgreen Co. Executive Stock Option Plan and the Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) for the quarter and nine month periods ended May 31, 2011, respectively. This compares to 119,620 and 7,546,259 stock options granted in the quarter and nine month periods last year under the plans. Total stock-based compensation expense was \$21 million for the quarter and \$67 million for the nine month period ended May 31, 2011 compared to \$20 million and \$64 million, respectively, for the same periods last year. In accordance with Accounting Standards Codification ("ASC") Topic 718 Compensation – Stock Compensation, 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. There was no fully recognized retiree eligible expense recorded in the quarter and \$5 million recorded for the nine month period ended May 31, 2011. This compares to no fully recognized retiree eligible expense for the quarter and \$6 million for the nine month period ended May 31, 2010. Compensation expense for the quarter and nine month periods may not be representative of compensation expense for the entire fiscal year. There were no material changes in the assumptions used to compute compensation expense during the current quarter.

The Company granted 51,238 and 834,582 restricted stock units under the Walgreen Co. Restricted Stock Unit Award Program for the quarter and nine month period ended May 31, 2011, compared to 12,752 and 700,187 restricted stock units in the same periods last year. Dividends issued under the program, paid in the form of additional restricted stock units, totaled 7,542 units for the quarter and 24,619 units for the nine month period ended May 31, 2011 versus 4,642 units and 12,619 units in the same periods last year. The Company also granted 24,665 and 831,456 performance shares under the Walgreen Co. Performance Share Program for the quarter and nine month period ended May 31, 2011 versus 9,759 and 629,082 shares in the same period last year. In accordance with ASC Topic 718, 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 performance period for the Performance Share Program. For the quarter and nine month period ended May 31, 2011, the Company recognized \$14 million and \$34 million of expense related to these plans, respectively. In the same periods last year, the Company recognized \$6 million and \$16 million of expense.

#### Note 7. Earnings Per Share

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 May 31, 2011 and 2010, outstanding options to purchase common shares of 10,876,070 and 25,196,994, respectively, were excluded from the year to date earnings per share calculation because they were anti-dilutive.

#### Note 8. Post Employment Benefits

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 service life of the employee. The Company's postretirement health benefit plan is not funded.

Components of Net Periodic Benefit Costs (In millions):	Three Months Ended May 31,		Nine Months Ended May 31,	
	2011	2010	2011	2010
Service cost	\$ 4	\$ 3	\$ 11	\$ 9
Interest cost	5	5	16	15
Amortization of actuarial loss	4	2	11	6
Amortization of prior service cost	(2)	(3)	(7)	(9)
Total postretirement benefit cost	<u>\$ 11</u>	<u>\$ 7</u>	<u>\$ 31</u>	<u>\$ 21</u>

#### Note 9. Debt

Short-term borrowings and long-term debt consist of the following at May 31, 2011, August 31, 2010 and May 31, 2010 (In millions):

	<u>May 31,</u> <u>2011</u>	<u>August 31,</u> <u>2010</u>	<u>May 31,</u> <u>2010</u>
<b>Short-Term Borrowings -</b>			
Current maturities of loans assumed through the purchase of land, buildings and equipment; various interest rates from 5.00% to 8.75%; various maturities from 2015 to 2035	\$ 8	\$ 7	\$ 4
Other	3	5	5
<b>Total short-term borrowings</b>	<b>\$ 11</b>	<b>\$ 12</b>	<b>\$ 9</b>
<b>Long-Term Debt -</b>			
4.875% unsecured notes due 2013 net of unamortized discount and interest rate swap fair market value adjustment (see Note 11)	\$ 1,341	\$ 1,348	\$ 1,318
5.250% unsecured notes due 2019 net of unamortized discount and interest rate swap fair market value adjustment (see Note 11)	997	995	995
Loans assumed through the purchase of land, buildings and equipment; various interest rates from 5.00% to 8.75%; various maturities from 2015 to 2035	54	53	50
	<u>2,392</u>	<u>2,396</u>	<u>2,363</u>
Less current maturities	(8)	(7)	(4)
<b>Total-long term debt</b>	<b>\$ 2,384</b>	<b>\$ 2,389</b>	<b>\$ 2,359</b>

On July 17, 2008, the Company 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. The Company may redeem the notes, at any time in whole or from time to time in part, at its 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, discounted to the date of redemption on a semiannual basis 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 the Company has exercised its option to redeem the notes, it 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 May 31, 2011, August 31, 2010 and May 31, 2010 was \$1,411 million, \$1,446 million and \$1,438 million, respectively. Fair value for these notes was determined based upon quoted market prices.

On January 13, 2009, the Company 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. The Company may redeem the notes, at any time in whole or from time to time in part, at its 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, discounted to the date of redemption on a semiannual basis 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 the Company has exercised its option to redeem the notes, it 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 May 31, 2011, August 31, 2010 and May 31, 2010 was \$1,124 million, \$1,167 million and \$1,116 million, respectively. Fair value for these notes was determined based upon quoted market prices.

The Company has had no activity or outstanding balances in its commercial paper program since the second quarter of fiscal 2009. In connection with the commercial paper program, the Company maintains two unsecured backup syndicated lines of credit that total \$1,100 million. The first \$500 million facility expires on July 20, 2011, and allows for the issuance of up to \$250 million in letters of credit, which reduces the amount available for borrowing. The second \$600 million facility expires on August 12, 2012. The Company's ability to access these facilities is subject to compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require the Company 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. At May 31, 2011, the Company was in compliance with all such covenants. The Company pays a facility fee to the financing banks to keep these lines of credit active. At May 31, 2011, there were no letters of credit issued against these credit facilities and the Company does not anticipate any future letters of credit to be issued against these facilities.

#### **Note 10. Goodwill and Intangible Assets**

Changes in the carrying amount of goodwill consist of the following activity (In millions):

Net book value – June 1, 2010	
Goodwill	\$1,906
Accumulated impairment losses	(12)
<b>Total</b>	<b>1,894</b>
Acquisitions	-
Impairment charges	(16)

Other	9
Net book value – August 31, 2010	<u>1,887</u>
Acquisitions	39
Other	<u>(28)</u>
Net book value – May 31, 2011	<u>\$1,898</u>

Other primarily represents immaterial purchase accounting adjustments for the Company's acquisitions.

The carrying amount and accumulated amortization of intangible assets consists of the following (In millions):

	<u>May 31,</u> <u>2011</u>	<u>August 31,</u> <u>2010</u>	<u>May 31,</u> <u>2010</u>
<b>Gross Intangible Assets</b>			
Purchased prescription files	\$ 809	\$ 749	\$ 785
Favorable lease interests	386	377	373
Purchasing and payer contracts	303	280	288
Non-compete agreements	89	69	67
Trade name	44	44	72
Other amortizable intangible assets	4	34	5
Total gross intangible assets	<u>1,635</u>	<u>1,553</u>	<u>1,590</u>
<b>Accumulated amortization</b>			
Purchased prescription files	(325)	(293)	(264)
Favorable lease interests	(67)	(38)	(30)
Purchasing and payer contracts	(88)	(68)	(64)
Non-compete agreements	(41)	(33)	(30)
Trade name	(9)	(3)	(17)
Other amortizable intangibles	(2)	(4)	(2)
Total accumulated amortization	<u>(532)</u>	<u>(439)</u>	<u>(407)</u>
Total intangible assets, net	<u>\$ 1,103</u>	<u>\$ 1,114</u>	<u>\$ 1,183</u>

Amortization expense for intangible assets was \$152 million and \$129 million for the nine month period ended May 31, 2011 and 2010, respectively. The estimated annual amortization expense related to intangible assets is as follows (In millions):

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
\$ 202	\$ 192	\$ 167	\$ 135	\$ 104

#### Note 11. Derivatives

The Company uses derivative instruments to manage its interest rate exposure associated with some of its fixed-rate borrowings. The Company does not use derivative instruments for trading or speculative purposes. All derivative instruments are recognized in the consolidated condensed balance sheets at fair value. The Company designates 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, the Company formally documents the hedge relationship and the risk management objective for undertaking the hedge. In addition, it assesses 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 the Company to credit-related losses in the event of nonperformance, but the Company regularly monitors the creditworthiness of each counterparty.

#### 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.

In May 2011, the Company entered into interest rate swaps with two counterparties converting \$250 million of its 5.25% fixed rate notes to a floating interest rate based on the six month LIBOR in arrears plus a constant spread. The swap termination date coincides with the notes maturity date, January 15, 2019.

The notional amounts of derivative instruments outstanding as of May 31, 2011, August 31, 2010 and May 31, 2010 were as follows (In millions):

	<u>Notional Amount</u>		
	<u>May 31,</u> <u>2011</u>	<u>August 31,</u> <u>2010</u>	<u>May 31,</u> <u>2010</u>

Derivatives designated as hedges:

Interest rate swaps	\$	1,550	\$	1,300	\$	1,300
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The changes in fair value of the notes attributable to the hedged risk are included in long-term debt on the Consolidated Condensed Balance Sheets (see Note 9) and amortized through maturity. At May 31, 2011, August 31, 2010 and May 31, 2010, the Company had net unamortized fair value changes of \$45 million, \$51 million and \$21 million, respectively.

The fair value and balance sheet presentation of derivative instruments at May 31, 2011, August 31, 2010 and May 31, 2010, were as follows (In millions):

	<u>Location in Consolidated Condensed Balance Sheet</u>	<u>May 31, 2011</u>	<u>August 31, 2010</u>	<u>May 31, 2010</u>
Asset derivatives designated as hedges:				
Interest rate swaps	Other non-current assets	\$ 46	\$ 44	\$ 12

Gains and losses relating to the ineffectiveness of the Company's derivative instruments are recorded in interest expense on the Consolidated Condensed Statement of Earnings. The Company recorded income of \$1 million in the current quarter and \$1 million of expense for the nine month period ended May 31, 2011. This compares to \$1 million of income for the quarter and nine month periods last year.

## Note 12. Fair Value Measurements

The Company measures its assets and liabilities in accordance with ASC Topic 820 Fair Value Measurements and Disclosures. 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 measured at fair value on a recurring basis were as follows (In millions):

	<u>May 31, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds	\$ 1,383	\$ 1,383	\$ -	\$ -
Interest rate swaps	46	-	46	-
	<u>August 31, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds	\$ 1,030	\$ 1,030	\$ -	\$ -
Interest rate swaps	44	-	44	-
	<u>May 31, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds	\$ 1,195	\$ 1,195	\$ -	\$ -
Interest rate swaps	12	-	12	-

Interest rate swaps are valued using the six month LIBOR in arrears. See Note 11 for additional disclosures regarding financial instruments.

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

	<u>August 31, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Goodwill	\$ 3	\$ -	\$ -	\$ 3

The Company reports its debt instruments under the guidance of ASC Topic 825 Financial Instruments, which requires disclosure of the fair value of the Company's debt in the footnotes to the consolidated condensed financial statements.

## Note 13. Legal Proceedings and Guarantees

The Company is involved in legal proceedings, including that described below, and is subject to investigations, inspections, audits, inquiries and similar actions by governmental authorities, arising in the normal course of the Company's business. Although the outcome of these legal proceedings and other matters cannot be forecast with certainty, management believes the final disposition of these matters will not have a material adverse effect on the Company's business or consolidated financial position.

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. Himmel alleges that the Company’s 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.

The Company previously guaranteed a credit agreement on behalf of SureScripts-RxHub, LLC, which provides electronic prescription data services. The 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. The liability was \$10 million at August 31, 2010 and May 31, 2010. In the third quarter of the current fiscal year, the Company was fully released from its guarantee obligation.

#### Note 14. Business Acquisitions

On April 9, 2010, the Company completed the stock acquisition of Duane Reade Holdings, Inc., and Duane Reade Shareholders, LLC (Duane Reade), which consisted of 258 Duane Reade stores located in the New York City metropolitan area, as well as the corporate office and two distribution centers. Total purchase price was \$1,134 million, which included the assumption of debt. Included in the purchase price is a fair market value adjustment to increase debt assumed by \$81 million. This acquisition increased the Company’s presence in the New York metropolitan area.

The allocation of the purchase price of Duane Reade was accounted for under the purchase method of accounting in accordance with ASC Topic 805 Business Combinations. Goodwill, none of which is deductible for tax purposes, and other intangible assets recorded in connection with the acquisition totaled \$401 million and \$445 million, respectively. Goodwill consists of expected purchasing synergies, consolidation of operations and reductions in selling, general and administrative expenses. Intangible assets consist of \$303 million of favorable lease interests (10 year weighted average useful life), \$75 million in customer relationships (10 year useful life), \$38 million in trade name (5 year useful life) and \$29 million in other intangible assets (10 year useful life).

Assets acquired and liabilities assumed in the transaction were recorded at their acquisition date fair values while transaction costs associated with the acquisition were expensed as incurred. The Company’s allocation was based on an evaluation of the appropriate fair values and represented management’s best estimate based on available data. Final purchase accounting was completed in the first quarter of fiscal 2011. There were no material adjustments to the preliminary purchase price allocation. The final fair values of assets acquired and liabilities assumed on April 9, 2010, are as follows (in millions):

Accounts receivable	\$	52
Inventory		228
Other current assets		99
Property and equipment		219
Other non-current assets		3
Intangible assets		445
Goodwill		401
Total assets acquired		1,447
Liabilities assumed		313
Debt assumed		574
Net cash paid	\$	<u>560</u>

The fair values of goodwill and intangible assets associated with the acquisition of Duane Reade were determined to be Level 3 measurements under the fair value hierarchy. Intangible asset values were estimated based on future cash flows and customer attrition rates discounted using an estimated weighted average cost of capital.

The Company assumed federal net operating losses of \$286 million and state net operating losses of \$261 million, both of which begin to expire in 2018, in conjunction with the Duane Reade acquisition.

For the three and nine month periods ended May 31, 2011, the Company incurred \$8 million and \$28 million, respectively, in costs related to the acquisition, all of which was included in selling, general and administrative expenses. Actual results from Duane Reade operations are included in the Consolidated Condensed Statements of Earnings as follows (in millions, except per share amounts):

	Three Months Ended May 31, 2011		Nine Months Ended May 31, 2011	
Net sales	\$	484	\$	1,397
Net income (loss)		-		(12)
Net earnings per common share:				
Basic	\$	0.00	\$	(0.01)
Diluted	\$	0.00	\$	(0.01)

The aggregate purchase price of all business and intangible asset acquisitions was \$182 million for the nine months ended May 31, 2011. These acquisitions added \$39 million to goodwill and \$139 million to intangible assets, primarily prescription files. The remaining fair value relates to

immaterial amounts of tangible assets, less liabilities assumed. Operating results of the businesses acquired have been included in the Consolidated Condensed Statements of Earnings from their respective acquisition dates forward. Pro forma results of the Company, assuming all of the acquisitions had occurred at the beginning of each period presented, would not be materially different from the results reported.

#### Note 15. Depreciation and Amortization

The Company has recorded the following depreciation and amortization expense in the Consolidated Condensed Statements of Earnings (In millions):

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
Depreciation expense	\$ 194	\$ 200	\$ 602	\$ 605
Intangible asset amortization	54	52	152	129
System development costs amortization	21	11	44	34
Total depreciation and amortization expense	\$ 269	\$ 263	\$ 798	\$ 768

#### Note 16. Supplemental Cash Flow Disclosures

Cash interest paid for the nine month period ended May 31, 2011 was \$47 million compared to \$46 million in the prior year's nine month period. Cash paid for income taxes was \$1,003 million and \$896 million for the nine months ended May 31, 2011 and 2010, respectively.

#### Note 17. Subsequent Events

On June 3, 2011, the Company completed its acquisition of drugstore.com, inc. (drugstore.com) in a cash transaction totaling \$421 million including the assumption of \$17 million of debt. The addition of drugstore.com's online business across its health, personal care, beauty and vision categories better positions the Company as the most convenient multi-channel retailer of health and daily living needs in America.

On June 13, 2011, the Company completed the sale of its pharmacy benefit management business, Walgreens Health Initiatives, Inc. (WHI), to Catalyst Health Solutions, Inc. in a cash transaction for \$525 million. The Company anticipates recording a pre-tax gain in the fourth fiscal quarter in the range of \$430 million to \$480 million on the transaction.

#### Note 18. Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued an exposure draft on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed exposure draft states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. The proposed standard, as currently drafted, will have a material impact on the Company's reported results of operations and financial position. The impact of this exposure draft is non-cash in nature and will not affect the Company's cash position.

In April 2011, the FASB issued a proposed Accounting Standards Update (ASU), "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment" which is intended to simplify how an entity is required to test goodwill for impairment. This ASU would allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the proposed ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The proposed ASU includes a number of factors to consider in conducting the qualitative assessment. The proposed ASU would be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption would be permitted. The proposed standard is not expected to have a material impact on the Company's reported results of operations and financial position.

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein and our consolidated financial statements, accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended August 31, 2010. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under "Cautionary Note Regarding Forward-Looking Statements" below and in Item 1A (Risk Factors) in our Annual Report on Form 10-K for the year ended August 31, 2010 and our Quarterly Report on Form 10-Q for the quarter ended November 30, 2010.*

#### 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, convenience foods, personal care, beauty care, candy, photofinishing and seasonal items. Customers can have prescriptions filled in retail pharmacies as well as through the mail, and customers may also place orders by telephone and via the Internet. At May 31, 2011, we operated 8,171 locations in 50 states, the District of Columbia, Guam and Puerto

Rico. Total locations do not include 360 Take Care clinics that are operated within other Walgreens locations.

Location Type	Number of Locations	
	May 31, 2011	May 31, 2010
Drugstores	7,715	7,522
Worksite Facilities	362	378
Home Care Facilities	83	103
Specialty Pharmacies	9	14
Mail Service Facilities	2	2
Total	8,171	8,019

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 Company's sales, gross profit margin and gross profit dollars are impacted by, among other things, both the percentage of prescriptions that we fill that are generic and the rate at which new generic versions are introduced to the market. In general, generic versions of drugs generate lower total sales dollars per prescription, but higher gross profit margins and gross profit dollars, as compared with patent-protected brand name drugs. The positive impact on gross profit margins and gross profit dollars has been significant in the first several months after a generic version of a drug is first allowed to compete with the branded version, which is generally referred to as a "generic conversion." In any given year, the number of major brand name drugs that undergo a conversion from branded to generic status can increase or decrease, which can have a significant impact on our sales, gross profit margins and gross profit dollars. And, because any number of factors outside of the Company's control or ability to foresee can affect timing for a generic conversion, we face substantial uncertainty in predicting when such conversions will occur and what effect they will have on particular future periods.

The long-term outlook for prescription utilization is strong due in part to the aging population, the increasing utilization of generic drugs, the continued development of innovative drugs that improve quality of life and control health care costs, and the expansion of health care insurance coverage under the Patient Protection and Affordable Care Act signed into law in 2010 (the ACA). The ACA seeks to reduce federal spending by altering the Medicaid reimbursement formula (AMP) for multi-source drugs, and when implemented, is expected to reduce Medicaid reimbursements. State Medicaid programs are also expected to continue to seek reductions in reimbursements independent of AMP. In addition, the Company continuously faces reimbursement pressure from pharmacy benefit management (PBM) companies, health maintenance organizations, managed care organizations and other commercial third party payers, and the Company's agreements with these payers are regularly subject to expiration, termination or renegotiation.

On June 21, 2011, Walgreens announced that it is planning not to be a part of Express Scripts, Inc.'s pharmacy provider network effective January 1, 2012, as negotiations on a contract renewal have been unsuccessful. If a contract renewal is not reached, beginning next calendar year, Express Scripts' network would no longer include Walgreens more than 7,700 pharmacies nationwide. We estimate that Express Scripts, in its capacity as a pharmacy benefits manager, processes approximately 90 million prescriptions that are expected to be filled by Walgreens in fiscal 2011, representing approximately \$5.3 billion in annual sales. This development is expected to adversely affect our net sales, net income and cash flows in fiscal 2012. We intend to moderate the impact of this development on our consolidated financial results by seeking to retain business from Express Scripts' clients (consistent with their contractual obligations to Express Scripts), expand our business with other payers and customers, and implement cost saving initiatives. Over time, we believe employers and others will want plans with Walgreens in the network.

Total front-end sales have grown due to acquired stores and new store openings, as well as sales gains in existing stores. Front-end sales have increased in the non-prescription drugs, personal care, convenience foods, beer and wine and beauty categories.

To support our growth, we are investing in prime locations, technology and customer service initiatives. We are focused on retail organic growth; however, consideration is given to retail and other acquisitions that provide unique opportunities and fit our business objectives, such as our acquisitions of drugstore.com, which enhanced our online presence and Duane Reade, which consisted of 258 Duane Reade stores located in the New York City metropolitan area, as well as the corporate office and two distribution centers.

## 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 known as "Rewiring for Growth," which was 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 community pharmacy. We expect to complete these initiatives in the current fiscal year.

We have recorded the following pre-tax charges associated with our Rewiring for Growth program in the Consolidated Condensed Statements of Earnings (In millions):

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
Severance and other benefits	\$ -	\$ 3	\$ 2	\$ 15
Inventory charges	-	-	-	19
Restructuring expense	-	3	2	34
Consulting	10	10	21	34

Restructuring and restructuring related expenses	\$ 10	\$ 13	\$ 23	\$ 68
Cost of sales	\$ -	\$ -	\$ -	\$ 19
Selling, general and administrative expenses	10	13	23	49
	<u>\$ 10</u>	<u>\$ 13</u>	<u>\$ 23</u>	<u>\$ 68</u>

Severance and other benefits include the charges associated with employees who were separated from the Company. In the current fiscal year, 39 employees have been separated from the Company. Since inception, a total of 929 employees have been separated from the Company as a result of these initiatives.

Inventory charges relate to on-hand inventory that has been reduced from cost to a selling price 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 for the three and nine month periods ended May 31, 2011 was \$1 million and \$2 million, respectively. This compares to gross profit dilution of \$4 million and \$19 million in the quarter and nine month periods ended May 31, 2010, respectively.

We incurred pre-tax costs of \$11 million (\$10 million of restructuring and restructuring related expenses, and \$1 million of gross profit dilution) in the three month period ending May 31, 2011 and \$25 million (\$23 million of restructuring and restructuring related expenses, and \$2 million of gross profit dilution) for the nine month period ended May 31, 2011. Since inception, we have incurred \$383 million in total costs (\$328 million of restructuring and restructuring related expenses, and \$55 million of gross profit dilution). We anticipate approximately \$15 million of pre-tax restructuring and restructuring related expenses and gross profit dilution in the remaining months of fiscal 2011.

We have recorded the following balances within the accrued expenses and other liabilities section of our Consolidated Condensed Balance Sheets (In millions):

	<b>Severance and Other Benefits</b>
May 31, 2010 reserve balance	\$ -
Charges	2
Cash payments	(2)
August 31, 2010 reserve balance	-
Charges	2
Cash payments	(2)
May 31, 2011 reserve balance	<u>\$ -</u>

We have realized incremental savings related to the Rewiring for Growth program of approximately \$74 million in the current quarter and \$291 million for the nine month period ended May 31, 2011. Selling, general and administrative expenses realized incremental savings of \$62 million and \$260 million in the quarter and nine month period ended May 31, 2011, respectively, while cost of sales benefited by \$12 million and \$31 million in the same periods. We have realized total savings related to Rewiring for Growth of approximately \$1,012 million compared to our base year of fiscal 2008. Selling, general and administrative expenses realized total savings of \$901 million, while cost of sales benefited by approximately \$111 million. The savings are primarily the result of reduced store labor and personnel reductions and expense reduction initiatives.

Additionally, as a part of the Company's Customer Centric Retailing (CCR) initiative, we are modifying the store format to enhance category layouts and adjacencies, shelf heights and sight lines, and brand and private brand assortments, all of which are designed to positively impact the shopper experience and increase customer frequency and purchase size. We expect this format will be rolled out to over 5,500 existing stores. At May 31, 2011, in total, we have converted 3,301 stores and opened 475 new stores with the CCR format. We expect to convert approximately 1,800 stores and open approximately 60 new stores with the CCR format in the remaining months of fiscal 2011. For the remaining remodels, we expect the average total cost, which includes both selling, general and administrative expenses and capital, to be approximately \$45 thousand per store. For the three months ended May 31, 2011, we incurred \$46 million in total program costs, of which \$33 million was included in selling, general and administrative expenses and \$13 million in capital costs. For the nine months ended May 31, 2011, we incurred \$63 million in total program costs, of which \$43 million was included in selling, general and administrative expenses and \$20 million in capital costs. In the prior year's quarter, the company incurred \$29 million in total program costs, of which \$20 million was included in selling, general and administrative expenses and \$9 million in capital costs. In the prior year's nine month period, we incurred \$41 million in total program costs, of which \$28 million was included in selling, general and administrative expenses and \$13 million in capital costs.

## OPERATING STATISTICS

	<b>Percentage Increases/(Decreases)</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>May 31,</b>		<b>May 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net Sales	6.8	6.1	7.3	6.1
Net Earnings	30.3	(11.4)	18.6	3.2
Comparable Drugstore Sales	4.1	0.7	3.0	1.7
Prescription Sales	6.4	5.7	6.5	6.2
Comparable Drugstore Prescription Sales	4.1	1.0	3.0	2.5
Front-End Sales	7.6	6.9	8.7	6.0

Comparable Drugstore Front-End Sales	3.9	0.1	2.9	0.3
Gross Profit	8.5	6.5	8.7	6.9
Selling, General and Administrative Expenses	7.2	8.6	7.4	7.0

#### Percent to Net Sales

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
Gross Margin	28.1	27.6	28.4	28.1
Selling, General and Administrative Expenses	22.9	22.8	22.7	22.7

#### Other Statistics

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
Prescription Sales as a % of Net Sales	65.1	65.4	64.5	64.9
Third Party Sales as a % of Total Prescription Sales	95.8	95.7	95.5	95.3
Total Number of Prescriptions (in millions)	183	177	545	522
30 Day Equivalent Prescriptions (in millions) *	210	198	617	583
Total Number of Locations			8,171	8,019

\* 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 third quarter ended May 31, 2011 were \$603 million or \$.65 per diluted share. This was a 30.3% increase over the same quarter last year. The net earnings increase in the quarter was primarily attributable to higher sales growth, improved gross margins and a lower effective tax rate, partially offset by higher selling, general and administrative expenses as a percentage of sales. We recorded pre-tax Rewiring for Growth expenses of \$11 million (\$10 million of restructuring and restructuring related expenses and \$1 million in margin dilution), \$7 million after tax, or \$.01 per diluted share in the current quarter compared to pre-tax expenses of \$17 million (\$13 million of restructuring and restructuring related expenses and \$4 million in margin dilution), \$11 million after tax, or \$.01 per diluted share in the prior year. Duane Reade operations were breakeven in the current quarter, as compared to the prior year where Duane Reade operations recorded a pre-tax loss of \$30 million, \$19 million after tax or \$.02 per diluted share, including costs associated with the acquisition. Last year's third quarter tax provision also included the negative impact of \$.04 per diluted share from the elimination of the tax benefit for the Medicare Part D subsidy for retiree benefits that was the result of the enactment of the Patient Protection and Affordable Care Act.

For the nine month period ended May 31, 2011, net earnings increased 18.6% to \$1,922 million or \$2.07 per diluted share. The net earnings increase for the nine month period was primarily attributable to higher sales growth, improved gross margins and a lower effective tax rate. Pre-tax Rewiring for Growth expenses for the nine month period ended May 31, 2011 were \$25 million (\$23 million of restructuring and restructuring related expenses and \$2 million in margin dilution), \$16 million after tax, or \$.02 per diluted share. This compares to pre-tax expenses of \$87 million (\$68 million of restructuring and restructuring related expenses and \$19 million in margin dilution), \$55 million after tax, or \$.06 per diluted share in the prior year's period. Duane Reade, including costs associated with the acquisition, recorded a pre-tax loss of \$19 million, \$12 million after tax, or \$.01 per diluted share for the nine month period ended May 31, 2011. Duane Reade recorded a pre-tax loss of \$36 million, \$23 million after tax, or \$.02 per diluted share for the nine months ended May 31, 2010. Last year's nine month period tax provision also included the negative impact of \$.04 per diluted share from the elimination of the tax benefit for the Medicare Part D subsidy for retiree benefits that was the result of the enactment of the Patient Protection and Affordable Care Act.

Net sales for the quarter ended May 31, 2011 increased by 6.8% to \$18,371 million. The acquisition of Duane Reade increased total sales by 1.1% in the current quarter. 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 4.1% in the current quarter and 3.0% for the nine month period ended May 31, 2011. 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. Remodels associated with our CCR initiative are not considered major and therefore do not affect comparable drugstore results. Relocated and acquired stores (including Duane Reade) are not included as comparable stores for the first twelve months after the relocation or acquisition. We operated 8,171 locations (7,715 drugstores) as of May 31, 2011, compared to 8,019 locations (7,522 drugstores) a year earlier.

Prescription sales increased by 6.4% for the third quarter and 6.5% for the first nine months and represented 65.1% and 64.5% of total sales, respectively. The acquisition of Duane Reade increased prescription sales by 0.8% in the current quarter and 1.5% for the nine month period. In the prior year, prescription sales increased 5.7% in the quarter and 6.2% year to date and represented 65.4% and 64.9% of total sales. Comparable drugstore prescription sales were up 4.1% in the current quarter and 3.0% for the nine month period. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.0% in the current quarter and 2.6% for the first nine months versus 1.9% and 2.2% in the prior year's quarter and nine month periods, respectively. The effect of generics on total sales was a reduction of 1.2% in the current quarter and 1.5% year to date compared to 1.2% and 1.3% in the quarter and nine month periods in the prior year, respectively. Third party sales, where reimbursement is received from managed care organizations, the government, employers or private

insurers, were 95.8% of prescription sales for the quarter and 95.5% for the first nine months compared to 95.7% for the quarter and 95.3% for the first nine months last year. We receive market driven reimbursements from third party payers, a number of which typically reset in January. The total number of prescriptions filled for the current quarter (including immunizations) was approximately 183 million compared to 177 million for the same period last year. Prescriptions adjusted to 30 day equivalents were 210 million in the current quarter versus 198 million in last year's quarter.

Front-end sales increased 7.6% for the current quarter and 8.7% for the first nine months and were 34.9% and 35.5% of total sales, respectively. The acquisition of Duane Reade increased front-end sales by 1.8% in the quarter and 3.5% for the nine months. In comparison, prior year front end sales increased 6.9% and 6.0% for the quarter and nine months, respectively, and comprised 34.6% and 35.1% of total sales. In addition to the impact of Duane Reade, the increase in the current quarter's front-end sales is due in part to new store openings and improved sales dollars related to convenience foods, non-prescription drugs, personal care, beauty and beer and wine. Comparable drugstore front-end sales increased 3.9% for the current quarter and increased 2.9% year to date compared to the prior year, which increased 0.1% for the quarter and 0.3% year to date. The increase in comparable front end sales in the quarter was primarily attributed to convenience foods, non-prescription drugs, personal care, beer and wine and beauty.

Gross margin as a percent of sales was 28.1% in the current quarter and 28.4% for the first nine months compared to 27.6% and 28.1% for the quarter and nine month periods last year, respectively. Overall margins in the quarter were positively impacted by higher retail pharmacy margins where the positive effect of generic drug sales more than offset market driven reimbursements. Front-end margins were also higher in the current quarter due to non-prescription drugs and beauty. These increases were partially offset by a higher provision for LIFO. Gross margins for the nine month period were positively impacted by higher front-end margins. Also impacting margins for the nine month period were higher retail pharmacy margins where the positive effect of generic drug sales more than offset market driven reimbursements and the first quarter writedown of flu shot inventory. Additionally, a higher provision for LIFO negatively impacted gross margins.

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 \$50 million and \$148 million for the quarter and nine month period ended May 31, 2011 versus \$18 million and \$79 million a year ago. Our estimated annual inflation rate for the current year remained at 2.25%. In the prior year's quarter, the estimated annual inflation rate was reduced from 1.50% to 1.25%. The increase in our estimated annual inflation rate from the prior year is primarily due to higher inflation on non-prescription drugs.

Selling, general and administrative expenses as a percentage of sales were 22.9% for the third quarter and 22.7% for the first nine months compared to 22.8% and 22.7% a year ago. As a percentage of sales, the current quarter increase was primarily due to increased corporate costs partially offset by incremental savings from our Rewiring for Growth initiatives, primarily reduced store payroll and expense.

Interest was a net expense of \$18 million in the quarter and \$56 million year to date compared to \$24 million and \$67 million for the prior quarter and year to date, respectively. The decrease in interest expense for the three and nine month periods is primarily attributed to reduced interest rates associated with our fixed to variable interest rate swaps. The current year's interest expense is net of interest which was capitalized to construction projects of \$3 million in the quarter and \$8 million year to date, versus \$3 million for the quarter and \$9 million year to date capitalized last year.

The effective tax rate was 35.4% compared to 42.5% in the prior year's quarter. The prior year's effective tax rate includes a \$43 million charge to deferred taxes for the repeal of the tax benefit for the Medicare Part D subsidy for retiree benefits. Excluding this adjustment, the effective rate for the prior year's quarter was 37.1%. The decrease in the current year's effective tax rate, as compared to last year's adjusted rate is attributed to favorable tax audit resolutions and a beneficial provision to return adjustment. For the nine month period, the effective tax rate was 36.8% compared to 38.7% in the prior year. Excluding the charge for the Medicare Part D subsidy repeal, the effective tax rate was 37.0% for the prior year's nine month period. We expect our annual effective tax rate for fiscal 2011 to be approximately 37.0%.

## **CRITICAL ACCOUNTING POLICIES**

The consolidated condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. Management bases its estimates and judgments on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that the estimates used differ from actual results, 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 2010 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, definite-lived intangibles 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 engage a third party appraisal firm to assist in the determination of estimated fair value for each unit. This determination includes 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 things, 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 compare 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 indicates that, in total, our assumptions and estimates are 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 purchases, 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 estimates 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 inventory counts. 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.

#### 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 estimates or assumptions used to determine the amounts recorded for income taxes.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$2,652 million at May 31, 2011, compared to \$1,712 million at May 31, 2010. 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.

On October 14, 2009, our Board of Directors approved a long-term capital policy: 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.

Net cash provided by operating activities for the nine months ended May 31, 2011 was \$3,281 million compared to \$2,819 million a year ago. When compared to the prior year, cash from operating activities increased primarily as a result of higher net earnings. For the nine months ended May 31, 2011 and 2010, working capital generated cash flows of \$179 million and \$231 million, respectively. Cash provided by operations is the principal source of funds for expansion, acquisitions, remodeling programs, dividends to shareholders and stock repurchases.

Net cash used for investing activities was \$844 million for the nine months ended May 31, 2011 compared to \$1,652 million a year ago. Additions to property and equipment were \$699 million compared to \$786 million last year. During the first nine months, we added a total of 229 locations (125 net) compared to 601 last year (523 net), which included the acquisition of 258 Duane Reade locations. There were 48 owned locations added during the first nine months and 54 under construction at May 31, 2011 versus 74 owned locations added and 60 under construction last year.

	<b>Drugstores</b>	<b>Worksites</b>	<b>Home Care</b>	<b>Specialty Pharmacy</b>	<b>Mail Service</b>	<b>Total</b>
August 31, 2010	7,562	367	101	14	2	8,046
New/Relocated	188	13	1	1	-	203
Acquired	22	-	4	-	-	26
Closed/Replaced	(57)	(18)	(23)	(6)	-	(104)
May 31, 2011	7,715	362	83	9	2	8,171

Business acquisitions this year were \$182 million versus \$764 million in the prior year. Business acquisitions in the current year include the purchase of \$29 million of home care assets with the remaining balances relating primarily to the purchase of prescription files. The prior year acquisitions are primarily related to the purchase of Duane Reade for \$560 million and the purchase of prescription files. On June 3, 2011, we purchased drugstore.com in a cash transaction for approximately \$421 million including the assumption of \$17 million of debt. Additionally, on June 13, 2011, we closed the sale of our pharmacy benefit management business, Walgreens Health Initiatives, Inc. (WHI), in a cash transaction for \$525 million. We anticipate recording a pre-tax gain in the fourth fiscal quarter in the range of \$430 million to \$480 million on the WHI transaction.

Capital expenditures for fiscal 2011 are expected to be approximately \$1.1 billion, excluding business acquisitions and prescription file purchases. We expect new drugstore organic growth of approximately 2.5 to 3.0 percent in fiscal 2011. In the first nine months, we added a total of 229 locations, of which 188 were new or relocated drugstores. We are continuing to relocate stores to more convenient and profitable freestanding locations.

Net cash used for financing activities was \$1,665 million compared to the prior year's net cash use of \$1,542 million. We repurchased shares totaling \$1,393 million in the current year, \$1,185 million in conjunction with our share buyback programs and \$208 million to support the needs of the employee stock plans. In the prior year, we repurchased shares totaling \$754 million, \$638 million in conjunction with our share buyback programs and \$116 million to support the needs of the employee stock plans. We had proceeds related to employee stock plans of \$203 million during the first nine months versus \$206 million for the same period last year. Cash dividends paid were \$488 million during the first nine months versus \$407 million for the same period a year ago.

In connection with our capital policy, our Board of Directors authorized a share repurchase program (2009 repurchase program) and set a long-term dividend payout ratio target between 30 and 35 percent of net earnings. The 2009 repurchase program, which was completed in September 2010, allowed for the repurchase of up to \$2,000 million of the Company's common stock prior to its expiration on December 31, 2013. For the nine months ended May 31, 2011 and 2010, shares totaling \$360 million and \$638 million were purchased in conjunction with the 2009 repurchase program, respectively. On October 13, 2010, our Board of Directors authorized a new share repurchase program (2011 repurchase program) which allows for the repurchase of up to \$1,000 million of the Company's common stock prior to its expiration on December 31, 2012. For the nine months ended May 31, 2011, shares totaling \$825 million were purchased in conjunction with the 2011 repurchase program. We determine the timing and amount of repurchases from time to time based on our assessment of various factors including prevailing market conditions, alternate uses of capital, liquidity, the economic environment and other factors. The timing and amount of these purchases may change at any time. The Company has, and may from time to time in the future, repurchase shares on the open market through Rule 10b5-1 plans which enable a company to repurchase shares at times when it otherwise might be precluded from doing so under insider trading laws.

We had no commercial paper outstanding at May 31, 2011. In connection with our commercial paper program, we maintain two unsecured backup syndicated lines of credit that total \$1,100 million. The first \$500 million facility expires on July 20, 2011, and allows for the issuance of up to \$250 million in letters of credit, which reduce the amount available for borrowing. We intend to replace this facility with a new \$500 million multi-year facility prior to its expiration on July 20, 2011. 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 facility, 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. At May 31, 2011, we were in compliance with all such covenants. The Company pays a facility fee to the financing banks to keep these lines of credit active. At May 31, 2011, there were no letters of credit issued against these facilities and we do not anticipate any future letters of credit to be issued against these facilities.

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	Stable	A-1	Stable

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 May 31, 2011:

	Payments Due by Period (In millions)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating leases (1)	\$ 35,762	\$ 2,313	\$ 4,610	\$ 4,408	\$ 24,431
Purchase obligations (2):					
Open inventory purchase orders	1,732	1,732	-	-	-
Real estate development	293	176	104	13	-
Other corporate obligations	939	675	155	91	18
Long-term debt*(3)	2,353	8	1,304	10	1,031
Interest payment on long-term debt	581	116	200	105	160
Insurance*	609	245	187	95	82
Retiree health*	459	12	28	35	384
Closed location obligations*	148	35	41	22	50
Capital lease obligations *(1)	98	3	6	6	83
Other long-term liabilities reflected on the balance sheet* (4)	940	84	194	161	501
<b>Total</b>	<b>\$ 43,914</b>	<b>\$ 5,399</b>	<b>\$ 6,829</b>	<b>\$ 4,946</b>	<b>\$ 26,740</b>

\* 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 \$375 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 \$45 million fair market value adjustment and \$6 million of unamortized discount.
- (4) Includes \$83 million (\$32 million due in 1-3 years, \$34 million due in 3-5 years and \$17 million due in over 5 years) of unrecognized tax benefits recorded under ASC Topic 740 Income Taxes.

The expected timing of payments of the obligations above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

## OFF-BALANCE SHEET ARRANGEMENTS

We do not have any unconsolidated special purpose entities and, except as described herein, we do not have significant exposure to any off-balance sheet arrangements. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

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	\$ 231
Inventory purchase obligations	55
Real estate development	13
<b>Total</b>	<b>\$ 299</b>

We have no off-balance sheet arrangements other than those disclosed on the Contractual Obligations and Commitments table.

Both on-balance sheet and off balance-sheet financing alternatives are considered when pursuing our capital structure and capital allocation objectives.

## RECENT ACCOUNTING PRONOUNCEMENTS

In August 2010, the Financial Accounting Standards Board (FASB) issued an exposure draft on lease accounting that would require entities to

recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed exposure draft states that lessees and lessors should apply a “right-of-use model” in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is “more likely than not” to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. The proposed standard, as currently drafted, will have a material impact on the Company’s reported results of operations and financial position. This exposure draft is non-cash in nature and will not impact the Company’s cash position.

In April 2011, the FASB issued a proposed Accounting Standards Update (ASU), “Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment” which is intended to simplify how an entity is required to test goodwill for impairment. This ASU would allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the proposed ASU, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The proposed ASU includes a number of factors to consider in conducting the qualitative assessment. The proposed ASU would be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption would be permitted. The proposed standard is not expected to have a material impact on the Company’s reported results of operations and financial position.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report and other documents that we file with the Securities and Exchange Commission contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management’s assumptions. Statements that are not historical facts are forward-looking statements, including forward-looking information concerning pharmacy sales trends, prescription margins, number and location of new store openings, vendor, payer and customer relationships and terms, possible new contracts or contract extensions, competition, economic and business conditions, outcomes of litigation and regulatory matters, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, acquisition synergies, competitive strengths and changes in legislation or regulations. Words such as “expect,” “likely,” “outlook,” “forecast,” “would,” “could,” “should,” “will,” “project,” “intend,” “plan,” “continue,” “sustain,” “on track,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “possible,” “assume,” variations of such words and similar expressions are intended to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and involve risks, assumptions and uncertainties, including, but not limited to, those relating to competition, changes in economic and business conditions, failure to obtain new contracts or extensions of existing contracts, changes in vendor, payer and customer relationships and terms, risks associated with new business initiatives and activities, the availability and cost of real estate and construction, risks associated with acquisitions and divestitures, the ability to realize anticipated results from capital expenditures and cost reduction initiatives, outcomes of legal and regulatory matters, changes in legislation or regulations, and those described in Item 1A “Risk Factors” in our Form 10-K for the fiscal year ended August 31, 2010, in our Quarterly Reports on Form 10-Q for the quarters ended November 30, 2010 and February 28, 2011, and in other reports that we file or furnish with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements after the date they are made, whether as a result of new information, future events, changes in assumptions or otherwise.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

In January 2010, we entered into two interest rate swap transactions converting our \$1,300 million 4.875% fixed rate notes to a floating interest rate tied to the six month LIBOR in arrears plus a constant spread. In May 2011, we entered into two additional interest rate swap transactions converting \$250 million of our 5.25% fixed rate notes to a floating interest rate tied to the six month LIBOR in arrears plus a constant spread. These financial instruments are sensitive to changes in interest rates. On May 31, 2011, we had \$804 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 \$16 million.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of the Company’s management, including its Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

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 CEO and CFO, no changes during the quarter ended May 31, 2011 were identified that have materially affected, or are reasonably likely to materially affect, the Company’s internal control

over financial reporting.

In the second quarter of fiscal 2010, we signed an agreement to outsource select accounting transaction-processing activities. This is part of an ongoing initiative to transform our accounting organization to a new model which includes shared services and multiple centers of excellence. The Company's management has concluded that the outsourcing agreement has not materially affected, and is not reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The information in response to this item is incorporated herein by reference to Note 13 of the Consolidated Condensed Financial Statements of this Quarterly Report.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended August 31, 2010 and in Part II, Item 1A "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended November 30, 2010, which could materially affect our business, financial condition or future results.

### **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 May 31, 2011 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act subject to applicable law, share purchases may be made in open market transactions, privately negotiated transactions, or pursuant to instruments and plans complying with Rule 10b5-1.

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 Repurchase Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program (2)
3/1/2011 – 3/31/2011	2,055,400	\$ 41.35	2,055,400	\$ 465,349,372
4/1/2011 - 4/30/2011	5,040,582	\$ 41.65	5,040,582	\$ 255,400,019
5/1/2011 - 5/31/2011	4,826,073	\$ 43.34	1,826,073	\$ 175,401,530
Total	11,922,055	\$ 42.28	8,922,055	

- (1) The Company purchased 3,000,000 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 13, 2010, the Board of Directors approved a new share repurchase program (2011 repurchase program) which allows for the repurchase of up to \$1,000 million of the Company's common stock prior to its expiration on December 31, 2012. The total remaining authorization under the 2011 repurchase program is \$175 million as of May 31, 2011.

### **Item 6. Exhibits**

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

<u>Exhibit No.</u>	<u>Description</u>	<u>SEC Document Reference</u>
3.1	Amended and Restated Articles of Incorporation of Walgreen Co.	Incorporated by reference to Exhibit 3.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 19, 2011.
3.2	Amended and Restated By-Laws of Walgreen Co., as amended effective as of September 1, 2008.	Incorporated by reference to Exhibit 3.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on September 5, 2008
10.1*	Walgreen Co. Long-Term Performance Incentive Plan Amendment No. 2	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on April 14, 2011
10.2*	Agreement and Release between Hal F. Rosenbluth and Walgreen Co.	Filed herewith.
10.3*	Offer letter agreement dated March 10, 2011 between Joseph C. Magnacca and Walgreen Co.	Filed herewith.
12	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
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.	Furnished herewith.
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.	Furnished herewith.
101**	The following financial statements and footnotes from the Walgreen Co. Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets; (ii) Consolidated Condensed Statement of Earnings; (iii) Consolidated Condensed Statement of Cash Flows; and (iv) the Notes to Consolidated Condensed Financial Statements.	Furnished herewith.

\* Management contract or compensatory plan or arrangement.

\*\* In accordance with Rule 406T under Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed to be "furnished" and not "filed".

## 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: 6/27/11/s/ W.D. Miquelon

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

Dated: 6/27/11/s/ M.M. Scholz

M.M. Scholz  
Senior Vice President,  
Controller  
(Chief Accounting Officer)

## Agreement and Release

This Agreement and Release (“Agreement”) is entered into between the undersigned employee (“Employee”) and Walgreen Co., its parents, subsidiaries, affiliated companies, predecessors, successors and assigns (“Walgreens” or the “Company”), who agree as follows:

- 1. Termination Date** . The parties agree that Employee’s employment with the Company shall be terminated effective October 31, 2011 (the “Termination Date”).
- 2. General Waiver & Release** . Employee waives and releases any and all claims, known or unknown, arising on or before the date Employee signs this Agreement, that Employee has or might have against Walgreen Co., and its parents, subsidiaries, affiliated companies, predecessors, successors, and assigns, as well as all of its and their past and present officers, directors, managers, employees, attorneys, and agents (collectively “Released Parties”), subject only to the exceptions identified in paragraph 3 below. These waived and released claims include but are not limited to: (i) claims that in any way relate to Employee’s employment or separation from employment and other related dealings with any Released Party or Parties; (ii) claims of unlawful discrimination, harassment, retaliation or other alleged violations arising under federal, state, local or others laws and regulations, including but not limited to claims arising under the federal Age Discrimination in Employment Act (ADEA); Title VII of the Civil Rights Act of 1964; the Civil Rights Act of 1866; the Employee Retirement Income Security Act (ERISA); the Americans with Disabilities Act (ADA); the Fair Labor Standards Act (FLSA); the Worker Adjustment and Retraining Notification Act (WARN); and the Family and Medical Leave Act (FMLA); (iii) claims of wrongful discharge, emotional distress, defamation, misrepresentation, detrimental reliance, breach of alleged contractual obligations, promissory estoppel, negligence, assault and battery, and violation of public policy; and (iv) claims for monetary damages, other personal recovery or relief, costs, expenses, and attorneys’ fees of any kind.
- 3. Claims and Rights Not Waived or Released** . The only claims not waived and not released by Employee under paragraph 2 are (i) claims arising after the date that Employee signs this Agreement; (ii) any claim that as a matter of law cannot be waived; and (iii) claims for vested benefits and all benefits and any other rights that are specifically described and provided for in this Agreement and the related enforcement of the provisions of this Agreement. In addition, nothing in this Agreement shall affect or interfere with Employee’s right to participate, cooperate, initiate or assist in an investigation or proceeding conducted within the Company or by any government agency, oversight board, commission or other regulatory or investigative body. Again, however, Employee is waiving and releasing all rights to recover money or other individual relief in connection with any investigation or proceeding related to claims covered by paragraph 2 above (General Waiver & Release).
- 4. No Disparagement** . Employee will not make derogatory statements, either written or oral, or otherwise disparage any Released Party or Walgreens products or services, except as may be required by law. Nor shall Employee direct, arrange or encourage others to make any such derogatory or disparaging statements on Employee’s behalf. Walgreens CEO and Corporate Executive Officers will not make, and will not cause others to make on their behalf, derogatory statements, either written or oral, or otherwise disparage Employee, except as may be required by law.
- 5. Return of Company Property** . Employee agrees that on or before the Termination Date he will have returned all Company property, and no Company property will be retained by the Employee, regardless of the form in which it was acquired or held by Employee.
- 6. Restrictive Covenants** . Employee is subject to the Non-Competition, Non-Solicitation and Confidentiality provisions attached hereto as Exhibit B (the “Walgreens Non-Compete”).
- 7. Non-Admissions** . Nothing in this Agreement constitutes or shall be portrayed or regarded as an admission of any wrongdoing, fault, violation, liability, or unlawful activity by the Company, Employee or any Released Party.
- 8. Cooperation** . Subject to paragraph 3 above and upon reasonable prior notice, Employee agrees to fully and completely cooperate with the Company and its agents and representatives during and in connection with all litigation, potential litigation, and internal or external investigations in which the Company is involved or may become involved, subject to reimbursement of reasonable travel expenses if travel is requested. During the six months following Employee’s Termination Date, Employee’s assistance hereunder shall be without additional compensation. Thereafter, the Company shall provide reasonable compensation to Employee for time required providing litigation assistance except for litigation matters where Employee is a named party to the litigation. In such cases, no additional compensation will be provided to Employee.
- 9. Representations** . Employee represents and warrants that, in the course of his employment with the Company, he has not committed any material violation of applicable law or the Walgreens Ethics Policy and he does not have any knowledge that any person under his authority or management has committed any such violation.
- 10. Change of Responsibilities** . Employee will continue to provide services to the Company through the Termination Date in the capacity and position as set forth in the attached Exhibit C .
- 11. Non-Inducement** . Employee agrees that he will not directly or indirectly assist or encourage any person or entity in carrying out any activity that would be prohibited by the provisions of this Agreement if such activity were carried out by Employee.
- 12. Payments and Benefits** . In exchange for Employee’s obligations to Walgreens under this Agreement, including the Release and Waiver, Walgreens agrees to provide Employee the payments and benefits set forth in the attached Exhibit A .

- 13. No Assignment by Employee** . Employee represents and warrants that Employee has not sold, assigned, transferred, conveyed, or otherwise disposed of any claim covered by paragraph 2 above (General Waiver Release) and that Employee has the sole right and exclusive authority to execute this Agreement on Employee's behalf.
- 14. Severability** . In the event that any portion of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the invalid or unenforceable portion shall be construed or modified in a manner that gives force and effect, to the fullest extent possible, to all other portions and provisions of this Agreement. If any invalid or unenforceable portion of any provision in this Agreement cannot be construed or modified to render it valid and enforceable, that portion shall be construed as narrowly as possible and shall be severed from the remainder of this Agreement, and the remainder of this Agreement (including the remainder of the section, paragraph, subparagraph or sentence containing any invalid or unenforceable words) shall remain in effect to the fullest extent possible.
- 15. OWBPA Provisions – Additional Understandings** . In compliance with the Older Workers Benefit Protection Act ("OWBPA"), the Company and Employee agree to the following:
- (a) **Understandability** . This Agreement is written in a manner calculated to be understood by the Employee, and Employee understands all terms of this Agreement;
  - (b) **Age Discrimination (ADEA) Waiver** . This Agreement includes a waiver and release of claims under the Age Discrimination in Employment Act (ADEA) as described in paragraph 2 above;
  - (c) **No Future Waiver** . This Agreement only waives and releases claims and rights arising prior to the date Employee signs this Agreement;
  - (d) **Valid Consideration** . In exchange for Employee's release and waiver as part of this Agreement, Employee acknowledges that he is receiving adequate consideration in the form of payments and benefits as described herein that exceed those to which Employee is entitled apart from this Agreement.
  - (e) **Employee Advised to Consult with an Attorney** . By this Agreement, the Company advises Employee to consult with an attorney before signing this Agreement;
  - (f) **Period to Consider this Agreement** . Employee has been given a period of 21 calendar days in which to consider this Agreement, and to decide whether he wishes to sign it;
  - (g) **Period to Revoke Agreement** . After Employee signs this Agreement, Employee has 7 calendar days in which Employee can change his mind and revoke this Agreement. Walgreens and Employee agree that, to revoke this Agreement, Employee must notify Walgreens in writing that Employee is revoking this Agreement. Any such notice of revocation must be received by Kathleen Wilson-Thompson, Senior Vice President and Chief Human Resources Officer, within the 7-day period; Mail: 200 Wilmot Road, MS #2264, Deerfield, Illinois 60015 Fax: (847) 315-3652 Email: kathleen.wilson-thompson@walgreens.com
  - (h) **Effective Date** . This Agreement shall not become effective or enforceable until the 7-day revocation period described above has expired with no revocation by Employee.
- 16. Governing Law** . The laws of the State of Illinois shall govern the validity, performance, enforcement, interpretation and any other aspect of this Agreement, notwithstanding any state's choice of law provisions to the contrary.
- 17. Binding Effect** . This Agreement shall be binding upon and inure to the benefit of Employee and the Company and his and its respective heirs, executors, successors, agents and representatives.
- 18. Signing of Agreement**. Employee acknowledges and agrees that in order to receive the Separation Pay in Exhibit A, Employee must sign a reaffirmation of the Agreement immediately after the Termination Date.
- 19. Counterparts and Facsimile Signatures** . This Agreement may be executed in counterparts which, taken together, constitute a single, enforceable instrument.
- 20. Complete Agreement** . This Agreement (including without limitation the Walgreens Non-Compete which is attached hereto as Exhibit B) constitutes the parties' entire agreement and cancels, supersedes, and replaces any and all prior proposals, understandings, and agreements (written, oral or implied) regarding all matters addressed herein, including without limitation (1) the Amended and Restated Employment Agreement between Employee and Take Care Health Systems, LLC, which became effective as of the closing of the Company's May 2007 acquisition of such entity and (2) any other Non-Competition, Non-Solicitation and Confidentiality Agreement Employee may have executed with the Company. The terms of this Agreement (including without limitation all Exhibits A, B and C hereto) may not be altered or modified except by written agreement of the Employee and the Company. In connection with this Agreement's acceptance and execution, neither Employee nor the Company is relying on any representation or promise that is not expressly stated in this Agreement.
- 21. Full Knowledge and Authority to Sign** . Other than as stated herein, Employee and Walgreens attest that each of them has the authority to enter into this Agreement (including the provisions set forth on Exhibit A and Exhibit B and Exhibit C hereto), that no promise or inducement other than as stated herein has been offered for this Agreement, that they are legally competent to execute this Agreement, and that they accept the full responsibility therefor. Walgreens further acknowledges that the individual set forth below has full corporate power and authority to execute this Agreement on behalf of the Company and to bind the Company in all respects.

Entered and Agreed to:

Dated: \_\_\_\_\_

\_\_\_\_\_

Hal F. Rosenbluth

Walgreen Co.

Dated: \_\_\_\_\_

By: \_\_\_\_\_

Kathleen Wilson-Thompson  
Senior Vice President and CHRO



### Summary for Hal Rosenbluth

**Last Day Worked** 10/31/11  
**Paid Through Date (PTD)** 11/30/11 (estimated – will be adjusted based on actual vacation taken)

**Base Pay** Continued at the current rate \$45,833.33 per month (gross pay) through Last Day Worked.

**Fiscal 2011 Bonus** Bonus payment will be calculated based on actual performance. Payment at target would be \$320,000 (actual earnings for the fiscal year x 60%) to be paid when FY2011 bonuses are paid (the “Bonus”); provided, however, that the Bonus shall be calculated based on the actual performance of the Company for FY2011.

**Executive Stock Options** Options become vested three years after grant date. Forfeit all stock options that are not vested as of the PTD. Exercise vested options by PTD.

<u>Grant Date</u>	<u>Options Granted</u>	<u>Exercise Price</u>	<u>Status</u>
8/31/2007	5,325	\$45.07	Vested
4/9/2008	7,658	\$36.91	Vested
9/1/2008	27,175	\$36.43	Will vest 9/1/11
9/1/2009	34,269	\$34.04	Not vested
9/1/2010	38,828	\$27.69	Not vested

**Restricted Stock Units** RSUs become vested and distributed in shares of Walgreen Co. stock after three-year vesting period (except for special award granted 7/1/2009 which vests over two years). Forfeit all RSUs that are not vested as of the PTD.

<u>Grant Date</u>	<u>RSUs</u>	<u>Status</u>
9/1/2008	7,072.563	Will vest 9/1/11
7/1/2009	4,311.808	Will vest 7/1/11
9/1/2009	8,765.342	Not vested
9/1/2010	9,756.224	Not vested

**Restricted Stock and  
 Restricted  
 Cash under the Restricted  
 Performance Share Plan  
 (Discontinued Plan)**

Restricted stock and cash awards are subject to a one year performance vesting period and are paid out over the next four years. Forfeit the portions of awards that are not vested as of the PTD.

<u>Grant Date</u>	<u>Awards Granted</u>	<u>Status</u>
8/31/08	75	Will vest 8/31/11
8/31/08	75	Not vested
8/31/08	\$3,401.75	Will vest 8/31/11
8/31/08	\$3,401.75	Not Vested

**Other Restricted Stock Awards** Restricted stock vests as indicated in the respective award agreements. Forfeit the portions of the awards that are not vested as of the PTD.

<u>Grant Date</u>	<u>Awards Granted</u>	<u>Status</u>
7/24/07	1,066	Vested and distributed
7/24/07	534	Will vest 7/24/11
4/9/08	1,467	Vested
4/9/08	2,933	Not vested

**Performance Share Plan** Performance Share awards are subject to a three year performance period and are distributed in shares of Walgreen Co. stock at the end of the three-year performance period based on actual performance of the Company. Forfeit all awards that are not vested (i.e., the performance period is not complete) as of the PTD.

<u>Grant Date</u>	<u>Contingent</u>	<u>Status</u>
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	<u>Awards Granted</u>	
9/1/08	9,264	Will vest 9/1/11
9/1/09	11,682	Not vested
9/1/10	13,236	Not vested

**Continued Medical & Prescription** Continued coverage through PTD.

**Other Benefits** End as of PTD. Disability ends as of Last Day Worked.

**Separation Pay** \$300,000 (equal to approx. 28 weeks of pay, gross payment) paid within 30 days of PTD; provided that Employee has continued to comply in all material respects with his obligations under this Agreement and Release, including but not limited to his obligations under the Non-Competition, Non-Solicitation and Confidentiality Agreement.

**Vacation** \$44,423 (estimated gross pay) equal to 21 current-year plus banked vacation days remaining as of 2/17/11. Days used through Last Day Worked will be deducted from total. To be paid out in lump-sum following PTD.

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**WALGREEN CO. NON-COMPETITION, NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT**

This Exhibit (referred to herein as this "Agreement") forms a part of the Agreement and Release between Hal F. Rosenbluth and Walgr or one of its subsidiary companies (hereinafter referred to as "Employee" and the "Company").

WHEREAS, the Company develops and/or uses valuable business, technical, proprietary, customer and patient information it protects by limiting its disclosure and by keeping it secret or confidential;

WHEREAS, Employee acknowledges that during the course of employment, he has or will receive, contribute, or develop such confide information; and

WHEREAS, the Company desires to protect from its competitors such confidential information and also desires to protect its legitimate business interests and goodwill in maintaining its employee and customer relationships.

NOW THEREFORE, in consideration of his initial employment offer with the Company, the restricted stock unit awards issued to Employee and the compensation and benefits provided pursuant to the Agreement and Release to which this is attached as Exhibit B, Employee agrees to the following:

**1. Non-Disclosure And Non-Use.** Employee agrees not to disclose any Confidential Information, as defined below, to any person or entity other than the Company, either during or after Employee's employment, without the Company's prior written consent. Employee further agrees not to use any Confidential Information, either during or at any time after his employment, without the Company's prior written consent, except as may be necessary to perform his job duties during employment with the Company. In the event Employee is required to disclose any Confidential Information by law, Employee will provide the Company with prompt written notice of any such requirement and provide reasonable cooperation to the Company so that the Company may seek a protective order or other appropriate remedy. The Company acknowledges and agrees that any disclosure of Confidential Information by Employee as required by law shall not be a breach of the Agreement and Release, including this Exhibit B, provided that Employee has provided the required notice to the Company, if possible.

Confidential Information means information not generally known by the public about processes, systems, products, services, including proposed products and services, business information, know-how, or trade secrets of the Company. Confidential Information includes, but is not limited to, the following:

- (a) Customer lists and other customer information and records, identity of vendors, suppliers, or landlords (to the extent such identity is treated as proprietary information by the Company), profit and performance reports, prices, selling and pricing procedures and techniques, and financing methods of the Company;
- (b) Information pertaining to the special demands of customers, and their past, current and anticipated requirements for the products or services of the Company;
- (c) Specifications, procedures, policies, techniques, manuals, databases and all other information pertaining to products or services of the Company, or of others for which the Company has assumed an obligation of confidentiality;
- (d) Business or marketing plans, accounting records, financial statements and information, and projections of the Company;
- (e) Software developed or used by the Company;
- (f) Information related to the Company's retailing, distribution or administrative facilities; and
- (g) Any other information identified or defined as confidential information by Company policy.

Notwithstanding anything to the contrary contained herein, Confidential Information does not include, the following:

- (a) information which becomes available to the public from a source other than the Employee and through no fault of Employee;
- (b) information that is legally obtained by the Employee at any time from other sources who are not subject to confidentiality restrictions;
- (c) information that came into Employee's possession prior to or independent of his employment relationship with the Company; and
- (d) information that consists of general industry knowledge.

**2. Non-Competition and Non-Solicitation .** In order to protect the legitimate business interests and goodwill of the Company, and to protect Confidential Information, Employee covenants and agrees that for the entire period of his employment with the Company, and for a period of 18 months commencing on October 31, 2011 (the “Non-Compete Period”), Employee will not:

- (a) contact any Customer of the Company for the benefit of a Competing Business or interfere with, or attempt to disrupt the relationship, contractual, or otherwise, between the Company and any of its Customers.
- (b) hire any employee of the Company. This restriction includes, without limitation, a prohibition on Employee directly employing, or knowingly directing any Person or business directly or indirectly controlled by Employee, regardless of whether such Person or business is a Competing Business, to employ, any person employed by the Company at such time or within 60 days prior to such time.
- (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. The foregoing non-solicitation provision shall not be applicable to general solicitations in newspapers, trade magazines, internet job sites or other similar media not specifically targeting employees of the Company, and any hiring resulting therefrom.
- (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 Employee's investment represents less than 5% percent ownership interest of any such company) or (ii) investments of less than 5% 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). Notwithstanding the foregoing, Employee may render services for a Competing Business if: such service does not conflict with any other restrictions noted in this Paragraph 2; the Competing Business is diversified, and Employee becomes employed in a part of the business that is not in direct or indirect competition with Company; and, prior to the Employee beginning employment with the Competing Business, the Company receives written assurances from Employee, that Employee's engagement with such Competing Business will remain outside the scope of any direct or indirect competition with the Company.

Employee further acknowledges and agrees that for a 12 month period commencing after the Non-Compete Period, Employee shall not consult with, or accept employment with (a) CVS/Caremark, (b) Express Scripts, (c) Medco Health Solutions, any successors thereto of the foregoing corporations, or (d) any Competing Business or Person involved in retail or employer worksite healthcare clinics, nor shall Employee provide services on behalf of the foregoing corporations with respect to the pricing or negotiation of network pharmacy contracts.

Employee agrees that the restrictions contained in paragraphs 2(a), 2(b) and 2(c) have no geographic limitation. Employee agrees that the restrictions contained in Paragraph 2(d) are geographically limited to (a) the entirety of the United States and (b) any other country if the Company conducts business within such country at any time during Employee's employment with the Company.

Employee 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. Employee 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 2 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 Employee violates the provisions of this Paragraph 2, 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.

For purposes of this Paragraph 2, the following definitions shall apply:

- (1) “Competing Business” means any business engaged in by any Person that is in competition with any business engaged in by the Company (“Company Business”) during the term of Employee's employment with the Company; provided that the foregoing shall only apply to any Company Business with respect to which Employee possesses Confidential Information and was substantially engaged or was active in the management of such business during Employee's employment with the Company.
- (2) “Customer” means any customer or prospective customer of any Company business unit with respect to which Employee was substantially engaged or was active in the management of such business during Employee's employment with the Company.
- (3) “Person” means any individual, corporation, partnership, limited liability company or other entity.

3. **Non-Inducement** . Employee agrees that during the term of his employment and for one year following the Employee's termination of employment, Employee will not directly or indirectly assist or encourage any Person or entity in carrying out any activity that would be prohibited by the provisions of this Agreement if such activity were carried out by Employee.

4. **Consideration and Acknowledgments** . Employee acknowledges and agrees that the covenants described in Paragraphs 1 through 3 of this Agreement are essential terms, and the payments and benefits under the Agreement and Release would not be provided by the Company in the absence of these covenants. Employee further acknowledges that these covenants are supported by adequate consideration as set forth in this Agreement, that full compliance with these covenants will not prevent Employee from earning a livelihood following the termination of his employment, and that these covenants do not place undue restraint on Employee and are not in conflict with any public interest. Employee further acknowledges and agrees that Employee fully understands these covenants, has had full and complete opportunity to discuss and resolve any ambiguities or uncertainties regarding these covenants before signing this Agreement, that these covenants are reasonable and enforceable in every respect, and has voluntarily agreed to comply with these covenants for their stated term. Employee agrees that in the event he is offered employment with a Competing Business at any time in the future, Employee shall immediately notify the Competing Business of the existence of the covenants set forth in Paragraphs 1 through 3 above.

5. **Enforcement of This Agreement** . Employee acknowledges that compliance with the covenants set forth in Paragraphs 1 through 4 of this Agreement is necessary to enable the Company to maintain its competitive position, and that any actual or threatened breach of these covenants will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law. In the event of any actual or threatened breach of these covenants, the Company shall be entitled to injunctive relief, including the right to a temporary restraining order, and other relief, and Employee agrees that, upon such breach, he has forfeited and has no right to any further compensation, bonus, unvested equity awards and other benefits not yet paid to him. The foregoing stipulated remedies of the Company are in addition to, and not to the exclusion of, any other damages the Company may be able to prove. In addition, if any court shall at any time hold these covenants to be unenforceable or unreasonable in scope, territory or period of time, then the scope, territory or period of time of the covenants shall be that determined by the court to be reasonable. Employee consents to the jurisdiction of the Circuit Court of Lake or Cook County, Illinois for purposes of the enforcement of this Agreement.

6. **Notification** . Employee further agrees that the Company may notify anyone later employing him of the existence and provisions of this Agreement; provided, however, that prior to any notification, the Company shall be required to provide Employee with an advance copy of such correspondence.

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### EXHIBIT C

This Exhibit forms a part of the Agreement and Release between Hal F. Rosenbluth and Walgreen Co. or one of its subsidiary corporations (hereinafter referred to as "Employee" and the "Company").

1. As of April 1, 2011, (the "Transition Date") Employee will transition to the position of Senior Consultant to the CEO for Health Care Services, providing services and performing duties as set forth herein. Employee will resign from all other positions, offices and roles with the Company and any subsidiary or affiliated companies on or before March 31, 2011 and will take all steps and actions reasonably required by the Company to effectuate such resignations.
2. After the Transition Date, Employee will provide services to the Company related to health care, marketing, retail clinics and such other areas and duties as assigned by the Company's CEO or his designates.
3. Compensation shall be at the rate of \$45,833.33 per month (less withholdings and deductions) and as more fully detailed in Exhibit A of the Agreement and Release.
4. Per the terms of the Agreement and Release, Employee's employment shall be terminated effective October 31, 2011 unless terminated sooner for cause. "Cause" means Employee commits any act of fraud, intentional misrepresentation, material misconduct, or gross negligence in connection with performing his duties hereunder, commits a violation of any term of the Non-Competition, Non-Solicitation and Confidentiality Agreement attached as Exhibit B to the Agreement and Release, or does or says anything (or encourages others to do or say anything) that should reasonably be expected to disparage or impact negatively the name or reputation in the marketplace of the Company or any of its employees, officers or directors.
5. In the event of Employee's termination for Cause, all payments hereunder shall immediately cease and Employee forfeits the right to all unpaid compensation, bonus, unvested stock options and other benefits noted in Exhibit A of the Agreement and Release not yet received.

March 10, 2011

Mr. Joseph C. Magnacca  
520 W. 19<sup>th</sup> Street  
Apt. 6A  
New York, NY 10011

Dear Joe:

I am pleased to confirm your promotion to President of Daily Living Products and Solutions for Walgreen Co. ("Walgreens" or the "Company"), continuing to report to Greg Wasson, President and CEO. This position is at the Senior Vice President level for compensation and benefits purposes. This promotion is effective as of April 1, 2011 (the "Effective Date"). The remainder of this letter covers the compensation, benefits and other terms applicable to your new position, as well as any continuing terms and conditions from your prior role. This letter supersedes all prior agreements, including the Letter Agreement between you and Walgreen Co. dated February 13, 2010 (the "Letter Agreement").

### **COMPENSATION AND BENEFITS**

**Base Salary.** \$600,000 annually, less all applicable tax withholdings and benefit deductions.

**Annual Bonus Opportunity.** Based on your position, you will be eligible for an annual bonus under the Walgreen corporate bonus program, which is based on the Company's fiscal year running from September 1 through August 31, and is subject to the board's approval of each year's bonus. The current bonus target for your position is 60% of your base salary. You will be eligible for a pro-rated bonus for the period from the Effective Date through the end of fiscal year 2011. You will be eligible for a pro-rated bonus under the Duane Reade Management Incentive Plan for the period January 1, 2011 through the Effective Date (based on your salary prior to the Effective Date).

**Long-Term Incentives.** You will also be eligible for long-term incentives, which are currently at the following levels based on your position level.

Executive Stock Options : Under the current program, the number of options granted annually equals 220% of base salary divided by the average stock price as determined under the Option Plan. Options become vested three years after the grant date and may be exercised up to 10 years after the grant date.

Restricted Stock Units : Under the current program, the number of units granted annually equals 55% of base salary divided by the average stock price as determined under the Long-Term Incentive Performance Plan. RSUs become vested after three-years and are distributed in shares of Walgreen Co. stock. As a condition to receiving each grant, you will be required to sign a Non-Competition, Non-Solicitation, and Confidentiality Agreement, which is substantively the same as the one referenced in "Restrictive Covenants" below.

Performance Share Program : The current annual performance share program provides for a grant of "contingent" shares each fiscal year that become payable, or "earned," if the Company meets the performance targets. The earned award is based on company performance (ROIC) over a three year period. The entire earned award is paid in stock at the end of the three-year period. Under the current program, the target annual award equals 75% of base salary, divided by the average stock price as determined under the Performance Share Program.

You will be eligible for pro-rated awards as of the Effective Date to cover the remainder of the 2011 fiscal year, and then you are eligible to receive full awards for future fiscal years.

**Other Employee Benefits.** See the attached Overview of Benefits, briefly describing the Walgreens employee benefits that apply.

### **OTHER TERMS AND CONDITIONS**

**Relocation.** It is understood that no later than six months following the Effective Date you will be relocating to the Chicagoland area to work out of the corporate office in Deerfield. The exact timing of that relocation is to be determined between you and Greg. Prior to this relocation, the Company will continue your NY housing benefit (up to \$12,000 per month).

**Duane Reade Fringe Benefits** . Upon the transition to the Walgreens executive compensation and benefits programs, your Duane Reade perquisites will cease as of the Effective Date. This includes tax/financial planning advice, commuting to Toronto (up to \$10K per year), and health care reimbursement (up to \$8K per year). Similar to most public companies, Walgreens does not maintain these types of executive perquisites.

**Change in Control Employment Agreement.** As a Walgreens senior executive, you will be presented with our standard Change in Control Employment Agreement, which provides protection to you following a change in control of Walgreen Co. Outside of the change in control context, Walgreens executives do not have term employment agreements. Accordingly, you should not consider our offer of employment to be a contract or guarantee of indefinite employment. Employment at Walgreens is at will, for no definite term, and is subject to Walgreens policies, which can be changed from time to time.

**Corporate Officer Paperwork** . Subject to final approval by the Board of Directors of your officer status, we will send you all applicable officer paperwork for your review and completion, including our Code of Ethics Policy and D&O Questionnaire.

**Immigration Status** . Your continuation in this new position is contingent on you maintaining temporary employment authorization via H-1B visa sponsorship and obtaining U.S. permanent residency.

## **OTHER TERMS AND CONDITIONS**

**Transition/Retention Bonus** . The the transition/retention bonus set forth in the Letter Agreement shall be superseded by the following transition/retention bonus terms and conditions:

- (a) For the critical 18-month period following the April 9, 2010 closing of the Walgreens acquisition of Duane Reade (the “Retention Period”), you are eligible for a retention bonus equal to **\$1,790,400** (less applicable tax withholdings). This retention bonus is designed to reward you for your continued employment during this critical period and to acknowledge the extra effort and commitment that is needed by the senior leadership team during this period. As a condition to your receipt of this bonus, you must remain employed with the company at least through the end of the Retention Period (or the first 12 months of the Retention Period, with respect to the portion of the bonus described in (b)(i) below), except that if prior to the end of the Retention Period (or portion thereof for purposes of (b)(i) below) your employment is terminated without Cause or you resign for Good Reason (in both cases as defined below), then you would remain entitled to the full retention bonus. If your employment ends prior the end of the Retention Period for any other reason, then you would forfeit the entire unpaid portion of the retention bonus.
- (b) Your retention bonus will be paid in three installments:
  - (i) **\$600,000** in one lump sum within 30 days after the end of the first 12-months of the Retention Period, or earlier if your employment is terminated without Cause or for Good Reason pursuant to the “Termination Benefits” provision below;
  - (ii) **\$760,400** in one lump sum within 30 days after the end of the Retention Period, or earlier if your employment is terminated without Cause or for Good Reason pursuant to the “Termination Benefits” provision below; and
  - (iii) **\$430,000** in substantially equal semi-monthly installments continuing for 24 months beginning with the regular payroll date next following the date of your termination of employment. Notwithstanding the foregoing, in the event that you are a “specified employee” within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on your “separation of service” (within the meaning of Section 409A), the amount payable under this clause (b)(iii) during the six-month period immediately following your termination date shall instead be paid on the first business day after the date that is six months following your termination date.

For the portion of your retention bonus that is paid after employment as required by clause (b)(iii) above, such amount will be credited with interest, commencing on the last day of the Retention Period and continuing through the commencement of installment payments, at an annual rate of 10.5%, or such other rate as is mutually-agreed between you and the Company.

**Termination Benefits** . If your employment is terminated by the Company without Cause or by you for Good Reason prior to the end of the Retention Period, you will be entitled to the following severance benefits:

- (a) Continuation of your base salary for 12 months, paid in accordance with normal payroll practices. This is based on the rate of base salary in effect as of the closing (i.e., \$460,000 per year).
- (b) Continued medical, dental and prescription drug coverage for 12 months at the premium rates applicable to active employees, subject to any cost or coverage changes of general application. This extended coverage period would count toward your COBRA coverage period.
- (c) Subject to (b)(iii) above under Transition/Retention Bonus, payment of the retention bonus in one lump sum within 30 days of employment termination.

For purposes of the above, Cause and Good Reason are defined as follows:

- (d) There is “Cause” for termination if the Board of Directors of Walgreens determines in good faith that any one or more of the following have occurred:
  - (i) You have 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 your duties or obligations to the Company;
  - (ii) You (A) commit 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) engage 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) You are (A) grossly negligent in the performance of your duties and obligations; (B) breach any obligation contained in this letter or in Exhibit A to this letter; or (C) engage in a material violation of one or more significant written Company policies and such policy violation is such that, under typical circumstances, immediate termination of employment would result.

Prior to any termination for Cause pursuant to clause (iii) above, the Company shall give you notice and a reasonable opportunity (at least 30 days) to remedy any condition, or conduct, action or inaction of you giving rise to the violation or breach of such clause, but only if such violation or breach is remediable.

- (e) You shall have the right to resign for "Good Reason" prior to the end of the Retention Period under either of the following circumstances which would result in a material negative change to your employment with the Company:
- (i) Without your oral or written consent, the Company causes a material diminution of your annual base salary or bonus opportunity; or
  - (ii) Without your oral or written consent, the Company materially changes the geographic location of your principal office to a location that increases your normal work commute (one-way) by more than 30 miles.

You must give written notice to the Company of your intention to terminate your employment for Good Reason within a period not to exceed 90 days of the initial existence of a condition described in clause (i) or (ii) of this paragraph; and then the Company shall have 30 days from the receipt of such notice to cure any actions giving rise to such Good Reason.

For the avoidance of doubt, it is understood that the agreed-upon compensation and relocation terms set forth in this letter shall not give rise to any Good Reason termination rights.

Following the end of the Retention Period, the severance benefits set forth above will no longer apply, and instead you would be subject to any applicable Walgreens severance policy. Regardless of the timing of employment termination, eligibility for a pro-rated bonus for the year of termination would be dictated by the terms of the applicable bonus program.

**Restrictive Covenants** . The Non-Competition, Non-Solicitation and Confidentiality Agreement attached as Exhibit A hereto is the same as the Agreement that you signed along with the Letter Agreement, and it shall continue to apply. In addition, as a condition to this promotion, you will be required to sign a Walgreens Non-Competition, Non-Solicitation and Confidentiality Agreement on or about the Effective Date. This is a standard agreement for Walgreens executives, and a copy of this Agreement can be provided in advance upon request.

**Confidentiality** . The terms of this letter – and in particular the retention bonus terms - must remain strictly confidential at all times before, during, and after the Retention Period; provided however that, disclosure by you is permitted to immediate family members, your legal and financial advisors, and if disclosure is required by you due to subpoena, government investigation or other requirement of law. Failure to comply with this requirement can result in forfeiture of the retention bonus and/or termination of employment for Cause.

**Code Section 409A** . This Transition/Retention bonus and Termination Benefits terms set forth above are intended to comply with the requirements of Section 409A of the Internal Revenue Code or an exemption or exclusion therefrom and, with respect to amounts that are subject to Section 409A of the Code, shall in all respects be administered in accordance with Section 409A of the Code and shall be treated in accordance with this intention for purposes of payroll and income tax reporting. Each such payment shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may you, directly or indirectly, designate the calendar year of any payment to be made under this letter. For purposes of this letter, the terms "termination of employment" and "termination date" (and words of similar meaning) mean the date upon which you have terminated of employment from the Company and its affiliates that constitutes a "separation from service" within the meaning of Section 409A of the Code. The Company has not made any guarantee to you of the tax result of any of your compensation, including your retention bonus, under Section 409A of the Code or any other tax provision or law, and you have consulted with your own tax counsel regarding this letter.

To acknowledge and accept the terms of this letter, please sign your name on the line below, fill in the date, and return the signed letter to me. Please also make a copy of this signed letter for your records.

If you have any questions, please call me at 847-315-3070.

Sincerely,

Kathleen Wilson-Thompson

Chief Human Resources Officer  
Walgreen Co.

Enclosures  
cc: Greg Wasson

Acknowledged and Agreed:

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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**WALGREEN CO. NON-COMPETITION, NON-SOLICITATION AND CONFIDENTIALITY AGREEMENT**

This Exhibit forms a part of the offer of employment or continuing employment to the undersigned individual from Walgreen Co. or one of its subsidiary companies (hereinafter referred to as "Employee" and the "Company").

WHEREAS, the Company develops and/or uses valuable business, technical, proprietary, customer and patient information it protects by limiting its disclosure and by keeping it secret or confidential;

WHEREAS, Employee acknowledges that during the course of employment, he or she has or will receive, contribute, or develop such confidential information; and

WHEREAS, the Company desires to protect from its competitors such confidential information and also desires to protect its legitimate business interests and goodwill in maintaining its employee and customer relationships.

NOW THEREFORE, in consideration of this offer of employment and the consideration to be provided to Employee thereunder, Employee agrees to the following:

**1. Non-Disclosure And Non-Use.** Employee agrees not to disclose any Confidential Information, as defined below, to any person or entity other than the Company, either during or after Employee's employment, without the Company's prior written consent. Employee further agrees not to use any Confidential Information, either during or at any time after his or her employment, without the Company's prior written consent, except as may be necessary to perform his or her job duties during employment with the Company.

Confidential Information means information not generally known by the public about processes, systems, products, services, including proposed products and services, business information, know-how, or trade secrets of the Company. Confidential Information includes, but is not limited to, the following:

- (a) Customer records, identity of vendors, suppliers, or landlords, profit and performance reports, prices, selling and pricing procedures and techniques, and financing methods of the Company;
- (b) Customer lists and information pertaining to identities of the customers, their special demands, and their past, current and anticipated requirements for the products or services of the Company;
- (c) Specifications, procedures, policies, techniques, manuals, databases and all other information pertaining to products or services of the Company, or of others for which the Company has assumed an obligation of confidentiality;
- (d) Business or marketing plans, accounting records, financial statements and information, and projections of the Company;
- (e) Software developed or used by the Company;
- (f) Information related to the Company's retailing, distribution or administrative facilities; and
- (g) Any other information identified or defined as confidential information by Company policy.

**2. Non-Competition and Non-Solicitation.** In order to protect the legitimate business interests and goodwill of the Company, and to protect Confidential Information, Employee covenants and agrees that for the entire period of his or her employment with the Company, and for one year after the termination of such employment by either party for any reason, Employee will not:

- (a) contact any Customer of the Company for the benefit of a Competing Business or 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 Employee, 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 Employee'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, Employee's last day worked for the Company.
- (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.
- (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 Employee'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). Notwithstanding the foregoing, Employee may render services for a Competing Business if: such service does not conflict with any other restrictions noted in this Paragraph 2; the Competing Business is diversified, and Employee becomes employed in a part of the business that is not in direct or indirect competition with Company.

Employee agrees that the restrictions contained in paragraphs 2(a), 2(b), and 2(c) have no geographic limitation. Employee agrees that the restrictions contained in Paragraph 2(d) are geographically limited as set forth in part (1) below.

Employee 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. Employee 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 2 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 Employee violates the provisions of this Paragraph 2, 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.

For purposes of this Paragraph 2, the following definitions shall apply:

- (1) "Competing Business" is defined to include the following:
  - (A) any Person engaged in the chain drug business in the greater New York metropolitan area;
  - (B) any Person that operates 50 or more stores in the chain drug business in the United States;
  - (C) Wal-Mart Stores, Inc. or its affiliates; and
  - (D) for an abbreviated six-month period following termination of employment, any Person that operates 50 or more stores in the combined food/drug business in the United States.
- (2) "Customer" means any patient or other customer or prospective customer of any Company business unit with respect to which Employee is substantially engaged or provides substantial support during Employee's employment with the Company.
- (3) "Person" means any individual, corporation, firm, partnership, joint venturer, limited liability company or other entity.

Notwithstanding the foregoing provisions of this Paragraph 2 and the remainder of this Agreement, the non-competition provisions of Paragraph 2(d) above shall not restrict Employee from performing legal services as a licensed attorney for a Competing Business to the extent that the attorney licensure requirements in the applicable jurisdiction do not permit Employee to agree to the otherwise applicable restrictions of Paragraph 2(d).

**3. Non-Inducement.** Employee agrees that during the term of his or her employment and for one year following the Employee's termination of employment, Employee will not directly or indirectly assist or encourage any Person or entity in carrying out any activity that would be prohibited by the provisions of this Agreement if such activity were carried out by Employee.

**4. Property.** Employee agrees that upon leaving the employment of the Company, he or she will not take with him or her any of the Company's property, including Confidential Information and trade secrets, regardless of the form in which it was held or acquired by Employee, and will immediately return to the Company any and all documents, notes, records, notebooks, mobile telephones, cellular telephones, computers, PDAs (personal digital assistants), portable digital storage devices, and similar repositories of or containing or relating to Confidential Information and Company trade secrets, and including, but not limited to, all copies, notes or abstracts thereof.

**5. Consideration and Acknowledgments.** Employee acknowledges and agrees that the covenants described in Paragraphs 1 through 4 of this Agreement are essential terms, and that an offer of employment and Employee's retention bonus would not be provided by the Company in the absence of these covenants. Employee further acknowledges that these covenants are supported by adequate consideration as set forth in this Agreement, that full compliance with these covenants will not prevent Employee from earning a livelihood following the termination of his or her employment, and that these covenants do not place undue restraint on Employee and are not in conflict with any public interest. Employee further acknowledges and agrees that Employee fully understands these covenants, has had full and complete opportunity to discuss and resolve any ambiguities or uncertainties regarding these covenants before signing this Agreement, that these covenants are

reasonable and enforceable in every respect, and has voluntarily agreed to comply with these covenants for their stated term. Employee agrees that in the event he or she is offered employment with a Competing Business at any time in the future, Employee shall immediately notify the Competing Business of the existence of the covenants set forth in Paragraphs 1 through 4 above.

**6. Enforcement of This Agreement.** Employee acknowledges that compliance with the covenants set forth in Paragraphs 1 through 4 of this Agreement is necessary to enable the Company to maintain its competitive position, and that any actual or threatened breach of these covenants will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law. In the event of any actual or threatened breach of these covenants, the Company shall be entitled to injunctive relief, including the right to a temporary restraining order, and other relief, including damages, as may be proper along with the Company's attorneys' fees and court costs. The foregoing stipulated damages and remedies of the Company are in addition to, and not to the exclusion of, any other damages the Company may be able to prove. In addition, if any court shall at any time hold these covenants to be unenforceable or unreasonable in scope, territory or period of time, then the scope, territory or period of time of the covenants shall be that determined by the court to be reasonable.

**7. Severability.** If any phrase or provision of this Agreement is declared invalid or unenforceable by a court of competent jurisdiction, such phrase, clause or provision shall be deemed severed from this Agreement, but will not affect the enforceability of any other provisions of this Agreement, which shall otherwise remain in full force and effect. If any restriction or limitation in this Agreement is deemed to be unreasonable, unenforceable or unduly restrictive by a court of competent jurisdiction, it shall not be stricken in its entirety and held totally void and unenforceable, but shall remain effective to the maximum extent permissible as determined by said court.

**8. Entire Agreement.** Except as provided in (1) and (2) below, this Agreement represents the entire agreement between the parties covering confidentiality, non-competition and non-solicitation restrictions, and it supersedes and renders null and void all prior agreements (or any portions thereof), arrangements or communications between the parties covering such restrictions, whether oral or written. The terms of this Agreement may not be altered or modified except by written agreement of Employee and the Company.

**9. Notification.** Employee further agrees that the Company may notify anyone later employing him or her of the existence and provisions of this Agreement.

**10. Successors and Assigns.** This Agreement shall be enforceable by the Company and its successors and permitted assigns.

**11. General.** Employee agrees that:

- (a) Waiver of any of the provisions of this Agreement by the Company in any particular instance shall not be deemed to be a waiver of any provision in any other instance and/or of the Company's other rights at law or under this Agreement;
- (b) The provisions of this Agreement shall be considered severable;
- (c) This Agreement shall accrue to and be binding upon the Company and Employee; and
- (d) The captions in this Agreement shall be for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

**12. Governing Law.** The law of the State of Illinois shall govern this Agreement without regard to its choice of law provisions.

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

	<u>Nine Months Ended</u>		<u>Fiscal Year</u>
	<u>5/31/2011</u>	<u>5/31/2010</u>	<u>Ended</u>
			<u>8/31/2010</u>
Income before income taxes and minority interest	3,043	\$ 2,643	\$ 3,373
Add:			
Minority interest	-	-	-
Fixed charges	873	808	1,100
Less: Capitalized interest	(8)	(9)	(12)
Earnings as defined	<u>3,908</u>	<u>\$ 3,442</u>	<u>\$ 4,461</u>
Interest expense, net of capitalized interest	56	\$ 67	\$ 90
Capitalized interest	8	9	12
Portions of rentals representative of the interest factor	809	732	998
Fixed charges as defined	<u>873</u>	<u>\$ 808</u>	<u>\$ 1,100</u>
Ratio of earnings to fixed charges	4.48	4.26	4.06

## 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: June 27, 2011

## 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.

Executive Vice President and Chief Financial

/s/ Wade D. Miquelon Officer  
Wade D. Miquelon

Date: June 27, 2011

**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 May 31, 2011 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: June 27, 2011

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 May 31, 2011 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: June 27, 2011

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.