WALGREEN CO

FORM 10-K
(Annual Report)

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2011

☐ 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	**36-1924025**
(State of incorporation)	(I.R.S. Employer Identification No.)
108 Wilmot Road, Deerfield, Illinois	60015
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(847) 315-2500**

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

Title of each class	Name of each exchange on which registered
Common Stock ($.078125 Par Value)	New York Stock Exchange
	The NASDAQ Stock Market LLC
	Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	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 ☒

As of February 28, 2011, the aggregate market value of Walgreen Co. common stock held by non-affiliates (based upon the closing transaction price on the New York Stock Exchange on February 28, 2011) was approximately $39.7 billion. As of August 31, 2011, there were 889,294,130 shares of Walgreen Co. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended August 31, 2011, to the extent stated in this Form 10-K, are incorporated by reference into Parts I, II and IV of this Form 10-K. Portions of the registrant's Proxy Statement for its Annual Meeting of Shareholders to be held January 11, 2012, are incorporated by reference into Part III of this Form 10-K as indicated herein.

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PART I

Item 1 . Business

References in this Form 10-K to "Walgreens", the "Company," "we," "us" or "our" refer to Walgreen Co. and its subsidiaries included in the consolidated financial statements, except as otherwise indicated or the context otherwise requires. Our fiscal year ends on August 31, and references herein to "fiscal 2011" refer to our fiscal year ended August 31, 2011.

Overview

Walgreen Co., together with its subsidiaries, operates the largest drugstore chain in the United States with net sales of $72.2 billion in the fiscal year ended August 31, 2011. We provide our customers with convenient, multichannel access to consumer goods and services, pharmacy, and health and wellness services in communities across America. We offer our products and services through drugstores, as well as through mail, by telephone and via the Internet.

We sell prescription and non-prescription drugs as well as general merchandise, including household products, convenience and fresh foods, personal care, beauty care, photofinishing and candy. Our pharmacy, health and wellness services include retail, specialty, infusion and respiratory services, mail service, convenient care clinics and worksite clinics. These services help improve health outcomes and manage costs for payers including employers, managed care organizations, health systems, pharmacy benefit managers and the public sector. Our Take Care Health Systems subsidiary is a manager of worksite health centers and in-store convenient care clinics, with more than 700 locations throughout the United States.

Walgreen Co. was incorporated as an Illinois corporation in 1909 as a successor to a business founded in 1901. Our principal executive offices are located at 108 Wilmot Road, Deerfield, Illinois 60015. The Company is principally in the retail drugstore business and its operations are within one reportable segment.

Business Development

As of August 31, 2011, Walgreens operated 8,210 locations in 50 states, the District of Columbia, Puerto Rico and Guam. In 2011, the Company opened or acquired 297 locations for a net increase of 164 locations after relocations and closings. Total locations do not include 357 Take Care clinics operated within our Walgreens locations.

	Number of Locations		
Location Type	**2011**	**2010**	**2009**
Drugstores	7,761	7,562	6,997
Worksite Facilities	355	367	377
Infusion and Respiratory Services Facilities	83	101	105
Specialty Pharmacies	9	14	15
Mail Service Facilities	2	2	2
Total	8,210	8,046	7,496

Walgreens goal is to provide the most convenient multichannel access to consumer goods and services, pharmacy, health and wellness services through our 7,761 community based drugstores, as well as through our specialty pharmacy, home infusion and respiratory services, worksite health centers and retail clinic businesses. As of August 2011, approximately 73.8% of the United States population lived within five miles of a Walgreens and 6.1 million shoppers visited our stores daily. In addition to store shoppers, Walgreens.com received approximately 16.8 million visits per month in fiscal 2011.

We seek to grow pharmacy, front-end and online market share through new store growth, comparable store sales increases, pharmacy prescription file purchases and strategic acquisitions. In fiscal 2011, we expanded our ecommerce capabilities with the acquisition of drugstore.com which complements our site, Walgreens.com, in providing customers with access to our merchandise. In fiscal 2010, we supplemented organic growth by expanding our presence in the New York metropolitan area through the acquisition of 258 Duane Reade drugstores. Beyond our purchases of drugstore.com and Duane Reade, we continue to make strategic acquisitions of prescription files, buy-and-operate locations and other regional drugstore retailers as well as other complementary health care services.

We utilize our extensive retail network as a channel to provide affordable quality health and wellness services to our customers and patients, as illustrated by our ability to play a significant role in providing flu vaccines and other immunizations. We market our products and services to employers, governments, managed care organizations and pharmacy benefit managers, expanding beyond our traditional retail consumer model, to contract directly with our payers. With our more than 75,000 health care providers including pharmacists, nurse practitioners and other health related professionals, Walgreens expects to continue to play a growing role in government and employer efforts to control escalating health care costs.

Prescription sales continue to be a large portion of the Company's business. In fiscal 2011, prescriptions accounted for 64.7% of sales compared to 65.2% in fiscal 2010. Third party sales, where reimbursement is received from managed care organizations, government and private insurance, were 95.6% of fiscal 2011 prescription sales compared to 95.3% in fiscal 2010. Overall, Walgreens filled approximately 718 million prescriptions in 2011, an increase of 23 million from fiscal 2010. Adjusted to 30 day equivalents, prescriptions filled were 819 million in fiscal 2011, 778 million in fiscal 2010 and 723 million in fiscal 2009. Walgreens continues to gain market share, accounting for 20.0% of the U.S. retail prescription drug market in fiscal 2011 compared to 19.5% and 18.9% in fiscal 2010 and 2009, respectively. Walgreens expects to continue to grow pharmacy sales due, in part, to the aging population and the continued development of innovative drugs that improve quality of life and control health care costs.

During fiscal 2011, the Company added $1.2 billion to property and equipment, which included approximately $800 million related to stores, $300 million for information technology and $100 million related to other locations. Capital expenditures for fiscal 2012 are currently expected to be approximately $1.6 billion, excluding acquisitions and prescription file purchases, although the actual amount may vary depending upon a variety of factors, including, among other things, the timing of implementation of certain capital projects.

During fiscal 2012, the Company plans to pursue strategies designed to further transform its traditional drugstore to a "retail health and daily living" store; advance community pharmacy to play a greater role in healthcare through integration and expanded services; deliver an outstanding customer experience through enhanced employee engagement; expand across new channels and markets; and enhance its cost structure through continuous improvement and innovation.

Description of Business

Principal products produced and services rendered

The Company's drugstores are engaged in the retail sale of prescription and non-prescription drugs and general merchandise. General merchandise includes, among other things, household items, convenience and fresh foods, personal care, beauty care, photofinishing and candy. Prescription drugs represent our largest product class accounting for 65% of our total sales followed by general merchandise and non-prescription drugs at 25% and 10%, respectively. Walgreens offers customers the choice to have prescriptions filled at the drugstore, as well as through the mail, and customers may also place orders by telephone and online.

We offer pharmacy, health and wellness solutions which include retail, specialty pharmacy, infusion and respiratory services, mail service, convenient care clinics and worksite clinics. Our drugstores, including Duane Reade, sell prescription and non-prescription drugs that utilize our pharmacists to provide drug consultations and administer flu vaccines and other immunizations. Our integrated network of pharmacies allows easy access for customers to fill their prescriptions at any of our drugstores. In addition, our stores sell branded and private brand general merchandise, including household products, convenience and fresh foods, personal care, beauty care, candy, photofinishing and seasonal items.

We offer specialty pharmacy services that provide customers nationwide access to a variety of medications, services and programs for managing complex and chronic health conditions. Medications delivered to these customers often require special handling, are only available through limited distributions or involve a time-sensitive delivery. Specialty pharmacy customers typically require customized treatments in managing their medical conditions.

In addition, we also offer our customers infusion therapy services including the administration of intravenous (IV) medications for cancer treatments, chronic pain, heart failure, and other infections and disorders which must be treated by IV. Walgreens provides these infusion services at home, at the workplace, in a physician's office or in a Walgreens alternate treatment site. We also provide clinical services such as laboratory monitoring, medication profile review, nutritional assessments and patient and caregiver education.

Customers can choose to have their prescriptions refilled through our mail service which allows customers to submit prescription refill requests online, over the phone or through e-prescribing. Our advanced pharmacy system offers pharmacists easy access to patient prescription records which allows access to refills and emergency supplies at any of our pharmacies, eases prescription transfers, and enables any Walgreens pharmacist to provide ongoing treatment consultation.

Customers can also access our ecommerce solutions which extend the convenience to purchase most products available within our drugstores as well as additional products sold exclusively online through our walgreens.com and drugstore.com websites. Our websites allow consumers to purchase general merchandise including beauty, personal care, home medical equipment, contact lens, vitamins and supplements and other health and wellness solutions. Our mobile applications also allow customers to refill prescriptions through their mobile device, download weekly promotions and find the nearest Walgreens drugstore.

We also offer services through Take Care Health Systems, which manages our Take Care Clinics at select Walgreens drugstores throughout the country. Patient care at each of the Take Care Clinics is provided by Take Care Health Services, an independently owned state professional corporation. Nurse practitioners and physician assistants treat patients and are licensed to write prescriptions that can be filled at the patient's pharmacy of choice and to administer immunizations and other vaccines. Additionally, our Take Care Health Employer Solutions manages primary care, health and wellness, occupational health, pharmacy and fitness centers at large employer campuses. These centers provide primary-care services that allow employees and families to enjoy the full benefits of a dedicated physician in a convenient worksite setting.

Sources and availability of raw materials

Inventories are purchased from numerous domestic and foreign suppliers. We do not believe that the loss of any one supplier or group of suppliers under common control would have a material effect on the Company's business.

Intellectual Property and Licenses

We market products and services under various trademarks, trade dress and trade names and rely on a combination of patent, copyright, trademark, service mark, and trade secret laws, as well as contractual restrictions to establish and protect our proprietary rights. We own numerous domain names, hold approximately forty patents, have registered numerous trademarks, and have filed applications for the registration of a number of our other trademarks and service marks in various jurisdictions. We hold assorted business licenses (such as pharmacy, occupational, liquor and cigarette) having various lives within multiple legal jurisdictions, which are necessary for the normal operation of our business.

Seasonal variations in business

Our business is seasonal in nature, with the second fiscal quarter generating a higher proportion of front-end sales and earnings than other periods. Both prescription and non-prescription drug sales are affected by the timing and severity of the cough, cold and flu season. See the caption "Summary of Quarterly Results (Unaudited)" on page 39 of the Annual Report to Shareholders for the year ended August 31, 2011 ("2011 Annual Report"), which section is incorporated herein by reference.

Working capital practices

The Company generally finances its inventory and expansion needs with internally generated funds. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 18 through 23 of the 2011 Annual Report, which sections are incorporated herein by reference.

Customers

The Company sells to numerous customers including various managed care organizations within both the private and public sectors. No customer accounted for ten percent or more of the Company's consolidated net sales in fiscal 2011.

Government contracts

The Company fills prescriptions for many state Medicaid public assistance plans. Revenues from all such plans were approximately 6.7% of total sales in fiscal 2011.

Regulation

Our business is subject to federal, state and local government laws, regulations and administrative practices. The regulations to which we are subject include, but are not limited to: federal, state and local registration and regulation of pharmacies; applicable Medicare and Medicaid regulations; the Health Insurance Portability and Accountability Act, or HIPAA; regulations of the U.S. Food and Drug Administration, the U.S. Federal Trade Commission, the Drug Enforcement Administration, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products we sell; anti-kickback laws; false claims laws; laws against the corporate practice of medicine; and federal and state laws governing the practice of the profession of pharmacy. In addition, we are party to a Corporate Integrity Agreement with the U.S. Department of Health and Human Services under which we have agreed to maintain a corporate compliance program. We are also governed by federal and state laws of general applicability, including laws regulating matters of working conditions, health and safety and equal employment opportunity. In connection with the operation of our stores, distribution centers and other sites, we are subject to laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous substances. Federal, state and local environmental protection requirements did not have a material effect upon capital expenditures, earnings or the competitive position of the Company in fiscal 2011.

Competitive conditions

The drugstore industry is highly competitive. As a leader in the retail drug industry and as a retailer of general merchandise, Walgreens competes with various retailers, including chain and independent drugstores, mail order prescription providers, grocery stores, convenience stores, mass merchants, Internet pharmacies, warehouse clubs, dollar stores and other discount merchandisers. The Company competes primarily on the basis of service, convenience, variety and price. The Company's geographic dispersion helps offset the impact of temporary, localized economic and competitive conditions in individual markets. The number and location of the Company's drugstores appears under Item 2 – "Properties" in this Form 10-K.

Employees

At August 31, 2011, the Company employed approximately 247,000 persons, approximately 71,000 of whom were part-time employees working less than 30 hours per week.

Research and Development

The Company does not engage in any material research and development activities.

Financial Information about Foreign and Domestic Operations and Export Sales

All Company sales during the last three fiscal years occurred within the United States, Puerto Rico and Guam. There were no export sales.

Available information

We file with the Securities and Exchange Commission (SEC) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, proxy statements and registration statements. You may read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically. We make available free of charge on or through our website at investor.walgreens.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15 (d) of the Exchange Act as soon as reasonably practicable after we file or furnish them to the SEC. The contents of the Company's website are not, however, a part of this report.

Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K, the documents incorporated herein by reference and other documents that we file or furnish 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. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, on the Company's website or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, conference calls and other communications. Some of such forward-looking statements may be based on certain data and forecasts relating to our business and industry which we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications, surveys and market research generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. 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, known or unknown to the Company, including, but not limited to, changes in vendor, payer and customer relationships and terms, competition, changes in economic and business conditions generally or in the markets we serve, risks associated with new business initiatives and activities, the failure to obtain new contracts or extensions of existing contracts, 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 or interpretations thereof, and those described in Item 1A "Risk Factors" below 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 do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date such statement is made, whether as a result of new information, future events, changes in assumptions or otherwise.

Item 1A. Risk Factors

In addition to the other information in this report and our other filings with the SEC, you should carefully consider the risks described below, which could materially and adversely affect our business, financial condition and results of operations. These risks are not the only risks that we face. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations.

We derive a significant portion of our sales from prescription drug sales reimbursed by pharmacy benefit management companies.

We derive a significant portion of our sales from prescription drug sales reimbursed through prescription drug plans administered by pharmacy benefit management (PBM) companies. PBM companies typically administer multiple prescription drug plans that expire at various times and provide for varying reimbursement rates. If our participation in the prescription drug programs administered by one or more of the large PBM companies is restricted or terminated, we expect that our sales would be adversely affected, at least in the short term. If we are unable to replace any such lost sales, either through an increase in other sales or through a resumption of participation in those plans, our operating results may be materially adversely affected. In June 2011, we announced that contract renewal negotiations with pharmacy benefit manager Express Scripts, Inc. had been unsuccessful, and as a result we were planning not to be part of Express Scripts' pharmacy provider network as of January 1, 2012.

Reductions in third party reimbursement levels, from private or government plans, for prescription drugs could reduce our margin on pharmacy sales and could have a significant effect on our retail drugstore profits.

The continued efforts of health maintenance organizations, managed care organizations, pharmacy benefit management companies, government entities, and other third party payers to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation relating to how drugs are priced, may adversely impact our profitability. In addition, some of these entities may offer pricing terms that we may not be willing to accept or otherwise restrict our participation in their networks of pharmacy providers. Certain provisions of the Deficit Reduction Act of 2005 (the DRA) sought to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs (AMP). Those reductions did not go into effect. The Patient Protection and Affordable Care Act signed into law on March 23, 2010 (the ACA) enacted a modified reimbursement formula for multi-source drugs. The modified formula, when implemented, is expected to reduce Medicaid reimbursements, which could adversely affect our revenues and profits.

Our profitability can be adversely affected by a decrease in the introduction of new brand name and generic prescription drugs.

Our sales and profit margins are materially affected by the introduction of new brand name and generic drugs. New brand name drugs can result in increased drug utilization and associated sales revenues, while the introduction of lower priced generic alternatives typically result in higher gross profit margins. Accordingly, a decrease in the number of significant new brand name drugs or generics successfully introduced could adversely affect our results of operations.

Consolidation in the healthcare industry could adversely affect our business, financial condition and results of operations.

Many organizations in the healthcare industry, including pharmacy benefit managers, have consolidated in recent years to create larger healthcare enterprises with greater market power, which has resulted in greater pricing pressures. Two of the three largest pharmacy benefit managers, Medco Health Solutions, Inc. and Express Scripts, Inc., announced an agreement to merge in July 2011, completion of which is subject to regulatory and other conditions. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further pressure on the prices for our products and services. If these pressures result in reductions in our prices, our business will become less profitable unless we are able to achieve corresponding reductions in costs or develop profitable new revenue streams. We expect that market demand, government regulation, third-party reimbursement policies, government contracting requirements, and societal pressures will continue to cause the healthcare industry to evolve, potentially resulting in further business consolidations and alliances among the industry participants we engage with, which may adversely impact our business, financial condition and results of operations.

Changes in economic conditions could adversely affect consumer buying practices and reduce our revenues and profitability.

Our performance has been, and may continue to be, adversely impacted by negative changes in national, regional or local economic conditions and consumer confidence. The current economic environment has had a material impact on consumer behavior that could persist even as the economy starts to recover. External factors that affect consumer confidence and over which we exercise no influence include unemployment rates, levels of personal disposable income, national, regional or local economic conditions and acts of war or terrorism. Changes in economic conditions and consumer confidence could adversely affect consumer preferences, purchasing power and spending patterns. A decrease in overall consumer spending as a result of changes in economic conditions could adversely affect our front-end and pharmacy sales and negatively impact our profitability. All these factors could impact our revenues, operating results and financial condition.

The industries in which we operate are highly competitive and further increases in competition could adversely affect us.

In our retail pharmacy business, we face intense competition from local, regional and national companies, including other drugstore chains, independent drugstores, mail-order prescription providers and various other retailers such as grocery stores, convenience stores, mass merchants and dollar stores, many of which are aggressively expanding in markets we serve. In the other markets in which we compete, including health and wellness services, we also operate in a highly competitive environment. As competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, this could require us to reevaluate our pricing structures to remain competitive. Our failure to reduce prices could result in decreased revenue and negatively affect profits.

If the merchandise and services that we offer fail to meet customer needs, our sales may be affected.

Our success depends on our ability to offer a superior shopping experience, a quality assortment of available merchandise and superior customer service. We must identify, obtain supplies of, and offer to our customers, attractive, innovative and high-quality merchandise on a continuous basis. Our products and services must satisfy the needs and desires of our customers, whose preferences may change in the future. If we misjudge either the demand for products and services we sell or our customers' purchasing habits and tastes, we may be faced with excess inventories of some products and missed opportunities for products and services we chose not to offer. In addition, our sales may decline or we may be required to sell the merchandise we have obtained at lower prices. This would have a negative effect on our business and results of operations.

Our strategy is dependent, in part, upon the successful implementation of various strategic initiatives.

While our overall business strategy consists of many components and underlying initiatives, our long-term financial performance will be impacted by our ability to execute certain key initiatives. In fiscal 2012, we plan to pursue strategies designed to further transform our traditional drugstore to a "retail health and daily living" store; advance community pharmacy to play a greater role in healthcare through integration and expanded services; deliver an outstanding customer experience through enhanced employee engagement; expand across new channels and markets; and enhance our cost structure through continuous improvement and innovation. If we are unable to effectively execute one or more of these key initiatives, our business, financial condition and results of operations may be materially adversely affected.

Our ability to grow our business may be constrained by our inability to find suitable new store locations at acceptable prices or by the expiration of our current leases.

Our ability to grow our business may be constrained if suitable new store locations cannot be identified with lease terms or purchase prices that are acceptable to us. We compete with other retailers and businesses for suitable locations for our stores. Local land use and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations and influence the cost of constructing our stores. The expiration of leases at existing store locations may adversely affect us if the renewal terms of those leases are unacceptable to us and we are forced to close or relocate stores. Further, changing local demographics at existing store locations may adversely affect revenue and profitability levels at those stores.

A significant disruption in our computer systems could adversely affect our operations.

We rely extensively on our computer systems to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, vandalism, catastrophic events and human error, and our disaster recovery planning cannot account for all eventualities. In addition, we are currently making, and expect to continue to make, substantial investments in our information technology systems and infrastructure and any risk of system disruption is further increased when significant system changes are undertaken. If our systems are damaged, fail to function properly or otherwise become unavailable, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to perform critical functions, which could adversely affect our business and results of operations.

Our growth strategy is partially dependent upon acquisitions, some of which may not prove to be successful.

We have grown our business, in part, through acquisitions in recent years and expect to continue to acquire drugstore chains, independent drugstores and other businesses in the future. Acquisitions involve numerous risks, including difficulties in integrating the operations and personnel of the acquired companies, distraction of management from overseeing our existing operations, difficulties in entering markets in which we have no or limited direct prior experience, and difficulties in achieving the synergies we anticipated. Acquisitions may also cause us to significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition, issue common stock that would dilute our current shareholders' percentage ownership, or incur write-offs and restructuring and other related expenses. No assurance can be given that our acquisitions will be successful and will not materially adversely affect our results of operations.

Changes in the health care regulatory environment may adversely affect our business.

Political, economic and regulatory influences are subjecting the healthcare industry to significant changes that could adversely affect our results of operations. The ACA and the Health Care and Education Reconciliation Act of 2010 were signed into law on March 23, 2010 and March 30, 2010, respectively. A number of the provisions of those laws require rulemaking action by governmental agencies to implement, which has not yet occurred. Future rulemaking could increase regulation of pharmacy services, result in changes to pharmacy reimbursement rates, and otherwise change the way we do business. We cannot predict the timing or impact of any future rulemaking, but any such rulemaking could have an adverse impact on our results of operations.

We are subject to governmental regulations and procedures and other legal requirements. A significant change in, or noncompliance with, these regulations, procedures and requirements could have a material adverse effect on profitability.

Our retail drugstore and health and wellness services businesses are subject to numerous federal, state and local regulations. Changes in these regulations may require extensive system and operating changes that may be difficult to implement. Untimely compliance or noncompliance with applicable regulations could result in the imposition of civil and criminal penalties that could adversely affect the continued operation of our business, including: suspension of payments from government programs; loss of required government certifications; loss of authorizations to participate in or exclusion from government reimbursement programs, such as the Medicare and Medicaid programs; loss of licenses; or significant fines or monetary penalties, and could adversely affect the continued operation of our business. The regulations to which we are subject include, but are not limited to: federal, state and local registration and regulation of pharmacies; applicable Medicare and Medicaid regulations; the Health Insurance Portability and Accountability Act, or HIPAA; laws and regulations relating to the protection of the environment and health and safety matters, including those governing exposure to, and the management and disposal of, hazardous substances; regulations of the U.S. Food and Drug Administration, the U.S. Federal Trade Commission, the Drug Enforcement Administration, and the Consumer Product Safety Commission, as well as state regulatory authorities, governing the sale, advertisement and promotion of products we sell; anti-kickback laws; data privacy and security laws; false claims laws; laws against the corporate practice of medicine; and federal and state laws governing the practice of the profession of pharmacy. In addition, we are party to a Corporate Integrity Agreement with the U.S. Department of Health and Human Services under which we have agreed to maintain a corporate compliance program. We are also governed by federal and state laws of general applicability, including laws regulating matters of working conditions, health and safety and equal employment opportunity. In addition, we could have exposure if we are found to have infringed another party's intellectual property rights.

Should a product liability issue, recall or personal injury issue arise, inadequate product or other liability insurance coverage or our inability to maintain such insurance may result in a material adverse effect on our business and financial condition.

Products that we sell could become subject to contamination, product tampering, mislabeling, recall or other damage. In addition, errors in the dispensing and packaging of pharmaceuticals could lead to serious injury. Product liability or personal injury claims may be asserted against us with respect to any of the products or pharmaceuticals we sell or services we provide. Our health and wellness business also involves exposure to professional liability claims related to medical care. Should a product or other liability issue arise, the coverage limits under our insurance programs and the indemnification amounts available to us may not be adequate to protect us against claims. We also may not be able to maintain this insurance on acceptable terms in the future. Damage to our reputation in the event of a product liability or personal injury issue or judgment against us or a product recall could have an adverse effect on our business, financial condition or results of operations.

If we do not maintain the privacy and security of sensitive customer and business information, we could damage our reputation, incur substantial additional costs and become subject to litigation.

Throughout our operations, we receive, retain and transmit certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our websites, or otherwise communicate and interact with us. In addition, aspects of our operations depend upon the secure transmission of confidential information over public networks. A compromise of our data security systems or those of businesses we interact with that results in information related to our customers or business being obtained by unauthorized persons could harm our reputation and expose us to regulatory actions and claims from customers, financial institutions, payment card associations and other persons, any of which could adversely affect our business, financial condition and results of operations. In addition, a security breach could require that we expend additional resources related to the security of information systems and disrupt our business. In addition, compliance with changes in privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes. If we or those with whom we share information fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged and we could be subject to additional litigation and regulatory risks.

Our credit ratings are important to our cost of capital and lease terms for our stores.

The major credit rating agencies have given us and our corporate debt investment grade credit ratings. These ratings are based on a number of factors, which include our financial strength and financial policies. We aim to maintain our high ratings as they serve to lower our borrowing costs and facilitate our access to a variety of lenders and other creditors, including landlords for our leased stores, on terms that we consider advantageous to our business. Failure to maintain our credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.

Our quarterly results may fluctuate significantly.

Our operating results have historically varied on a quarterly basis and may continue to fluctuate significantly in the future. Factors that may affect our quarterly operating results include, but are not limited to, seasonality, the timing of the introduction of new generic and brand name prescription drugs, the timing and severity of the cough, cold and flu season, significant acquisitions, dispositions and other strategic initiatives, and the other risk factors discussed under this Item 1A. Accordingly, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and investors should not rely on the results of any particular quarter as an indication of our future performance.

There are a number of additional business risks which could adversely affect our financial results.

Many other factors could adversely affect our financial results, including:

- If we are unsuccessful in establishing effective advertising, marketing and promotional programs, our sales or sales margins could be negatively affected.

- Our success depends on our continued ability to attract and retain store and management and professional personnel, and the loss of key personnel could have an adverse effect on the results of our operations, financial condition or cash flow.

- Changes in accounting standards and the application of existing accounting standards particularly related to the measurement of fair value as compared to carrying value for the Company’s reporting units, including goodwill and intangible assets, may have an adverse effect on the Company’s financial condition and results of operations.

- Severe weather conditions, terrorist activities, health epidemics or pandemics or the prospect of these events can impact our store operations or damage our facilities in affected areas or have an adverse impact on consumer confidence levels and spending in our stores.

- The long-term effects of climate change on general economic conditions and the pharmacy industry in particular are unclear, and changes in the supply, demand or available sources of energy may affect the availability or cost of goods and services, including natural resources, necessary to run our business.

- The products we sell are sourced from a wide variety of domestic and international vendors, and any future inability to find qualified vendors and access products in a timely and efficient manner could adversely impact our business.

Item 1B . Unresolved Staff Comments

There are no unresolved staff comments outstanding with the Securities and Exchange Commission at this time.

Item 2 . Properties

The Company's locations by state at August 31 are listed below.

State	2011	2010	State	2011	2010	State	2011	2010
Alabama	101	100	Louisiana	147	144	Oklahoma	105	110
Alaska	5	3	Maine	14	13	Oregon	73	70
Arizona	254	254	Maryland	66	58	Pennsylvania	138	132
Arkansas	60	60	Massachusetts	180	180	Rhode Island	29	29
California	627	604	Michigan	230	227	South Carolina	110	109
Colorado	167	168	Minnesota	156	146	South Dakota	14	14
Connecticut	117	121	Mississippi	71	70	Tennessee	261	255
Delaware	67	65	Missouri	201	202	Texas	700	694
District of Columbia	3	1	Montana	13	13	Utah	43	42
Florida	864	850	Nebraska	61	62	Vermont	4	3
Georgia	203	198	Nevada	87	88	Virginia	133	124
Hawaii	11	10	New Hampshire	35	35	Washington	130	129
Idaho	42	40	New Jersey	199	191	West Virginia	21	21
Illinois	598	581	New Mexico	66	66	Wisconsin	231	233
Indiana	211	212	New York	524	501	Wyoming	11	11
Iowa	72	72	North Carolina	201	188	Guam	1	1
Kansas	69	71	North Dakota	1	1	Puerto Rico	110	106
Kentucky	102	100	Ohio	271	268	TOTAL	8,210	8,046

The Company owns approximately 21% of the retail drugstore locations open at August 31, 2011. The remaining drugstore locations are leased. The leases are for various terms and periods. See Note 3, "Leases" on page 31 of the 2011 Annual Report, which section is incorporated herein by reference. The Company has a strategic expansion program of adding new stores and remodeling and relocating existing stores. Net retail selling space increased from 84 million square feet at August 31, 2010, to 86 million square feet at August 31, 2011. Not including the approximate 5,000 locations that have been converted under the Customer Centric Retailing initiative, approximately 33% of Company stores have been opened or remodeled during the past five years.

The Company's retail store operations are supported by 18 major distribution centers with a total of approximately 10 million square feet of space, of which 13 locations are owned. The remaining space is leased. All distribution centers are served by modern systems for order processing control, operating efficiencies and rapid merchandise delivery to stores. In addition, the Company uses public warehouses to handle certain distribution needs.

The Company operates 26 principal office facilities containing approximately three million square feet, of which 14 locations are owned. The Company operates two mail service facilities containing approximately 237 thousand square feet, one of which is owned.

The Company also owns 32 strip shopping malls containing approximately 2 million square feet of which approximately 886 thousand square feet is leased to others.

Item 3 . Legal Proceedings

The information in response to this item is incorporated herein by reference to Note 10 "Commitments and Contingencies" on page 35 of the 2011 Annual Report.

Item 4. [Reserved]

Executive Officers of the Registrant

The following table sets forth, for each person serving as an executive officer of Walgreens as of October 25, 2011, the name, age and principal occupations and employment of such person for the past five years. Unless otherwise stated, employment is by Walgreens. Executive officers of Walgreens are elected annually by the Board of Directors and serve until a successor has been duly elected or appointed and qualified or until the officer's death, resignation or removal. There are no family relationships between any of the Company’s executive officers or directors.

Name and Business Experience	Age	Office(s) Held
Gregory D. Wasson President and Chief Executive Officer since February 2009 Director since February 2009 President and Chief Operating Officer – May 2007 to February 2009 Executive Vice President – October 2005 to May 2007 President, Walgreens Health Services – March 2002 to May 2007	53	President and Chief Executive Officer
Sona Chawla President, E-Commerce since January 2011 Senior Vice President, E-Commerce – July 2008 to January 2011 Vice President, Global Online Business, Dell, Inc. – December 2006 to May 2008 Executive Vice President, Online Sales, Service and Marketing, Wells Fargo & Company – March 2005 to October 2006	44	President, E-Commerce
Kermit R. Crawford President, Pharmacy, Health and Wellness since September 2010 Executive Vice President – January 2010 to September 2010 Senior Vice President - October 2007 to January 2010 Vice President – October 2005 to October 2007 Senior Vice President, Walgreens Health Services – October 2005 to September 2007	52	President, Pharmacy, Health and Wellness
Joseph C. Magnacca President, Daily Living Products and Solutions since April 2011 President of Duane Reade Holdings, Inc. – July 2010 to April 2011 Senior Vice President and Chief Merchandising Officer of Duane Reade Holdings, Inc. – September 2008 to July 2010 Executive Vice President of Shoppers Drug Mart Corporation – 2001 to 2008	49	President, Daily Living Products and Solutions
Mark A. Wagner President, Community Management since September 2010 Executive Vice President – March 2006 to September 2010 Senior Vice President – February 2002 to March 2006	50	President, Community Management
Wade D. Miquelon Executive Vice President and Chief Financial Officer since July 2009 Senior Vice President and Chief Financial Officer – June 2008 to July 2009 Executive Vice President and Chief Financial Officer, Tyson Foods, Inc. – June 2006 to June 2008 Vice President, Finance, Western Europe, The Procter & Gamble Company – September 2003	46	Executive Vice President and Chief Financial Officer

to June 2006

Thomas J. Sabatino, Jr. Executive Vice President, General Counsel and Corporate Secretary since September 2011 Executive Vice President and General Counsel of UAL Corporation and United Air Lines, Inc. – March 2010 to December 2010 Executive Vice President and General Counsel of Schering- Plough Corporation – April 2004 to November 2009	52	Executive Vice President, General Counsel and Corporate Secretary
Graham W. Atkinson Senior Vice President and Chief Customer Experience Officer since January 2011 Executive Vice President of UAL Corporation and United Air Lines, Inc. and President of Mileage Plus frequent flyer program – October 2008 to December 2010 Executive Vice President – Chief Customer Officer of UAL Corporation and United Air Lines, Inc. – September 2006 to September 2008	60	Senior Vice President and Chief Customer Experience Officer
Mia M. Scholz Senior Vice President since January 2011 Vice President since October 2007 Controller and Chief Accounting Officer since January 2004 Divisional Vice President – January 2004 to October 2007	45	Senior Vice President, Controller and Chief Accounting Officer
Timothy J. Theriault Senior Vice President and Chief Information Officer since October 2009 President, Corporate and Institutional Services, Northern Trust Corporation – January 2006 to October 2009 President, Worldwide Operations and Technology, Northern Trust Corporation – February 2002 to January 2006	51	Senior Vice President and Chief Information Officer
Kathleen Wilson-Thompson Senior Vice President and Chief Human Resources Officer since January 2010 Senior Vice President, Global Human Resources of Kellogg Company – July 2005 to December 2009	54	Senior Vice President and Chief Human Resources Officer
Robert G. Zimmerman Senior Vice President and Chief Strategy Officer since September 2011 Senior Vice President since January 2011 Vice President – September 2007 to January 2011 Vice President and Chief Financial Officer, Walgreens Health Services – September 2001 to September 2007	59	Senior Vice President and Chief Strategy Officer
W. Bryan Pugh Vice President, Merchandising since February 2009 Chief Retail Operations Officer, Fresh & Easy Neighborhood Markets, USA, Tesco PLC – March 2005 to December 2008	48	Vice President, Merchandising

PART II

Item 5 . Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is listed on the New York Stock Exchange, Chicago Stock Exchange and The Nasdaq Stock Market LLC under the symbol WAG. As of September 30, 2011, there were approximately 84,643 record holders of Company common stock.

The range of the sales prices of the Company's common stock by quarters during the years ended August 31, 2011, and August 31, 2010, are incorporated herein by reference to the caption “Common Stock Prices” on page 39 of the 2011 Annual Report.

The Company's cash dividends per common share declared during the two fiscal years ended August 31 are as follows:

Quarter Ended	**2011**	**2010**
November	$ .1750	$ .1375
February	.1750	.1375
May	.1750	.1375
August	.2250	.1750
Fiscal Year	$ .7500	$ .5875

The Company has paid cash dividends every quarter since 1933. Future dividends will be determined based on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors.

The following table provides information about purchases by the Company during the quarter ended August 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.

Issuer Purchases of Equity Securities

Period	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 Programs (2)
06/01/2011 - 06/30/2011	2,864,700	$ 43.63	2,864,700	$ 50,418,560
07/01/2011- 07/31/2011	1,136,300	44.00	1,136,300	-
08/01/2011-08/31/2011	12,808,100	35.92	11,808,100	1,575,032,563
Total	16,809,100	37.78	15,809,100	$ 1,575,032,563

(1) The Company purchased 1,000,000 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) In July 2011, the Company completed its 2011 repurchase program, which authorized the repurchase of $1,000 million of the Company's common stock. On July 13, 2011, the Board of Directors approved a new share repurchase program (2012 repurchase program) which allows for the repurchase of up to $2,000 million of the Company's common stock prior to its expiration on December 31, 2015. The total remaining authorization under the 2012 repurchase program is $1,575 million as of August 31, 2011.

Item 6 . Selected Financial Data

The information in response to this item is incorporated herein by reference to the caption "Five-Year Summary of Selected Consolidated Financial Data" on page 17 of the 2011 Annual Report.

Item 7 . Management's Discussion and Analysis of Financial Condition and Results of Operations

The information in response to this item is incorporated herein by reference to the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 18 through 23 of the 2011 Annual Report.

Item 7A . Qualitative and Quantitative Disclosures 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 based on 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 5.25% fixed rate notes to a floating interest rate based on the six month LIBOR in arrears plus a constant spread. These financial instruments are sensitive to changes in interest rates. On August 31, 2011, we had $803 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 8 . Financial Statements and Supplementary Data

See Item 15.

Item 9 . Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A . 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-K. 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.

Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting and the report of Deloitte & Touche LLP, the Company's independent registered public accounting firm, related to their assessment of the effectiveness of internal control over financial reporting are included in our fiscal 2011 Annual Report and are incorporated in this Item 9A by reference.

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 August 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.

Item 9B . Other Information

None.

PART III

Item 10 . Directors, Executive Officers and Corporate Governance

The information required by Item 10, with the exception of the information relating to the executive officers of the Company, which is presented in Part I above under the heading "Executive Officers of the Registrant," is incorporated herein by reference to the following sections of the Company's 2011 Proxy Statement: Proposal 1, Election of Directors; The Board of Directors, Board Committees and Corporate Governance; and Section 16(a) Beneficial Ownership Reporting Compliance.

The Company has adopted a Code of Business Conduct applicable to all employees, officers and directors that incorporates policies and guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The Company has also adopted a Code of Ethics for Financial Executives. This Code applies to and has been signed by the Chief Executive Officer, the Chief Financial Officer and the Controller. The full text of the Code of Business Conduct and the Code of Ethics for Financial Executives is available at the Company's website, investor.walgreens.com. The Company intends to promptly disclose on its website in accordance with SEC rules changes to or waivers, if any, of the Code of Ethics for Financial Executives or the Code of Business Conduct for directors and executive officers.

Charters of all committees of the Company's Board of Directors, as well as the Company's Corporate Governance Guidelines and Code of Business Conduct, are available on the Company's website at investor.walgreens.com or, upon written request, in printed hardcopy form. Written requests should be sent to Walgreen Co., Attention: Shareholder Relations, Mail Stop #1833, 108 Wilmot Road, Deerfield, Illinois 60015.

Item 11 . Executive Compensation

The information required by Item 11 is incorporated herein by reference to the following sections of the Company's 2011 Proxy Statement: Director Compensation; and Executive Compensation.

Item 12 . Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is incorporated herein by reference to the following sections of the Company's 2011 Proxy Statement: Security Ownership of Certain Beneficial Owners and Management; and Equity Compensation Plans.

Item 13 . Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 is incorporated herein by reference to the following sections of the Company's 2011 Proxy Statement: Certain Relationships and Related Party Transactions; and The Board of Directors, Board Committees and Corporate Governance.

Item 14 . Principal Accounting Fees and Services

The information required by Item 14 is incorporated herein by reference to the following sections of the Company's 2011 Proxy Statement: Independent Registered Public Accounting Firm Fees and Services.

PART IV

Item 15 . Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) ***Financial statements.*** The following financial statements, supplementary data, and report of independent public accountants appearing in the 2011 Annual Report are incorporated herein by reference.

	2011 Annual Report Page Number (printed)
Consolidated Statements of Earnings and Shareholders' Equity for the years ended August 31, 2011, 2010 and 2009	24 – 25
Consolidated Balance Sheets at August 31, 2011 and 2010	26
Consolidated Statements of Cash Flows for the years ended August 31, 2011, 2010 and 2009	27
Notes to Consolidated Financial Statements	28 – 39
Management's Report on Internal Control	40
Report of Independent Registered Public Accounting Firm	40

(2) ***Financial statement schedules and supplementary information.*** The following financial statement schedule and related report of the independent registered public accounting firm is included herein.

Schedule II Valuation and Qualifying Accounts
Report of Independent Registered Public Accounting Firm

Schedules I, III, IV and V are not submitted because they are not applicable or not required or because the required information is included in the Financial Statements in (1) above or notes thereto.

Other Financial Statements -

Separate financial statements of the registrant have been omitted because it is primarily an operating Company, and all of its subsidiaries are included in the consolidated financial statements.

(3) ***Exhibits.*** Exhibits 10.1 through 10.57 constitute management contracts or compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(b) of this Form 10-K.

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.

(b) Exhibits

Exhibit No.	**Description**	**SEC Document Reference**

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.
4.1*	Form of Indenture between Walgreen Co. and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s registration statement on Form S-3ASR (File No. 333-152315) filed with the SEC on July 14, 2008.
4.2	Form of 4.875% Note due 2013.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 17, 2008.
4.3	Form of 5.25% Note due 2019.	Incorporated by reference to Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 13, 2009.
10.1	Walgreen Co. Management Incentive Plan (as amended and restated effective September 1, 2008).	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.2	Walgreen Co. Long-Term Performance Incentive Plan (amendment and restatement of the Walgreen Co. Restricted Performance Share Plan).	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 January 11, 2007.
10.3	Walgreen Co. Long-Term Performance Incentive Plan Amendment No. 1 (effective January 10, 2007).	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2007 (File No. 1-00604).
10.4	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.
10.5	Form of Restricted Stock Unit Award Agreement (August 15, 2011 grants).	Filed herewith.
10.6	Form of Restricted Stock Unit Award Agreement (effective September 1, 2011).	Filed herewith.
10.7	Form of Performance Share Contingent Award Agreement (effective September 1, 2008).	Incorporated by reference to Exhibit 10.14 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.8	Form of Performance Share Contingent Award Agreement (effective September 1, 2011).	Filed herewith.
10.9	Form of Restricted Stock Award Agreement (effective June 2008).	Incorporated by reference to Exhibit 10.15 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.10	Walgreen Co. Executive Stock Option Plan (as amended and restated effective January 13, 2010).	Incorporated by reference to Exhibit 99.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 20, 2010.
10.11	Form of Stock Option Agreement (Benefit Indicator 512 - 515) (effective September 1, 2011).	Filed herewith.
10.12	Form of Stock Option Agreement (Benefit Indicator 516 and above) (effective September 1, 2011).	Filed herewith.
10.13	Walgreen Co. 1986 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1986 (File No. 1-00604).
10.14	Walgreen Co. 1988 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1987 (File No. 1-00604).

10.15	Amendments to Walgreen Co. 1986 and 1988 Executive Deferred Compensation/ Capital Accumulation Plans.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1988 (File No. 1-00604).
10.16	Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 1.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604).
10.17	Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 2.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604).
10.18	Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 1.	Incorporated by reference to Exhibit 10(c) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1997 (File No. 1-00604).
10.19	Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 2.	Incorporated by reference to Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1997 (File No. 1-00604).
10.20	Walgreen Co. 2001 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10(g) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2001 (File No. 1-00604).
10.21	Walgreen Co. 2002 Executive Deferred Compensation/Capital Accumulation Plan.	Incorporated by reference to Exhibit 10(g) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2002 (File No. 1-00604).
10.22	Amendment to the Walgreen Co. 1986, 1988, 1992 (Series 1), 1992 (Series 2), 1997 (Series 1), 1997 (Series 2), 2001 and 2002 Executive Deferred Compensation/ Capital Accumulation Plans.	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2009 (File No. 1-00604).
10.23	Walgreen Co. 2006 Executive Deferred Compensation/Capital Accumulation Plan (effective January 1, 2006).	Incorporated by reference to Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2005 (File No. 1-00604).
10.24	Walgreen Co. 2011 Executive Deferred Compensation Plan.	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 November 12, 2010.
10.25	Amendment No. 1 to the Walgreen Co. 2011 Executive Deferred Compensation Plan.	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 January 19, 2011.
10.26	Walgreen Co. Executive Deferred Profit-Sharing Plan, as amended and restated effective January 1, 2012.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on July 15, 2011.
10.27	Share Walgreens Stock Purchase/Option Plan (effective October 1, 1992), as amended.	Incorporated by reference to Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604).
10.28	Share Walgreens Stock Purchase/Option Plan Amendment No. 4 (effective July 15, 2005), as amended.	Incorporated by reference to Exhibit 10(h)(ii) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2005 (File No. 1-00604).
10.29	Share Walgreens Stock Purchase/Option Plan Amendment No. 5 (effective October 11, 2006).	Incorporated by reference to Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604).
10.30	Walgreen Select Senior Executive Retiree Medical Expense Plan.	Incorporated by reference to Exhibit 10(j) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1996 (File No. 1-00604).
10.31	Walgreen Select Senior Executive Retiree Medical Expense Plan Amendment No. 1 (effective August 1, 2002).	Incorporated by reference to Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604).
10.32	Walgreen Co. Profit-Sharing Restoration Plan (as restated	Incorporated by reference to Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended May 31,

	effective January 1, 2003).	2003 (File No. 1-00604).
10.33	Walgreen Co. Profit-Sharing Restoration Plan Amendment No. 1 (effective January 1, 2008).	Incorporated by reference to Exhibit 10.36 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2008 (File No. 1-00604).
10.34	Walgreen Co. Profit-Sharing Restoration Plan Amendment No. 2 (effective January 1, 2010).	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2010 (File No. 1-00604).
10.35	Amendment to the Walgreen Co. Profit-Sharing Restoration Plan.	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2010 (File No. 1-00604).
10.36	Amendment to the Walgreen Co. Profit-Sharing Restoration Plan.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604) filed with the SEC on January 19, 2011.
10.37	Walgreen Co. 162(m) Deferred Compensation Plan, as amended and restated.	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 October 17, 2011.
10.38	Walgreen Co. Nonemployee Director Stock Plan, as amended and restated (effective January 14, 2004).	Incorporated by reference to Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 (File No. 1-00604).
10.39	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 1 (effective October 12, 2005).	Incorporated by reference to Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2005 (File No. 1-00604).
10.40	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 2 (effective October 11, 2006).	Incorporated by reference to Exhibit 10(f) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604).
10.41	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 3 (effective September 1, 2009).	Incorporated by reference to Exhibit 10.43 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2010 (File No. 1-00604).
10.42	Walgreen Co. Broad-Based Stock Option Plan (effective July 10, 2002).	Incorporated by reference to Exhibit 10(p) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2002 (File No. 1-00604).
10.43	Walgreen Co. Broad-Based Employee Stock Option Plan Amendment No. 1 (effective April 1, 2003).	Incorporated by reference to Exhibit 10(c) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended May 31, 2003 (File No. 1-00604).
10.44	Walgreen Co. Broad-Based Employee Stock Option Plan Amendment No. 2 (effective October 11, 2006).	Incorporated by reference to Exhibit 10(e) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604).
10.45	Form of Change of Control Employment Agreements.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Current Report on Form 8-K dated October 18, 1988 (File No. 1-00604).
10.46	Form of Amendment to Change of Control Employment Agreements (effective January 1, 2009).	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2009 (File No. 1-00604).
10.47	Amendment to Employment Agreements adopted July 12, 1989.	Incorporated by reference to Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1989 (File No. 1-00604).
10.48	Executive Stock Option Plan – Stock Option Agreement made as of October 10, 2008 between Alan G. McNally and Walgreen Co.	Incorporated by reference to Exhibit 10.8 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008 (File No. 1-00604).
10.49	Long-Term Performance Incentive Plan – Restricted Stock Unit Award Agreement made as of October 10, 2008 between Alan G. McNally and Walgreen Co.	Incorporated by reference to Exhibit 10.9 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2008 (File No. 1-00604).
	Amended and Restated Senior Executive Severance	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s

10.50	Agreement effective as of July 31, 2006 between Medmark, Inc. and Stanley B. Blaylock.	Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2009 (File No. 1-00604).
10.51	Separation and Release Agreement, effective April, 2, 2010, between Stanley B. Blaylock and Walgreen Co.	Incorporated by reference to Exhibit 10.1 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2010 (File No. 1-00604).
10.52	Voluntary Separation and Release Agreement, dated January 8, 2010, between George Riedl and Walgreen Co.	Incorporated by reference to Exhibit 10.60 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2010 (File No. 1-00604).
10.53	Agreement and Release between Hal F. Rosenbluth and Walgreen Co.	Incorporated by reference to Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2011 (File No. 1-00604).
10.54	Offer letter agreement dated March 10, 2011 between Joseph C. Magnacca and Walgreen Co.	Incorporated by reference to Exhibit 10.3 to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2011 (File No. 1-00604).
10.55	Offer letter agreement dated August 9, 2011 between Thomas J. Sabatino and Walgreen Co.	Filed herewith.
10.56	drugstore.com, inc., 1998 Stock Plan, as amended.	Incorporated by reference to Exhibit 99.1 to Walgreen Co.'s Registration Statement on Form S-8 (File No. 333-174811) filed with the SEC on June 9, 2011.
10.57	drugstore.com, inc., 2008 Equity Incentive Plan, as amended.	Incorporated by reference to Exhibit 99.2 to Walgreen Co.'s Registration Statement on Form S-8 (File No. 333-174811) filed with the SEC on June 9, 2011.
12.	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
13.	Portions of the Walgreen Co. Annual Report to Shareholders for the fiscal year ended August 31, 2011.	This report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is being furnished for the information of the SEC and is not deemed to be "filed" as a part of the filing of this Form 10-K.
21.	Subsidiaries of the Registrant.	Filed herewith.
23.	Consent of Independent Registered Public Accounting Firm.	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. Annual Report on Form 10-K for the year ended August 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statement of Earnings; (ii) Consolidated Statement of Cash Flows; (iii) Consolidated Balance Sheet; (iv) Consolidated Statement of Shareholders' Equity, and (v) the Notes to Consolidated Financial Statements.	Furnished herewith.

* Other instruments defining the rights of holders of long-term debt of the registrant and its consolidated subsidiaries may be omitted from Exhibit 4 in accordance with Item 601(b)(4)(iii)(A) of Regulation S-K. Copies of such agreements will be furnished to the SEC upon request.

** 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”.

WALGREEN CO. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED AUGUST 31, 2011, 2010 AND 2009

(Dollars in Millions)

Classification	**Balance at Beginning of Period**	**Additions Charged to Costs and Expenses**	**Deductions**	**Balance at End of Period**
Allowances deducted from receivables for doubtful accounts -				
Year Ended August 31, 2011	$ 104	$ 88	$ (91)	$ 101
Year Ended August 31, 2010	$ 110	$ 111	$ (117)	$ 104
Year Ended August 31, 2009	$ 96	$ 116	$ (102)	$ 110

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Walgreen Co.:

We have audited the consolidated financial statements of Walgreen Co. and Subsidiaries (the "Company") as of August 31, 2011 and 2010, and for each of the three years in the period ended August 31, 2011, and the Company's internal control over financial reporting as of August 31, 2011, and have issued our report thereon dated October 25, 2011; such consolidated financial statements and report are included in your 2011 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Chicago, Illinois
October 25, 2011

SIGNATURES

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

WALGREEN CO.

October 25, 2011

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

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

Name	Title	Date
/s/ Gregory D. Wasson Gregory D. Wasson	President and Chief Executive Officer (Principal Executive Officer)	October 25, 2011
/s/ Wade D. Miquelon Wade D. Miquelon	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	October 25, 2011
/s/ Mia M. Scholz Mia M. Scholz	Senior Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	October 25, 2011
/s/ David J. Brailer David J. Brailer	Director	October 25, 2011
/s/ Steven A. Davis Steven A. Davis	Director	October 25, 2011
/s/ William C. Foote William C. Foote	Director	October 25, 2011
/s/ Mark P. Frissora Mark P. Frissora	Director	October 25, 2011
/s/ Ginger L. Graham Ginger L. Graham	Director	October 25, 2011
/s/ Alan G. McNally Alan G. McNally	Chairman of the Board	October 25, 2011
/s/ Nancy M. Schlichting Nancy M. Schlichting	Director	October 25, 2011
/s/ David Y. Schwartz David Y. Schwartz	Director	October 25, 2011
/s/ Alejandro Silva Alejandro Silva	Director	October 25, 2011
/s/ James A. Skinner James A. Skinner	Director	October 25, 2011

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Exhibit No.	Description
10.5	Form of Restricted Stock Unit Award Agreement (August 15, 2011 grants).
10.6	Form of Restricted Stock Unit Award Agreement (effective September 1, 2011).
10.8	Form of Performance Share Contingent Award Agreement (effective September 1, 2011).
10.11	Form of Stock Option Agreement (Benefit Indicator 512 - 515) (effective September 1, 2011).
10.12	Form of Stock Option Agreement (Benefit Indicator 516 and above) (effective September 1, 2011).
10.55	Offer letter agreement dated August 9, 2011 between Thomas J. Sabatino and Walgreen Co.
12	Computation of Ratio of Earnings to Fixed Charges.
13	Annual Report to shareholders for the fiscal year ended August 31, 2011. This report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is being furnished for the information of the Securities and Exchange Commission and is not deemed to be "filed" as a part of the filing of this Form 10-K.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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* 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”.

WALGREEN CO.
LONG-TERM PERFORMANCE INCENTIVE PLAN
RESTRICTED SHARE UNIT AWARD AGREEMENT

Participant Name:
Participant ID:
Grant Date:
Shares Granted:
Expiration Date:
Acceptance Date:
Electronic Signature:
Vesting Date: [INSERT DATE FOR EACH INDIVIDUAL – LATER OF 4 YEARS FROM GRANT OR RETIREMENT AGE]

This document (referred to below as the "Agreement" or the "Award Agreement") spells out the terms and conditions of the Restricted Share Unit Award provided by Walgreen Co. , an Illinois corporation (the "Company"), to the individual employee designated above (the "Employee") pursuant to the Walgreen Co. Long-Term Performance Incentive Plan and related plan documents (the "Plan") on and as of the Award Date designated above. Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan.

The parties hereto agree as follows:

1. Grant of Restricted Share Units . Pursuant to the approval and direction of the Compensation Committee of the Company's Board of Directors (the "Committee") under Sections 3.2, 5 and 6 of the Plan, the Company hereby grants to the Employee, the number of restricted share units specified above (the "Restricted Share Units"), subject to the terms and conditions of the Plan and this Agreement.

2. Restrictions . The Restricted Share Units may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, whether voluntarily or involuntarily or by operation of law. The Employee shall have no rights in the shares of Company common stock (the "Common Stock") underlying the Restricted Share Units until the termination of the applicable Period of Restriction (as defined in Section 4 below) or as otherwise provided in the Plan or this Agreement. The Employee shall not have any voting rights with respect to the Restricted Share Units.

3. Restricted Share Unit Account and Dividend Equivalents . The Company shall maintain an account (the "Account") on its books in the name of the Employee. Such Account shall reflect the number of Restricted Share Units awarded to the Employee as well as any additional Restricted Share Units credited as a result of dividend equivalents, administered as follows:

(a) The Account shall be for recordkeeping purposes only, and no assets or other amounts shall be set aside from the Company's general assets with respect to such Account.

(b) As of each record date with respect to which a cash dividend is to paid with respect to shares of Common Stock, the Company shall credit the Employee's Account with an equivalent amount of Restricted Share Units based upon the value of Common Stock on such date.

(c) If dividends are paid in the form of shares of Common Stock rather than cash, then the Employee will be credited with one additional Restricted Share Unit for each share of Common Stock that would have been received as a dividend had the Employee's outstanding Restricted Share Units been shares of Common Stock.

(d) Additional Restricted Share Units credited via dividend equivalents shall vest or be forfeited at the same time as the Restricted Share Units to which they relate.

4. Period of Restriction . Subject to the provisions of the Plan and this Agreement, unless vested or forfeited earlier as described in Section 5, 6 or 7 of this Agreement, as applicable, the Restricted Share Units awarded hereunder shall become vested and settled as described in Section 8 below, as of the vesting date or dates indicated in the introduction to this Agreement. The period prior to the vesting date with respect each Restricted Share Unit is referred to as the "Period of Restriction."

5. Vesting upon Termination due to Disability or Death . If, while the Restricted Share Units are subject to a Period of Restriction, the Employee terminates employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) by reason of Disability (as defined in the Plan) or death, then any portion of the Restricted Share Units subject to a Period of Restriction shall become fully vested as of the date of employment termination without regard to the Period of Restriction. The term "Subsidiary" is defined in the Plan and means a corporation with respect to which the Company directly or indirectly owns 50% or more of the voting power. Any Restricted Share Units becoming vested by reason of the Employee's death or Disability shall be settled on the date of the Employee's separation from service (within the meaning of Internal Revenue Code ("Code") Section 409A), or as soon as practicable thereafter, but in no event later than 90 days after such date; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A at the time of separation from service), payment shall not be made until the date which is six months after the Employee's separation from service.

6. . Forfeiture upon Termination due to Reason other than Disability or Death . If, while the Restricted Share Units are subject to a Period of Restriction, the Employee's employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) terminates for a reason other than the Employee's Disability or death, then the Employee shall forfeit any portion of the Restricted Share Units that is subject to a Period of Restriction on the date of such employment termination.

7. Vesting upon Change in Control . In the event of a "Change in Control" of the Company, as defined in Section 11.2 of the Plan, pursuant to Section 11.1 of the Plan the Restricted Share Units shall cease to be subject to the Period of Restriction. If the Change in Control is not also considered a change in control within the meaning of Internal Revenue Code Section 409A, then the Restricted Share Units shall become vested on the date of the Change in Control, but settlement shall not occur until the earlier of the Participant's separation from service (within the meaning of Code Section 409A), or the vesting date indicated in the introduction to the Agreement.

8. Settlement of Vested Restricted Share Units . Subject to the requirements of Sections 11 and 12 below, as promptly as practicable after the Employee's separation from service (within the meaning of Code Section 409A), but in no event later than 90 days after such date, the Company shall transfer to the Employee one share of Common Stock for each Restricted Share Unit becoming vested at such time net of any applicable tax withholding requirements that are necessary to satisfy withholding taxes in accordance with Section 11 below; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A at the time of separation from service), payment shall not be made until the date which is six months after the Employee's separation from service. The Employee shall have no rights as a stockholder with respect to the Restricted Share Units awarded hereunder prior to the date of issuance to the Employee of a certificate or certificates for such shares. Certificates for the shares of Common Stock shall be issued and delivered to the Employee, the Employee's legal representative, or a brokerage account for the benefit of the Employee, as the case may be, or such shares may be held in book entry form.

9. Settlement Following Change in Control . Notwithstanding any provision of this Agreement to the contrary, in connection with or after the occurrence of a Change in Control as defined in Section 11.2 of the Plan, the Company may, in its sole discretion, fulfill its obligation with respect to all or any portion of the Restricted Share Units that cease to be subject to a Period of Restriction in accordance with Section 7 above, by:

(a) delivery of (i) the number of shares of Common Stock that corresponds with the number of Restricted Share Units that have ceased to be subject to a Period of Restriction or (ii) such other ownership interest as such shares of Common Stock that correspond with the vested Restricted Share Units may be converted into by virtue of the Change in Control transaction in accordance with Section 9 above;

(b) payment of cash in an amount equal to the fair market value of the Common Stock that corresponds with the number of vested Restricted Share Units at that time; or

(c) delivery of any combination of shares of Common Stock (or other converted ownership interest) and cash having an aggregate fair market value equal to the fair market value of the Common Stock that corresponds with the number of Restricted Share Units that have become vested at that time.

10. Adjustment in Capitalization . In the event of any change in the Common Stock of the Company, the provisions of Section 10.2 of the Plan shall govern such that the number of Restricted Share Units subject to this Agreement shall be equitably adjusted by the Committee.

11. Tax Withholding . Whenever a Period of Restriction applicable to the Employee's rights to some or all of the Restricted Share Units lapses as provided in Section 5 or 7 of this Agreement, the Company or its agent shall notify the Employee of the related amount of tax that must be withheld under applicable tax laws. Regardless of any action the Company, any Subsidiary of the Company, or the Employee's employer takes with respect to any or all income tax, social security, payroll tax, payment on account or other tax-related withholding ("Tax") that the Employee is required to bear pursuant to all applicable laws, the Employee hereby acknowledges and agrees that the ultimate liability for all Tax is and remains the responsibility of the Employee.

Prior to receipt of any shares that correspond to Restricted Share Units that vest in accordance with this Agreement, the Employee shall pay or make adequate arrangements satisfactory to the Company and/or any Subsidiary of the Company to satisfy all withholding and payment on account obligations of the Company and/or any Subsidiary of the Company. In this regard, the Company shall sell or arrange for the sale of Common Stock that the Employee is due to acquire to satisfy the withholding obligation for Tax and/or withhold any Common Stock. Finally, the Employee agrees to pay the Company or any Subsidiary of the Company any amount of any Tax that the Company or any Subsidiary of the Company may be required to withhold as a result of the Employee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver Common Stock if the Employee fails to comply with its obligations in connection with the tax as described in this section.

The Company advises the Employee to consult his or her legal and/or tax advisors with respect to the tax consequences for the Employee under the Plan.

12. Securities Laws . This award may be accepted only by an individual who is an employee of the Company or a Subsidiary of the Company and who satisfies the eligibility requirements outlined in the Plan and the Committee's administrative procedures. If a Registration Statement under the Securities Act of 1933, as amended, is not in effect with respect to the shares of Common Stock to be issued pursuant to this Agreement, the Employee hereby represents that he or she is acquiring the shares of Common Stock for investment and with no present intention of selling or transferring them and that he or she will not sell or otherwise transfer the shares except in compliance with all applicable securities laws and requirements of any stock exchange on which the shares of Common Stock may then be listed.

13. No Employment or Compensation Rights . Participation in the Plan is subject to all of the terms and conditions of the Plan and this Agreement. This Agreement shall not confer upon the Employee any right to continuation of employment by the Company or its Subsidiaries, nor shall this Agreement interfere in any way with the Company's or its Subsidiaries' right to terminate Employee's employment at any time. Neither the Plan nor this Agreement forms any part of any contract of employment between the Company or any Subsidiary and the Employee, and neither the Plan nor this Agreement confers on the Employee any legal or equitable rights (other than those related to the Restricted Share Unit award) against the Company or any Subsidiary or directly or indirectly gives rise to any cause of action in law or in equity against the Company or any Subsidiary.

14. Plan Terms and Committee Authority . This Agreement and the rights of the Employee hereunder are subject to all of the terms and conditions of the Plan, as it may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate for the administration of the Plan and this Agreement, all of which shall be binding upon Employee. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan. The Employee hereby acknowledges receipt of a copy of the Plan and this Agreement.

15. Non-Competition, Non-Solicitation and Confidentiality. As a condition to the receipt of this Restricted Share Unit award, the Employee must agree to the terms and conditions set forth in the Non-Competition, Non-Solicitation and Confidentiality Agreement attached hereto as Exhibit A by executing that Agreement. Failure to execute and return the Non-Competition, Non-Solicitation and Confidentiality Agreement within 120 days of the Award Date shall constitute a decision by the Employee to decline to accept this Restricted Share Unit award.

16. Amendment or Modification, Waiver. Except as set forth in the Plan, no provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by the Employee and by a duly authorized officer of the Company. No waiver of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

17. Governing Law and Jurisdiction. This Agreement is governed by the substantive and procedural laws of the state of Illinois. The Employee and the Company shall submit to the exclusive jurisdiction of, and venue in, the courts in Illinois in any dispute relating to this Agreement.

****

Please read the attached Exhibit A. Once you have read the agreement, please click the acceptance box to certify and confirm your agreement to be bound by the terms and conditions set forth in Exhibit A, and to acknowledge your receipt of the Plan and this Award Agreement and your acceptance of the Restricted Share Unit award issued hereunder.

[Missing Graphic Reference]

Very truly yours,

EXHIBIT A

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

This Exhibit forms a part of the Restricted Share Unit Award Agreement covering Restricted Share Units awarded to an employee of 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 or she has or will receive, contribute, or develop 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 the Restricted Share Unit award issued to Employee pursuant the Award Agreement to which this is attached as Exhibit A, 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; and, prior to the Employee beginning employment with the Competing Business, the Company receives written assurances satisfactory to the Company, from both the Competing Business and Employee, that Employee will not render services directly or indirectly in connection with any product, system, service, or process of any person or organization which is the same as, comparable to, or competes directly or indirectly with a product, system, service, or process of the 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 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 is substantially engaged or provides substantial support during Employee’s employment with the Company.

(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, partnership, limited liability company or other entity.

For purpose of this Agreement, Employee’s effective date of termination of employment with the Company shall mean the later of: the Employee’s last day worked for the Company, or the end of any period of severance paid to the Employee, regardless of whether such severance is paid as salary continuation, or in one lump sum. Notwithstanding the foregoing, if the Employee’s position is eliminated or otherwise ends in connection with a workforce reduction (including any voluntary separation program), then the restrictions described in Paragraph 2(d) above shall end as of the later of six months following the Employee’s last day worked or the end of any severance period.

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 the underlying Restricted Share unit award 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. Employee consents to the jurisdiction of the Circuit Court of Lake or Cook County, Illinois for purposes of the enforcement of this agreement.

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. In particular, to the extent Employee has signed more than one version of this Agreement in connection with Restricted Share unit awards for multiple years; the latest of such executed Agreements shall apply. The terms of this Agreement may not be altered or modified except by written agreement of Employee and the Company. Notwithstanding the foregoing:

(1) to the extent that, pursuant to an employment contract or otherwise, Employee is currently or in the future becomes subject to any similar obligations that are more restrictive in any respects than Employee's obligations under this Agreement, then the more restrictive terms shall govern; and

(2) this Agreement in no way limits or changes the Company's obligations to Employee in regard to severance and any other specified matters under any employment, severance or similar agreement that may now or in the future be in place between the Company (or any predecessor or successor company) and Employee.

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.

By clicking the acceptance box for this grant agreement, I acknowledge receipt of the Restricted Share Unit Agreement to which this Agreement is attached as Exhibit A, and I agree to the terms and conditions expressed in this Non-Competition, Non-Solicitation and Confidentiality Agreement.

WALGREEN CO.
LONG-TERM PERFORMANCE INCENTIVE PLAN
RESTRICTED SHARE UNIT AWARD AGREEMENT

Participant Name:
Participant ID:
Grant Date:
Shares Granted:
Expiration Date:
Acceptance Date:
Electronic Signature:

This document (referred to below as the "Agreement" or the "Award Agreement") spells out the terms and conditions of the Restricted Share Unit Award provided by Walgreen Co. , an Illinois corporation (the "Company"), to the individual employee designated above (the "Employee") pursuant to the Walgreen Co. Long-Term Performance Incentive Plan and related plan documents (the "Plan") on and as of the Award Date designated above. Except as otherwise defined herein, capitalized terms used in this Agreement have the respective meanings set forth in the Plan.

The parties hereto agree as follows:

1. Grant of Restricted Share Units . Pursuant to the approval and direction of the Compensation Committee of the Company's Board of Directors (the "Committee") under Sections 3.2, 5 and 6 of the Plan, the Company hereby grants to the Employee, the number of restricted share units specified above (the "Restricted Share Units"), subject to the terms and conditions of the Plan and this Agreement.

2. Restrictions . The Restricted Share Units may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, whether voluntarily or involuntarily or by operation of law. The Employee shall have no rights in the shares of Company common stock (the "Common Stock") underlying the Restricted Share Units until the termination of the applicable Period of Restriction (as defined in Section 4 below) or as otherwise provided in the Plan or this Agreement. The Employee shall not have any voting rights with respect to the Restricted Share Units.

3. Restricted Share Unit Account and Dividend Equivalents . The Company shall maintain an account (the "Account") on its books in the name of the Employee. Such Account shall reflect the number of Restricted Share Units awarded to the Employee as well as any additional Restricted Share Units credited as a result of dividend equivalents, administered as follows:

(a) The Account shall be for recordkeeping purposes only, and no assets or other amounts shall be set aside from the Company's general assets with respect to such Account.

(b) As of each record date with respect to which a cash dividend is to paid with respect to shares of Common Stock, the Company shall credit the Employee's Account with an equivalent amount of Restricted Share Units based upon the value of Common Stock on such date.

(c) If dividends are paid in the form of shares of Common Stock rather than cash, then the Employee will be credited with one additional Restricted Share Unit for each share of Common Stock that would have been received as a dividend had the Employee's outstanding Restricted Share Units been shares of Common Stock.

(d) Additional Restricted Share Units credited via dividend equivalents shall vest or be forfeited at the same time as the Restricted Share Units to which they relate.

4. Period of Restriction . Subject to the provisions of the Plan and this Agreement, unless vested or forfeited earlier as described in Section 5, 6, 7 or 8 of this Agreement, as applicable, the Restricted Share Units awarded hereunder shall become vested and settled as described in Section 9 below, as of the vesting date or dates indicated in the introduction to this Agreement. The period prior to the vesting date with respect each Restricted Share Unit is referred to as the "Period of Restriction."

5. Vesting upon Termination due to Disability or Death . If, while the Restricted Share Units are subject to a Period of Restriction, the Employee terminates employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) by reason of Disability (as defined in the Plan) or death, then any portion of the Restricted Share Units subject to a Period of Restriction shall become fully vested as of the date of employment termination without regard to the Period of Restriction. The term "Subsidiary" is defined in the Plan and means a corporation with respect to which the Company directly or indirectly owns 50% or more of the voting power. Any Restricted Share Units becoming vested by reason of the Employee's death or Disability shall be settled on the date of the Employee's separation from service (within the meaning of Internal Revenue Code ("Code") Section 409A), or as soon as practicable thereafter, but in no event later than 90 days after such date; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A at the time of separation from service), payment shall not be made until the date which is six months after the Employee's separation from service.

6. Vesting upon Termination due to Retirement . If, while the Restricted Stock Units are subject to a Period of Restriction, the Employee terminates employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) by reason of Retirement (as defined in the Plan), then a pro-rated portion of the Restricted Stock Units subject to a Period of Restriction shall become fully vested as of the date of employment termination without regard to the Period of Restriction set forth in Section 4 of this Agreement. Such pro-rated portion shall equal the number of Restricted Stock Units, multiplied by a fraction equal to the number of full months completed between the Award Date and the Employee's retirement date, divided by the number of full months from the Award Date through the Vesting Date. The remaining Restricted Stock Units shall be forfeited as of the Employee's termination of employment due to Retirement. Any Restricted Stock Units becoming vested by reason of the Employee's Retirement shall be settled on the date of the Employee's separation from service (within the meaning of Internal Revenue Code Section 409A), or as soon as practicable thereafter, but in no event later than 90 days after such date; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A), payment shall not be made until date which is six months after the Employee's separation from service.

7. Forfeiture upon Termination due to Reason other than Retirement, Disability or Death . If, while the Restricted Share Units are subject to a Period of Restriction, the Employee's employment with the Company (or a Subsidiary of the Company if the Employee is then in the employ of such Subsidiary) terminates for a reason other than the Employee's Disability or death, then the Employee shall forfeit any portion of the Restricted Share Units that is subject to a Period of Restriction on the date of such employment termination.

8. Vesting upon Change in Control . In the event of a "Change in Control" of the Company, as defined in Section 11.2 of the Plan, pursuant to Section 11.1 of the Plan the Restricted Share Units shall cease to be subject to the Period of Restriction set forth in Section 4 of this Agreement. If the Change in Control is not also considered a change in control within the meaning of Internal Revenue Code Section 409A, then the Restricted Share Units shall become vested on the date of the Change in Control, but settlement shall not occur until the earlier of the Participant's separation from service (within the meaning of Code Section 409A), or the vesting date indicated in the introduction to the Agreement.

9. Settlement of Vested Restricted Share Units . Subject to the requirements of Sections 12 and 13 below, as promptly as practicable after the Employee's separation from service (within the meaning of Code Section 409A), but in no event later than 90 days after such date, the Company shall transfer to the Employee one share of Common Stock for each Restricted Share Unit becoming vested at such time net of any applicable tax withholding requirements that are necessary to satisfy withholding taxes in accordance with Section 12 below; provided, however, to the extent required under Code Section 409A, if the Employee is a specified employee (within the meaning of Code Section 409A at the time of separation from service), payment shall not be made until the date which is six months after the Employee's separation from service. The Employee shall have no rights as a stockholder with respect to the Restricted Share Units awarded hereunder prior to the date of issuance to the Employee of a certificate or certificates for such shares. Certificates for the shares of Common Stock shall be issued and delivered to the Employee, the Employee's legal representative, or a brokerage account for the benefit of the Employee, as the case may be, or such shares may be held in book entry form.

10. Settlement Following Change in Control . Notwithstanding any provision of this Agreement to the contrary, in connection with or after the occurrence of a Change in Control as defined in Section 11.2 of the Plan, the Company may, in its sole discretion, fulfill its obligation with respect to all or any portion of the Restricted Share Units that cease to be subject to a Period of Restriction in accordance with Section 8 above, by:

(a) delivery of (i) the number of shares of Common Stock that corresponds with the number of Restricted Share Units that have ceased to be subject to a Period of Restriction or (ii) such other ownership interest as such shares of Common Stock that correspond with the vested Restricted Share Units may be converted into by virtue of the Change in Control transaction in accordance with Section 9 above;

(b) payment of cash in an amount equal to the fair market value of the Common Stock that corresponds with the number of vested Restricted Share Units at that time; or

(c) delivery of any combination of shares of Common Stock (or other converted ownership interest) and cash having an aggregate fair market value equal to the fair market value of the Common Stock that corresponds with the number of Restricted Share Units that have become vested at that time.

11. Adjustment in Capitalization . In the event of any change in the Common Stock of the Company, the provisions of Section 10.2 of the Plan shall govern such that the number of Restricted Share Units subject to this Agreement shall be equitably adjusted by the Committee.

12. Tax Withholding . Whenever a Period of Restriction applicable to the Employee's rights to some or all of the Restricted Share Units lapses as provided in Section 4, 5, 6 or 8 of this Agreement, the Company or its agent shall notify the Employee of the related amount of tax that must be withheld under applicable tax laws. Regardless of any action the Company, any Subsidiary of the Company, or the Employee's employer takes with respect to any or all income tax, social security, payroll tax, payment on account or other tax-related withholding ("Tax") that the Employee is required to bear pursuant to all applicable laws, the Employee hereby acknowledges and agrees that the ultimate liability for all Tax is and remains the responsibility of the Employee.

Prior to receipt of any shares that correspond to Restricted Share Units that vest in accordance with this Agreement, the Employee shall pay or make adequate arrangements satisfactory to the Company and/or any Subsidiary of the Company to satisfy all withholding and payment on account obligations of the Company and/or any Subsidiary of the Company. In this regard, the Company shall sell or arrange for the sale of Common Stock that the Employee is due to acquire to satisfy the withholding obligation for Tax and/or withhold any Common Stock. Finally, the Employee agrees to pay the Company or any Subsidiary of the Company any amount of any Tax that the Company or any Subsidiary of the Company may be required to withhold as a result of the Employee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver Common Stock if the Employee fails to comply with its obligations in connection with the tax as described in this section.

The Company advises the Employee to consult his or her legal and/or tax advisors with respect to the tax consequences for the Employee under the Plan.

13. Securities Laws . This award may be accepted only by an individual who is an employee of the Company or a Subsidiary of the Company and who satisfies the eligibility requirements outlined in the Plan and the Committee's administrative procedures. If a Registration Statement under the Securities Act of 1933, as amended, is not in effect with respect to the shares of Common Stock to be issued pursuant to this Agreement, the Employee hereby represents that he or she is acquiring the shares of Common Stock for investment and with no present intention of selling or transferring them and that he or she will not sell or otherwise transfer the shares except in compliance with all applicable securities laws and requirements of any stock exchange on which the shares of Common Stock may then be listed.

14. No Employment or Compensation Rights . Participation in the Plan is subject to all of the terms and conditions of the Plan and this Agreement. This Agreement shall not confer upon the Employee any right to continuation of employment by the Company or its Subsidiaries, nor shall this Agreement interfere in any way with the Company's or its Subsidiaries' right to terminate Employee's employment at any time. Neither the Plan nor this Agreement forms any part of any contract of employment between the Company or any Subsidiary and the Employee, and neither the Plan nor this Agreement confers on the Employee any legal or equitable rights (other than those related to the Restricted Share Unit award) against the Company or any Subsidiary or directly or indirectly gives rise to any cause of action in law or in equity against the Company or any Subsidiary.

15. Plan Terms and Committee Authority . This Agreement and the rights of the Employee hereunder are subject to all of the terms and conditions of the Plan, as it may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. It is expressly understood that the Committee is authorized to administer, construe and make all determinations necessary or appropriate for the administration of the Plan and this Agreement, all of which shall be binding upon Employee, including the enforcement of any recoupment policy. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan. The Employee hereby acknowledges receipt of a copy of the Plan and this Agreement.

16. Non-Competition, Non-Solicitation and Confidentiality . As a condition to the receipt of this Restricted Share Unit award, the Employee must agree to the terms and conditions set forth in the Non-Competition, Non-Solicitation and Confidentiality Agreement attached hereto as Exhibit A by executing that Agreement. Failure to execute and return the Non-Competition, Non-Solicitation and Confidentiality Agreement within 120 days of the Award Date shall constitute a decision by the Employee to decline to accept this Restricted Share Unit award.

17. Amendment or Modification, Waiver . Except as set forth in the Plan, no provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing, signed by the Employee and by a duly authorized officer of the Company. No waiver of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

18. Governing Law and Jurisdiction . This Agreement is governed by the substantive and procedural laws of the state of Illinois. The Employee and the Company shall submit to the exclusive jurisdiction of, and venue in, the courts in Illinois in any dispute relating to this Agreement.

****

Please read the attached Exhibit A. Once you have read the agreement, please click the acceptance box to certify and confirm your agreement to be bound by the terms and conditions set forth in Exhibit A, and to acknowledge your receipt of the Plan and this Award Agreement and your acceptance of the Restricted Share Unit award issued hereunder.

[Missing Graphic Reference]

Very truly yours,

EXHIBIT A

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

This Exhibit forms a part of the Restricted Share Unit Award Agreement covering Restricted Share Units awarded to an employee of Walgre on behalf of itself, its affiliates, subsidiaries, and successors (collectively 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 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 the Restricted Share Unit award issued to Employee pursuant the Award Agreement to which this is attached as Exhibit A, Employee agrees to be bound by the terms of this Agreement:

1. **Confidentiality .** I understand that during the course of my employment with the Company, I have or will have access to the Company's Confidential Information, meaning information which is not generally ascertainable by proper means by the public, or which has limited disclosure within the Company, or which is treated or designated as confidential; the disclosure of which could reasonably be harmful to the Company's legitimate business interests.

I understand that "Confidential Information" includes, but is not limited to, the following:

(a) business or marketing plans, trade secrets, selling and pricing procedures and techniques, customer records,
(b) customer lists, requirements, and information,
(c) databases and software developed or used by the Company, financial information and projections, and other information for which the Company has assumed an obligation of confidentiality.

I agree to only use the Company's Confidential Information as necessary to perform my job during my employment with the Company. I agree not to disclose any Confidential Information to anyone outside the Company without the Company's prior written consent, unless as necessary to perform my job during my employment with the Company. I agree that these obligations apply during my employment with the Company and at all times thereafter.

2. **Non-Competition .** I agree that during my employment with the Company and for one year after the termination of my employment, I will not, directly or indirectly, invest in, own, operate, finance, control, or provide Competing Services to any Competing Business Line, in both cases as defined below. I understand that the restrictions in this paragraph apply no matter whether my employment is terminated by me or the Company and no matter whether that termination is voluntary or involuntary. The above restrictions shall not apply to passive investments of less than 5% ownership interest in any entity. I understand that the term "Competing Business Line" used in this Agreement means any business that is in competition with any business engaged in by the Company with respect to which I provide substantial services during the last two years of my employment with the Company.

I understand that I will be deemed to be providing "Competing Services" if the nature of such services are sufficiently similar in position scope and geographic scope to any position held by me during the last two years of my employment with the Company, such that my engaging in such services on behalf of a Competing Business Line may pose competitive harm to the Company.

4. **Non-Solicitation .** I agree that during my employment with the Company and for two years after the termination of my employment, I will not solicit or service any of the Company's customers or referral sources for a Competing Business Line; solicit or otherwise encourage any Company employees to leave the Company to work for a Competing Business Line; or hire any Company employees on behalf of a Competing Business Line. I understand that the restrictions in this paragraph apply no matter whether my employment is terminated by me or the Company and no matter whether that termination is voluntary or involuntary. I understand that the term "customer" used in this Agreement means any patient or other customer or prospective customer of any Company business unit with respect to which I provide substantial services during the last two years of my employment with the Company.

5. **Non-Inducement .** I will not directly or indirectly assist or encourage any person or entity in carrying out or conducting any activity that would be prohibited by this Agreement if such activity were carried out or conducted by me.

6. **Return of Company Property .** I agree that I will not take any of the Company's property or information with me when I leave the Company's employ, no matter what form that property or information is in and no matter how I acquired it. When my employment with the Company terminates, I will immediately return to the Company any and all Company information, documents, and electronics.

7. **Consideration and Acknowledgments .** Employee acknowledges and agrees that the covenants described in this Agreement are essential terms, and the underlying Restricted Share unit award 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 above.

8. Enforceability; General Provisions .

(a) I agree that the restrictions contained in this Agreement are reasonable and necessary to protect the Company's legitimate business interests and that full compliance with the terms of this Agreement will not prevent me from earning a livelihood following the termination of my employment, and that these covenants do not place undue restraint on me.

(b) Because the Company's current base of operations is in Illinois, I consent to the jurisdiction of the state and federal courts of Illinois with respect to any claim arising out of this Agreement.

(c) Because the Company's current base of operations is in Illinois, I agree that this Agreement shall be governed by the laws of Illinois without regard to its choice of law rules.

(d) In the event of a breach or a threatened breach of this Agreement, I acknowledge that the Company will face irreparable injury which may be difficult to calculate in dollar terms and that the Company shall be entitled, in addition to all remedies otherwise available in law or in equity, to temporary restraining orders and preliminary and final injunctions enjoining such breach or threatened breach in any court of competent jurisdiction without the necessity of posting a surety bond, as well as to obtain an equitable accounting of all profits or benefits arising out of any violation of this Agreement.

(e) I agree that if a court determines that any of the provisions in this Agreement is unenforceable or unreasonable in duration, territory, or scope, then that court shall modify those provisions so they are reasonable and enforceable, and enforce those provisions as modified.

(f) If any phrase or provision of this Agreement is declared invalid or unenforceable by a court of competent jurisdiction, that phrase, clause or provision shall be deemed severed from this Agreement, and will not affect the enforceability of any other provisions of this Agreement, which shall otherwise remain in full force and effect.

(g) 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.

(h) I agree that the Company may assign this Agreement to its successors and that any such successor may stand in the Company's shoes for purposes of enforcing this Agreement.

(i) I agree to reimburse Company for all attorneys' fees, costs, and expenses that it reasonably incurs in connection with enforcing its rights and remedies under this Agreement, but only to the extent the Company is ultimately the prevailing party in the applicable legal proceedings.

(j) If I violate this Agreement, then the restrictions set out in Paragraphs 2 - 5 shall be extended by the same period of time as the period of time during which the violation(s) occurred.

(k) I fully understand my obligations in this Agreement, have had full and complete opportunity to discuss and resolve any ambiguities or uncertainties regarding these covenants before signing this Agreement, and have voluntarily agreed to comply with these covenants for their stated terms.

9. Relationship of Parties . I acknowledge that my relationship with the Company is "terminable at will" by either party and that the Company or I can terminate the relationship with or without cause and without following any specific procedures. Nothing contained in this Agreement is intended to or shall be relied upon to alter the "terminable at will" relationship between the parties.

10. Modifications and Other Agreements . I agree that the terms of this Agreement may not be modified except by a written agreement signed by both me and the Company. This Agreement shall not supersede any other restrictive covenants to which I may be subject under an employment contract, benefit program or otherwise, such that the Company may enforce the terms of any and all restrictive covenants to which I am subject.

11. Notification . I agree that in the event I am offered employment at any time in the future with any entity that may be considered a Competing Business Line, I shall immediately notify such Competing business of the existence and terms of this Agreement. I also understand and agree that the Company may notify anyone later employing me of the existence and provisions of this Agreement.

*** *** *** *** ***

By clicking the acceptance box for this grant agreement, I acknowledge receipt of the Restricted Share Unit Agreement to which this Agreement is attached as Exhibit A, and I agree to the terms and conditions expressed in this Agreement.

<u>Contingent Award for the 2012 Fiscal Year</u>
<u>Company Performance Period = Fiscal Years 2012 - 2014</u>

CONFIDENTIAL

Walgreen Co. has adopted the Long-Term Performance Incentive Plan (the "Plan"), the purpose of which is to afford Walgreen Co. and its subsidiaries (collectively, the "Company") additional means of securing and retaining key employees of outstanding ability. To further this purpose, Walgreen Co. maintains the Performance Share Program (the "Program"). Under the Program for the performance period covering the 2012-2014 fiscal years (the "Performance Period"), Walgreen Co. is awarding **PARTICIPANT NAME** a contingent Performance Share grant of **SHARES GRANTED** shares. This "target" number of shares is computed by multiplying your annual base salary by the target award percentage **%** for your position, and then dividing that by $35.65, which is the average Walgreen Co. closing stock price for the 30 trading days preceding September 1, 2011. This award is subject to all the terms and conditions of the Plan, any applicable recoupment policies, and the Program and to the following conditions:

1. The amount of performance shares earned at the end of the three-year Performance Period will vary depending on the degree to which return on invested capital (ROIC) performance goals are met. Return on invested capital performance goals are based on the three-year average annual ROIC, with inventory based on the FIFO method of accounting.

   At the target ROIC level, 100% of the performance shares will be earned. A threshold ROIC level will earn 50% of the performance shares. Below this level of performance, no performance shares are earned. Achievement of a maximum ROIC level or more will earn 150% of the performance shares. Performance between minimum and target, and between target and maximum, will earn performance shares on a pro-rated basis between 50% and 100%, and 100% and 150%, respectively.

   The amount earned will be calculated according to the following:

Performance Shares Awarded	=	Contingent Performance Shares	X	Percent of Contingent Performance Shares Earned

2. At the end of fiscal year 2014, actual performance for the entire Performance Period shall be reviewed, and the amount of the earned award shall be determined based on this performance and communicated to you.

3. If you terminate employment with the Company and all subsidiaries during the Performance Period due to Retirement, Disability or death (in each case as defined in the Plan), then the award earned by you at the end of the Performance Period will be prorated to reflect the portion of the Performance Period during which you remained employed by the Company. Such prorated portion shall equal the number of performance shares that would otherwise be earned, multiplied by a fraction equal to the number of full months of the Performance Period completed as of your retirement date, divided by 36. Any other termination of employment during the Performance Period shall result in no earned award.

4. Each earned performance share shall be converted to one share of Walgreen Co. common stock ("Common Stock"). Subject to the requirements of Paragraph 5 below, the Company shall transfer to you one share of Common Stock for each earned performance share. At that time, the Company may withhold shares otherwise transferable to you to the extent necessary to satisfy withholding taxes in accordance with Paragraph 5 below and Section 13.1 of the Plan. You shall have no rights as a stockholder with respect to the Common Stock awarded hereunder prior to the date of issuance to you of a certificate or certificates for such shares. Certificates for the shares of Common Stock shall be issued and delivered to you, your legal representative, or a brokerage account for your benefit, as the case may be, or the shares may be held in book entry form. Performance shares payable under this Agreement are intended to be exempt from Internal Revenue Code Section 409A under the exemption for short-term deferrals. Accordingly, performance shares will be settled in Common Stock no later than the 15th day of the third month following the end of the fiscal year of the Company in which the performance shares are realized.

5. Whenever an earned performance share award is realized, the Company or its agent shall notify you of the related amount of tax that must be withheld under applicable tax laws. Regardless of any action the Company takes with respect to any or all income tax, social security, payroll tax, payment on account or other tax-related withholding ("Tax") that you are required to bear pursuant to all applicable laws, such Tax is your responsibility. Prior to receipt of any shares of Common Stock that correspond to earned performance shares, you shall make adequate arrangements satisfactory to the Company to satisfy all tax withholding obligations of the Company. In this regard, the Company shall sell or arrange for the sale of Common Stock that the Employee is due to acquire to satisfy the withholding obligation for Tax and/or withhold a sufficient number of shares of Common Stock. Finally, you agree to pay the Company any amount of any Tax that the Company may be required to withhold as a result of your participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to deliver Common Stock if you fail to comply with your obligations described in this Paragraph.

6. Notwithstanding the remainder of this Award Agreement, if there is a Change in Control of Walgreen Co. (as defined in the Plan) during the Performance Period, then your earned award shall be equal your target number of performance shares, and this award will be settled in cash (subject to required tax withholdings) in accordance with Section 11.1 of the Plan and distributed to you within 45 days of the effective date of the Change in Control.

7. This Award Agreement and your rights hereunder are subject to all of the terms and conditions of the Plan, as it may be amended from time to time, as well as to such rules and regulations as the Compensation Committee of the Board of Directors may adopt for administration of the Plan. It is expressly understood that this Committee is authorized to administer, construe and make all determinations necessary or

appropriate for the administration of the Plan and this Award Agreement, all of which shall be binding upon you. Any inconsistency between this Award Agreement and the Plan shall be resolved in favor of the Plan.

8. This award may be accepted only by an individual who is an employee of the Company and who satisfies the eligibility requirements outlined in the Plan and the Committee's administrative procedures. If a Registration Statement under the Securities Act of 1933, as amended, is not in effect with respect to the shares of Common Stock to be issued pursuant to this Award Agreement, you hereby represent that you are acquiring the shares of Common Stock for investment and with no present intention of selling or transferring them and that you will not sell or otherwise transfer the shares except in compliance with all applicable securities laws and requirements of any stock exchange on which the shares of Common Stock may then be listed.

9. In the event of any change in the Common Stock of the Company, the provisions of Section 10.2 of the Plan shall govern such that the number of performance shares subject to this Award Agreement shall be equitably adjusted by the Compensation Committee of the Board of Directors.

This contingent grant was authorized by the Compensation Committee of the Board of Directors during the October Board Meeting on October 12, 2011.

This Award Agreement contains highly sensitive and confidential information, please handle it accordingly.

Once you have read the agreement, please click the acceptance box to certify and confirm your agreement to be bound by the terms and conditions set forth and to acknowledge your receipt of this Award Agreement and your acceptance of the Performance Share Plan award issued.

ACCEPTANCE DATE:

ELECTRONIC SIGNATURE:

WALGREEN CO.

By Robert J. Montes,
Director, Compensation, Benefits and Employee Services

WALGREEN CO.
EXECUTIVE STOCK OPTION PLAN - STOCK OPTION AGREEMENT

Participant Name:
Participant ID:
Grant Date:
Grant Price:
Shares Granted:
Expiration Date:
Acceptance Date:
Electronic Signature:

This document (referred to below as this “Agreement” or this “Option Agreement”) spells out the terms and conditions of the stock option granted by Walgreen Co. , an Illinois corporation (the “Company”), to the individual employee designated above (the “Employee”) pursuant to the Walgreen Co. Executive Stock Option Plan (the “Plan”) on and as of the Date of Grant designated above. Except as otherwise defined herein, capitalized terms used in this Option Agreement have the respective meanings set forth in the Plan. The Plan, as in effect on the date of this Option Agreement and as it may be amended from time to time, is incorporated in this Option Agreement by reference, and all rights granted by this Option Agreement are subject to the terms and conditions of the Plan.

1. Grant of Stock Option . The Company hereby grants to the Optionee a stock option to purchase all or any part of the Number of Shares set forth above of Common Stock of the Company, par value $.078125 ("Common Stock"), at the Option Price set forth above, which is 100% of the fair market value of such Common Stock on the Date of Grant, in the manner and subject to the terms and conditions of the Plan and this Option Agreement. This stock option is intended to be a "non-qualified stock option" and shall not be treated as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. Vesting/Exercise/Expiration . The Optionee may not exercise the stock option granted prior to the “Vesting Date,” which is the three-year anniversary of the Date of Grant, absent action by the Compensation Committee of the Board of Directors to waive or alter such restrictions. Thereafter, except as hereinafter provided, the Optionee may exercise the stock option granted herein at any time and from time to time until the close of business on the Expiration Date set forth above. The stock option granted herein may be exercised to purchase any number of whole shares of Common Stock, except that no purchase shall be for less than ten (10) full shares, or the remaining unexercised shares, if less. This stock option is deemed to be "outstanding" until it has been exercised in full or expired pursuant to the terms of this Option Agreement.

3. Retirement After 10 (but Less than 25) Years of Service . If, without having fully exercised this stock option, the Optionee leaves the employ of the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary), in good standing, after the employee has attained fifty-five (55) years of age and has completed at least ten (10) but less than twenty-five (25) years of continuous service with the Company and subsidiaries of the Company, then the Optionee's right to exercise this stock option shall terminate upon the earlier of the Expiration Date or a date which is one year following the Optionee’s retirement, subject to the right of the Compensation Committee of the Board of Directors to extend the exercise period of this stock option. The Optionee may exercise this stock option at any time between the Vesting Date and the date the Optionee’s right to exercise this stock option expires.

4. Retirement After 25 Years of Service . If, without having fully exercised this stock option, the Optionee leaves the employ of the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary), in good standing, after the employee has attained fifty-five (55) years of age and has completed at least twenty-five (25) years of continuous service with the Company and subsidiaries of the Company, then the following shall apply:

a. Subject to the last sentence of this Section 4, if such retirement occurs prior to the Vesting Date, then the Optionee may exercise this stock option at any time between the Vesting Date and the later of one year following the date of retirement or 150 days following the Vesting Date, at which time this stock option shall expire, subject to the right of the Compensation Committee of the Board of Directors to extend the exercise period of this stock option.

b. If such retirement occurs on or after the Vesting Date, then the provisions of Section 3 above shall apply.

For purposes of subsection (a) above, if the Optionee’s date of retirement (which is defined per Company practices as his or her “paid-through date”) is less than 12 months following the Date of Grant, then the maximum number of shares that may be exercised pursuant to subsection (a) shall be equal to the total Number of Shares referenced in Section 1 above, multiplied by the number of days between the Date of Grant and the date of retirement, divided by 365; and the remaining shares shall be forfeited.

5. Disability . If, without having fully exercised this stock option, the Optionee's employment with the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) is terminated due to total and permanent disability (as determined by the Compensation Committee of the Board of Directors or its designee), then the Optionee's right to exercise this stock option shall terminate upon the earlier of the Expiration Date or a date which is one year following the date of termination of employment, subject to the right of the Compensation Committee of the Board of Directors to extend the exercise period of this stock option. The Optionee may exercise this stock option at any time between the Vesting Date and the date the Optionee’s right to exercise this stock option expires.

6. Death. If, without having fully exercised this stock option, the Optionee shall die while in the employ of the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary), then this stock option shall be exercisable by the executor or administrator of the Optionee's estate or by such person or persons who shall have acquired the Optionee's rights hereunder by bequest or inheritance or by reason of his or her death, for a period ending on the earlier of the Expiration Date or one year following the date of the Optionee's death, subject to the right of the Compensation Committee of the Board of Directors to extend the exercise period of this stock option. This stock option may be exercised at any time between the Vesting Date and the date the right to exercise this stock option expires.

7. Other Termination of Employment. If, without having fully exercised this stock option, the Optionee's employment with the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) is terminated for reasons other than the Optionee's retirement (as defined in Section 3 or 4 above), death, or total and permanent disability (as defined in Section 5 above), then the Optionee's right to exercise this stock option shall terminate as of the date of his or her termination of employment, subject to the right of the Compensation Committee of the Board of Directors to extend the exercise period of this stock option.

8. Disqualifying Termination. Notwithstanding any other provision of this Option Agreement to the contrary, if without having fully exercised this stock option, the Optionee's employment with the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) is terminated for Cause, then the Optionee's rights to exercise this stock option shall terminate immediately. For purposes of this Option Agreement, "Cause" shall mean: (a) any act or acts of dishonesty committed by the Optionee; or (b) any violation of the policies or procedures of the Company applicable to the Optionee's employment or job category which is either: (i) grossly negligent; or (ii) willful and deliberate. The determination of whether the Optionee's employment has been terminated for Cause shall be within the discretion of the Compensation Committee of the Board of Directors or its designee.

9. Forfeiture of Outstanding Options Following Termination of Employment. Notwithstanding the remainder of this Option Agreement, the Optionee's remaining right, if any, to exercise stock options covered by this Option Agreement shall immediately terminate if and when the Optionee violates any post-employment obligation that he or she may have to the Company, including but not limited to any non-competition, non-solicitation, confidentiality, non-disparagement or other restrictive covenant.

10. Limited Transferability. This stock option is nonassignable and not transferable other than by beneficiary designation, by will or by the laws of descent and distribution. During the lifetime of the Optionee this stock option and all rights granted hereunder shall be exercisable only by the Optionee. Notwithstanding the foregoing, transfers by the Optionee of options shall be recognized and given effect if such options are transferred to a grantor trust established pursuant to Sections 674, 675, 676 and 677 of the Internal Revenue Code of 1986, as amended, for the benefit of the Optionee or a person or persons who are members of the Optionee's immediate family (or for the benefit of their descendants); provided that any such transfer has not been disclaimed prior to the exercise of such options by the trustee of such trust, and the trustee of such trust certifies to the Compensation Committee of the Board of Directors or its designee that such transfer occurred without any payment of consideration for such transfer.

11. Change in Common Stock. In the event of any change in Common Stock by reason of any stock dividend, recapitalization, reorganization, split-up, merger, consolidation, exchange of shares, or of any similar change affecting Common Stock, the number of shares of Common Stock subject to this stock option and the Option Price shall be equitably adjusted by the Compensation Committee of the Board of Directors.

12. Exercise Process. This stock option may be exercised by giving written notice to Walgreen Co., Attention: Finance Department, Corporate Offices, 200 Wilmot Road, MS 2261, Deerfield, Illinois 60015 (or such other address as may be specified by the Company to the Optionee). Alternatively, the Company may designate one or more third parties to administer the stock option exercise process and direct the Optionee accordingly. Such notice (a) shall be signed by the Optionee or (in the event of his or her death) the Optionee's legal representative, (b) shall specify the number of full shares then elected to be purchased, and (c) shall be accompanied by payment in full of the Option Price of the shares to be purchased. Payment may be made in cash or by check payable to the order of the Company, and such payment shall include any tax withholding obligation, as set forth in Section 13 below. Alternatively, the Company may allow for one or more of the following methods of exercising stock options:

a. Payment for shares as to which this stock option is being exercised and/or payment of any federal, state, local or other tax withholding obligations may be made by transfer to the Company of shares of Common Stock already owned by the Optionee, or any combination of such shares and cash, having a fair market value determined at the time of exercise of the stock option equal to, but not exceeding, the Option Price and/or the tax withholding obligation, as the case may be.

b. The Company may also allow for "same day sale" transactions pursuant to which a third party (engaged by the Company or the Optionee) loans funds to the Optionee to enable the Optionee to purchase the shares and pay any tax withholding obligations, and then sells a sufficient number of the exercised shares on behalf of the Optionee to enable the Optionee to repay the loan and any fees. The remaining shares and/or cash are then issued by the third party to the Optionee.

As promptly as practicable after receipt of such notice and payment (including payment with respect to any tax withholding obligations), the Company shall cause to be issued and delivered to the Optionee or in the event of his or her death to the Optionee's legal representative, as the case may be, certificates for the shares of Common Stock so purchased. Alternatively, such shares may be issued and held in book entry form.

13. Tax Withholding. The Company may make such provisions and take such actions as it may deem necessary or appropriate for the withholding of any Federal, state, local and other taxes required by law to be withheld with respect to this stock option, including, but not limited to, deducting the amount of any such withholding taxes from the amount to be paid hereunder, whether in Common Stock or in cash, or from any other amount then or thereafter payable to the Optionee, or requiring the Optionee, his or her beneficiary, or legal representative to pay to the Company the amount required to be withheld or to execute such documents as the Compensation Committee of the Board of Directors or its designee deems necessary or desirable to enable the Company to satisfy its withholding obligations.

14. Rights as Shareholder. The Optionee shall have no rights as a shareholder of the Company with respect to the shares of Company

Common Stock subject to this Option Agreement until such time as the purchase price has been paid and a certificate of stock for such shares has been issued to the Optionee. Except as provided in Section 11 above, no adjustment shall be made for dividends or distributions or other rights with respect to such shares for which the record date is prior to the date on which the Optionee becomes the holder of record thereof. Anything herein to the contrary notwithstanding, if a law or any regulation of the Securities and Exchange Commission or of any other body having jurisdiction shall require the Company or the Optionee to take any action before shares of Common Stock can be delivered to the Optionee hereunder, then the date of delivery of such shares may be delayed accordingly.

15. No Guarantee of Employment. Nothing in this Option Agreement shall interfere with or limit in any way the right of the Company or any of its subsidiaries to terminate any Optionee's employment at any time, nor confer upon any employee any right to continue in the employ of the Company or any of its subsidiaries. No employee shall have a right to be selected as an Optionee.

16. Option Plan/Compensation Committee. This Option Agreement and the rights of the Optionee hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Compensation Committee of the Board of Directors may adopt for administration of the Plan. It is expressly understood that the Compensation Committee is authorized to administer, construe, and make all determinations necessary or appropriate for the administration of the Plan and this Option Agreement, all of which shall be binding upon the Optionee. Any inconsistency between this Option Agreement and the Plan shall be resolved in favor of the Plan.

17. Governing Law. Subject to Section 18 below, the stock option covered by this Option Agreement, this Option Agreement and all determinations made and actions taken pursuant thereto, to the extent otherwise not governed by the Internal Revenue Code of 1986, as amended, or any other laws of the United States, shall be governed by and construed in accordance with the laws of the State of Illinois.

18. Conformity with Applicable Law. If any provision of this Option Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Option Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Option Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

19. Successors. This Option Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall, upon the death of the Optionee, acquire any rights hereunder.

WALGREEN CO.
EXECUTIVE STOCK OPTION PLAN - STOCK OPTION AGREEMENT

Participant Name:
Participant ID:
Grant Date:
Grant Price:
Shares Granted:
Expiration Date:
Acceptance Date:
Electronic Signature:

This document (referred to below as this "Agreement" or this "Option Agreement") spells out the terms and conditions of the stock option granted by Walgreen Co. , an Illinois corporation (the "Company"), to the individual employee designated above (the "Employee") pursuant to the Walgreen Co. Executive Stock Option Plan (the "Plan") on and as of the Date of Grant designated above. Except as otherwise defined herein, capitalized terms used in this Option Agreement have the respective meanings set forth in the Plan. The Plan, as in effect on the date of this Option Agreement and as it may be amended from time to time, is incorporated in this Option Agreement by reference, and all rights granted by this Option Agreement are subject to the terms and conditions of the Plan.

1. Grant of Stock Option . The Company hereby grants to the Optionee a stock option to purchase all or any part of the Number of Shares set forth above of Common Stock of the Company, par value $.078125 ("Common Stock"), at the Option Price set forth above, which is 100% of the fair market value of such Common Stock on the Date of Grant, in the manner and subject to the terms and conditions of the Plan and this Option Agreement. This stock option is intended to be a "non-qualified stock option" and shall not be treated as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. Vesting/Exercise/Expiration . The Optionee may not exercise the stock option granted prior to the "Vesting Date," which is the three-year anniversary of the Date of Grant, absent action by the Compensation Committee of the Board of Directors to waive or alter such restrictions. Thereafter, except as hereinafter provided, the Optionee may exercise the stock option granted herein at any time and from time to time until the close of business on the Expiration Date set forth above. The stock option granted herein may be exercised to purchase any number of whole shares of Common Stock, except that no purchase shall be for less than ten (10) full shares, or the remaining unexercised shares, if less. This stock option is deemed to be "outstanding" until it has been exercised in full or expired pursuant to the terms of this Option Agreement.

3. Retirement . Subject to the last sentence of this Section 3, if, without having fully exercised this stock option, the Optionee retires, or is retired, from the employ of the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) then the Optionee's right to exercise this stock option shall terminate upon the earlier of the Expiration Date or a date which is sixty (60) months following the Optionee's retirement. For purposes of this section, retirement shall be defined as a cessation of employment, in good standing, after the employee has attained fifty-five (55) years of age and has completed at least ten (10) years of continuous service with the Company. The foregoing shall apply regardless of whether such retirement occurs before or after the Vesting Date. For purposes of this Section 3, if the Optionee's date of retirement (which is defined per Company practices as his or her "paid-through date") is less than 12 months following the Date of Grant, then the maximum number of shares that may be exercised pursuant to this Section 3 shall be equal to the total Number of Shares referenced in Section 1 above, multiplied by the number of days between the Date of Grant and the date of retirement, divided by 365; and the remaining shares shall be forfeited.

4. Disability . If, without having fully exercised this stock option, the Optionee's employment with the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) is terminated due to total and permanent disability (as determined by the Compensation Committee of the Board of Directors or its designee), then the Optionee's right to exercise this stock option shall terminate upon the earlier of the Expiration Date or a date which is sixty (60) months following the date of termination of employment. The Optionee may exercise this stock option at any time between the Vesting Date and the date the Optionee's right to exercise this stock option expires.

5. Death . If, without having fully exercised this stock option, the Optionee shall die while in the employ of the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary), then this stock option shall be exercisable by the executor or administrator of the Optionee's estate or by such person or persons who shall have acquired the Optionee's rights hereunder by bequest or inheritance or by reason of his or her death, for a period ending on the earlier of the Expiration Date or sixty (60) months following the date of the Optionee's death. This stock option may be exercised at any time between the Vesting Date and the date the right to exercise this stock option expires.

6. Other Termination of Employment . If, without having fully exercised this stock option, the Optionee's employment with the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) is terminated for reasons other than the Optionee's retirement (as defined in Section 3 above), death, or total and permanent disability (as defined in Section 4 above), then the Optionee's right to exercise this stock option shall terminate as of the date of his or her termination of employment, subject to the right of the Compensation Committee of the Board of Directors to extend the exercise period of this stock option.

7. Disqualifying Termination . Notwithstanding any other provision of this Option Agreement to the contrary, if without having fully exercised this stock option, the Optionee's employment with the Company (or a subsidiary of the Company if the Optionee is then in the employ of such subsidiary) is terminated for Cause, then the Optionee's rights to exercise this stock option shall terminate immediately. For purposes of this Option Agreement, "Cause" shall mean: (a) any act or acts of dishonesty committed by the Optionee; or (b) any violation of the policies or procedures of the Company applicable to the Optionee's employment or job category which is either: (i) grossly negligent; or (ii) willful and deliberate. The determination of whether the Optionee's employment has been terminated for Cause shall be within the discretion of the Compensation Committee of the Board of Directors or its designee.

8. Forfeiture of Outstanding Options Following Termination of Employment. Notwithstanding the remainder of this Option Agreement, the Optionee's remaining right, if any, to exercise stock options covered by this Option Agreement shall immediately terminate if and when the Optionee violates any post-employment obligation that he or she may have to the Company, including but not limited to any non-competition, non-solicitation, confidentiality, non-disparagement or other restrictive covenant.

9. Limited Transferability. This stock option is nonassignable and not transferable other than by beneficiary designation, by will or by the laws of descent and distribution. During the lifetime of the Optionee this stock option and all rights granted hereunder shall be exercisable only by the Optionee. Notwithstanding the foregoing, transfers by the Optionee of options shall be recognized and given effect if such options are transferred to a grantor trust established pursuant to Sections 674, 675, 676 and 677 of the Internal Revenue Code of 1986, as amended, for the benefit of the Optionee or a person or persons who are members of the Optionee's immediate family (or for the benefit of their descendants); provided that any such transfer has not been disclaimed prior to the exercise of such options by the trustee of such trust, and the trustee of such trust certifies to the Compensation Committee of the Board of Directors or its designee that such transfer occurred without any payment of consideration for such transfer.

10. Change in Common Stock. In the event of any change in Common Stock by reason of any stock dividend, recapitalization, reorganization, split-up, merger, consolidation, exchange of shares, or of any similar change affecting Common Stock, the number of shares of Common Stock subject to this stock option and the Option Price shall be equitably adjusted by the Compensation Committee of the Board of Directors.

11. Exercise Process. This stock option may be exercised by giving written notice to Walgreen Co., Attention: Finance Department, Corporate Offices, 200 Wilmot Road, MS 2261, Deerfield, Illinois 60015 (or such other address as may be specified by the Company to the Optionee). Alternatively, the Company may designate one or more third parties to administer the stock option exercise process and direct the Optionee accordingly. Such notice (a) shall be signed by the Optionee or (in the event of his or her death) the Optionee's legal representative, (b) shall specify the number of full shares then elected to be purchased, and (c) shall be accompanied by payment in full of the Option Price of the shares to be purchased. Payment may be made in cash or by check payable to the order of the Company, and such payment shall include any tax withholding obligation, as set forth in Section 12 below. Alternatively, the Company may allow for one or more of the following methods of exercising stock options:

> a. Payment for shares as to which this stock option is being exercised and/or payment of any federal, state, local or other tax withholding obligations may be made by transfer to the Company of shares of Common Stock already owned by the Optionee, or any combination of such shares and cash, having a fair market value determined at the time of exercise of the stock option equal to, but not exceeding, the Option Price and/or the tax withholding obligation, as the case may be.
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> b. The Company may also allow for "same day sale" transactions pursuant to which a third party (engaged by the Company or the Optionee) loans funds to the Optionee to enable the Optionee to purchase the shares and pay any tax withholding obligations, and then sells a sufficient number of the exercised shares on behalf of the Optionee to enable the Optionee to repay the loan and any fees. The remaining shares and/or cash are then issued by the third party to the Optionee.

As promptly as practicable after receipt of such notice and payment (including payment with respect to any tax withholding obligations), the Company shall cause to be issued and delivered to the Optionee or in the event of his or her death to the Optionee's legal representative, as the case may be, certificates for the shares of Common Stock so purchased. Alternatively, such shares may be issued and held in book entry form.

12. Tax Withholding. The Company may make such provisions and take such actions as it may deem necessary or appropriate for the withholding of any Federal, state, local and other taxes required by law to be withheld with respect to this stock option, including, but not limited to, deducting the amount of any such withholding taxes from the amount to be paid hereunder, whether in Common Stock or in cash, or from any other amount then or thereafter payable to the Optionee, or requiring the Optionee, his or her beneficiary, or legal representative to pay to the Company the amount required to be withheld or to execute such documents as the Compensation Committee of the Board of Directors or its designee deems necessary or desirable to enable the Company to satisfy its withholding obligations.

13. Rights as Shareholder. The Optionee shall have no rights as a shareholder of the Company with respect to the shares of Company Common Stock subject to this Option Agreement until such time as the purchase price has been paid and a certificate of stock for such shares has been issued to the Optionee. Except as provided in Section 10 above, no adjustment shall be made for dividends or distributions or other rights with respect to such shares for which the record date is prior to the date on which the Optionee becomes the holder of record thereof. Anything herein to the contrary notwithstanding, if a law or any regulation of the Securities and Exchange Commission or of any other body having jurisdiction shall require the Company or the Optionee to take any action before shares of Common Stock can be delivered to the Optionee hereunder, then the date of delivery of such shares may be delayed accordingly.

14. No Guarantee of Employment. Nothing in this Option Agreement shall interfere with or limit in any way the right of the Company or any of its subsidiaries to terminate any Optionee's employment at any time, nor confer upon any employee any right to continue in the employ of the Company or any of its subsidiaries. No employee shall have a right to be selected as an Optionee.

15. Option Plan/Compensation Committee. This Option Agreement and the rights of the Optionee hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Compensation Committee of the Board of Directors may adopt for administration of the Plan. It is expressly understood that the Compensation Committee is authorized to administer, construe, and make all determinations necessary or appropriate for the administration of the Plan and this Option Agreement, all of which shall be binding upon the Optionee. Any inconsistency between this Option Agreement and the Plan shall be resolved in favor of the Plan.

16. Governing Law. Subject to Section 17 below, the stock option covered by this Option Agreement, this Option Agreement and all determinations made and actions taken pursuant thereto, to the extent otherwise not governed by the Internal Revenue Code of 1986, as amended, or

any other laws of the United States, shall be governed by and construed in accordance with the laws of the State of Illinois.

17. Conformity with Applicable Law. If any provision of this Option Agreement is determined to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision of this Option Agreement or the validity, legality or enforceability of such provision in any other jurisdiction, but this Option Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

18. Successors. This Option Agreement shall be binding upon and inure to the benefit of any successor or successors of the Company and any person or persons who shall, upon the death of the Optionee, acquire any rights hereunder.

August 9, 2011

Mr. Thomas Sabatino
640 N. Mayflower Road
Lake Forest, IL 60045

Dear Tom:

Welcome to Walgreens! We are pleased to offer you the position of Executive Vice President, General Counsel and Corporate Secretary, reporting to Greg Wasson, President and Chief Executive Officer. We are confident that you will find your employment with Walgreens both challenging and rewarding and we look forward to you joining our team. The remaining details are set forth below:

Base Salary. $700,000 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. You will be eligible for a pro-rated bonus for the remainder of the current 2012 fiscal year. The current bonus target for your position is 75% of your base salary.

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 290% 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 70% 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 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 100% 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 your date of hire to cover the remainder of the 2012 fiscal year, and then you are eligible to receive full awards for future fiscal years.

COBRA Reimbursement. Walgreens also agrees to subsidize your costs for COBRA continuation coverage with your prior employer during the 90-day waiting period for Waglreens medical coverage. Walgreens will reimburse you the difference between you COBRA premium and the regular employee premium under the Walgreens Medical Plan.

Other Employee Benefits. See the attached Overview of Benefits, briefly describing the Walgreens employee benefits that are applicable. This includes four weeks of vacation annually (pro-rated for the partial year in which you are hired).

Additional Hiring Incentives.
Sign-On Bonus: You will receive a onetime sign-on bonus of $100,000 (less applicable tax withholdings) to be processed after you commence your employment with Walgreens. As a condition to the receipt of this bonus, you will be required to execute a Sign-On Bonus Program Agreement (copy enclosed), which spells out this repayment term and all other terms and conditions.

Restricted Stock Units: You will receive a grant of 2800 Walgreen Co. restricted stock units as of your date of hire. These shares will vest on the first anniversary of your date of hire. As a condition to receiving this grant, you will be required to sign a Non-Competition, Non-Solicitation, and Confidentiality Agreement.

Non-Compete . As a condition to this offer of employment, you will be required to sign a Non-Competition, Non-Solicitation and Confidentiality Agreement when you begin employment with Walgreens. This is a standard agreement for executives, and a copy of this Agreement can be provided in advance upon request.

Change in Control Employment Agreement. As a 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. A copy of this document can be provided in advance if you would like. 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 . After acceptance of this offer, and subject to final approval by the Board of Directors on 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.

Your start date as Executive Vice President, General Counsel and Corporate Secretary will be September 12, 2011. On that date there will be an orientation session in our Talent Acquisition and Diversity Services Department located at 102 Wilmot Road, Deerfield, IL 60015. We ask that you bring proof of identity and eligibility for employment; a list of acceptable documents is enclosed.

Our offer of employment will remain open for seven days from the date of this letter, and is contingent upon your passing a pre-employment drug screen, per our Drug Free Work Place Policy, and background check. It is our policy that the pre-employment drug screen test be completed within 48 hours of receiving this offer packet. You can find your nearest drug testing location by calling 1-800-877-7484. Enclosed are the "forensic Drug Testing Custody and Control Form" and the "Walgreens Drug Test Consent/Release Form". Please complete and return the consent/release form. Please bring the Forensic Drug Testing Custody and Control Form with you to the drug test facility along with a valid photo I.D. accepted by the state.

If you would like to accept this offer of employment, please sign your name on the line below, fill in the date, and return the signed letter to me in the enclosed envelope. The duplicate of this letter is for your records.

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.

If you have any questions, please call me at 847-315-3332.

Sincerely,

Greg Wasson
President and Chief Executive Officer
Walgreen Co.

Enclosures

cc: Megan Feeney
Kathleen Wilson-Thompson

I accept the offer of employment and understand that the offer is not intended to be a guarantee of continued employment.

Signature: / s/ Thomas J. Sabatino, Jr. Date: 8/12/11

Walgreens Corporate Recruitment Employee Sign-On Bonus Program

Tom Sabatino ("Employee") hereby accepts a sign-on bonus from WALGREEN CO. ("WALGREENS") in the amount of One Hundred Thousand Dollars ($100,000). On demand, for value received, Employee promises to pay WALGREENS, at 200 Wilmot Rd, Deerfield, Illinois 60015, the sum of One Hundred Thousand Dollars ($100,000), subject to the terms of bonus described below.

TERMS OF BONUS

1) If Employee remains employed by WALGREENS or subsidiary for a period of twelve months from his date of hire, then Employee will have no obligation to repay the bonus.

2) If for any reason other than permanent disability, death, or termination of employment without cause, Employee does not remain employed by WALGREENS continuously for twelve months, the entire amount of the bonus is due and payable within 30 days upon Employee's separation from WALGREENS and WALGREENS may then deduct any sum owed to WALGREENS from any salary or other wages which would otherwise be payable to Employee. Employee waives presentment for payment, notice of dishonor, protest, and notice of protest.

3) Employee agrees and understands that Employee's employment with WALGREENS is for no definite period and may be terminated at any time, with or without cause, and without any previous notice, at the option of either WALGREENS or Employee.

4) Employee understands the terms of the bonus and has had an opportunity to consult with counsel or other adviser, and Employee agrees to abide by the terms.

8/12/11		/s/ Thomas J. Sabatino, Jr.
Date	Signature of Employee, Tom Sabatino	
8/12/11		/s/ Gregory D. Wasson
Date	Signature of Manager, Greg Wasson	

Walgreen Co. and Subsidiaries
Computation of Ratio of Earnings to Fixed Charges

	Fiscal Year Ended				
	8/31/2011	**8/31/2010**	**8/31/2009**	**8/31/2008**	**8/31/2007**
Income before income taxes	$ 4,294	$ 3,373	$ 3,164	$ 3,430	$ 3,189
Add:					
Fixed charges	1,212	1,100	996	842	735
Amortization of capitalized interest	5	4	3	2	2
Less: Capitalized interest	(10)	(12)	(16)	(19)	(6)
Earnings as defined	$ 5,501	$ 4,465	$ 4,147	$ 4,254	$ 3,920
Interest expense, net of capitalized interest	$ 77	$ 90	$ 91	$ 18	$ 1
Capitalized interest	10	12	16	19	6
Portions of rentals representative of the interest factor	1,125	998	889	805	728
Fixed charges as defined	$ 1,212	$ 1,100	$ 996	$ 843	$ 735
Ratio of earnings to fixed charges	4.54	4.06	4.16	5.05	5.33

WALGREEN CO. AND SUBSIDIARIES
ANNUAL REPORT
FOR THE YEAR ENDED AUGUST, 31, 2011

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Five-Year Summary of Selected Consolidated Financial Data

Walgreen Co. and Subsidiaries

(Dollars in Millions, except per share and location amounts)

Fiscal Year	2011	2010(1)	2009	2008	2007
Net sales	$ 72,184	$ 67,420	$ 63,335	$ 59,034	$ 53,762
Cost of sales (2)	51,692	48,444	45,722	42,391	38,518
Gross Profit	20,492	18,976	17,613	16,643	15,244
Selling, general and administrative expenses (2) (3)	16,561	15,518	14,366	13,202	12,093
Gain on sale of business (4)	434	-	-	-	-
Operating Income	4,365	3,458	3,247	3,441	3,151
Other (expense) income	(71)	(85)	(83)	(11)	38
Earnings Before Income Tax Provision	4,294	3,373	3,164	3,430	3,189
Income tax provision (5)	1,580	1,282	1,158	1,273	1,148
Net Earnings	$ 2,714	$ 2,091	$ 2,006	$ 2,157	$ 2,041
Per Common Share					
Net earnings					
Basic	$ 2.97	$ 2.13	$ 2.03	$ 2.18	$ 2.04
Diluted	2.94	2.12	2.02	2.17	2.03
Dividends declared	.75	.59	.48	.40	.33
Book value	16.69	15.34	14.54	13.01	11.20
Non-Current Liabilities					
Long-term debt	$ 2,396	$ 2,389	$ 2,336	$ 1,337	$ 22
Deferred income taxes	343	318	265	150	158
Other non-current liabilities	1,785	1,735	1,396	1,410	1,285
Assets and Equity					
Total Assets	$ 27,454	$ 26,275	$ 25,142	$ 22,410	$ 19,314
Shareholders' Equity	14,847	14,400	14,376	12,869	11,104
Return on average shareholders' equity	18.6%	14.5%	14.7%	18.0%	19.2%
Locations					
Year-end (6)	8,210	8,046	7,496	6,934	5,997

(1) Includes results of Duane Reade operations since the April 9, 2010 acquisition date.

(2) Fiscal 2011, 2010 and 2009 included Rewiring for Growth restructuring and restructuring-related charges of $45 million pre-tax, $28 million after tax, or $.03 per diluted share, $106 million pre-tax, $67 million after tax, or $.07 per diluted share, and $252 million pre-tax, $160 million after tax, or $.16 per diluted share, respectively. Charges included in cost of sales for fiscal 2011, 2010 and 2009 were $3 million, $40 million and $95 million, respectively. Selling, general and administrative expenses related to the initiative for fiscal 2011, 2010 and 2009 were $42 million, $66 million and $157 million, respectively. Fiscal 2011, 2010 and 2009 included expenses related to Customer Centric Retailing store conversions of $84 million, $45 million and $5 million, respectively, all of which were included in selling, general and administrative expenses.

(3) Fiscal 2008 included a positive adjustment of $79 million pre-tax, $50 million after tax, or $.05 per diluted share, relating to an adjustment of the Company's vacation liability.

(4) In fiscal 2011, the Company sold its pharmacy benefit management business, Walgreens Health Initiatives, Inc., to Catalyst Health Solutions, Inc. and recorded a pre-tax gain of $434 million, $273 million after tax, or $.30 per diluted share.

(5) Fiscal 2010 included a deferred tax charge of $43 million related to the repeal of a tax benefit for the Medicare Part D subsidy for retiree benefits.

(6) Locations include drugstores, worksite health and wellness centers, infusion and respiratory services facilities, specialty pharmacies and mail service facilities.

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

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. 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.

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 and fresh foods, personal care, beauty care, photofinishing and candy. Customers can have prescriptions filled in retail pharmacies as well as through the mail, and customers may also place orders by telephone and online. At August 31, 2011, we operated 8,210 locations in 50 states, the District of Columbia, Guam and Puerto Rico. Total locations do not include 357 Take Care Clinics that are operated primarily within other Walgreens locations.

	Number of Locations		
Location Type	**2011**	**2010**	**2009**
Drugstores	7,761	7,562	6,997
Worksite Health and Wellness Centers	355	367	377
Infusion and Respiratory Services Facilities	83	101	105
Specialty Pharmacies	9	14	15
Mail Service Facilities	2	2	2
Total	8,210	8,046	7,496

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 contract renewal negotiations with pharmacy benefit manager Express Scripts, Inc. (Express Scripts) had been unsuccessful, and as a result the Company was planning not to be part of the Express Scripts pharmacy provider network as of January 1, 2012. Since then, there has been no substantive progress in the contract renewal negotiations with Express Scripts. 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. Express Scripts, in its capacity as a pharmacy benefits manager, processed approximately 88 million prescriptions filled by Walgreens in fiscal 2011, representing approximately $5.3 billion of our 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. While the Company cannot predict what percentage of business it may retain or regain from entities and groups that were Express Scripts' clients in fiscal 2011 in any particular future period, over time, we believe employers and others will want plans with Walgreens in the network. With respect to fiscal 2012, the Company has plans in place designed to offset approximately 50 percent of any reduction in gross profit resulting from a loss of up to 75 percent of the business from Express Scripts' clients, primarily through reductions in cost of goods sold and selling, general and administrative expenses. There can be no assurance, however, that for the portion of fiscal 2012 beginning January 1, 2012, the Company will retain any particular level of business from Express Scripts' clients, and if the Company were to lose more than 75 percent of such business it is uncertain whether the Company would be able to offset as much as 50 percent of the reduction in gross profit resulting from the marginal loss of such business above 75 percent. See "Cautionary Note Regarding Forward-Looking Statements." In July 2011, Medco Health Solutions, Inc., another large pharmacy benefit manager, and Express Scripts announced an agreement to merge, completion of which is subject to regulatory and other conditions. If the merger is successfully completed, the Company may face additional reimbursement pressure or potential loss of business.

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

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 completed these initiatives in the fourth quarter of fiscal 2011.

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

	Twelve Months Ended August 31,		
	2011	2010	2009
Severance and other benefits	$ 5	$ 16	$ 74
Project cancellation settlements	-	-	7
Inventory charges	-	19	63
Restructuring expense	5	35	144
Consulting	37	50	76
Restructuring and restructuring-related costs	$ 42	$ 85	$ 220
Cost of sales	$ -	$ 19	$ 63
Selling, general and administrative expenses	42	66	157
	$ 42	$ 85	$ 220

Severance and other benefits included the charges associated with employees who were separated from the Company. In the current fiscal year, 72 employees have been separated from the Company. Since inception, a total of 962 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 years ended August 31, 2011, 2010 and 2009 was $3 million, $21 million and $32 million, respectively.

We incurred pre-tax costs of $45 million ($42 million of restructuring and restructuring-related expenses, and $3 million of gross profit dilution) in fiscal 2011. In fiscal 2010 and 2009, we incurred pre-tax costs of $106 million ($85 million of restructuring and restructuring-related costs and $21 million of gross profit dilution) and $252 million ($220 million of restructuring and restructuring-related expenses and $32 million of gross profit dilution), respectively. Since inception, we have incurred $403 million ($347 million of restructuring and restructuring-related expenses, and $56 million of gross profit dilution).

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

	Severance and Other Benefits
August 31, 2009 Reserve Balance	$ 4
Charges	19
Cash Payments	(23)
August 31, 2010 Reserve Balance	$ -
Charges	5
Cash Payments	(5)
August 31, 2011 Reserve Balance	$ -

In fiscal 2011, we realized incremental savings related to the Rewiring for Growth program of approximately $354 million compared to $471 million in fiscal 2010. Selling, general and administrative expenses realized incremental savings in 2011 and 2010 of $312 million and $391 million, while cost of sales benefited by $42 million and $80 million, respectively. We have realized total savings related to Rewiring for Growth of approximately $1.1 billion compared to our base year of 2008. Selling, general and administrative expenses realized total savings of $953 million, while cost of sales benefited by approximately $122 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 approximately 5,500 existing stores. At August 31, 2011, in total, we have converted 5,078 stores and opened 509 new stores with the CCR format. We expect to convert the remaining existing stores in the first quarter of fiscal 2012 and continue to open new stores with the new CCR format throughout fiscal 2012. 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 fiscal year ended August 31, 2011, we incurred $144 million in total program costs, of which $84 million was included in selling, general and administrative expenses and $60 million in capital costs. In fiscal 2010, we incurred $71 million in total program costs, of which $45 million was included in selling, general and administrative expenses and $26 million in capital costs. The Company incurred $5 million in program costs, all of which was included in selling, general and administrative expenses, in fiscal 2009.

Operating Statistics

	Percentage Increases/ (Decreases)		
Fiscal Year	**2011**	**2010**	**2009**
Net Sales	7.1	6.4	7.3
Net Earnings	29.8	4.2	(7.0)
Comparable Drugstore Sales	3.3	1.6	2.0
Prescription Sales	6.3	6.3	7.8
Comparable Drugstore Prescription Sales	3.3	2.3	3.5
Front-End Sales	8.5	6.8	6.3
Comparable Drugstore Front-End Sales	3.3	0.5	(0.5)
Gross Profit	8.0	7.7	5.8
Selling, General and Administrative Expenses	6.7	8.0	8.8

	Percent to Net Sales		
Fiscal Year	**2011**	**2010**	**2009**
Gross Margin	28.4	28.1	27.8
Selling, General and Administrative Expenses	23.0	23.0	22.7

	Other Statistics		
Fiscal Year	**2011**	**2010**	**2009**
Prescription Sales as a % of Net Sales	64.7	65.2	65.3
Third Party Sales as a % of Total Prescription Sales	95.6	95.3	95.4
Total Number of Prescriptions (in millions)	718	695	651
30-Day Equivalent Prescriptions (in millions) *	819	778	723
Total Number of Locations	8,210	8,046	7,496

* 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

Fiscal year 2011 net earnings increased 29.8% to $2.7 billion, or $2.94 per diluted share, versus last year's earnings of $2.1 billion, or $2.12 per diluted share. The net earnings increase was primarily attributable to higher gross margins, the gain on the sale of our pharmacy benefit management business and a lower effective tax rate. During the fourth quarter of fiscal 2011, we sold our pharmacy benefit management business and recorded a pre-tax gain of $434 million, $273 million after tax, or $.30 per diluted share. Additionally, in fiscal 2011, we recorded pre-tax Rewiring for Growth expenses of $45 million, $28 million after tax, or $.03 per diluted share compared to pre-tax expenses of $106 million, $67 million after tax, or $.07 per diluted share last year. Duane Reade, including costs associated with the acquisition, recorded a pre-tax loss of $11 million, $7 million after tax, or $.01 per diluted share in fiscal 2011. In fiscal 2010, Duane Reade recorded a pre-tax loss of $88 million, $56 million after tax, or $.06 per diluted share, including costs associated with the acquisition. Drugstore.com, inc., which was acquired in the fourth quarter of fiscal 2011, reported a pre-tax loss of $29 million, $18 million after tax, or $.02 per diluted share, primarily due to costs related to the acquisition. In addition to the Rewiring for Growth expenses and Duane Reade loss on operations described above, fiscal 2010 earnings included a charge of $43 million, or $.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 increased by 7.1% to $72.2 billion in fiscal 2011 compared to increases of 6.4% in 2010 and 7.3% in 2009. The acquisition of Duane Reade increased total sales by 1.7% in the current fiscal year compared to an increase of 1.1% last year. Drugstore sales increases resulted from sales gains in existing stores and additional sales from new stores, each of which include an indeterminate amount of market-driven price changes. Sales in comparable drugstores were up 3.3% in 2011, 1.6% in 2010 and 2.0% in 2009. 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 8,210 locations (7,761 drugstores) at August 31, 2011, compared to 8,046 locations (7,562 drugstores) at August 31, 2010, and 7,496 (6,997 drugstores) at August 31, 2009.

Prescription sales increased 6.3% in 2011, 6.3% in 2010 and 7.8% in 2009. The acquisition of Duane Reade increased prescription sales by 1.2% in the current fiscal year versus an increase of 0.8% last year. Comparable drugstore prescription sales were up 3.3% in 2011 compared to increases of 2.3% in 2010 and 3.5% in 2009. Prescription sales as a percent of total net sales were 64.7% in 2011, 65.2% in 2010 and 65.3% in 2009. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.4% for 2011, 2.2% for 2010 and 3.0% for 2009, while the effect on total sales was 1.4% for 2011, 1.3% for 2010 and 1.9% for 2009. Third party sales, where reimbursement is received from managed care organizations, the government, employers or private insurers, were 95.6% of prescription sales in 2011, 95.3% in 2010 and 95.4% in 2009. We receive market-driven reimbursements from third party payers, a number of which typically reset in January. The total number of prescriptions filled (including immunizations) was approximately 718 million in 2011, 695 million in 2010 and 651 million in 2009. Prescriptions adjusted to 30-day equivalents were 819 million in 2011, 778 million in 2010 and 723 million in 2009.

Front-end sales increased 8.5% in 2011, 6.8% in 2010 and 6.3% in 2009. The acquisition of Duane Reade increased front-end sales by 2.8% in the current year versus an increase of 1.9% last year. Additionally, the increase over the prior year is due, in part, to new store openings and improved sales related to non-prescription drugs, convenience and fresh foods and personal care products. Front-end sales were 35.3% of total sales in fiscal 2011, 34.8% of total sales in fiscal 2010 and 34.7% in fiscal 2009. Comparable drugstore front-end sales increased 3.3% in 2011 compared to an increase of 0.5% and decrease of 0.5% in fiscal years 2010 and 2009, respectively. The increase in fiscal 2011 comparable front-end sales was primarily due to non-prescription drugs, beer and wine and convenience and fresh foods, which were partially offset by decreased sales in household products.

Gross margin as a percent of sales increased to 28.4% in 2011 from 28.1% in 2010. Overall margins were positively impacted by higher front-end margins in the non-prescription drug, beauty, personal care and convenience and fresh food categories. Retail pharmacy margins were also higher as the positive effect of generic drug sales more than offset market driven reimbursements and the first quarter write-down of flu shot inventory. These positive effects were partially offset by a higher provision for LIFO. Gross margin as a percent of sales was 28.1% in 2010 as compared to 27.8% in 2009. Overall margins were positively impacted by higher front-end margins due to pricing, promotion and other improved efficiencies and lower Rewiring for Growth costs. Retail pharmacy margins benefited from the positive impact of generic drug introductions but were partially offset by market-driven reimbursement rates.

We use the last-in, first-out (LIFO) method of inventory valuation. The LIFO provision is dependent upon inventory levels, inflation rates and merchandise mix. The effective LIFO inflation rates were 2.39% in 2011, 1.70% in 2010, and 2.00% in 2009, which resulted in charges to cost of sales of $208 million in 2011, $140 million in 2010 and $172 million in 2009. Inflation on prescription inventory was 4.64% in 2011, 4.72% in 2010 and 2.40% in 2009. In fiscal years 2010 and 2009, we experienced deflation in some non-prescription inventories. The anticipated LIFO inflation rate for fiscal 2012 is 2.00%.

Selling, general and administrative expenses were 23.0% of sales in fiscal 2011 and 2010, and 22.7% in fiscal 2009. In the current fiscal year, increased corporate costs and Duane Reade operational expenses were offset by lower Rewiring for Growth costs and incremental savings from our Rewiring for Growth activities, primarily from expense reduction initiatives and reduced store payroll, as a percentage of sales. The increase in fiscal 2010 as compared to fiscal 2009 was attributed to higher occupancy expense, Duane Reade operational expenses and costs associated with the Duane Reade acquisition. These expenses were partially offset by lower Rewiring for Growth costs and advertising expense. Also positively impacting fiscal 2010 selling, general and administrative expenses was incremental savings from our Rewiring for Growth activities, primarily from expense reduction initiatives and reduced store payroll.

Interest was a net expense of $71 million in fiscal 2011, $85 million in fiscal 2010 and $83 million in fiscal 2009. Interest expense for fiscal 2011, 2010 and 2009 is net of $10 million, $12 million and $16 million, respectively, that was capitalized to construction projects. The decrease in net interest expense from fiscal 2010 to fiscal 2011 is primarily attributed to reduced interest rates associated with our fixed to variable interest rate swaps.

The effective income tax rate was 36.8% for fiscal 2011, 38.0% for 2010, and 36.6% for 2009. Fiscal 2010 included 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 fiscal 2010 was 36.7%. We anticipate an effective tax rate of approximately 37.3% in fiscal 2012.

Critical Accounting Policies

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

Goodwill and other intangible asset impairment – Goodwill and other indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As part of our impairment analysis for each reporting unit, we 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 compared the sum of the estimated fair values of the reporting units to the Company's total value as implied by the market value of the Company's equity and debt securities. This comparison indicated that, in total, our assumptions and estimates were reasonable. However, future declines in the overall market value of the Company’s equity and debt securities may indicate that the fair value of one or more reporting units has declined below its carrying value.

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit “passed” (fair value exceeds the carrying amount) or “failed” (the carrying amount exceeds fair value) the first step of the goodwill impairment test. Our reporting units' fair values exceeded their carrying amounts by 5% to more than 300%. The fair values for two reporting units each exceeded their carrying amounts by 10% or less. Goodwill allocated to these reporting units was $173 million at May 31, 2011. For each of these reporting units, relatively small changes in the Company’s key assumptions may have resulted in the recognition of significant goodwill impairment charges. Our Long Term Care Pharmacy’s goodwill was impaired by $16 million in fiscal 2010 as a result of the asset sale agreement with Omnicare, Inc., which was signed on August 31, 2010.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1% change in estimated future cash flows would decrease the estimated fair value of the reporting unit by approximately 1%. The estimated long-term rate of net sales growth can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. For the two reporting units whose fair values exceeded carrying values by 10% or less, a 1% decrease in the long-term net sales growth rate would have resulted in the reporting units failing the first step of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. A 1% increase in estimated discount rates for the two reporting units whose fair value exceeded carrying value by 10% or less would also have resulted in the reporting units failing step one. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates.

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.

Asset impairments – The impairment of long-lived assets is assessed based upon both qualitative and quantitative factors, including years of operation and expected future cash flows, and tested for impairment annually or whenever events or circumstances indicate that a certain asset may be impaired. If the future cash flows reveal that the carrying value of the asset group may not be recoverable, an impairment charge is immediately recorded. We have not made any material changes to the method of estimating our 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 asset impairments.

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 $1.6 billion at August 31, 2011, compared to $1.9 billion at August 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 money market funds, 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 was $3.6 billion at August 31, 2011, compared to $3.7 billion a year ago. The decrease from the prior year is primarily attributable to higher working capital. For the year, working capital was a cash flow use of $155 million as compared to the prior year where working capital improvements generated a cash flow of $306 million. Partially offsetting the cash flow decrease in working capital were higher earnings, which positively contributed to cash from operations. 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 $1.5 billion versus $1.3 billion last year. Additions to property and equipment were $1.2 billion compared to $1.0 billion last year. In fiscal 2011, we added a total of 297 locations (164 net) compared to last year's 670 locations (550 net), which included the acquisition of 258 Duane Reade locations. There were 62 owned locations added during the year and 44 under construction at August 31, 2011, versus 95 owned locations added and 65 under construction as of August 31, 2010.

	Drugstores	Worksites	Infusion and Respiratory Services	Specialty Pharmacy	Mail Service	Total
August 31, 2009	6,997	377	105	15	2	7,496
New/Relocated	359	24	4	1	-	388
Acquired	281	-	1	-	-	282
Closed/Replaced	(75)	(34)	(9)	(2)	-	(120)
August 31, 2010	7,562	367	101	14	2	8,046
New/Relocated	237	21	1	2	-	261
Acquired	32	-	4	-	-	36
Closed/Replaced	(70)	(33)	(23)	(7)	-	(133)
August 31, 2011	7,761	355	83	9	2	8,210

Business acquisitions this year were $630 million versus $779 million in fiscal 2010. Business acquisitions in the current year included the purchase of drugstore.com, inc., for $398 million net of assumed cash, $29 million of infusion and respiratory services assets and selected other assets (primarily prescription files). Business acquisitions in 2010 included the purchase of all 258 Duane Reade stores located in the New York City metropolitan area, as well as the corporate office and two distribution centers for $560 million net of assumed cash; and selected other assets (primarily prescription files). In the current year, we sold our pharmacy benefit management business, Walgreens Health Initiatives, Inc. (WHI) and recorded net cash proceeds of $442 million. Additionally, in the current year we established a restricted cash account of $191 million to support certain insurance obligations. In fiscal year 2010, our insurance obligations were supported by letters of credit which were released in the current fiscal year upon establishing the restricted cash account.

Capital expenditures for fiscal 2012 are currently expected to be approximately $1.6 billion, excluding business acquisitions and prescription file purchases, although the actual amount may vary depending upon a variety of factors, including, among other things, the timing of implementation of certain capital projects. We expect new drugstore organic growth of between 2.5% and 3.0% in fiscal 2012. During the current fiscal year, we added a total of 297 locations, of which 269 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 $2.4 billion compared to the prior year's net cash use of $2.7 billion. We repurchased shares totaling $2.0 billion in the current year, $1.8 billion in conjunction with our share buyback programs and $244 million to support the needs of the employee stock plans. In the prior year, we repurchased shares totaling $1.8 billion, $1.6 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 $235 million compared to $233 million last year. Cash dividends paid were $647 million versus $541 million 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 $2.0 billion of the Company's common stock. For the fiscal years ended August 31, 2011 and 2010, shares totaling $360 million and $1.6 billion were purchased in conjunction with the 2009 repurchase program, respectively. On October 13, 2010, our Board of Directors authorized the 2011 repurchase program, which was completed in July 2011, which allowed for the repurchase of up to $1.0 billion of the Company's common stock. On July 13, 2011, our Board of Directors authorized the 2012 repurchase program, which allows for the repurchase of up to $2.0 billion of the Company's common stock prior to its expiration on December 31, 2015. Shares totaling $424 million were purchased in fiscal 2011 related to the 2012 program. We determine the timing and amount of repurchases 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 and from time to 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 August 31, 2011. In connection with our commercial paper program, we maintain two unsecured backup syndicated lines of credit that total $1.1 billion. The first $500 million facility expires on July 20, 2015, and allows for the issuance of up to $250 million in letters of credit, which reduce the amount available for borrowing. The second $600 million facility expires on August 13, 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 August 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 August 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.

On October 25, 2011, our credit ratings were:

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

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

Contractual Obligations and Commitments

The following table lists our contractual obligations and commitments at August 31, 2011 (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating leases (1)	$ 36,205	$ 2,381	$ 4,715	$ 4,492	$ 24,617
Purchase obligations (2):					
Open inventory purchase orders	1,736	1,736	-	-	-
Real estate development	240	155	77	8	-
Other corporate obligations	494	244	142	88	20
Long-term debt*(3)	2,353	8	1,305	9	1,031
Interest payment on long-term debt	523	116	168	105	134
Insurance*	570	226	166	76	102
Retiree health*	407	11	26	32	338
Closed location obligations*	145	33	38	23	51
Capital lease obligations*(1)	113	5	10	7	91
Other long-term liabilities reflected on the balance sheet* (4)	889	64	172	151	502
Total	$ 43,675	$ 4,979	$ 6,819	$ 4,991	$ 26,886

*Recorded on balance sheet.

(1) Amounts for operating leases and capital leases do not include certain operating expenses under these leases such as common area maintenance, insurance and real estate taxes. These expenses were $404 million for the fiscal year ended August 31, 2011.
(2) 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 Balance Sheet includes a $57 million fair market value adjustment and $6 million of unamortized discount.
(4) Includes $101 million ($40 million in 1-3 years, $45 million in 3-5 years and $16 million over 5 years) of unrecognized tax benefits recorded under Accounting Standards Codification (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):

	August 31, 2011
Inventory obligations	$ 143
Insurance	40
Real estate development	13
Total	$ 196

In addition to issued letters of credit, we held $191 million of restricted cash to support certain insurance obligations at August 31, 2011. In fiscal year 2010, our insurance obligations were supported by letters of credit, some of which were subsequently released in the current fiscal year upon establishing a restricted cash account.

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. On the basis of feedback received from comment letters, roundtables, and outreach sessions, the FASB has made significant changes to the proposals in the exposure draft and therefore has decided to re-expose the revised exposure draft in the first quarter of 2012. 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.

On June 16, 2011, the FASB issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income in either (1) a single continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that are required to be reported in other comprehensive income. The ASU is effective for interim and annual periods beginning after December 15, 2011, and will be applied retrospectively. The Company is still evaluating which of the two alternatives it will apply in reporting comprehensive income. Neither alternative will have a material impact on the Company’s results of operations or financial position.

On September 15, 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other, which simplifies 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 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 ASU includes a number of factors to consider in conducting the qualitative assessment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the Company’s reported results of operations or financial position.

Cautionary Note Regarding Forward-Looking Statements

This report and other documents that we file or furnish 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,” “can,” “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 changes in vendor, payer and customer relationships and terms, competition, changes in economic and business conditions generally or in the markets we serve, risks associated with new business initiatives and activities, the failure to obtain new contracts or extensions of existing contracts, 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 or interpretations thereof, and those described in Item 1A “Risk Factors” in our Form 10-K 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 do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date the statement is made, whether as a result of new information, future events, changes in assumptions or otherwise.

Consolidated Statements of Earnings

Walgreen Co. and Subsidiaries
For the years ended August 31, 2011, 2010, and 2009
(In millions, except per share amounts)

	2011	2010	2009
Net sales	$ 72,184	$ 67,420	$ 63,335
Cost of sales	51,692	48,444	45,722
Gross Profit	20,492	18,976	17,613
Selling, general and administrative expenses	16,561	15,518	14,366
Gain on sale of business	434	-	-
Operating Income	4,365	3,458	3,247
Interest expense, net	(71)	(85)	(83)
Earnings Before Income Tax Provision	4,294	3,373	3,164
Income tax provision	1,580	1,282	1,158
Net Earnings	$ 2,714	$ 2,091	$ 2,006
Net earnings per common share - basic	$ 2.97	$ 2.13	$ 2.03
Net earnings per common share - diluted	2.94	2.12	2.02
Average shares outstanding	915.1	981.7	990.0
Dilutive effect of stock options	9.4	6.2	1.3
Average diluted shares	924.5	987.9	991.3

The accompanying Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Statements of Shareholders' Equity

Walgreen Co. and Subsidiaries
For the years ended August 31, 2011, 2010, and 2009
(In millions, except shares and per share amounts)

Shareholders' Equity	Common Stock Shares	Common Stock Amount	Paid-In Capital	Employee Stock Loan Receivable	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Treasury Stock Amount
Balance, August 31, 2008	989,176,218	$ 80	$ 575	$ (36)	$ 13,792	$ 9	$ (1,551)
Net earnings	-	-	-	-	2,006	-	-
Dividends declared ($.4750 per share)	-	-	-	-	(471)	-	-
Treasury stock purchases	(10,270,000)	-	-	-	-	-	(279)
Employee stock purchase and option plans	9,655,172	-	(48)	-	-	-	297
Stock-based compensation	-	-	78	-	-	-	-
Employee stock loan receivable	-	-	-	(104)	-	-	-
Additional minimum postretirement liability, net of $29 tax expense	-	-	-	-	-	28	-
Balance, August 31, 2009	988,561,390	80	605	(140)	15,327	37	(1,533)
Net earnings	-	-	-	-	2,091	-	-
Dividends declared ($.5875 per share)	-	-	-	-	(570)	-	-
Treasury stock purchases	(55,716,733)	-	-	-	-	-	(1,756)
Employee stock purchase and option plans	5,760,396	-	(5)	-	-	-	188
Stock-based compensation	-	-	84	-	-	-	-
Employee stock loan receivable	-	-	-	53	-	-	-
Additional minimum postretirement liability, net of $34 tax benefit	-	-	-	-	-	(61)	-
Balance, August 31, 2010	938,605,053	80	684	(87)	16,848	(24)	(3,101)
Net earnings	-	-	-	-	2,714	-	-
Dividends declared ($.7500 per share)	-	-	-	-	(685)	-	-
Treasury stock purchases	(54,739,474)	-	-	-	-	-	(2,028)
Employee stock purchase and option plans	5,428,551	-	(12)	-	-	-	203
Other	-	-	27	-	-	-	-
Stock-based compensation			135	-	-	-	-
Employee stock loan receivable	-	-	-	53	-	-	-
Additional minimum postretirement liability, net of $22 tax expense	-	-	-	-	-	40	-
Balance, August 31, 2011	889,294,130	$ 80	$ 834	$ (34)	$ 18,877	$ 16	$ (4,926)

The accompanying Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Balance Sheets
Walgreen Co. and Subsidiaries
At August 31, 2011 and 2010
(In millions, except shares and per share amounts)

Assets	**2011**	**2010**
Current Assets		
Cash and cash equivalents	$ 1,556	$ 1,880
Accounts receivable, net	2,497	2,450
Inventories	8,044	7,378
Other current assets	225	214
Total Current Assets	12,322	11,922
Non-Current Assets		
Property and equipment, at cost, less accumulated depreciation and amortization	11,526	11,184
Goodwill	2,017	1,887
Other non-current assets	1,589	1,282
Total Non-Current Assets	15,132	14,353
Total Assets	$ 27,454	$ 26,275
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	$ 13	$ 12
Trade accounts payable	4,810	4,585
Accrued expenses and other liabilities	3,075	2,763
Income taxes	185	73
Total Current Liabilities	8,083	7,433
Non-Current Liabilities		
Long-term debt	2,396	2,389
Deferred income taxes	343	318
Other non-current liabilities	1,785	1,735
Total Non-Current Liabilities	4,524	4,442
Commitments and Contingencies (see Note 10)		
Shareholders' Equity		
Preferred stock, $.0625 par value; authorized 32 million shares; none issued	-	-
Common stock, $.078125 par value; authorized 3.2 billion shares; issued 1,025,400,000 shares in 2011 and 2010	80	80
Paid-in capital	834	684
Employee stock loan receivable	(34)	(87)
Retained earnings	18,877	16,848
Accumulated other comprehensive income (loss)	16	(24)
Treasury stock at cost, 136,105,870 shares in 2011 and 86,794,947 shares in 2010	(4,926)	(3,101)
Total Shareholders' Equity	14,847	14,400
Total Liabilities and Shareholders' Equity	$ 27,454	$ 26,275

The accompanying Notes to Consolidated Financial Statements are integral parts of these statements.

Consolidated Statements of Cash Flows
Walgreen Co. and Subsidiaries
For the years ended August 31, 2011, 2010 and 2009
(In millions)

	2011	2010	2009
Cash Flows from Operating Activities			
Net earnings	$ 2,714	$ 2,091	$ 2,006
Adjustments to reconcile net earnings to net cash provided by operating activities –			
Depreciation and amortization	1,086	1,030	975
Gain on sale of business	(434)	-	-
Deferred income taxes	132	63	260
Stock compensation expense	135	84	84
Other	53	60	13
Changes in operating assets and liabilities -			
Accounts receivable, net	(243)	124	6
Inventories	(592)	(307)	533
Other assets	(24)	50	7
Trade accounts payable	384	167	11
Accrued expenses and other liabilities	218	262	66
Income taxes	102	10	105
Other non-current liabilities	112	110	45
Net cash provided by operating activities	3,643	3,744	4,111
Cash Flows from Investing Activities			
Purchases of short-term investments – held to maturity	-	(3,000)	(2,600)
Proceeds from short-term investments – held to maturity	-	3,500	2,100
Investment in restricted cash	(191)	-	-
Additions to property and equipment	(1,213)	(1,014)	(1,927)
Proceeds from sale of assets	79	51	51
Business and intangible asset acquisitions, net of cash received	(630)	(779)	(405)
Proceeds from sale of business	442	-	-
Other	(12)	(32)	5
Net cash used for investing activities	(1,525)	(1,274)	(2,776)
Cash Flows from Financing Activities			
Net payment from short-term borrowings	-	-	(70)
Net proceeds from issuance of long-term debt	-	-	987
Payments of long-term debt	(17)	(576)	-
Stock purchases	(2,028)	(1,756)	(279)
Proceeds related to employee stock plans	235	233	138
Cash dividends paid	(647)	(541)	(446)
Other	15	(37)	(21)
Net cash (used for) provided by financing activities	(2,442)	(2,677)	309
Changes in Cash and Cash Equivalents			
Net (decrease) increase in cash and cash equivalents	(324)	(207)	1,644
Cash and cash equivalents at beginning of year	1,880	2,087	443
Cash and cash equivalents at end of year	$ 1,556	$ 1,880	$ 2,087

The accompanying Notes to Consolidated Financial Statements are integral parts of these statements.

Notes to Consolidated Financial Statements

(1) Summary of Major Accounting Policies

Description of Business
The Company is principally in the retail drugstore business and its operations are within one reportable segment. At August 31, 2011, there were 8,210 drugstore and other locations in 50 states, the District of Columbia, Guam and Puerto Rico. Prescription sales were 64.7% of total sales for fiscal 2011 compared to 65.2% in 2010 and 65.3% in 2009.

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated. The consolidated 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.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and all highly liquid investments with an original maturity of three months or less. Credit and debit card receivables from banks, which generally settle within two business days, of $83 million and $80 million were included in cash and cash equivalents at August 31, 2011 and 2010, respectively. At August 31, 2011 and 2010, the Company had $1,239 million and $1,030 million, respectively, in money market funds, all of which was included in cash and cash equivalents. The Company did not invest in U.S. Treasury Bills at August 31, 2011, compared to $600 million at August 31, 2010, which was included in cash and cash equivalents.

The Company's cash management policy provides for controlled disbursement. As a result, the Company had outstanding checks in excess of funds on deposit at certain banks. These amounts, which were $229 million at August 31, 2011, and $235 million at August 31, 2010, are included in trade accounts payable in the accompanying Consolidated Balance Sheets.

The Company holds restricted cash to support certain insurance obligations. Restricted cash at August 31, 2011, was $191 million and is recorded within other non-current assets within the Consolidated Balance Sheets. In fiscal year 2010, insurance obligations were supported by issued letters of credit, some of which were subsequently released in the current fiscal year upon establishing a restricted cash account.

Financial Instruments
The Company had $143 million and $185 million of outstanding letters of credit at August 31, 2011 and 2010, respectively, which guarantee the purchase of foreign goods, and additional outstanding letters of credit of $40 million and $233 million at August 31, 2011 and 2010, respectively, which guarantee payments of insurance claims. The insurance claim letters of credit are annually renewable and will remain in place until the insurance claims are paid in full. In the current fiscal year, the Company began using restricted cash to secure some of its insurance claims. Letters of credit of $13 million and $19 million were outstanding at August 31, 2011, and August 31, 2010, respectively, to guarantee performance of construction contracts. The Company pays a facility fee to the financing bank to keep these letters of credit active. The Company had real estate development purchase commitments of $240 million and $370 million at August 31, 2011 and 2010, respectively.

The Company uses interest rate swaps to manage its interest rate exposure associated with some of its fixed rate borrowings. At August 31, 2011, $1,550 million of fixed rate debt was converted to variable rate. These swaps are accounted for according to ASC Topic 815, Derivatives and Hedging. The swaps are measured at fair value in accordance with ASC Topic 820, Fair Value Measurement and Disclosures. See Notes 8 and 9 for additional disclosure regarding financial instruments.

Inventories
Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 2011 and 2010, inventories would have been greater by $1,587 million and $1,379 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Inventory includes product costs, inbound freight, warehousing costs and vendor allowances not classified as a reduction of advertising expense.

Cost of Sales
Cost of sales is derived based upon point-of-sale scanning information with an estimate for shrinkage and is adjusted based on periodic inventories. In addition to product costs, cost of sales includes warehousing costs, purchasing costs, freight costs, cash discounts and vendor allowances.

Selling, General and Administrative Expenses
Selling, general and administrative expenses mainly consist of store salaries, occupancy costs, and expenses directly related to stores. Other administrative costs include headquarters’ expenses, advertising costs (net of advertising revenue) and insurance.

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 costs incurred, with the excess treated as a reduction of inventory costs.

Property and Equipment
Depreciation is provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated useful life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 10 to 39 years for land improvements, buildings and building improvements; and 3 to 12 1/2 years for equipment. Major repairs, which extend the useful life of an asset, are capitalized; routine maintenance and repairs are charged against earnings. The majority of the business uses the composite method of depreciation for equipment. Therefore, gains and losses on retirement or other disposition of such assets are included

in earnings only when an operating location is closed, completely remodeled or impaired. Fully depreciated property and equipment are removed from the cost and related accumulated depreciation and amortization accounts. Property and equipment consists of (in millions):

	2011	2010
Land and land improvements		
Owned locations	$ 3,209	$ 3,135
Distribution centers	96	103
Other locations	240	233
Buildings and building improvements		
Owned locations	3,651	3,442
Leased locations (leasehold improvements only)	1,235	1,099
Distribution centers	596	592
Other locations	372	343
Equipment		
Locations	4,468	4,126
Distribution centers	1,098	1,106
Other locations	423	410
Capitalized system development costs	328	333
Capital lease properties	118	97
	15,834	15,019
Less: accumulated depreciation and amortization	4,308	3,835
	$ 11,526	$ 11,184

Depreciation expense for property and equipment was $809 million in fiscal 2011, $804 million in fiscal 2010 and $787 million in fiscal 2009.

The Company capitalizes application stage development costs for significant internally developed software projects, such as upgrades to the store point of sale system. These costs are amortized over a five-year period. Amortization was $58 million in fiscal 2011, $44 million in fiscal 2010 and $40 million in fiscal 2009. Unamortized costs at August 31, 2011 and 2010, were $230 million and $244 million, respectively.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed. The Company accounts for goodwill and intangibles under ASC Topic 350, Intangibles – Goodwill and Other, which does not permit amortization, but requires the Company to test goodwill and other indefinite-lived assets for impairment annually or whenever events or circumstances indicate impairment may exist.

Revenue Recognition

The Company recognizes revenue at the time the customer takes possession of the merchandise. Customer returns are immaterial. Sales taxes are not included in revenue.

The services the Company provided to its pharmacy benefit management (PBM) clients included: plan set-up, claims adjudication with network pharmacies, formulary management, and reimbursement services. Through its PBM, the Company acted as an agent in administering pharmacy reimbursement contracts and did not assume credit risk. Therefore, revenue was recognized as only the differential between the amount receivable from the client and the amount owed to the network pharmacy. The Company acted as an agent to its clients with respect to administrative fees for claims adjudication. Those service fees were recognized as revenue.

Gift Cards

The Company sells Walgreens gift cards to retail store customers and through its website. The Company does not charge administrative fees on unused gift cards and most gift cards do not have an expiration date. Income from gift cards is recognized when (1) the gift card is redeemed by the customer; or (2) the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage") and there is no legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. The Company’s gift card breakage rate is determined based upon historical redemption patterns. Gift card breakage income, which is included in selling, general and administrative expenses, was not significant in fiscal 2011, 2010 or 2009.

Impaired Assets and Liabilities for Store Closings

The Company tests long-lived assets for impairment whenever events or circumstances indicate that a certain asset may be impaired. Store locations that have been open at least five years are reviewed for impairment indicators at least annually. Once identified, the amount of the impairment is computed by comparing the carrying value of the assets to the fair value, which is based on the discounted estimated future cash flows. Impairment charges included in selling, general and administrative expenses were $44 million in fiscal 2011, $17 million in fiscal 2010 and $10 million in fiscal 2009.

The Company also provides for future costs related to closed locations. The liability is based on the present value of future rent obligations and other related costs (net of estimated sublease rent) to the first lease option date. The reserve for store closings was $145 million, $151 million and $99 million in fiscal 2011, 2010 and 2009, respectively. See Note 3 for additional disclosure regarding the Company’s reserve for future costs related to closed locations.

Insurance

The Company obtains insurance coverage for catastrophic exposures as well as those risks required by law to be insured. It is the Company's policy to retain a significant portion of certain losses related to workers' compensation, property, comprehensive general, pharmacist and vehicle liability. Liabilities for these losses are recorded based upon the Company's estimates for claims incurred and are not discounted. The provisions are estimated in part by considering historical claims experience, demographic factors and other actuarial assumptions.

Pre-Opening Expenses
Non-capital expenditures incurred prior to the opening of a new or remodeled store are expensed as incurred.

Advertising Costs
Advertising costs, which are reduced by the portion funded by vendors, are expensed as incurred. Net advertising expenses, which are included in selling, general and administrative expenses, were $271 million in fiscal 2011, $271 million in fiscal 2010 and $334 million in fiscal 2009. Included in net advertising expenses were vendor advertising allowances of $218 million in fiscal 2011, $197 million in fiscal 2010 and $174 million in fiscal 2009.

Stock-Based Compensation Plans
In accordance with ASC Topic 718, Compensation – Stock Compensation, the Company recognizes compensation expense on a straight-line basis over the employee's vesting period or to the employee's retirement eligible date, if earlier.

Total stock-based compensation expense for fiscal 2011, 2010 and 2009 was $135 million, $84 million and $84 million, respectively. The recognized tax benefit was $49 million, $29 million and $29 million for fiscal 2011, 2010 and 2009, respectively.

Unrecognized compensation cost related to non-vested awards at August 31, 2011, was $122 million. This cost is expected to be recognized over a weighted average of three years.

Income Taxes
The Company accounts for income taxes according to the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based upon the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured pursuant to tax laws using rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not to be realized.

In determining the Company’s provision for income taxes, an annual effective income tax rate based on full-year income, permanent differences between book and tax income, and statutory income tax rates is used. The effective income tax rate also reflects the Company’s 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.

The Company is 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 the Company’s 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 its various tax filing positions, the Company records 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 the liability for unrecognized tax benefits in the period in which the Company determines 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. The Company’s liability for unrecognized tax benefits, including accrued penalties and interest, is included in other long-term liabilities on the Consolidated Balance Sheets and in income tax expense in the Consolidated Statements of Earnings.

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. Outstanding options to purchase common shares were excluded from the earnings per share calculations because they were anti-dilutive. At August 31, 2011 and 2010, these options were 16,869,061 and 30,661,551, respectively.

Interest Expense
The Company capitalized $10 million, $12 million and $16 million of interest expense as part of significant construction projects during fiscal 2011, 2010 and 2009, respectively. Interest paid, which is net of capitalized interest, was $89 million in fiscal years 2011, 2010 and 2009.

Accumulated Other Comprehensive Income (Loss)
The Company follows ASC Topic 715, Compensation – Retirement Benefits, for treatment of its postretirement medical liability. The amount included in accumulated other comprehensive income related to the Company's postretirement plan was a gain of $4 million ($16 million after tax) at August 31, 2011, compared to a loss of $57 million ($24 million after tax) at August 31, 2010. The minimum postretirement liability totaled $407 million and $441 million at August 31, 2011 and 2010, respectively.

New 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. On the basis of feedback received from comment letters, roundtables, and outreach sessions, the FASB has made significant changes to the proposals in the exposure draft and therefore has decided to re-expose the revised exposure draft in the first quarter of 2012. 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.

On June 16, 2011, the FASB issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income in either (1) a single continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that are required to be reported in other comprehensive income. The ASU is effective for interim and annual periods beginning after December 15, 2011, and will be applied retrospectively. The Company is still evaluating which of the two alternatives it will apply in reporting comprehensive income. Neither alternative will have a material impact on the Company's results of operations or financial position.

On September 15, 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other, which simplifies 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 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 ASU includes a number of factors to consider in conducting the qualitative assessment. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the Company's reported results of operations or financial position.

(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. These initiatives were completed in the fourth quarter of fiscal 2011.

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

	Twelve Months Ended August 31,		
	2011	**2010**	**2009**
Severance and other benefits	$ 5	$ 16	$ 74
Project cancellation settlements	-	-	7
Inventory charges	-	19	63
Restructuring expense	5	35	144
Consulting	37	50	76
Restructuring and restructuring-related costs	$ 42	$ 85	$ 220
Cost of sales	$ -	$ 19	$ 63
Selling, general and administrative expenses	42	66	157
	$ 42	$ 85	$ 220

Severance and other benefits included the charges associated with employees who were separated from the Company. In the current fiscal year, 72 employees have been separated from the Company. Since inception, a total of 962 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 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
August 31, 2009 Reserve Balance	$ 4
Charges	19
Cash Payments	(23)
August 31, 2010 Reserve Balance	$ -
Charges	5
Cash Payments	(5)
August 31, 2011 Reserve Balance	$ -

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 approximately 5,500 existing stores. At August 31, 2011, in total, we have converted 5,078 stores and opened 509 new stores with the CCR format. We expect to convert the remaining existing stores in the first quarter of fiscal 2012 and continue to open new stores with the new CCR format throughout fiscal 2012. 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 fiscal year ended August 31, 2011, we incurred $144 million in total program costs, of which $84 million was included in selling, general and administrative expenses and $60 million in capital costs. In fiscal 2010, we incurred $71 million in total program costs, of which $45 million was included in selling, general and administrative expenses and $26 million in capital costs. The Company incurred $5 million in program costs, all of which was included in selling, general and administrative expenses, in fiscal 2009.

(3) Leases

The Company owns 21% of its operating locations; the remaining locations are leased premises. Initial terms are typically 20 to 25 years, followed by additional terms containing cancellation options at five-year intervals, and may include rent escalation clauses. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property. Additionally, the Company recognizes rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, most leases provide for contingent rentals based upon a portion of sales.

Minimum rental commitments at August 31, 2011, under all leases having an initial or remaining non-cancelable term of more than one year are shown below (in millions):

	Capital Lease	Operating Lease
2012	$ 9	$ 2,381
2013	11	2,379
2014	11	2,336
2015	10	2,277
2016	10	2,215
Later	168	24,617
Total minimum lease payments	$ 219	$ 36,205

The capital lease amount includes $106 million of executory costs and imputed interest. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $18 million on leases due in the future under non-cancelable subleases.

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. In fiscal 2011, 2010 and 2009, the Company recorded charges of $54 million, $90 million and $67 million, respectively, for facilities that were closed or relocated under long-term leases. These charges are reported in selling, general and administrative expenses on the Consolidated Statements of Earnings.

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

	Twelve Months Ended August 31	
	2011	2010
Balance – beginning of period	$ 151	$ 99
Provision for present value of non-cancellable lease payments of closed facilities	49	77
Assumptions about future sublease income, terminations and changes in interest rates	(19)	(9)
Interest accretion	24	22
Cash payments, net of sublease income	(60)	(45)
Reserve acquired through acquisition	-	7
Balance – end of period	$ 145	$ 151

The Company remains secondarily liable on 27 assigned leases. The maximum potential undiscounted future payments are $30 million at August 31, 2011. Lease option dates vary, with some extending to 2041.

Rental expense was as follows (in millions):

	2011	2010	2009
Minimum rentals	$ 2,506	$ 2,218	$ 1,973
Contingent rentals	9	9	11
Less: Sublease rental income	(15)	(9)	(9)
	$ 2,500	$ 2,218	$ 1,975

(4) Acquisitions and Divestitures

In June 2011, the Company completed its acquisition of drugstore.com, inc. (drugstore.com) for cash proceeds of $398 million including the assumption of $17 million of debt. Based on preliminary purchase accounting, the acquisition added $132 million to goodwill and $122 million related to other intangible assets. 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.

The aggregate purchase price of all business and intangible asset acquisitions excluding drugstore.com was $232 million in fiscal 2011. These acquisitions added $26 million to goodwill and $193 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 Statements of Earnings from their respective acquisition dates forward and were not material. 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.

In June 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, $40 million of which was withheld in escrow. Net cash proceeds related to the transaction were $442 million. The Company recorded a pre-tax gain in the fourth fiscal quarter of $434 million on the transaction.

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	$	560

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.

In fiscal 2011 and 2010, the Company incurred $32 million and $71 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 included in the Consolidated Statements of Earnin **g** s since the date of acquisition are as follows (in millions, except per share amounts):

	Twelve Months Ended August,	
	2011	**2010**
Net sales	$ 1,868	$ 732
Net loss	(7)	(56)
Net earnings per common share:		
Basic	(0.01)	(0.06)
Diluted	(0.01)	(0.06)

(5) Goodwill and Other Intangible Assets

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 the Company's impairment analysis for each reporting unit, the Company engaged a third party appraisal firm to assist in the determination of estimated fair value for each unit. This determination included estimating the fair value using both the income and market approaches. The income approach requires management to estimate a number of factors for each reporting unit, including projected future operating results, economic projections, anticipated future cash flows and discount rates. The market approach estimates fair value using comparable marketplace fair value data from within a comparable industry grouping.

The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company 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 the Company competes; 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 the Company believes its 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. The Company also compared the sum of the estimated fair values of its reporting units to the total value as implied by the market value of its equity and debt securities. This comparison indicated that, in total, its assumptions and estimates were reasonable. However, future declines in the overall market value of the Company's equity and debt securities may indicate that the fair value of one or more reporting units has declined below its carrying value.

One measure of the sensitivity of the amount of goodwill impairment charges to key assumptions is the amount by which each reporting unit "passed" (fair value exceeds the carrying amount) or "failed" (the carrying amount exceeds fair value) the first step of the goodwill impairment test. The Company's reporting units' fair values exceeded their carrying amounts by 5% to more than 300%. The fair values for two reporting units each exceeded their carrying amounts by 10% or less. Goodwill allocated to these reporting units was $173 million at May 31, 2011. For each of these reporting units, relatively small changes in the Company's key assumptions may have resulted in the recognition of significant goodwill impairment charges. The Company's Long Term Care Pharmacy's goodwill was impaired by $16 million in fiscal 2010 as a result of the asset sale agreement with Omnicare, Inc., which was signed on August 31, 2010.

Generally, changes in estimates of expected future cash flows would have a similar effect on the estimated fair value of the reporting unit. That is, a 1% change in estimated future cash flows would decrease the estimated fair value of the reporting unit by approximately 1%. The estimated long-term rate of net sales growth can have a significant impact on the estimated future cash flows, and therefore, the fair value of each reporting unit. For the two reporting units whose fair values exceeded carrying values by 10% or less, a 1% decrease in the long-term net sales growth rate would have resulted in the reporting units failing the first step of the goodwill impairment test. Of the other key assumptions that impact the estimated fair values, most reporting units have the greatest sensitivity to changes in the estimated discount rate. A 1% increase in estimated discount rates for the two reporting units whose fair value exceeded carrying value by 10% or less would also have resulted in the reporting units failing step one. The Company believes that its estimates of future cash flows and discount rates are reasonable, but future changes in the underlying assumptions could differ due to the inherent uncertainty in making such estimates.

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

	2011	2010
Net book value – September 1		
Goodwill	$ 1,915	$ 1,473
Accumulated impairment losses	(28)	(12)
Total	1,887	1,461
Acquisitions	158	442
Impairment charges	-	(16)
Other	(28)	-
Net book value – August 31	$ 2,017	$ 1,887

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

	2011	2010
Gross Intangible Assets		
Purchased prescription files	$ 913	$ 749
Favorable lease interests	385	377
Purchasing and payer contracts	308	280
Non-compete agreements	95	69
Trade name	71	44
Other amortizable intangible assets	4	34
Total gross intangible assets	1,776	1,553
Accumulated amortization		
Purchased prescription files	(338)	(293)
Favorable lease interests	(76)	(38)
Purchasing and payer contracts	(94)	(68)
Non-compete agreements	(43)	(33)
Trade name	(11)	(3)
Other amortizable intangibles	(2)	(4)
Total accumulated amortization	(564)	(439)
Total intangible assets, net	$ 1,212	$ 1,114

Amortization expense for intangible assets was $219 million in fiscal 2011, $182 million in fiscal 2010 and $148 million in fiscal 2009. The weighted-average amortization period for purchased prescription files was seven years for fiscal 2011 and six years for fiscal 2010. The weighted-average amortization period for favorable lease interests was 11 years for fiscal 2011 and 2010. The weighted-average amortization period for purchasing and payer contracts was 13 years for fiscal 2011 and 2010. The weighted-average amortization period for non-compete agreements was five years for fiscal 2011 and 2010. The weighted-average amortization period for trade names was nine years for fiscal 2011 and five years for fiscal 2010. Trade names include $6 million of indefinite life assets. The weighted-average amortization period for other intangible assets was 10 years for fiscal 2011 and 2010.

Expected amortization expense for intangible assets recorded at August 31, 2011, is as follows (in millions):

2012	2013	2014	2015	2016
$ 218	$ 192	$ 160	$ 128	$ 90

(6) Income Taxes

The provision for income taxes consists of the following (in millions):

	2011	2010	2009
Current provision -			
Federal	$ 1,301	$ 1,129	$ 807
State	147	90	91
	1,448	1,219	898
Deferred provision -			
Federal	113	62	243
State	19	1	17
	132	63	260
Income tax provision	$ 1,580	$ 1,282	$ 1,158

The difference between the statutory federal income tax rate and the effective tax rate is as follows:

	2011	2010	2009
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.6	2.2	2.2
Medicare Part D Subsidy	-	1.3	-
Other	(0.8)	(0.5)	(0.6)
Effective income tax rate	36.8%	38.0%	36.6%

The deferred tax assets and liabilities included in the Consolidated Balance Sheets consist of the following (in millions):

	2011	2010
Deferred tax assets -		
Postretirement benefits	$ 214	$ 179
Compensation and benefits	165	228
Insurance	226	190
Accrued rent	112	176
Tax benefits	327	138
Stock compensation	179	133
Inventory	143	59
Other	78	123
Subtotal	1,444	1,226
Less: Valuation allowance	91	-
Total deferred tax assets	1,353	1,226
Deferred tax liabilities -		
Accelerated depreciation	1,176	1,050
Inventory	476	356
Intangible assets	49	117
Other	31	45
Subtotal	1,732	1,568
Net deferred tax liabilities	$ 379	$ 342

At August 31, 2011, the Company has recorded deferred tax assets of $287 million reflecting the benefit of $452 million in federal and $940 million in state loss carryforwards. These deferred tax assets will expire at various dates from 2012 through 2031.

The Company believes it is more likely than not that the benefit from certain net operating loss carryforwards will not be realized. In recognition of this risk, the Company has recorded a valuation allowance of $91 million on certain deferred tax assets relating to these net operating losses.

Income taxes paid were $1,320 million, $1,195 million and $768 million during the fiscal years ended August 31, 2011, 2010 and 2009, respectively.

ASC Topic 740 Income Taxes, provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. All unrecognized benefits at August 31, 2011, and August 31, 2010, were classified as long-term liabilities on the Consolidated Balance Sheets.

The following table provides a reconciliation of the total amounts of unrecognized tax benefits for fiscal 2011 (in millions):

	2011	2010	2009
Balance at beginning of year	$ 93	$ 128	$ 64
Gross increases related to tax positions in a prior period	25	12	38
Gross decreases related to tax positions in a prior period	(68)	(57)	(5)
Gross increases related to tax positions in the current period	54	37	38
Settlements with taxing authorities	(8)	(21)	(1)
Lapse of statute of limitations	(2)	(6)	(6)
Balance at end of year	$ 94	$ 93	$ 128

At August 31, 2011, 2010 and 2009, $81 million, $57 million and $43 million, respectively, of unrecognized tax benefits would favorably impact the effective tax rate if recognized.

The Company recognizes interest and penalties in the income tax provision in its Consolidated Statements of Earnings. At August 31, 2011, and August 31, 2010, the Company had accrued interest and penalties of $24 million and $20 million, respectively.

The Company files a consolidated U.S. federal income tax return, as well as income tax returns in various states. It is no longer subject to U.S. federal income tax examinations for years before fiscal 2008, except for one issue related to fiscal 2006 and 2007 currently in appeals. With few exceptions, it is no longer subject to state and local income tax examinations by tax authorities for years before fiscal 2006. The Company anticipates that the Internal Revenue Service will complete its audit of fiscal years 2008 and 2009 in fiscal 2012.

It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain unrecognized tax positions will increase or decrease during the next 12 months; however, the Company does not expect the change to have a material effect on its results of operations or its financial position.

(7) Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt consists of the following at August 31 (in millions):

	2011	2010
Short-Term Borrowings -		
Current maturities of loans assumed through the purchase of land and buildings; various interest rates from 5.00% to 8.75%; various maturities from 2012 to 2035	$ 8	$ 7
Other	5	5
Total short-term borrowings	$ 13	$ 12
Long-Term Debt -		
4.875% unsecured notes due 2013 net of unamortized discount and interest rate swap fair market value adjustment (see Note 8)	$ 1,339	$ 1,348
5.250% unsecured notes due 2019 net of unamortized discount and interest rate swap fair market value adjustment (see Note 8)	1,011	995
Loans assumed through the purchase of land and buildings; various interest rates from 5.00% to 8.75%; various maturities from 2012 to 2035	54	53
	2,404	2,396
Less current maturities	(8)	(7)
Total long-term debt	$ 2,396	$ 2,389

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 $1.1 billion. The first $500 million facility expires on July 20, 2015, 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 13, 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 August 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 August 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.

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 August 31, 2011 and 2010, was $1,403 million and $1,446 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, 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 August 31, 2011 and 2010, was $1,173 million and $1,167 million, respectively. Fair value for these notes was determined based upon quoted market prices.

(8) Financial Instruments

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 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 interest expense on the Consolidated Statement of Earnings.

In January 2010, the Company terminated its existing one-month future LIBOR swaps that converted $1,300 million of its 4.875% fixed rate debt to floating. Upon termination, the Company received payment from its counterparty that consisted of accrued interest and an amount representing the fair value of the swaps. The related fair value benefit attributed to the Company’s debt continues to amortize over the life of the debt, which matures on August 1, 2013. The Company then entered into six-month LIBOR in arrears swaps with two counterparties.

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 at August 31, 2011 and 2010, were as follows (in millions):

	2011	2010
Derivatives designated as hedges:		
Interest rate swaps	$ 1,550	$ 1,300

The changes in fair value of the notes attributable to the hedged risk are included in long-term debt on the Consolidated Balance Sheets (see Note 7) and amortized through maturity. At August 31, 2011 and 2010, the Company had net unamortized fair value changes of $57 million and $51 million, respectively.

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

	Location in Consolidated Balance Sheet	2011	2010
Asset derivatives designated as hedges:			
Interest rate swaps	Other non-current assets	$ 63	$ 44

Gains and losses relating to the ineffectiveness of the Company’s derivative instruments are recorded in interest expense on the Consolidated Statement of Earnings. The Company recorded a $1 million gain in both fiscal years 2011 and 2010.

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

	August 31, 2011	Level 1	Level 2	Level 3
Assets:				
Money market funds	$ 1,239	$ 1,239	$ -	$ -
Interest rate swaps	63	-	63	-

	August 31, 2010	Level 1	Level 2	Level 3
Assets:				

Money market funds	$ 1,030	$ 1,030	$ -	$ -
Interest rate swaps	44	-	44	-

Interest rate swaps are valued using six-month LIBOR in arrears rates. See Note 8 for additional disclosure regarding financial instruments.

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

	August 31, 2010	Level 1	Level 2	Level 3
Assets:				
Goodwill	$ 3	$ -	$ -	$ 3

Goodwill for the Company's Long-Term Care Pharmacy with a carrying value of $19 million was written down to its implied fair value of $3 million in fiscal year 2010. The impairment resulted in a $16 million charge and added a $6 million deferred tax asset. The determination of fair value was based on an asset sale agreement with Omnicare, Inc., which was signed on August 31, 2010. See Note 5 for further discussion on the impairment.

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.

(10) Commitments and Contingencies

The Company is involved in legal proceedings, including those 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. Litigation, in general, and securities and class action litigation, in particular, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. The results of legal proceedings are often uncertain and difficult to predict, and the costs incurred in litigation can be substantial, regardless of the outcome.

On a quarterly basis, the Company assesses its liabilities and contingencies for outstanding legal proceedings, including those described below, and reserves are established on a case-by-case basis for those legal claims for which management concludes that it is probable that a loss will be incurred and that the amount of such loss can be reasonably estimated. Management's assessment of our current litigation and other legal proceedings, including the corresponding accruals, could change because of the discovery of facts with respect to legal actions or other proceedings pending against the Company which are not presently known. Adverse determinations by judges, juries or other parties could also result in changes to management's assessment of current liabilities and contingencies. The ultimate costs of resolving these claims may be substantially higher or lower than the amounts reserved. Due to the inherent difficulty of predicting the outcome of litigation and other legal proceedings, the Company cannot predict the eventual outcome of these matters, and it is reasonably possible that some of them could be resolved unfavorably to the Company. As a result, it is possible that the Company's results of operations or cash flows in a particular fiscal period could be materially affected by an unfavorable resolution of pending litigation or contingencies. However, based on its current knowledge, management does not expect reasonably possible losses relating to the outcome of current litigation and legal proceedings, after consideration of applicable reserves and rights to indemnification, to be material to the Company's 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 was captioned *Himmel v. Wasson, et. al.* and was filed in the Circuit Court of Lake County, Illinois. Himmel alleged 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. On September 28, 2011, the Circuit Court approved a settlement agreement among the parties pursuant to which the Company agreed to pay an amount in respect of plaintiff's attorneys' fees and litigation expenses and the Circuit Court dismissed the case with prejudice. The settlement was not material to the Company's business or consolidated financial position.

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. In the third quarter of the current fiscal year, the Company was fully released from its guarantee obligation.

(11) Capital Stock

On October 14, 2009, the Board of Directors approved a long-term capital policy to maintain a strong balance sheet and financial flexibility; reinvest in its core strategies; invest in strategic opportunities that reinforce its core strategies and meet return requirements; and return surplus cash flow to shareholders in the form of dividends and share repurchases over the long term. In connection with the Company's capital policy, its 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 income. The 2009 repurchase program, which was completed in September 2010, allowed for the repurchase of up to $2.0 billion of the Company's common stock. Shares totaling $360 million and $1,640 million were purchased in conjunction with the 2009 repurchase program during fiscal 2011 and 2010, respectively. On October 13, 2010, the Board of Directors authorized the 2011 repurchase program, which was completed in July 2011, which allowed for the repurchase of up to $1.0 billion of the Company's common stock. On July 13, 2011, the Board of Directors authorized the 2012 repurchase program, which allows for the repurchase of up to $2.0 billion of the Company's common stock prior to its expiration on December 31, 2015. Shares totaling $424 million were purchased in fiscal 2011 related to the 2012 program. In addition, the Company continues to repurchase shares to support the needs of the employee stock plans. Shares totaling $244 million were purchased to support the needs of the employee stock plans during the current fiscal year as compared to $116 million last year. At August 31, 2011, 65,846,553 shares of common stock were reserved for future issuances under the Company's various employee benefit plans. The timing and amount of repurchases is based on an assessment of various factors including prevailing market conditions, alternate uses of capital, liquidity, the economic environment and other factors. 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.

(12) Stock Compensation Plans

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase common stock over a 10-year period to eligible non-executive employees upon the purchase of Company shares, subject to certain restrictions. Employees may purchase Company shares through cash purchases or loans. The option price is the closing price of a share of common stock on the grant date. Options may be granted under this Plan until September 30, 2012, for an aggregate of 42,000,000 shares of common stock. At August 31, 2011, there were 13,166,886 shares available for future grants. The options granted during fiscal 2011, 2010 and 2009 have a three-year vesting period.

The Walgreen Co. Executive Stock Option Plan provides for the granting of options to eligible key employees to purchase common stock over a 10-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, options may be granted until January 13, 2020, for an aggregate of 63,400,000 shares of common stock. At August 31, 2011, 20,663,973 shares were available for future grants. The options granted during fiscal 2011, 2010 and 2009 have a three-year vesting period.

The Walgreen Co. Broad Based Employee Stock Option Plan provides for the granting of options to eligible non-executive employees to purchase common stock over a ten-year period, at a price not less than the fair market value on the date of the grant. Under this Plan, on March 11, 2003, substantially all non-executive employees, in conjunction with the opening of the Company's 4,000th store, were granted a stock option to purchase 100 shares. The Plan authorized the grant of an aggregate of 15,000,000 shares of common stock. At August 31, 2011, 7,833,423 shares were available for future grants. The options vested and became exercisable on March 11, 2006, and any unexercised options will expire on March 10, 2013, subject to earlier termination if the optionee's employment ends.

The Walgreen Co. 1982 Employees Stock Purchase Plan permits eligible employees to purchase common stock at 90% of the fair market value at the date of purchase. Employees may make purchases by cash, loans or payroll deductions up to certain limits. The aggregate number of shares that may be purchased under this Plan is 94,000,000. At August 31, 2011, 18,500,086 shares were available for future purchase.

The Walgreen Co. Long-Term Performance Incentive Plan (amended and restated Restricted Performance Share Plan) was approved by the shareholders on January 10, 2007. The Plan offers performance-based incentive awards and equity-based awards to key employees. The awards are subject to restrictions as to continuous employment except in the case of death, normal retirement or total and permanent disability. Restrictions generally lapse over a multiyear period from the date of grant. The Long-Term Performance Incentive Plan was authorized to grant an aggregate of 10,000,000 shares of common stock. As of August 31, 2011, 5,682,185 shares were available for future issuance under the Long-Term Performance Incentive Plan. In accordance with 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. Compensation expense related to the Plan was $1 million in fiscal 2011. This compares to $3 million in fiscal 2010 and $6 million in fiscal 2009.

In fiscal 2009, the Company introduced the Restricted Stock Unit and Performance Share Plans under the Long-Term Performance Incentive Plan. In accordance with ASC Topic 718, Compensation – Stock Compensation, compensation expense is recognized on a straight-line basis based on a three-year cliff vesting schedule for the annual restricted stock units and straight line over a three-year vesting schedule for the performance shares. The Company recognized $45 million, $18 million and $12 million of expense related to these plans in fiscal years 2011, 2010 and 2009, respectively.

The Walgreen Co. Nonemployee Director Stock Plan provides that each nonemployee director receives an equity grant of shares each year on November 1. Effective November 1, 2009, the value of the annual stock grant made to directors on each November 1 increased from $120,000 to $155,000. The number of shares granted is determined by dividing $155,000 by the price of a share of common stock on November 1. Each nonemployee director may elect to receive this annual share grant in the form of shares or deferred stock units. Each nonemployee director received a grant of 4,552 shares in fiscal 2011, 4,097 shares in fiscal 2010 and 4,713 shares in fiscal 2009. New directors in any of the fiscal years were given a prorated amount. Effective November 1, 2009, the payment of the annual retainer was changed to be paid only in the form of cash, which may still be deferred. Previously, the annual retainer was paid one-half in cash and one-half in Walgreen Co. common stock.

A summary of information relative to the Company's stock option plans follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at August 31, 2010	49,107,203	$ 34.75	6.03	$ 16
Granted	9,015,933	28.93		
Exercised	(4,349,340)	33.74		
Expired/Forfeited	(4,739,950)	35.44		
Outstanding at August 31, 2011	49,033,846	33.70	6.04	193
Vested or expected to vest at August 31, 2011	28,919,936	29.89	7.75	164
Exercisable at August 31, 2011	19,154,555	39.63	3.32	24

The intrinsic value for options exercised in fiscal 2011, 2010 and 2009 was $33 million, $29 million and $6 million, respectively. The total fair value of options vested in fiscal 2011, 2010 and 2009 was $58 million, $53 million and $56 million, respectively.

Cash received from the exercise of options in fiscal 2011 was $147 million compared to $134 million in the prior year. The related tax benefit realized was $14 million in fiscal 2011 compared to $11 million in the prior year.

A summary of information relative to the Company's restricted stock awards follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at August 31, 2010	96,710	$ 37.53
Granted	-	-
Forfeited	(111)	36.43
Vested	(48,553)	38.92
Nonvested at August 31, 2011	48,046	36.13

A summary of information relative to the Company's restricted stock unit plan follows:

Outstanding Shares	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at August 31, 2010	1,148,164	$ 34.40
Granted	1,005,255	33.13
Dividends	37,510	38.16
Forfeited	(191,137)	33.31
Vested	(88,555)	32.76
Outstanding at August 31, 2011	1,911,237	33.94

A summary of information relative to the Company's performance share plan follows:

Outstanding Shares	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at August 31, 2010	996,621	$ 35.02
Granted	840,101	28.30
Forfeited	(17,054)	29.21
Vested	-	-
Outstanding at August 31, 2011	1,819,668	31.83

The fair value of each option grant was determined using the Black-Scholes option pricing model with weighted-average assumptions used in fiscal 2011, 2010 and 2009:

	2011	2010	2009
Risk-free interest rate (1)	2.12%	3.14%	3.47%
Average life of option (years) (2)	7.2	7.3	6.8
Volatility (3)	28.08%	28.01%	34.00%
Dividend yield (4)	1.94%	1.91%	2.30%
Weighted-average grant-date fair value			
Granted at market price	$ 8.12	$ 9.80	$ 9.14

(1) Represents the U.S. Treasury security rates for the expected term of the option.
(2) Represents the period of time that options granted are expected to be outstanding. The Company analyzed separate groups of employees with similar exercise behavior to determine the expected term.
(3) Volatility was based on historical and implied volatility of the Company's common stock.
(4) Represents the Company's cash dividend for the expected term.

(13) Retirement Benefits

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 $382 million in fiscal 2011, $300 million in fiscal 2010 and $282 million in fiscal 2009. The Company's contributions were $322 million in fiscal 2011, $293 million in fiscal 2010 and $301 million in fiscal 2009.

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 postretirement health benefit plans are not funded. In May 2009, the postretirement health benefit plans were amended to change eligibility requirements. As a result of this amendment, the Company recognized curtailment income of $16 million in fiscal 2009. Additionally in fiscal 2009, the Company recognized a special retirement benefit expense of $4 million related to accelerating eligibility for certain employees who elected special early retirement as a part of its Rewiring for Growth program.

Components of net periodic benefit costs (in millions):

	2011	2010	2009

Service cost	$ 15	$ 11	$ 12
Interest cost	22	20	26
Amortization of actuarial loss	14	7	4
Amortization of prior service cost	(10)	(10)	(6)
Special retirement benefit	-	-	4
Curtailment gain	-	-	(16)
Total postretirement benefit cost	$ 41	$ 28	$ 24

Change in benefit obligation (in millions):

	2011	2010
Benefit obligation at September 1	$ 441	$ 328
Service cost	15	11
Interest cost	22	20
Actuarial (gain) loss	(57)	92
Benefit payments	(18)	(14)
Participants' contributions	4	4
Benefit obligation at August 31	$ 407	$ 441

Change in plan assets (in millions):

	2011	2010
Plan assets at fair value at September 1	$ -	$ -
Plan participants' contributions	4	4
Employer contributions	14	10
Benefits paid	(18)	(14)
Plan assets at fair value at August 31	$ -	$ -

Funded status (in millions):

	2011	2010
Funded status	$ (407)	$ (441)
Unrecognized actuarial gain	-	-
Unrecognized prior service cost	-	-
Accrued benefit cost at August 31	$ (407)	$ (441)

Amounts recognized in the Consolidated Balance Sheets (in millions):

	2011	2010
Current liabilities (present value of expected 2012 net benefit payments)	$ (11)	$ (11)
Non-current liabilities	(396)	(430)
Net liability recognized at August 31	$ (407)	$ (441)

Amounts recognized in accumulated other comprehensive (income) loss (in millions):

	2011	2010
Prior service credit	$ (121)	$ (131)
Net actuarial loss	117	188

Amounts expected to be recognized as components of net periodic costs for fiscal year 2012 (in millions):

	2012
Prior service credit	$ (10)
Net actuarial loss	8

The measurement date used to determine postretirement benefits is August 31.

The discount rate assumption used to compute the postretirement benefit obligation at year-end was 5.40% for 2011 and 4.95% for 2010. The discount rate assumption used to determine net periodic benefit cost was 4.95%, 6.15% and 7.50% for fiscal years ending 2011, 2010 and 2009, respectively. The consumer price index assumption used to compute the postretirement benefit obligation was 2.00% for 2011 and 3.50% for 2010.

Future benefit costs were estimated assuming medical costs would increase at a 7.50% annual rate, gradually decreasing to 5.25% over the next nine years and then remaining at a 5.25% annual growth rate thereafter. A one percentage point change in the assumed medical cost trend rate would have the following effects (in millions):

	1% Increase	1% Decrease
Effect on service and interest cost	$ 7	$ (6)

Effect on postretirement obligation	73	(59)

Estimated future benefit payments and federal subsidy (in millions):

	Estimated Future Benefit Payments	Estimated Federal Subsidy
2012	$ 13	$ 1
2013	14	2
2014	15	2
2015	17	2
2016	19	3
2017-2021	133	21

The expected benefit to be paid net of the estimated federal subsidy during fiscal year 2012 is $12 million.

(14) Supplementary Financial Information

Non-cash transactions in fiscal 2011 include $116 million in accrued liabilities related to the purchase of property and equipment, a $62 million increase in the retiree medical benefit liability and a $36 million increase in the liability for dividends declared. Non-cash transactions in fiscal 2010 include a $95 million increase in the retiree medical benefit liability, a $29 million increase in the liability for dividends declared and $44 million in accrued liabilities related to the purchase of property and equipment.

Included in the Consolidated Balance Sheets captions are the following assets and liabilities (in millions):

	2011	2010
Accounts receivable -		
Accounts receivable	$ 2,598	$ 2,554
Allowance for doubtful accounts	(101)	(104)
	$ 2,497	$ 2,450
Other non-current assets -		
Intangible assets, net (see Note 5)	$ 1,212	$ 1,114
Other	377	168
	$ 1,589	$ 1,282
Accrued expenses and other liabilities -		
Accrued salaries	$ 856	$ 781
Taxes other than income taxes	489	419
Insurance	230	233
Profit sharing	253	197
Other	1,247	1,133
	$ 3,075	$ 2,763
Other non-current liabilities -		
Postretirement health care benefits	$ 396	$ 430
Accrued rent	418	384
Insurance	346	330
Other	625	591
	$ 1,785	$ 1,735

Summary of Quarterly Results (Unaudited)
(In millions, except per share amounts)

	Quarter Ended				
	November	February	May	August	Fiscal Year
Fiscal 2011					
Net Sales	$ 17,344	$ 18,502	$ 18,371	$ 17,967	$ 72,184
Gross Profit	4,945	5,324	5,154	5,069	20,492
Net Earnings	580	739	603	792	2,714
Per Common Share -					
Basic	$ .62	$ .80	$ .66	$ .88	$ 2.97
Diluted	.62	.80	.65	.87	2.94
Cash Dividends Declared Per Common Share	$ .1750	$ .1750	$ .1750	$ .2250	$ .7500
Fiscal 2010					
Net Sales	$ 16,364	$ 16,987	$ 17,199	$ 16,870	$ 67,420
Gross Profit	4,538	4,897	4,749	4,792	18,976
Net Earnings	489	669	463	470	2,091
Per Common Share -					
Basic	$ .49	$ .68	$ .47	$ .49	$ 2.13
Diluted	.49	.68	.47	.49	2.12

Cash Dividends Declared Per Common Share	$ .1375	$ .1375	$ .1375	$ .1750	$ .5875

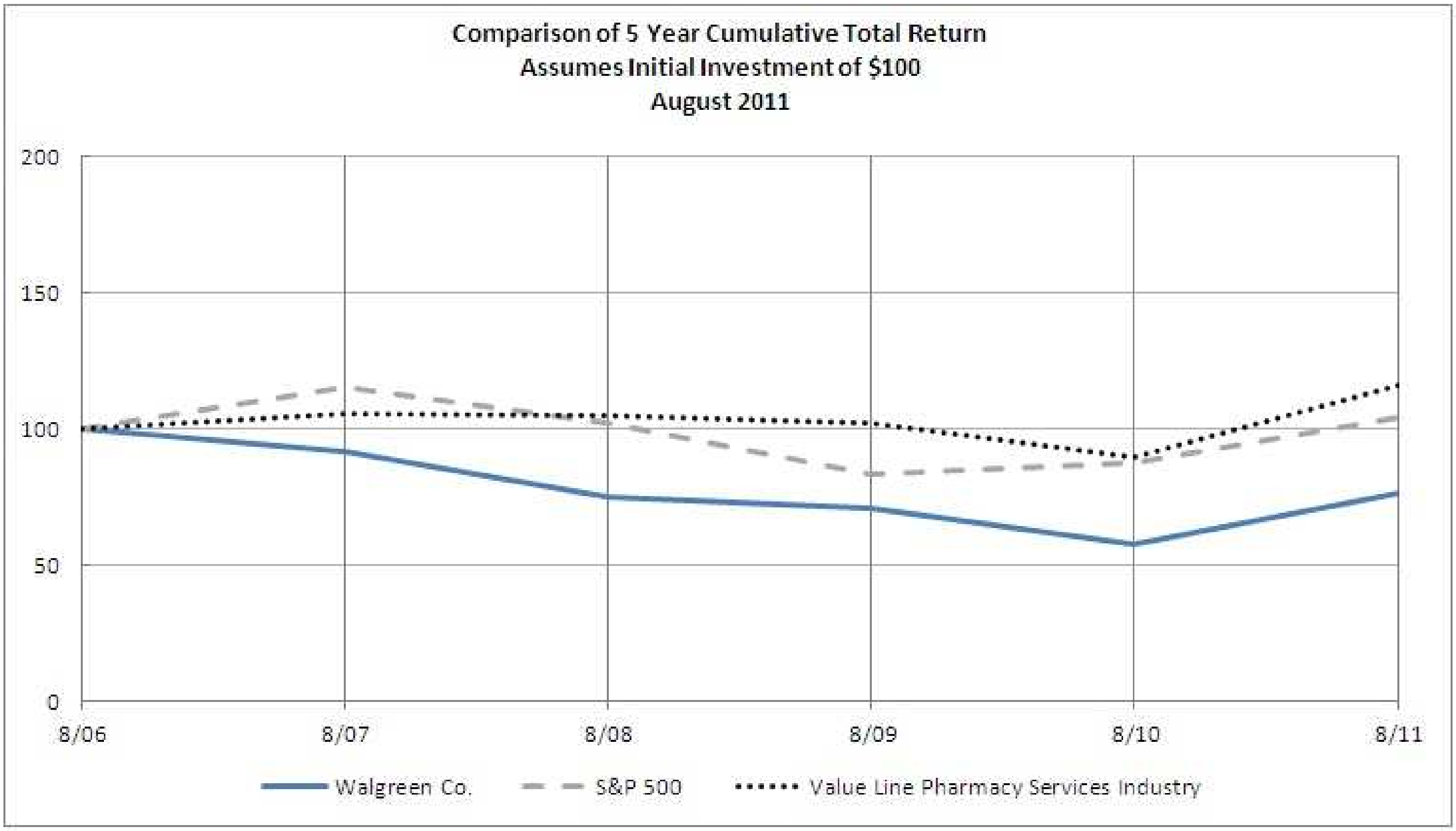
Common Stock Prices

Below is the Consolidated Transaction Reporting System high and low sales price for each quarter of fiscal 2011 and 2010.

		Quarter Ended				
		November	February	May	August	Fiscal Year
Fiscal 2011	High	$ 35.27	$ 42.91	$ 44.67	$ 44.91	$ 44.91
	Low	27.17	35.17	38.82	34.11	27.17
Fiscal 2010	High	$ 40.37	$ 39.37	$ 37.83	$ 32.82	$ 40.37
	Low	33.55	33.29	31.92	26.36	26.36

Comparison of Five-Year Cumulative Total Return

The following graph compares the five-year cumulative total return of the Company's common stock with the S&P 500 Index and the Value Line Pharmacy Services Industry Index. The graph assumes a $100 investment made August 31, 2006, and the reinvestment of all dividends. The historical performance of the Company's common stock is not necessarily indicative of future stock performance.



	Value of Investment at August 31,					
	2006	2007	2008	2009	2010	2011
Walgreen Co.	$ 100.00	$ 91.80	$ 75.01	$ 70.95	$ 57.29	$ 76.50
S&P 500 Index	100.00	115.13	102.31	83.63	87.74	103.97
Value Line Pharmacy Services Industry Index	100.00	105.54	104.80	102.09	89.34	115.93

This performance graph and accompanying disclosure is not soliciting material, is not deemed filed with the SEC, and is not incorporated by reference in any of the Company's filings under the Securities Act or the Exchange Act, irrespective of the timing of and any general incorporation language in such filing.

Management's Report on Internal Control

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, management concluded that our internal control over financial reporting was effective as of August 31, 2011. Deloitte & Touche LLP, the Company's independent registered public accounting firm, has audited our internal control over financial reporting, as stated in its report which is included herein.

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Walgreen Co.:

We have audited the accompanying consolidated balance sheets of Walgreen Co. and Subsidiaries (the “Company”) as of August 31, 2011 and 2010, and the related consolidated statements of earnings, shareholders’ equity, and cash flows for each of the three years in the period ended August 31, 2011. We also have audited the Company’s internal control over financial reporting as of August 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Walgreen Co. and Subsidiaries as of August 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

October 25, 2011

WALGREEN CO. AND SUBSIDIARIES
ANNUAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2011

As of August 31, 2011 Walgreen Co., (Registrant) had the following subsidiaries:

NAME	STATE OR COUNTRY OF INCORPORATION
Walgreen Arizona Drug Co. (1)	Arizona
Salu Australia Pty Ltd. (37)	Australia
Skincarestore Australia Pty Ltd. (37)	Australia
DS Distribution Canada, Ltd. (4)	British Columbia
Option Care, Inc. (9)	California
Walgreens China Business Trust (35)	China
American Occupational Health Management, Inc. (24)	Delaware
Beauty.com, Inc. (4)	Delaware
Dependicare Home Health, LLC (8)	Delaware
DR Employee Services, LLC (28)	Delaware
drugstore.com, inc.	Delaware
DRI-I, Inc. (34)	Delaware
DS Pharmacy, Inc. (4)	Delaware
Duane Reade, Inc. (33)	Delaware
Duane Reade Holdings, Inc (33)	Delaware
Duane Reade International, LLC (34)	Delaware
Duane Reade Realty, Inc. (34)	Delaware
First RX Specialty and Mail Services, LLC (31)	Delaware
Happy Harry’s Inc. (2)	Delaware
Happy Harry’s Discount Drug Stores, Inc. (2)	Delaware
HHDH, Inc. (2)	Delaware
I-Trax Health Management Solutions, Inc. (23)	Delaware
Laurel Mountain Medical Supply, LLC (30)	Delaware
RAD Online Sales, Inc. (4)	Delaware
Salu Beauty, Inc. (4)	Delaware
Walgreens Assistance, Inc.	Delaware
Walgreens Network Health Services, LLC (21)	Delaware
Walgreens Specialty Pharmacy Holdings, Inc. (3)	Delaware
Walgreens Specialty Pharmacy, LLC. (3)	Delaware
WVC Investments, LLC	Delaware
MedNow Infusion, LLC (18)	Delaware
Meridian COMP of New York, Inc. (24)	Delaware
Mosso's Medical Supply Company, LLC (8)	Delaware
Option Care Enterprises, Inc. (7)	Delaware
Option Care Home Health, L.L.C. (8)	Delaware
Walgreens Infusion Services, Inc. (7)	Delaware
Optionet, Inc. (9)	Delaware
Walgreens Specialty Care Centers, LLC (27)	Delaware
Take Care Employer Solutions, LLC (23)	Delaware
Take Care Health Systems, Inc.	Delaware
Take Care Health Systems, LLC (6)	Delaware
Ultra Care, LLC (8)	Delaware
Walgreens Venture Capital, LLC	Delaware
Walgreens Store No. 3332, LLC	Delaware
Walgreens Store No. 4650, LLC	Delaware
Walgreens Store No. 4651, LLC	Delaware
Walgreens Store No. 5576, LLC	Delaware
Walgreens Store No. 5838, LLC	Delaware
Waltrust Properties, Inc. (1)	Delaware
Whole Health Management, LLC (29)	Delaware
Walgreen of Hawaii, LLC	Hawaii
Walgreen of Maui, Inc.	Hawaii
Walgreens (Hong Kong) Limited	Hong Kong
Bond Drug Company of Illinois, LLC (1)	Illinois
Bowen Development Company	Illinois
Deerfield Funding Corporation	Illinois
East-West Distributing Co.	Illinois
Walgreens Long-Term Care Pharmacy, LLC	Illinois
The 1901 Group, LLC	Illinois
WagBeau LLC	Illinois
Walgreen Medical Supply, LLC (22)	Illinois

Walgreen Mercantile Corporation	Illinois
Walgreen National Corporation	Illinois
Walgreen Realty Resources LLC (5)	Illinois
Walgreens Business Services, LLC	Illinois
Walgreens Home Care, Inc. (8)	Illinois
Walgreens Mail Service, Inc.	Illinois
Walgreens Pharmacy Services Eastern, LLC (20)	Illinois
Walgreens Pharmacy Services Midwest, LLC (19)	Illinois
Walgreens Pharmacy Services Southern, LLC (20)	Illinois
Walgreens Pharmacy Services Western, LLC (20)	Illinois
Walgreens Pharmacy Services WHS, LLC	Illinois
Walgreens Pharmacy Strategies, LLC (11)	Illinois
Walgreens Store No. 3680, LLC	Illinois
Walgreens Store No. 7839, LLC	Illinois
Walgreens.com, Inc.	Illinois
Salient Business Solutions, Ltd. (16)	India
CHDM, LLC (26)	Indiana
Walgreens-Option Care, Inc. (8)	Kentucky
Walgreen Louisiana Co., Inc.	Louisiana
Full Road Holdings, Ltd. (15)	Mauritius
Walgreen Hastings Co. (1)	Nebraska
Home Health of Option Care, Inc. (9)	Nevada
Walgreen of Nevada, LLC	Nevada
Hunterdon Infusion Services, L.L.C. (14)	New Jersey
Trinity Home Care, LLC (10)	New Jersey
Corporate Health Dimensions, Inc. (24)	New York
Duane Reade (13)	New York
Option Care of New York, Inc. (9)	New York
Springville Pharmacy Infusion Therapy, Inc. (8)	New York
Walgreen Eastern Co., Inc. (1)	New York
Walgreens Store No. 3288, LLC (36)	New York
Option Home Health, Inc. (8)	Ohio
University Option Care, LLC (17)	Ohio
Medicenter, Inc. (24)	Oklahoma
Option Care at Legacy, LLC (17)	Oregon
Option Care Enterprises, Inc. (8)	Pennsylvania
Walgreen of Puerto Rico, Inc.	Puerto Rico
Walgreen of San Patricio, Inc.	Puerto Rico
Walgreens (Singapore) PTE, Ltd. (32)	Singapore
Walgreens Infusion and Respiratory Services, LLC (17)	Tennessee
Corinthian Care Group, LLC (8)	Texas
Vision Direct Inc. (4)	Texas
Green Hills Insurance Company, A Risk Retention Group (25)	Vermont
LCA Insurance Co., Inc.	Vermont
Option Care Home Health, L.L.C. (12)	Washington
Walgreen Oshkosh, Inc.	Wisconsin

(1) Walgreens Hastings Co. is a direct parent of Walgreen Arizona Drug Co. Walgreen Arizona Drug Co. is a direct parent of Walgreen Eastern Co. Walgreen Eastern Co is a direct parent of Bond Drug Company of Illinois, LLC. Bond Drug Company of Illinois, LLC is a direct parent of Waltrust Properties, Inc. Waltrust Properties, Inc. is a real estate investment trust. A minority interest in Waltrust Properties, Inc. is held by outside preferred shareholders.

(2) Happy Harry's Discount Drug Stores, Inc. (a Delaware Corporation) is a direct parent of Happy Harry's Inc. Happy Harry's Inc. is a direct parent of HHDH Corp. (a Delaware Corporation).

(3) Walgreens Specialty Pharmacy Holdings, Inc. (a Delaware Corporation) is a direct parent of Walgreens Specialty Pharmacy, LLC (a Delaware LLC).

(4) Subsidiary of drugstore.com, inc. (a Delaware Corporation).

(5) Walgreen Realty Resources LLC is a direct parent of Walgreen Market Strategies LLC (an Illinois LLC).

(6) Take Care Health Systems, LLC (a Delaware LLC) is a direct Subsidiary of Take Care Health Systems, Inc. (a Delaware Corporation).

(7) Walgreens Infusion Services, Inc. (a Delaware Corporation) is a direct parent of Option Care Enterprises, Inc. (a Delaware Corporation). Option Care Enterprises, Inc. (a Delaware Corporation) is a direct parent of various subsidiaries (see footnote #8). Walgreens Infusion Services, Inc. (a Delaware Corporation) is a direct parent of various subsidiaries (see footnote # 9).

(8) Subsidiary of Option Care Enterprises, Inc. (a Delaware Corporation).

(9) Subsidiary of Walgreens Infusion Services, Inc. (a Delaware Corporation).

(10) Trinity Home Care, LLC (a Delaware LLC) is a direct subsidiary of Option Care of New York, Inc. (a New York Corporation).

(11) Subsidiary of Bond Drug Company of Illinois, LLC (an Illinois LLC).

(12) 50% owned by Option Care Enterprises, Inc. (a Delaware Corporation) and 50% owned by Option Care, Inc. (a California Corporation).

(13) Duane Reade (A New York General Partnership) is 99% owned by Duane Reade, Inc. (a Delaware Corporation) and 1% owned by DRI-I, Inc. (a Delaware Corporation).

(14) 50% owned by Option Care Enterprises, Inc. (a Pennsylvania Corporation).

(15) Foreign subsidiary of Walgreens Infusion Services, Inc. (a Delaware Corporation).

(16) 30% owned by Full Road Holdings, Ltd. (a Mauritius Entity).
(17) 50% owned by Option Care Enterprises, Inc. (a Delaware Corporation).
(18) 51% owned by Option Care Enterprises, Inc. (a Delaware Corporation).
(19) 97% owned by Bond Drug Company of Illinois, LLC; 2% owned by Walgreens Louisiana Co., Inc.; 1% owned by Happy Harry's, Inc.
(20) Subsidiary of Walgreens Pharmacy Services Midwest, LLC (an Illinois LLC).
(21) Subsidiary of Walgreens Long-Term Care Pharmacy, LLC (an Illinois LLC).
(22) Subsidiary of Walgreens Mail Services, Inc. (an Illinois Corporation).
(23) Subsidiary of Take Care Health Systems, Inc. (a Delaware Corporation).
(24) Subsidiary of Take Care Employer Solutions, LLC. (a Delaware LLC).
(25) 99.96% owned by Take Care Employer Solutions, LLC. (a Delaware LLC) and .01% is owned by Take Care Health Systems, Inc. (a Delaware Corporation).
(26) 99% owned by Medicenter, Inc. (an Oklahoma Corporation); 1% owned by Corporate Health Dimensions, Inc. (a New York Corporation).
(27) Walgreens Specialty Care Centers, LLC (a Delware LLC) is a direct subsidiary of Walgreens Specialty Pharmacy, LLC (a Delware LLC).
(28) Subsidiary of Duane Reade (A New York General Partnership).
(29) Whole Health Management LLC (a Delaware LLC) is a direct subsidiary of Take Care Health Systems, Inc. (a Delaware Corporation).
(30) Subsidiary of Mosso's Medical Supply Company, LLC (a Delaware LLC).
(31) 25% owned by Walgreen Co.
(32) Walgreens (Singapore) PTE, Ltd. (a Singapore Entity) is a wholly owned by Walgreens China Business Trust (a China Entity).
(33) Duane Reade Holdings, Inc. (a Delaware Corporation) is a direct parent of Duane Reade, Inc. (a Delaware Corporation). Duane Reade, Inc. (a Delaware Corporation) is a direct parent of various subsidiaries (see footnote 34).
(34) Subsidiary of Duane Reade, Inc. (a Delaware Corporation).
(35) Walgreens China Business Trust (a China Entity) is 10% owned by Walgreen Mercantile Corporation (an Illinois Corporation) and 90% owned by East-West Distributing Co. (an Illinois Corporation).
(36) Subsidiary of Walgreen Eastern Co., Inc. (a New York Corporation).
(37) Salu Australia PTY Ltd. (an Australia Company) is a direct subsidiary of Salu Beauty, Inc. (a Delaware Corporation). Skincarestore Australia PTY Ltd. (an Australia Company) is a direct subsidiary of Salu Australia PTY Ltd.

The registrant also wholly owns inactive subsidiaries which are not included in the above list. All wholly owned subsidiaries are included in the consolidated financial statements.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 2-79977, 2-79978, 33-49676, 333-19467, 333-19501, 333-106967, 333-107841, 333-112343, 333-132272, 333-164382, 333-167836, 333-174810, 333-174811 and 333-175642 on Form S-8 and No. 333-175649 on Form S-3 of our reports dated October 25, 2011, relating to the consolidated financial statements and financial statement schedule of Walgreen Co. and Subsidiaries, and the effectiveness of Walgreen Co. and Subsidiaries' internal control over financial reporting, appearing in or incorporated by reference in the Annual Report on Form 10-K of Walgreen Co. for the year ended August 31, 2011.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois

October 25, 2011

EXHIBIT 31.1

CERTIFICATION

I, Gregory D. Wasson, certify that:

1. I have reviewed this annual report on Form 10-K 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 Chief Executive Officer Date: October 25, 2011
Gregory D. Wasson

EXHIBIT 31.2

CERTIFICATION

I, Wade D. Miquelon, certify that:

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

/s/ Wade D. Miquelon Chief Financial Officer Date: October 25, 2011
Wade D. Miquelon

Exhibit 32.1

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

In connection with the Annual Report of Walgreen Co., an Illinois corporation (the "Company"), on Form 10-K for the year ended August 31, 2011 as filed with the Securities and Exchange Commission (the "Report"), I, Greg 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: October 25, 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.

Exhibit 32.2

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

In connection with the Annual Report of Walgreen Co., an Illinois corporation (the "Company"), on Form 10-K for the year ended August 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: October 25, 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.