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, 2008.

☐ 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.)
200 Wilmot Road, Deerfield, Illinois	60015
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(847) 914-2500**

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 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", and "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 29, 2008, the aggregate market value of Walgreen Co. common stock, par value $.078125 per share, held by non-affiliates (based upon the closing transaction price on the New York Stock Exchange) was approximately $36,161,583,000. As of September 30, 2008, there were 989,364,303 shares of Walgreen Co. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended August 31, 2008, 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 2008 annual meeting of shareholders to be held January 14, 2009, are incorporated by reference into Part III of this Form 10-K.

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Part 1

PART I

Item 1. Business

(a) *General development of business.*

Walgreen Co. (The "company" or "Walgreens") was incorporated as an Illinois corporation in 1909 as a successor to a business founded in 1901. In 2008 the company opened or acquired 1,031 locations for a net increase of 937 locations after relocations and closings. As of August 31, 2008, we operated 6,934 locations in 49 states, the District of Columbia, Puerto Rico and Guam. Total locations do not include 217 convenient care clinics operated by Take Care Health Systems, Inc.

	Number of Locations		
Location Type	**2008**	2007	2006
Drugstores	**6,443**	5,882	5,414
Worksite Facilities	**364**	3	-
Home Care Facilities	**115**	101	38
Specialty Pharmacies	**10**	8	6
Mail Service Facilities	**2**	3	3
Total	**6,934**	5,997	5,461

Retail organic growth continues to be our primary growth vehicle, but we carefully consider unique acquisition opportunities when they are a good fit with the existing store base. In 2008, for example, we acquired I-trax, Inc. and Whole Health Management, operators of worksite health services, including primary and acute care, wellness, pharmacy and disease management services and health and fitness programming.

Walgreens corporate strategy is to continue to leverage and enhance its fundamental competitive advantage – the best, most convenient, community-based store network in America. The company intends to focus on its core business – providing the most convenient access to consumer goods and services for customers and pharmacy, health and wellness for patients, employers and payors in communities where people live and work across America.

Prescription sales continue to be a large portion of the company's business. This year prescriptions accounted for 64.9% of sales compared to 65.0% last year. Third party sales, where reimbursement is received from managed care organizations, government and private insurance, were 95.3% of prescription sales compared to 94.8% a year ago. Overall, Walgreens filled approximately 617 million prescriptions in 2008, an increase of 5.7% from the previous year.

Walgreens pharmacy sales are expected to continue to grow due, in part, to the aging population and the continued development of innovative drugs that improve quality of life and control health care costs. Also, generic introductions continue to boost the number of prescriptions filled. Although generics reduce sales dollars, they save both patients and payors money and generally offer higher gross profit than brand name drugs.

During fiscal 2008, Walgreens' market share in 58 of the top 60 front-end categories increased, as compared to all food, drug and mass merchandise competitors. Today, 147 million people live within two miles of a Walgreens and 5.3 million shoppers walk into a Walgreens store daily.

During fiscal year 2008 the company added $2.2 billion to property and equipment, which included approximately $1.9 billion related to stores, $166 million for distribution centers, and $147 million related to other locations. Capital expenditures for fiscal 2009 are expected to be approximately $1.8 billion, excluding acquisitions and prescription file purchases.

In fiscal 2007, the company opened a distribution center in Anderson, South Carolina. This is the first of a new-generation of distribution centers and will increase the company’s productivity. A second new-generation center in Windsor, Connecticut is planned to open in fiscal 2009.

(b) *Financial information about industry segments.*

The company is principally in the retail drugstore business and its operations are within one reportable segment.

(c) *Narrative description of business.*

(i) 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, beauty care, personal care, household items, candy, photofinishing, greeting cards, convenience foods, and seasonal items. Customers can have prescriptions filled at the drugstore counter, as well as through the mail, by telephone and via the Internet.

The estimated contributions of various product classes to sales for each of the last three fiscal years are as follows:

	Percentage		
Product Class	**2008**	2007	2006
Prescription Drugs	**65**	65	64
Non-prescription Drugs	**10**	10	11
General Merchandise	**25**	25	25
Total Sales	**100**	100	100

(ii) Status of a product or segment.

Not applicable.

(iii) Sources and availability of raw materials.

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

(iv) Patents, trademarks, licenses, franchises and concessions held.

Walgreens markets products under various trademarks, trade dress and trade names and holds assorted business licenses (such as pharmacy, occupational, and liquor) having various lives, which are necessary for the normal operation of business. The company also has filed various patent applications relating to its business and products, eight of which have been issued.

(v) Seasonal variations in business.

The business is seasonal in nature, with Christmas 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 cold/flu season. See the caption "Summary of Quarterly Results (Unaudited)" on page 35 of the Annual Report to Shareholders for the year ended August 31, 2008 ("2008 Annual Report"), which section is incorporated herein by reference.

(vi) Working capital practices.

The company generally finances its inventory and expansion needs with internally generated funds. In fiscal 2008 we supplemented cash provided by operations with short-term borrowings and long-term debt. See Note 6, "Short-Term Borrowings and Long-Term Debt" on page 31 and "Management's Discussion and Analysis of Financial Condition" on pages 18 through 22 of the 2008 Annual Report, which sections are incorporated herein by reference.

Due to the nature of our business, 95.3% of all prescription sales are now covered by third party payors. Prescription sales represent 64.9% of total company sales. The remaining store sales are principally for cash, credit and debit cards. Customer returns are immaterial.

(vii) Dependence upon limited number of customers.

The company sells to numerous customers including various managed care organizations; therefore, the loss of any one customer or a group of customers under common control would not have a material effect on the business. No customer accounts for ten percent or more of the company's consolidated net sales.

(viii) Backlog orders.

Not applicable.

(ix) Government contracts.

The company fills prescriptions for many state public assistance plans. Revenues from all such plans are approximately 5.4% of total sales.

(x) Competitive conditions.

The drugstore industry is highly competitive. As a volume leader in the retail drug industry, Walgreens competes with various retailers, including chain and independent drugstores, mail order prescription providers, grocery stores, convenient stores, mass merchants and dollar stores. Competition remained keen during the fiscal year with the company competing on the basis of service, convenience, variety and price. The company's geographic dispersion tends to offset the impact of temporary 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.

(xi) Research and development activities.

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

(xii) Environmental disclosures.

Federal, state and local environmental protection requirements have no material effect upon capital expenditures, earnings or the competitive position of the company.

(xiii) Number of employees.

The company employs approximately 237,000 persons, about 74,000 of whom are part-time employees working less than 30 hours per week.

(d) *Financial information about foreign and domestic operations and export sales.*

All the company sales occurred within the United States and Puerto Rico. There are no export sales.

(e) *Available information*

The company maintains a website at investor.walgreens.com. The company makes copies of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed with or furnished to the SEC available to investors on or through its website free of charge as soon as reasonably practicable after the company electronically files them with or furnishes them to the SEC. The contents of the company's website are not, however, a part of this report. In addition, charters of all committees of the company's Board of Directors, as well as the company's Corporate Governance Guidelines and Ethics Policy Statement, 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 #2261, 200 Wilmot Road, Deerfield, Illinois 60015. Changes to or waivers, if any, of the company's Ethics Policy Statement for directors and executive officers would be promptly disclosed on the company's website.

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 Ethics for Financial Executives is available at the company's website, investor.walgreens.com. Changes to or waivers, if any, of the company's Code of Ethics for Financial Executives would be promptly disclosed on the company's website.

Cautionary Note Regarding Forward Looking Statements

Certain information in this annual report, as well as in our other public filings, the company website, press releases and oral statements made by our representatives, is forward-looking information based on the company’s current expectations and plans, which involve risks and uncertainties. Forward-looking information includes statements concerning pharmacy sales trends, prescription margins, number and location of new store openings, outcomes of litigation, the level of capital expenditures, demographic trends. Forward-looking information also includes statements with words such as "expects," "estimates," "believes," "plans," "anticipates" or similar language. For such statements, we claim the protection of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve risks and uncertainties, known or unknown to the company that could cause results to differ materially from management expectations as projected in such forward-looking statements. These risks and uncertainties are discussed in Item 1A below. Unless otherwise required by applicable securities laws, the company assumes no obligation to update its forward-looking statements to reflect subsequent events or circumstances.

Item 1A. Risk Factors

The risks described below 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.

The retail drugstore and pharmacy benefit services industries are highly competitive and further increases in competition could adversely affect us.

We face intense competition with local, regional and national companies, including other drug store chains, independent drug stores, 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 pharmacy benefit services industry, our competitors include large national and regional pharmacy benefit managers and insurance companies and managed care providers, some of which are owned by or have affiliations with our retail drug store competitors. As competition increases in the markets in which we operate, a significant increase in general pricing pressures could occur, which could require us to reevaluate our pricing structures to remain competitive. Our failure to reduce prices could result in decreased revenue, and reducing prices without also reducing costs could negatively affect profits.

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 payors to reduce prescription drug costs and pharmacy reimbursement rates, as well as litigation relating to how brand name drugs are priced, may 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 seek to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. These changes are expected to result in reduced Medicaid reimbursement rates for retail pharmacies. Reduced reimbursement rates could adversely affect our revenues and profits.

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, pharmacy benefit and health 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; accounting standards; tax laws and regulations; 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; 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.

Our ability to hire and retain pharmacy personnel is important to the continued success of our business.

As our business expands, we believe that our future success will depend greatly on our continued ability to attract and retain skilled and qualified pharmacists. The retail drugstore industry is experiencing an ongoing shortage of licensed pharmacists. This has resulted in continued upward pressure on pharmacist compensation packages. Although we generally have been able to meet our pharmacist staffing requirements in the past, any future inability to do so could limit our ability to offer extended pharmacy hours and negatively impact our revenue and our ability to deliver high levels of customer service.

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.

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.

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

Our performance may be negatively influenced by changes in national, regional or local economic conditions and consumer confidence. 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, the introduction of new merchandise or brand and generic prescription drugs, 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. Profit margins are greater on front-end sales than on pharmacy sales, and any decrease in sales of front-end products would have a negative impact on our profitability. All these factors could impact our revenues, operating results and financial condition.

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 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 drugs or generics successfully introduced could adversely affect our results of operations.

If we fail to offer the merchandise and services that our customers want, 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 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.

We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.

We have grown our business through acquisitions in recent years and expect to continue to acquire drugstore chains, independent drugstores and related 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.

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.

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

Our success depends on our ability to establish effective advertising, marketing and promotional programs. If we are unsuccessful in our advertising, merchandising or promotional strategies, sales or sales margins could be negatively affected. Our success also depends on our continued ability to attract and retain store and management personnel, and the loss of key personnel could have an adverse effect on the results of our operations, financial condition or cash flow. We also may not be able to successfully and timely implement new computer systems and technology or business processes, or may experience disruptions or delays to the computer systems we depend on to manage our ordering, pricing, point-of-sale, inventory replenishment and other processes, which could adversely impact our operations and our ability to attract and retain customers. 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. Furthermore, 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 for fiscal 2008 and 2007 are listed below.

State	2008	2007	State	2008	2007	State	2008	2007
Alabama	**90**	67	Maine	**9**	1	Oregon	**62**	47
Arizona	**241**	234	Maryland	**48**	38	Pennsylvania	**106**	83
Arkansas	**50**	45	Massachusetts	**153**	126	Rhode Island	**26**	20
California	**525**	476	Michigan	**211**	190	South Carolina	**83**	66
Colorado	**150**	130	Minnesota	**122**	111	South Dakota	**13**	13
Connecticut	**109**	71	Mississippi	**63**	51	Tennessee	**242**	213
Delaware	**64**	59	Missouri	**180**	165	Texas	**631**	587
District of Columbia	**3**	-	Montana	**11**	9	Utah	**36**	27
Florida	**781**	736	Nebraska	**56**	49	Vermont	**4**	2
Georgia	**166**	125	Nevada	**76**	63	Virginia	**93**	72
Hawaii	**1**	-	New Hampshire	**31**	20	Washington	**115**	106
Idaho	**32**	20	New Jersey	**138**	101	West Virginia	**11**	1
Illinois	**549**	528	New Mexico	**57**	54	Wisconsin	**221**	195
Indiana	**205**	181	New York	**208**	117	Wyoming	**8**	8
Iowa	**68**	59	North Carolina	**148**	113	Guam	**1**	-
Kansas	**61**	57	North Dakota	**1**	1	Puerto Rico	**95**	73
Kentucky	**89**	69	Ohio	**259**	223	TOTAL	**6,934**	5,997
Louisiana	**127**	109	Oklahoma	**105**	86			

Most of the company's stores are leased. The leases are for various terms and periods. See Note 2, "Leases" on page 29 of the 2008 Annual Report, which section is incorporated herein by reference. The company owns approximately 19.9% of the retail stores open at August 31, 2008. The company has a moderate expansion program of adding new stores and remodeling and relocating existing stores. Net retail selling space was increased from 66 million square feet at August 31, 2007, to 73 million square feet at August 31, 2008. Approximately 38.5% of company stores have been opened or remodeled during the past five years.

The company's retail store operations are supported by thirteen major distribution centers with a total of approximately 11 million square feet of space in all distribution centers, of which 7 million square feet is 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. A new distribution center in Anderson, South Carolina opened in fiscal 2007. A new distribution center is scheduled to open in Windsor, Connecticut in fiscal 2009.

There are 31 principal office facilities containing approximately 3 million square feet of which approximately 2 million square feet is owned and the remainder is leased. The company operates two mail service facilities containing approximately 237 thousand square feet of which approximately 133 thousand square feet is owned and the remainder is leased.

The company also owns 28 strip shopping malls containing approximately 1 million square feet of which approximately 683 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 7 "Contingencies" on page 31 of the 2008 Annual Report.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year.

Item 4.1 Executive Officers of the Registrant

The following information is furnished with respect to each executive officer of the company as of October 15, 2008:

NAME AND BUSINESS EXPERIENCE	AGE	OFFICE HELD
Alan G. McNally Special Advisor to Harris Financial Corporation since January 2007 Director of Harris Financial Corporation May 2006 to December 2006 Chairman of the Board of Harris Financial Corporation April 1998 to May 2006 Chairman of the Board of Harris Trust and Savings Bank and Harris Bankcorp, Inc. April 1995 to January 2004 Chief Executive Officer of Harris Trust and Savings Bank and Harris Bankcorp. Inc. from September 1993 to September 2002 Senior Advisor to TeleTech North America February 2003 to September 2006 Director since 1999	62	Chairman of the Board and Acting Chief Executive Officer
Gregory D. Wasson President and Chief Operating Officer since May 2007 Executive Vice President from October 2005 to April 2007 Senior Vice President February 2004 to October 2005 Vice President October 2001 to February 2004 President, Walgreens Health Initiatives, Inc. March 2002 to April 2007	50	President and Chief Operating Officer
George J. Riedl Executive Vice President since January 2006 Senior Vice President January 2003 to January 2006	48	Executive Vice President
Mark A. Wagner Executive Vice President since March 2006 Senior Vice President February 2002 to March 2006	47	Executive Vice President
Stanley B. Blaylock Senior Vice President since January 2008 Vice President October 2007 to January 2008 Divisional Vice President January 2007 to October 2007 Senior Vice President, Walgreens Health Services January 2007 to October 2007 Vice President, Specialty Pharmacy, Walgreens Health Services August 2006 to January 2007 President and Chief Executive Officer, Medmark Inc. October 2005 to August 2006 President, Medmark Inc. June 2005 to October 2005 Executive Vice President, Chief Financial Officer and Chief Administrative Officer, Medmark Inc. August 2003 to June 2005	45	Senior Vice President
R. Bruce Bryant Senior Vice President since September 2000	58	Senior Vice President
Sona Chawla Senior Vice President since July 2008 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 Executive Vice President, Web Channel Management, Wells Fargo & Company June 2003 to February 2005	41	Senior Vice President
Kermit R. Crawford Senior Vice President since September 2007 Vice President from October 2005 to September 2007 Executive Vice President, Walgreens Health Initiatives, Inc. October 2005 to September 2007 Vice President, Walgreens Health Initiatives, Inc. September 2004 to October 2005 Operations Vice President October 2000 to September 2004	49	Senior Vice President
Debra M. Ferguson Senior Vice President since February 2007 Operations Vice President April 2002 to April 2007	51	Senior Vice President
Dana I. Green Senior Vice President, General Counsel and Corporate Secretary since January 2005 Senior Vice President February 2004 to January 2005 Vice President May 2000 to February 2004	58	Senior Vice President, General Counsel and Corporate Secretary

OFFICERS OF THE REGISTRANT – continued:

NAME AND BUSINESS EXPERIENCE	AGE	OFFICE HELD
William M. Handal Senior Vice President since March 2006 Operations Vice President September 2000 to March 2006	59	Senior Vice President
Donald C. Huonker, Jr. Senior Vice President since July 2007 Vice President from April 2006 to July 2007 Vice President, Pharmacy Services April 2005 to April 2006 Operations Vice President April 2003 to April 2005	47	Senior Vice President
J. Randolph Lewis Senior Vice President since January 2000	58	Senior Vice President
Wade D. Miquelon Senior Vice President and Chief Financial Officer since June 2008 Executive Vice President and Chief Financial Officer, Tyson Foods, Inc. June 2006 to June 2008 Vice President, Finance, Western Europe, The Proctor & Gamble Company September 2003 to June 2006	43	Senior Vice President and Chief Financial Officer
Hal F. Rosenbluth Senior Vice President since August 2008 Vice President April 2008 to August 2008 Chairman, Take Care Health Systems since October 2004 Chairman and Chief Executive Officer, Rosenbluth International through November 2003	56	Senior Vice President
William M. Rudolphsen Senior Vice President and Chief Risk Officer since June 2008 Senior Vice President and Chief Financial Officer January 2004 to June 2008 Controller January 1998 to January 2004	53	Senior Vice President and Chief Risk Officer
William A. Shiel Senior Vice President since July 1993	57	Senior Vice President
Kevin P. Walgreen Senior Vice President since January 2006 Operations Vice President January 1995 to January 2006	47	Senior Vice President
Kenneth R. Weigand Senior Vice President since January 2007 Vice President January 2005 to January 2007 Divisional Vice President May 2000 to January 2005	51	Senior Vice President
Kimberly L. Feil Vice President and Chief Marketing Officer since September 2008 Senior Vice President and Chief Marketing Officer, Sara Lee North America September 2005 to May 2008 Vice President and Senior Marketing Officer, Kimberly-Clark Corporation February 2005 to September 2005 Chief Executive Officer, Mosaic InfoForce, March 2003 to February 2005	49	Vice President and Chief Marketing Officer
Mia M. Scholz Vice President since October 2007 Controller since January 2004 Divisional Vice President January 2004 to October 2007 Director, Internal Audit November 1999 to January 2004	42	Vice President and Controller
John W. Spina Vice President and Treasurer since April 2007 Operations Vice President April 2005 to April 2007 Director, Drugstore Administration April 2003 to April 2005	49	Vice President and Treasurer

OFFICERS OF THE REGISTRANT - continued:

NAME AND BUSINESS EXPERIENCE	AGE	OFFICE HELD
David A. Van Howe Vice President since April 2007 Divisional Vice President January 2004 to April 2007	50	Vice President
Denise K. Wong Vice President and Chief Information Officer since May 2007 Divisional Vice President December 2001 to May 2007	50	Vice President and Chief Information Officer
Robert G. Zimmerman Vice President since April 2006 Chief Administration and Finance Officer, Walgreens Health Initiatives, Inc. since April 2006 Divisional Vice President, Walgreens Health Initiatives, Inc. September 2001 to April 2006	56	Vice President
Chester G. Young Divisional Vice President since January 1995	63	General Auditor

Kevin P. Walgreen is the son of Charles R. Walgreen III, who is a director of the company.

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, 2008 there were approximately 97,000 recordholders of company common stock.

The range of the sales prices of the company's common stock by quarters during the years ended August 31, 2008 and August 31, 2007 are incorporated herein by reference to the caption "Common Stock Prices" on page 35 of the 2008 Annual Report.

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

Quarter Ended	**2008**	2007
November	$ **.0950**	$ .0775
February	**.0950**	.0775
May	**.0950**	.0775
August	**.1125**	.0950
Fiscal Year	$ **.3975**	$ .3275

The following table provides information about purchases by the company during the quarter ended August 31, 2008 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act:

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 Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
06/01/2008 - 06/30/2008	-	-	-	$ 655,123,821
07/01/2008- 07/31/2008	1,000,000	$ 37.3743	-	$ 655,123,821
08/01/2008-08/31/2008	1,000,000	$ 36.4917	-	$ 655,123,821
Total	2,000,000	$ 36.9330	-	$ 655,123,821

(1) The company repurchased an aggregate of 2,000,000 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. These share repurchases were not made pursuant to a publicly announced repurchase plan or program.

(2) On January 10, 2007, the Board of Directors approved a stock repurchase program ("2007 repurchase program"), pursuant to which up to $1,000 million of the company's common stock may be purchased prior to the expiration date of the program on January 10, 2011. This program was announced in the company's report on Form 8-K, which was filed on January 11, 2007. The total remaining authorization under the repurchase program was $655,123,821 as of August 31, 2008.

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 2008 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 22 of the 2008 Annual Report.

Item 7A. Qualitative and Quantitative Disclosures about Market Risk

Management does not believe that there is any material market risk exposure with respect to derivative or other financial instruments that would require disclosure under this item.

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

Based on their evaluation as of August 31, 2008 pursuant to Exchange Act Rule 13a-15(b), the company's management, including its Chief Executive Officer and Chief Financial Officer, believe the company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are effective.

Management's report on internal control and the attestation report of Deloitte & Touche LLP, the company's independent registered public accounting firm, are included in our Annual Report to Shareholders for the year ended August 31, 2008 and are incorporated in this Item 9A by reference. Our 2008 Annual Report to Shareholders is included as an Exhibit to this Annual Report on Form 10-K.

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the company's management, including its Chief Executive Officer and Chief Financial Officer, no changes during the quarter ended August 31, 2007 were identified that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information

On October 8, 2008, the company’s Board of Directors amended and restated the Walgreen Co. Management Incentive Plan effective as of September 1, 2008. Among other things, the amendment provides greater discretion to the Compensation Committee: (1) to select bonus performance metrics each year; (2) to set bonus targets each year and to vary those targets (and the variability around those targets) for different levels of employees; and (3) to adjust bonuses up or down based on individual performance. The amended and restated Walgreen Co. Management Incentive Plan is filed as Exhibit 10.3 to this Form 10-K.

PART III

Item 10. Directors, Executive Officer 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 Item I above under the heading "Executive Officers of the Registrant," is incorporated herein by reference to the following sections of the company's 2008 Proxy Statement: Proposal 1, Election Of Directors; Information Concerning Corporate Governance, the Board of Directors and its Committees; and Section 16(a) Beneficial Ownership Reporting Compliance.

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the following sections of the company's 2008 Proxy Statement: Compensation of Directors; and Executive Compensation – Compensation Disclosure and Analysis.

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 2008 Proxy Statement: Security Ownership of Certain Beneficial Owners; and Management and Equity Plan Information.

Item 13. Certain Relationships and Related Party Transactions and Director Independence

The information required by Item 13 is incorporated herein by reference to the following sections of the company's 2008 Proxy Statement: Certain Relationships and Related Party Transactions; and Information Concerning Corporate Governance.

Item 14. Principal Accounting Fees and Services

Fees Paid to the Independent Registered Public Accounting Firm

All fees billed by Deloitte & Touche LLP for services rendered during fiscal years 2008 and 2007 are as follows:

	Fiscal Year 2008	Fiscal Year 2007
Audit Fees (1)	**$ 1,980,000**	$ 1,916,000
Audit-Related Fees (2)	**11,000**	11,000
Tax Fees (3)	**22,000**	77,000
All Other Fees	**—**	—
Total Fees	**$ 2,013,000**	$ 2,004,000

(1) Audit fees cover: professional services performed by Deloitte in the audit of the Company’s annual financial statements included in the annual report on Form 10-K; audit of the effectiveness of internal control over financial reporting; the review of financial statements included in the Company’s quarterly reports on Form 10-Q; and services normally provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees consist of fees billed for assurance and related services performed by Deloitte that are reasonably related to the performance of the audit or review of the Company’s financial statements. This includes audits of employee benefits plans and consultations with respect to financial reporting and accounting standards. There were no audit-related fees approved during fiscal years 2008 and 2007 pursuant to the de minimis exception under Rule 2-01(c)(7)(i)(C) of Regulation S-X promulgated by the SEC.

(3) Tax fees consist of fees billed for professional services performed by Deloitte with respect to tax compliance, tax advice and tax planning. This includes preparation of original and amended tax returns for the Company and its subsidiaries, refund claims, tax appeals, and tax work stemming from “Audit-Related” items. There were no tax fees approved during fiscal years 2008 and 2007 pursuant to the de minimis exception provided in Rule 2-01(c)(7)(i)(C) of Regulation S-X promulgated by the SEC.

Pre-Approval of Services Provided By the Independent Registered Public Accounting Firm

The Audit Committee is responsible for appointing, setting compensation for and overseeing the work of the Company's independent registered public accounting firm, and has established a policy concerning the preapproval of services performed by the Company's independent registered public accounting firm. Each proposed engagement not specifically identified by the SEC as impairing independence is evaluated for independence implications prior to entering into a contract with the independent registered public accounting firm for such services. The Audit Committee has approved in advance certain permitted services whose scope is consistent with auditor independence. These services are (i) statutory audits of Company subsidiaries, (ii) services associated with SEC registration statements, other documents filed with the SEC or other documents issued in connection with securities offerings (for example, comfort letters or consents), (iii) consultations related to adoption of new accounting or auditing pronouncements, disclosure requirements or other accounting related regulations, and (iv) audits of employee benefit plans. If the project is in a permitted category, it is considered pre-approved by the Audit Committee. All other services require specific pre-approval by the Audit Committee. Engagements with total fees less than $100,000 require the approval of one member of the Audit Committee. Engagements with total fees greater than $100,000 require the approval of the full Audit Committee. On a quarterly basis, the Audit Committee reviews a summary listing all service fees, along with a reasonably detailed description of the nature of the engagement.

All audit, audit-related, and tax services performed by Deloitte in fiscal year 2008 were pre-approved by the Audit Committee in accordance with the regulations of the SEC. The Audit Committee considered and determined that the provision of nonaudit services by Deloitte during fiscal year 2008 was compatible with maintaining auditor independence.

Review of Deloitte's Independence

On September 22, 2008, Deloitte advised us that it had recently become aware of unauthorized personal securities transactions in the Company's securities by a Deloitte partner who served as the advisory partner on Deloitte's audit team for the Company until his resignation from Deloitte in September 2008 (the "Former Advisory Partner"). Deloitte believes that the Former Advisory Partner engaged in trading in the Company's common stock, or options relating thereto, as well as common stock, or options relating thereto, issued by Option Care, Inc., which was acquired by the Company in 2007. The Company's Deloitte audit engagement team consisted of an Audit Partner, a Concurring Partner, the Former Advisory Partner, a Senior Manager and additional Deloitte professional staff. The Audit Partner had responsibility for all substantive issues with respect to the planning, scope and conduct of the Company's audit, while the Former Advisory Partner was responsible for client relationship management and service assessment. Pursuant to the SEC's rules, and to Deloitte's own rules, on auditor independence, the Former Advisory Partner was not permitted to own or trade in the Company's securities.

Deloitte has informed the Company that Deloitte's investigation of the facts and circumstances related to the Former Advisory Partner determined that, notwithstanding the violation of the SEC's independence rules, Deloitte's objectivity and integrity with respect to the Company's audits was unaffected such that Deloitte's independence with respect to the audits remained unimpaired and that, in Deloitte's opinion, it remains independent. Accordingly, in the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 and the rules of the Public Company Accounting Oversight Board (PCAOB), Deloitte stated that the behavior of the Former Advisory Partner had not impaired Deloitte's independence with respect to the Company and that Deloitte remained independent accountants with respect to the Company, within the meaning of the Securities Act and the Securities Exchange Act and the requirements of the PCAOB. In discussions with the Audit Committee, Deloitte stated that its conclusion was based on, among other things, the results of its internal investigation, which concluded that (i) the Audit Partner, rather than the Former Advisory Partner, was responsible for the planning, scope and conduct of the Company's audits, including setting materiality levels and determining audit procedures, (ii) while the Former Advisory Partner did review the audit plan document and offer high-level editorial comments, he did not offer any substantive changes, (iii) the Former Advisory Partner did not prepare or review work papers with respect to the Company's audits, (iv) although he was made aware of certain technical issues, the Former Advisory Partner was not consulted on any technical accounting, auditing or independence issues related to the Company's audits by the Audit Partner, the Concurring Partner or any other members of the audit engagement team, and (v) no Deloitte personnel, including the audit engagement team, had any knowledge of the Former Advisory Partner's trading activities.

Following Deloitte's disclosure, the Company and the Audit Committee engaged counsel to independently investigate the facts relating to the Former Advisory Partner. In the course of the investigation, counsel interviewed relevant Deloitte personnel and the members of the Company's executive team who had regular contact with the Former Advisory Partner. Counsel informed the Audit Committee that its investigation had confirmed that (i) none of the Company executives interviewed by counsel could recall the Former Advisory Partner participating in any steps of the actual audit process or in any discussions regarding accounting treatment of any items appearing on the Company's financial statements, (ii) while the Former Advisory Partner regularly attended Audit Committee meetings, neither management nor the Audit Committee looked to the Former Advisory Partner for input on substantive issues relating directly to the Company at those meetings, (iii) the Deloitte Audit Partner always led the discussions relating to all aspects of the audit at Audit Committee meetings, while the Former Advisory Partner's role at Audit Committee meetings was limited to comments on the qualifications and firm-wide legal risk exposure of Deloitte, any PCAOB reviews of Deloitte, non-audit services that Deloitte might be able to offer the Company, client satisfaction issues, and global best practices for audit committees, and (iv) none of the interviewed Company employees had any indication that the Former Advisory Partner had engaged in securities trading activities that may have violated the independence rules of the SEC, or of Deloitte, prior to September 22, 2008. Furthermore, in the course of an Audit Committee meeting the Audit Committee Chairman confirmed with each of the members of the Audit Committee, as well as with the Company's Chief Executive Officer and Chief Operating Officer, that their experiences with the Former Advisory Partner were consistent with the foregoing.

Based on the report by Deloitte and the results of the independent investigation by counsel, the Audit Committee concluded that, notwithstanding the actions of the Former Advisory Partner resulting in the violation of the SEC's auditor independence rule, Deloitte's independence with respect to the Company was not impaired. Following this determination, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended August 31, 2008. After a review of the quality of Deloitte's audit work, the professional abilities and experience of the Deloitte staff assigned to the audit and Deloitte's internal controls designed to provide reasonable assurance of independence, the Audit Committee appointed Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending August 31, 2009.

The Company and Deloitte subsequently discussed their conclusions regarding the Former Advisory Partner with, and on October 20, 2008 the Company furnished a detailed written analysis to, the staff of the SEC.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report

(1) The following financial statements, supplementary data, and report of independent public accountants appearing in the 2008 Annual Report are incorporated herein by reference.

	Annual Report Page Number
Consolidated Statements of Earnings and Shareholders' Equity for the years ended August 31, 2008, 2007 and 2006	23
Consolidated Balance Sheets at August 31, 2008 and 2007	25
Consolidated Statements of Cash Flows for the years ended August 31, 2008, 2007 and 2006	26
Notes to Consolidated Financial Statements	27 - 34
Management's Report on Internal Control	36
Report of Independent Registered Public Accounting Firm	36

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

	10-K Page Number
Schedule II Valuation and Qualifying Accounts	24
Report of Independent Registered Public Accounting Firm	25

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 10(a) through 10(r) constitute management contracts or compensatory plans or arrangements required to be filed as exhibits pursuant to Item 15(b) of this Form 10-K.

(b) Exhibits

1. Underwriting Agreement dated July 14, 2008, by and among Walgreen Co. and Banc of America Securities LLC and J.P. Morgan Securities Inc., as representatives of the several underwriters named therein, filed with the Securities and Exchange Commission on July 17, 2008 as Exhibit 1.1 to the Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

2.1 Agreement and Plan of Merger, dated as of July 2, 2007, by and among Walgreen Co., Bison Acquisition Sub Inc. and Option Care, Inc., filed with the Securities and Exchange Commission on July 3, 2007 as Exhibit 2.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

2.2 Agreement and Plan of Merger dated March 14, 2008 by and among Walgreen Co., Putter Acquisition Sub, Inc. and I-trax, Inc., filed with the Securities and Exchange Commission on March 17, 2008 as Exhibit 2.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

3.1 Articles of Incorporation of Walgreen Co., as amended, filed with the Securities and Exchange Commission as Exhibit 3(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1999 (File No. 1-00604), and incorporated by reference herein.

3.2 Amended and Restated By-Laws of Walgreen Co., as amended effective as of September 1, 2008, filed with the Securities and Exchange Commission on September 5, 2008 as Exhibit 3.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

4.1 Form of 4.875% Note due 2013, filed with the Securities and Exchange Commission on July 17, 2008 as Exhibit 4.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

4.2 Form of Indenture between Walgreen Co. and Wells Fargo Bank, National Association, filed with the Securities and Exchange Commission on July 14, 2008 as Exhibit 4.3 to the Walgreen Co.'s registration statement on Form S-3ASR (File No. 333-152315), and incorporated by reference herein.

10.1 Top Management Long-Term Disability Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1990 (File No. 1-00604), and incorporated by reference herein.

10.2 Executive Short-Term Disability Plan Description, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1990 (File No. 1-00604), and incorporated by reference herein.

10.3 Walgreen Co. Management Incentive Plan (as amended and restated effective September 1, 2008).

10.4	Walgreen Co. Long-Term Performance Incentive Plan (amendment and restatement of the Walgreen Co. Restricted Performance Share Plan), filed with the Securities and Exchange Commission on January 11, 2007 as Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.
10.5	Walgreen Co. Long-Term Performance Incentive Plan Amendment No. 1 (effective January 10, 2007), filed with the Securities and Exchange Commission as Exhibit 10.2 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2007 (File No. 1-00604), and incorporated by reference herein.
10.6	Walgreen Co. Executive Stock Option Plan (effective January 11, 2006), as amended and restated, filed with the Securities and Exchange Commission on January 17, 2006 as Exhibit 10.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.
10.7	Walgreen Co. Executive Stock Option Plan Amendment No. 1 (effective October 11, 2006), filed with the Securities and Exchange Commission as Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604), and incorporated by reference herein.
10.8	Walgreen Co. Executive Stock Option Plan Amendment No. 2 (effective September 1, 2007), filed with the Securities and Exchange Commission as Exhibit 10(e)(iii) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2007, and incorporated by reference herein.
10.9	Form of Stock Option Agreement (Grades 12 through 17), filed with the Securities and Exchange Commission as Exhibit 10(e)(ii) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2004 (File No. 1-00604), and incorporated by reference herein.
10.10	Form of Stock Option Agreement (Grades 18 and above), filed with the Securities and Exchange Commission as Exhibit 10(e)(iii) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2004 (File No. 1-00604), and incorporated by reference herein.
10.11	Form of Stock Option Agreement (Grades 12 through 17) (effective September 1, 2008).
10.12	Form of Stock Option Agreement (Grades 18 and above) (effective September 1, 2008).
10.13	Form of Restricted Stock Unit Award Agreement (effective September 1, 2008).
10.14	Form of Performance Share Contingent Award Agreement (effective September 1, 2008).
10.15	Form of Restricted Stock Award Agreement (effective June 2008).
10.16	Walgreen Co. 1986 Director's Deferred Fee/Capital Accumulation Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1986 (File No. 1-00604), and incorporated by reference herein.
10.17	Walgreen Co. 1987 Director's Deferred Fee/Capital Accumulation Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1986 (File No. 1-00604), and incorporated by reference herein.
10.18	Walgreen Co. 1988 Director's Deferred Fee/Capital Accumulation Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1987 (File No. 1-00604), and incorporated by reference herein.
10.19	Walgreen Co. 1992 Director's Deferred Retainer Fee/Capital Accumulation Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604), and incorporated by reference herein.
10.20	Walgreen Co. 1986 Executive Deferred Compensation/Capital Accumulation Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1986 (File No. 1-00604), and incorporated by reference herein.
10.21	Walgreen Co. 1988 Executive Deferred Compensation/Capital Accumulation Plan, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1987 (File No. 1-00604), and incorporated by reference herein.
10.22	Amendments to Walgreen Co. 1986 and 1988 Executive Deferred Compensation/Capital Accumulation Plans, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1988 (File No. 1-00604), and incorporated by reference herein.
10.23	Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 1, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604), and incorporated by reference herein.
10.24	Walgreen Co. 1992 Executive Deferred Compensation/Capital Accumulation Plan Series 2, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1992 (File No. 1-00604), and incorporated by reference herein.

10.25	Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 1, filed with the Securities and Exchange Commission as Exhibit 10(c) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1997 (File No. 1-00604), and incorporated by reference herein.
10.26	Walgreen Co. 1997 Executive Deferred Compensation/Capital Accumulation Plan Series 2, filed with the Securities and Exchange Commission as Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 1997 (File No. 1-00604), and incorporated by reference herein.
10.27	Walgreen Co. 2001 Executive Deferred Compensation/Capital Accumulation Plan, filed with the Securities and Exchange Commission as 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), and incorporated by reference herein.
10.28	Walgreen Co. 2002 Executive Deferred Compensation/Capital Accumulation Plan, filed with the Securities and Exchange Commission as 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), and incorporated by reference herein.
10.29	Walgreen Co. 2006 Executive Deferred Compensation/Capital Accumulation Plan (effective January 1, 2006), filed with the Securities and Exchange Commission as 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), and incorporated by reference herein.
10.30	Share Walgreens Stock Purchase/Option Plan (effective October 1, 1992), as amended, filed with the Securities and Exchange Commission as Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604), and incorporated by reference herein.
10.31	Share Walgreens Stock Purchase/Option Plan Amendment No. 4 (effective July 15, 2005), as amended, filed with the Securities and Exchange Commission as 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), and incorporated by reference herein.
10.32	Share Walgreens Stock Purchase/Option Plan Amendment No. 5 (effective October 11, 2006), filed with the Securities and Exchange Commission as Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604), and incorporated by reference herein.
10.33	Walgreen Select Senior Executive Retiree Medical Expense Plan, filed with the Securities and Exchange Commission as 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), and incorporated by reference herein.
10.34	Walgreen Select Senior Executive Retiree Medical Expense Plan Amendment No. 1 (effective August 1, 2002), filed with the Securities and Exchange Commission as Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604), and incorporated by reference herein.
10.35	Walgreen Co. Profit-Sharing Restoration Plan (as restated effective January 1, 2003), filed with the Securities and Exchange Commission as Exhibit 10(b) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended May 31, 2003 (File No. 1-00604), and incorporated by reference herein.
10.36	Walgreen Co. Profit-Sharing Restoration Plan Amendment No. 1 (effective January 1, 2008).
10.37	Walgreen Co. Retirement Plan for Outside Directors, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1989 (File No. 1-00604), and incorporated by reference herein.
10.38	Walgreen Section 162(m) Deferred Compensation Plan (effective October 12, 1994), filed with the Securities and Exchange Commission as Exhibit 10(d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 1994 (File No. 1-00604), and incorporated by reference herein.
10.39	Walgreen Section 162(m) Deferred Compensation Plan Amendment No. 1 (effective July 9, 2003), filed with the Securities and Exchange Commission as Exhibit 10(n) to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 2003 (File No. 1-00604), and incorporated by reference herein.
10.40	Walgreen Section 162(m) Deferred Compensation Plan Amendment No. 2 (effective January 1, 2008), filed with the Securities and Exchange Commission as Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2007 (File No. 1-00604), and incorporated by reference herein.
10.41	Walgreen Co. Nonemployee Director Stock Plan, as amended and restated (effective January 14, 2004), filed with the Securities and Exchange Commission as Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 29, 2004 (File No. 1-00604), and incorporated by reference herein.
10.42	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 1 (effective October 12, 2005), filed with the Securities and Exchange Commission as Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2005 (File No. 1-00604), and incorporated by reference herein.
10.43	Walgreen Co. Nonemployee Director Stock Plan Amendment No. 2 (effective October 11, 2006), filed with the Securities and Exchange Commission as Exhibit 10(f) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604), and incorporated by reference herein.

10.44 Walgreen Co. Option 3000 Plan (effective May 2, 2000), filed with the Securities and Exchange Commission as Exhibit 10(e) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended February 28, 2003 (File No. 1-00604), and incorporated by reference herein.

10.45 Walgreen Co. Option 3000 Plan Amendment No. 1 (effective October 11, 2006), filed with the Securities and Exchange Commission as Exhibit 10 (d) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604), and incorporated by reference herein.

10.46 Walgreen Co. Broad-Based Stock Option Plan (effective July 10, 2002), filed with the Securities and Exchange Commission as 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), and incorporated by reference herein.

10.47 Walgreen Co. Broad-Based Employee Stock Option Plan Amendment No. 1 (effective April 1, 2003), filed with the Securities and Exchange Commission as Exhibit 10(c) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended May 31, 2003 (File No. 1-00604), and incorporated by reference herein.

10.48 Walgreen Co. Broad-Based Employee Stock Option Plan Amendment No. 2 (effective October 11, 2006), filed with the Securities and Exchange Commission as Exhibit 10(e) to Walgreen Co.'s Quarterly Report on Form 10-Q for the quarter ended November 30, 2006 (File No. 1-00604), and incorporated by reference herein.

10.49 Form of Memorandum Summarizing Executive Retirement Benefits, filed with the Securities and Exchange Commission as Exhibit 10(a) to Walgreen Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2005 (File No. 1-00604), and incorporated by reference herein.

10.50 Form of Change of Control Employment Agreements, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Current Report on Form 8-K dated October 18, 1988 (File No. 1-00604), and incorporated by reference herein.

10.51 Amendment to Employment Agreements adopted July 12, 1989, filed with the Securities and Exchange Commission as Exhibit 10 to Walgreen Co.'s Annual Report on Form 10-K for the fiscal year ended August 31, 1989 (File No. 1-00604), and incorporated by reference herein.

10.52 Separation and Release Agreement entered into between Walgreen Co. and Trent E. Taylor, dated February 27, 2008, filed with the Securities and Exchange Commission on March 4, 2008 as Exhibit 99.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

10.53 Retirement and Non-Competition Agreement effective as of October 10, 2008 between Jeffrey A. Rein and Walgreen Co., filed with the Securities and Exchange Commission on October 17, 2008 as Exhibit 99.1 to Walgreen Co.'s Current Report on Form 8-K (File No. 1-00604), and incorporated by reference herein.

11. The required information for this Exhibit is contained in the Consolidated Statements of Earnings and Shareholders Equity for the years ended August 31, 2008, 2007 and 2006 and also in the Notes to Consolidated Financial Statements, each appearing in the Annual Report and previously referenced in Part IV, Item 15, Section (a)(1).

12. Computation of Ratio of Earnings to Fixed Charges.

13. Annual Report to shareholders for the fiscal year ended August 31, 2008. 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 Accounting Firm.

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

WALGREEN CO. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED AUGUST 31, 2008, 2007 AND 2006

(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, 2008	**$ 69**	**$ 88**	**$ (61)**	**$ 96**
Year Ended August 31, 2007	$ 57	$ 72	$ (60)	$ 69
Year Ended August 31, 2006	$ 45	$ 58	$ (46)	$ 57

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, 2008 and 2007, and for each of the three years in the period ended August 31, 2008, and the Company's internal control over financial reporting as of August 31, 2008, and have issued our report thereon dated October 28, 2008 (which report expresses an unqualified opinion and includes an explanatory paragraph related to the adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109,* and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*); such consolidated financial statements and report are included in your 2008 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.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
October 28, 2008

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.
(Registrant)

By

/s/	Wade D. Miquelon Wade D. Miquelon	Senior Vice President and Chief Financial Officer	Date: October 28, 2008

SIGNATURES

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/	Alan G. McNally Alan G. McNally	Chairman of the Board and acting Chief Executive Officer (Principal Executive Officer)	October 28, 2008
/s/	Wade D. Miquelon Wade D. Miquelon	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	October 28, 2008
/s/	Mia M. Scholz Mia M. Scholz	Vice President and Controller (Principal Accounting Officer)	October 28, 2008
/s/	William C. Foote William C. Foote	Director	October 28, 2008
/s/	Cordell Reed Cordell Reed	Director	October 28, 2008
/s/	Nancy M. Schlichting Nancy M. Schlichting	Director	October 28, 2008
/s/	David Y. Schwartz David Y. Schwartz	Director	October 28, 2008
/s/	Alejandro Silva Alejandro Silva	Director	October 28, 2008
/s/	James A. Skinner James A. Skinner	Director	October 28, 2008
/s/	Marilou M. von Ferstel Marilou M. von Ferstel	Director	October 28, 2008
/s/	C.R. Walgreen III C.R. Walgreen III	Director	October 28, 2008

WALGREEN CO. AND SUBSIDIARIES

ANNUAL REPORT

FOR THE YEAR ENDED AUGUST, 31, 2008

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Five-Year Summary of Selected Consolidated Financial Data
Walgreen Co. and Subsidiaries
(Dollars in Millions, except per share amounts)

Fiscal Year	**2008**	2007	2006	2005	2004
Net Sales	$ **59,034**	$ 53,762	$ 47,409	$ 42,202	$ 37,508
Costs and Deductions					
Cost of sales	**42,391**	38,518	34,240	30,414	27,310
Selling, general and administrative (1)	**13,202**	12,093	10,467	9,364	8,055
Other income (expense)	**(11)**	38	52	32	17
Total Costs and Deductions	**55,604**	50,573	44,655	39,746	35,348
Earnings					
Earnings Before Income Tax Provision	**3,430**	3,189	2,754	2,456	2,160
Income tax provision	**1,273**	1,148	1,003	896	810
Net Earnings	$ **2,157**	$ 2,041	$ 1,751	$ 1,560	$ 1,350
Per Common Share					
Net earnings					
Basic	$ **2.18**	$ 2.04	$ 1.73	$ 1.53	$ 1.32
Diluted	**2.17**	2.03	1.72	1.52	1.31
Dividends declared	**.40**	.33	.27	.22	.18
Book value	**13.01**	11.20	10.04	8.77	7.95
Non-Current Liabilities					
Long-term debt	$ **1,337**	$ 22	$ 3	$ 12	$ 12
Deferred income taxes	**150**	158	141	240	274
Other non-current liabilities	**1,410**	1,285	1,116	986	838
Assets and Equity					
Total assets	$ **22,410**	$ 19,314	$ 17,131	$ 14,609	$ 13,342
Shareholders' equity	**12,869**	11,104	10,116	8,890	8,140
Return on average shareholders' equity	**18.0%**	19.2%	18.4%	18.3%	17.7%
Locations					
Year-end (2)	**6,934**	5,997	5,461	4,985	4,613

(1)Fiscal 2008 included a positive pre-tax adjustment of $79 million ($.050 per share, diluted), which corrected for historically over-accruing the company’s vacation liability. Fiscal 2008 and fiscal 2007 had insignificant pre-tax income from litigation settlement gains. Fiscal 2006, 2005 and 2004 included pre-tax income of $7 million ($.005 per share, diluted), $26 million ($.016 per share, diluted) and $16 million ($.010 per share, diluted) respectively, from litigation settlements. Fiscal 2006 included a $12 million ($.008 per share, diluted) downward adjustment of the fiscal 2005 pre-tax expenses of $55 million ($.033 per share, diluted) related to Hurricane Katrina.
(2)Locations include drugstores, worksite facilities, home care facilities, specialty pharmacies and mail service facilities.

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

Introduction

Walgreens is principally a retail drugstore chain that sells prescription and non-prescription drugs and general merchandise. General merchandise includes, among other things, beauty care, personal care, household items, candy, photofinishing, greeting cards, convenience foods and seasonal items. Customers can have prescriptions filled in retail pharmacies, as well as through the mail, by telephone and via the Internet. As of August 31, 2008, we operated 6,934 locations in 49 states, the District of Columbia, Guam and Puerto Rico. Total locations do not include 217 convenient care clinics operated by Take Care Health Systems, Inc.

	Number of Locations		
Location Type	**2008**	2007	2006
Drugstores	**6,443**	5,882	5,414
Worksite Facilities	**364**	3	-
Home Care Facilities	**115**	101	38
Specialty Pharmacies	**10**	8	6
Mail Service Facilities	**2**	3	3
Total	**6,934**	5,997	5,461

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

The long-term outlook for prescription utilization is strong due in part to the aging population and the continued development of innovative drugs that improve quality of life and control health care costs. Certain provisions of the Deficit Reduction Act of 2005 seek to reduce federal spending by altering the Medicaid reimbursement formula for multi-source (i.e., generic) drugs. These changes are expected to result in reduced Medicaid reimbursement rates for our retail pharmacies.

Front-end sales have continued to grow due to strengthening core categories, such as over-the-counter non-prescription drugs, beauty care, household and personal care products. Walgreens strong name recognition continues to drive private brand sales, which are included in these core categories.

We continue to expand into new markets and increase penetration in existing markets. To support our growth, we are investing significantly in prime locations, technology and customer service initiatives. Retail organic growth continues to be our primary growth vehicle; however, consideration is given to retail and other acquisitions that provide unique opportunities and fit our business strategies, such as the acquisitions of I-trax, Inc. and Whole Health Management, operators of worksite health centers, including primary and acute care, wellness, pharmacy and disease management services and health and fitness programming.

We are currently engaged in company-wide strategic initiatives to broaden access to our products and services, enhance the customer experience for our shoppers, patients and payors and reduce costs to improve productivity. These strategies are intended to enable us to provide the most convenient access to consumer goods and services, and pharmacy and health and wellness services; offer a consistent customer experience across all channels; and ensure that cost, culture and capabilities support and enable our strategies. On October 30, 2008, we announced an initiative to improve efficiency and effectiveness, which targets $1 billion in annual cost savings by fiscal 2011. In conjunction with this initiative, we anticipate incurring total costs of approximately $300 million to $400 million over fiscal 2009 and 2010.

Operating Statistics

	Percentage Increases		
Fiscal Year	**2008**	2007	2006
Net Sales	**9.8**	13.4	12.3
Net Earnings	**5.7**	16.6	12.3
Comparable Drugstore Sales	**4.0**	8.1	7.7
Prescription Sales	**9.7**	14.7	13.3
Comparable Drugstore Prescription Sales	**3.9**	9.5	9.2
Front-End Sales	**10.0**	12.2	10.9
Comparable Drugstore Front-End Sales	**4.2**	5.8	5.3
Gross Profit	**9.2**	15.8	11.7
Selling, General and Administrative Expenses	**9.2**	15.5	11.8

	Percent to Net Sales		
Fiscal Year	**2008**	2007	2006
Gross Margin	**28.2**	28.4	27.8
Selling, General and Administrative Expenses	**22.4**	22.5	22.1

	Other Statistics		
Fiscal Year	**2008**	2007	2006
Prescription Sales as a % of Net Sales	**64.9**	65.0	64.3
Third Party Sales as a % of Total Prescription Sales	**95.3**	94.8	93.1
Total Number of Prescriptions (in millions)	**617**	583	530
Total Number of Locations	**6,934**	5,997	5,461

Results of Operations

Fiscal year 2008 net earnings increased 5.7% to $2,157 million, or $2.17 per share (diluted), versus last year's earnings of $2,041 million, or $2.03 per share (diluted). The net earnings increase resulted from improved sales, which were partially offset by lower gross margins and higher interest expense. The current year was also benefited by a positive adjustment of $79 million, which corrected for historically over-accruing the company's vacation liability.

Net sales increased by 9.8% to $59,034 million in fiscal 2008 compared to increases of 13.4% in 2007 and 12.3% in 2006. Drugstore sales increases resulted from sales gains in existing stores and added sales from new stores, each of which include an indeterminate amount of market-driven price changes. Sales in comparable drugstores were up 4.0% in 2008, 8.1% in 2007 and 7.7% in 2006. Comparable drugstores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or a natural disaster in the past twelve months. Relocated and acquired stores are not included as comparable stores for the first twelve months after the relocation or acquisition. We operated 6,934 locations as of August 31, 2008, compared to 5,997 at August 31, 2007, and 5,461 at August 31, 2006.

Prescription sales increased 9.7% in 2008, 14.7% in 2007 and 13.3% in 2006. Comparable drugstore prescription sales were up 3.9% in 2008 compared to increases of 9.5% in 2007 and 9.2% in 2006. Prescription sales as a percent of total net sales were 64.9% in 2008, 65.0% in 2007 and 64.3% in 2006. The effect of generic drugs introduced during the fiscal year, which replaced higher priced retail brand name drugs, reduced prescription sales by 3.5% for 2008, 4.2% for 2007 and 2.0% for 2006, while the effect on total sales was 2.2% for 2008, 2.5% for 2007 and 1.2% for 2006. Third party sales, where reimbursement is received from managed care organizations, the government or private insurers, were 95.3% of prescription sales in 2008, 94.8% in 2007 and 93.1% in 2006. The total number of prescriptions filled was approximately 617 million in 2008, 583 million in 2007 and 530 million in 2006.

Front-end sales increased 10.0% in 2008, 12.2% in 2007 and 10.9% in 2006. Front-end sales were 35.1% of total sales in fiscal 2008, 35.0% in 2007 and 35.7% in 2006. The increase is due in part to improved sales dollars related to non-prescription drugs, beauty, household, personal care products and convenience foods. Comparable drugstore front-end sales increased 4.2% in 2008, 5.8% in 2007 and 5.3% in 2006.

Gross margin as a percent of sales decreased to 28.2% in 2008 from 28.4% in 2007. Overall margins were negatively impacted by non-retail businesses, including specialty pharmacy, which have lower margins and are becoming a greater part of the total business. This was partially offset by an improvement in retail pharmacy margins, which were positively influenced by generic drug sales, but to a lesser extent negatively influenced by the growth in third party pharmacy sales. Front-end margins remained essentially flat from the prior year as a positive shift in sales mix was offset by increased promotions. Gross margin as a percent of sales increased to 28.4% in 2007 from 27.8% in 2006. Retail pharmacy margins increased as a result of growth in generic drug sales. Front-end margins increased as a result of a shift in sales mix to higher margin items. These increases were partially offset by the growth in Medicare Part D and third party pharmacy sales. In addition, the continuing shift toward the pharmacy business, which carries a lower margin than front-end merchandise, also negatively impacted margins.

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 1.28% in 2008, 1.04% in 2007 and 1.53% in 2006, which resulted in charges to cost of sales of $99 million in 2008, $69 million in 2007 and $95 million in 2006. Inflation on prescription inventory was 2.65% in 2008, .71% in 2007 and 2.37% in 2006. In all three fiscal years, we experienced deflation in some non-prescription inventories.

Gross profit increased 9.2% in 2008 compared to increases of 15.8% in 2007 and 11.7% in 2006. The decrease from the prior year is due to lower sales growth in comparison to last year and lower gross profit contribution from generic versions of the name brand drugs Zocor and Zoloft. The increase in 2007 from 2006 was attributed to higher gross profit contributions from generic versions of Zocor and Zoloft along with increased sales growth.

Selling, general and administrative expenses were 22.4% of sales in fiscal 2008, 22.5% in fiscal 2007 and 22.1% in fiscal 2006. In the current year, lower provisions for legal matters were offset by higher store level expenses as a percentage of sales. The current year was also benefited by a positive adjustment of $79 million, which corrected for historically over-accruing the company's vacation liability. The increase in fiscal 2007 as compared to fiscal 2006 was due to higher store level salaries and expenses, provisions for legal matters and higher intangible asset amortization and administrative costs related to acquisitions.

Selling, general and administrative expenses increased 9.2% in fiscal 2008, 15.5% in fiscal 2007 and 11.8% in fiscal 2006. Although store level salaries and expenses increased at a faster rate than sales, the rate of growth for the current year was lower than fiscal 2007. Lower provisions for legal matters and insurance also contributed to the improvement for the current year. In fiscal 2007, the rate of growth for store level salaries and expenses was higher than fiscal 2006. In addition, higher provisions for legal matters, amortization and administrative costs related to acquisitions drove the increase from 2006.

Interest was a net expense of $11 million for fiscal 2008 as compared to net interest income of $38 million and $52 million in fiscal 2007 and 2006, respectively. The change in net interest over the prior year is attributed to higher short-term borrowings, the issuance of long-term debt and lower short-term investments available for sale. Interest expense for the current year is net of $19 million, which was capitalized to construction projects. Last year we capitalized $6 million of interest to construction projects. As a result of our long-term bond offering, interest expense and the amount capitalized to construction projects was higher than the prior year. The reduction in net interest income from fiscal 2006 to fiscal 2007 was due to lower short-term investment balances as cash was used to fund business acquisitions and stock repurchases.

The effective income tax rate was 37.1% for fiscal 2008, 36.0% for 2007 and 36.4% for 2006. Fiscal 2007 reflects the favorable resolution of a multiyear state tax matter and a lower effective state tax rate as compared to the prior year. Fiscal 2006 reflects the favorable settlement of prior years' Internal Revenue Service matters.

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, 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 or whenever events or changes in circumstances indicate that the value of a certain asset may be impaired. The process of evaluating goodwill for impairment involves the determination of fair value. Inherent in such fair value determinations are certain judgments and estimates, including the interpretation of economic indicators and market valuations and assumptions about our business plans. 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 estimate 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 estimate or assumptions used to determine the allowance.

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

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

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

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.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 48, "*Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109,"* effective September 1, 2007. The adoption of FIN No. 48 resulted in the reclassification of certain tax liabilities from current to long-term and a decrease in our liability for unrecognized tax benefits, which was accounted for as an increase to the August 31, 2007, retained earnings balance.

Liquidity and Capital Resources

Cash and cash equivalents were $443 million at August 31, 2008, compared to $255 million at August 31, 2007. Short-term investment objectives are to minimize risk, maintain liquidity and maximize after-tax yields. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in U.S. Treasury market funds.

Net cash provided by operating activities was $3,039 million in fiscal 2008 and $2,357 million in fiscal 2007. Higher net earnings and increased cash from payables and inventories were partially offset by a decrease in cash from accounts receivable. The decrease in cash from accounts receivable and the increase in cash from trade accounts payable are primarily attributed to the loss of the UnitedHealth Group's Ovations unit contract in our pharmacy benefit management business as of December 31, 2006. Cash provided by operations is the principal source of funds for expansion, acquisitions, remodeling programs, dividends to shareholders and stock repurchases. In fiscal 2008, we supplemented cash provided by operations with short-term borrowings and long-term debt.

Net cash used for investing activities was $2,818 million versus $2,396 million last year. We did not engage in auction rate security sales or purchases in the current year. Proceeds from the sale of auction rate securities exceeded the purchases of such securities by $429 million a year ago.

Additions to property and equipment were $2,225 million compared to $1,786 million last year. During the year, we added a total of 1,031 locations (937 net) compared to 621 last year (536 net). There were 235 owned locations added during the year and 69 under construction at August 31, 2008, versus 170 owned locations added and 62 under construction as of August 31, 2007.

	Drugstores	Worksites	Home Care	Specialty Pharmacy	Mail Service	Total
August 31, 2006	5,414	-	38	6	3	5,461
New/Relocated	490	-	11	-	-	501
Acquired	59	3	56	2	-	120
Closed/Replaced	(81)	-	(4)	-	-	(85)
August 31, 2007	5,882	3	101	8	3	5,997
New/Relocated	**596**	**4**	**6**	**3**	**(1)**	**608**
Acquired	**32**	**362**	**27**	**2**	**-**	**423**
Closed/Replaced	**(67)**	**(5)**	**(19)**	**(3)**	**-**	**(94)**
August 31, 2008	**6,443**	**364**	**115**	**10**	**2**	**6,934**

Business acquisitions this year were $620 million versus $1,086 million in fiscal 2007. Business acquisitions in 2008 include the purchase of I-trax, Inc. and Whole Health Management, operators of worksite health centers, including primary and acute care, wellness, pharmacy and disease management services and health and fitness programming; 20 drugstores from Farmacias El Amal; CuraScript Infusion Pharmacy, Inc., a home infusion services provider; and selected other assets (primarily prescription files). Acquisitions in fiscal 2007 included the purchase of Option Care, Inc. and affiliated companies, a specialty pharmacy and home infusion services provider; Take Care Health Systems, Inc., a convenient care clinic operator; selected assets from Familymeds Group, Inc., a pharmacy chain; the remaining minority interest in SeniorMed LLC; and selected other assets (primarily prescription files).

Capital expenditures for fiscal 2009 are expected to be approximately $1.8 billion, excluding business acquisitions and prescription file purchases. We expect to open approximately 540 new drugstores in fiscal 2009, with a net increase of approximately 475 drugstores, and anticipate having a total of more than 7,000 drugstores by fiscal 2010. We intend to increase new drugstore organic growth by 6 percent and 5 percent in fiscal 2010 and 2011, respectively. During the current fiscal year we added a total of 1,031 locations, of which 596 were new or relocated drugstores, with a net gain of 561 drugstores after relocations and closings. We are continuing to relocate stores to more convenient and profitable freestanding locations. In addition to new stores, expenditures are planned for distribution centers and technology. A new distribution center in Windsor, Connecticut, has an anticipated opening date in fiscal 2009.

Net cash used for financing activities was $33 million compared to $626 million last year. On July 17, 2008, we issued $1,300 million of 4.875% due in 2013. The notes were issued at a discount. The net proceeds after deducting the discount, underwriting fees and issuance costs were $1,286 million. These proceeds were used to pay down short-term borrowings. Short-term borrowings paid during the current fiscal year were $802 million as compared to $850 million of proceeds in the previous year. Shares totaling $294 million were purchased to support the needs of the employee stock plans during the current period as compared to $376 million a year ago. Also included in the prior year was the purchase of $343 million of company shares for the 2004 stock repurchase program. On January 10, 2007, a new stock repurchase program (“2007 repurchase program”) of up to $1,000 million was announced, to be executed over four years. Purchases of company shares relating to the 2007 repurchase program made in the prior year were $345 million. No repurchases were made during the current year. We currently do not anticipate stock repurchases under the 2007 repurchase program in 2009 except to support the needs of the employee stock plans. We had proceeds related to employee stock plans of $210 million during the current fiscal year as compared to $266 million a year ago. Cash dividends paid were $376 million during the current fiscal year versus $310 million a year ago. A $214 million wire transfer made on August 31, 2006, was not accepted by our disbursement bank until September 1, 2006, resulting in a bank overdraft at fiscal 2006 year-end and subsequent repayment on September 1, 2006.

We had $70 million of commercial paper outstanding at a weighted-average interest rate of 2.10% at August 31, 2008. In connection with our commercial paper program, we maintained two unsecured backup syndicated lines of credit that total $1,200 million. The first $600 million facility expires on August 10, 2009; the second expires on August 12, 2012. Our ability to access these facilities is subject to our compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require us to maintain certain financial ratios related to minimum net worth and priority debt, along with limitations on the sale of assets and purchases of investments. As of August 31, 2008, we were in compliance with all such covenants. On October 12, 2007, we entered into an additional $100 million unsecured line of credit facility and on November 30, 2007, that credit facility was amended and increased to include an additional $200 million, for a total of $300 million unsecured credit. That facility expired on December 31, 2007. On May 15, 2008 we entered into an additional $500 million unsecured line of credit facility. That facility expired on July 31, 2008. These lines of credit were subject to similar covenants as the syndicated lines of credit. The company pays a facility fee to the financing bank to keep our lines of credit active. As of August 31, 2008, there have been no borrowings against the credit facilities. We do not expect any borrowings under these facilities, together with our outstanding commercial paper, to exceed $1,200 million.

In connection with the Option Care, Inc. and affiliated companies acquisition, $118 million of convertible debt was retired prior to August 31, 2007, while $28 million remained outstanding as of that date. On September 6, 2007, the $28 million was retired.

Our current credit ratings are as follows:

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

In assessing our credit strength, both Moody's and Standard & Poor's consider our business model, capital structure, financial policies and financial statements. Our credit ratings impact our 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, 2008 (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating leases (1)	$ 33,038	$ 1,811	$ 3,849	$ 3,763	$ 23,615
Purchase obligations (2):					
Open inventory purchase orders	1,931	1,931	-	-	-
Real estate development	952	952	-	-	-
Other corporate obligations	620	338	181	59	42
Long-term debt*	1,350	8	3	1,303	36
Interest payment on long-term debt	319	71	127	121	-
Insurance*	466	128	118	84	136
Retiree health*	371	8	21	27	315
Closed location obligations*	69	17	21	12	19
Capital lease obligations*	42	2	5	3	32
Other long-term liabilities reflected on the balance sheet* (3)	514	41	107	84	282
Total	$ 39,672	$ 5,307	$ 4,432	$ 5,456	$ 24,477

*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 for the company's most recent fiscal year were $298 million.

(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) Includes $36 million ($19 million due in 1-3 years, $12 million due in 3-5 years and $5 million due over 5 years) of unrecognized tax benefits recorded under FIN No. 48, which we adopted on September 1, 2007.

Off-Balance Sheet Arrangements

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

Insurance	$ 271
Inventory obligations	110
Real estate development	14
Other	8
Total	$ 403

We have no off-balance sheet arrangements other than those disclosed on the Contractual Obligations and Commitments table and a credit agreement guaranty on behalf of SureScripts, LLC. This agreement is described more fully in Note 7 in the Notes to Consolidated Financial Statements.

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

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *"Fair Value Measurements*." This statement, and the related pronouncements, defines and provides guidance when applying fair value measurements to accounting pronouncements that require or permit such measurements. This statement, which will be effective first quarter of fiscal 2009, is not expected to have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *“The Fair Value Option for Financial Assets and Financial Liabilities*.” This statement gives entities the option to carry most financial assets and liabilities at fair value, with changes in fair value recorded in earnings. We do not intend to adopt this voluntary statement, which would be effective first quarter of fiscal 2009.

In June 2007, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 06-11, *“Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*.” EITF 06-11 states that an entity should recognize a realized tax benefit associated with dividends on certain nonvested equity shares and options as an increase in additional paid-in capital. The benefit should be included in the pool of excess tax benefits available to absorb potential future tax liabilities. This issue should be applied prospectively for share-based awards declared beginning in fiscal 2009. This statement is not expected to have a material impact on our consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *“Business Combinations*.” This statement establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired, liabilities assumed and any noncontrolling interest in a business combination. In addition, the statement provides a revised definition of a business, shifts from the purchase method to the acquisition method, expenses acquisition-related transaction costs, recognizes contingent consideration and contingent assets and liabilities at fair value and capitalizes acquired in-process research and development. This statement, which will be effective for the first quarter of fiscal 2010, will be applied prospectively to business combinations.

In December 2007, the FASB issued SFAS No. 160 *"Noncontrolling Interest in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51*." The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The statement significantly changes the accounting for transactions with minority interest holders. This statement, which will be effective for the first quarter of fiscal 2010, is not expected to have a material impact on our consolidated financial position or results of operations.

Cautionary Note Regarding Forward-Looking Statements

Certain statements and projections of future results made in this report constitute forward-looking information that is based on current market, competitive and regulatory expectations that involve risks and uncertainties. Please see Walgreen Co.'s Form 10-K for the period ended August 31, 2008, for a discussion of important factors as they relate to forward-looking statements. Actual results could differ materially.

Consolidated Statements of Earnings
Walgreen Co. and Subsidiaries
For the years ended August 31, 2008, 2007 and 2006
(In millions, except shares and per share amounts)

	2008	2007	2006
Net sales	$ **59,034**	$ 53,762	$ 47,409
Cost of sales	**42,391**	38,518	34,240
Gross Profit	**16,643**	15,244	13,169
Selling, general and administrative expenses	**13,202**	12,093	10,467
Operating Income	**3,441**	3,151	2,702
Interest (expense) income, net	**(11)**	38	52
Earnings Before Income Tax Provision	**3,430**	3,189	2,754
Income tax provision	**1,273**	1,148	1,003
Net Earnings	$ **2,157**	$ 2,041	$ 1,751
Net earnings per common share - basic	$ **2.18**	$ 2.04	$ 1.73
Net earnings per common share - diluted	**2.17**	2.03	1.72
Average shares outstanding	**990,609,865**	998,633,559	1,010,252,562
Dilutive effect of stock options	**4,933,681**	7,706,509	9,148,162
Average shares outstanding assuming dilution	**995,543,546**	1,006,340,068	1,019,400,724

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, 2008, 2007 and 2006
(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, 2005	1,013,512,047	$ 80	$ 565	$ (77)	$ 8,836	$ -	$ (515)
Net earnings	-	-	-	-	1,751	-	-
Cash dividends declared ($.2725 per share)	-	-	-	-	(275)	-	-
Treasury stock purchases	(15,033,000)	-	-	-	-	-	(669)
Employee stock purchase and option plans	9,383,072	-	(159)	-	-	-	420
Stock-based compensation	-	-	153	-	-	-	-
Employee stock loan receivable	-	-	-	7	-	-	-
Balance, August 31, 2006	1,007,862,119	80	559	(70)	10,312	-	(764)
Net earnings	-	-	-	-	2,041	-	-
Cash dividends declared ($.3275 per share)	-	-	-	-	(326)	-	-
Treasury stock purchases	(23,842,749)	-	-	-	-	-	(1,064)
Employee stock purchase and option plans	7,121,987	-	(98)	-	-	-	322
Stock-based compensation	-	-	98	-	-	-	-
Employee stock loan receivable	-	-	-	18	-	-	-
Adjustment to initially apply SFAS No. 158, net of tax	-	-	-	-	-	(4)	-
Balance, August 31, 2007	991,141,357	80	559	(52)	12,027	(4)	(1,506)
Net earnings	-	-	-	-	**2,157**	-	-
Cash dividends declared ($.3975 per share)	-	-	-	-	**(394)**	-	-
Treasury stock purchases	**(8,000,000)**	-	-	-	-	-	**(294)**
Employee stock purchase and option plans	**6,034,861**	**-**	**(55)**	**-**	**-**	**-**	**249**
Stock-based compensation	-	-	**71**	-	-	-	-
Employee stock loan receivable	**-**	**-**	**-**	**16**	**-**	**-**	**-**
FIN No. 48 adoption impact	-	-	-	-	**2**	-	-
Additional minimum postretirement liability, net of tax	**-**	**-**	**-**	**-**	**-**	**13**	**-**
Balance, August 31, 2008	**989,176,218**	**$ 80**	**$ 575**	**$ (36)**	**$ 13,792**	**$ 9**	**$ (1,551)**

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

Consolidated Balance Sheets
Walgreen Co. and Subsidiaries
At August 31, 2008 and 2007
(In millions, except shares and per share amounts)

Assets	2008	2007
Current Assets		
Cash and cash equivalents	$ **443**	$ 255
Accounts receivable, net	**2,527**	2,237
Inventories	**7,249**	6,790
Other current assets	**214**	229
Total Current Assets	**10,433**	9,511
Non-Current Assets		
Property and equipment, at cost, less accumulated depreciation and amortization	**9,775**	8,204
Goodwill	**1,438**	1,060
Other non-current assets	**764**	539
Total Non-Current Assets	**11,977**	9,803
Total Assets	$ **22,410**	$ 19,314
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings	$ **83**	$ 884
Trade accounts payable	**4,289**	3,734
Accrued expenses and other liabilities	**2,272**	2,099
Income taxes	**-**	28
Total Current Liabilities	**6,644**	6,745
Non-Current Liabilities		
Long-term debt	**1,337**	22
Deferred income taxes	**150**	158
Other non-current liabilities	**1,410**	1,285
Total Non-Current Liabilities	**2,897**	1,465
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 2008 and 2007	**80**	80
Paid-in capital	**575**	559
Employee stock loan receivable	**(36)**	(52)
Retained earnings	**13,792**	12,027
Accumulated other comprehensive income (loss)	**9**	(4)
Treasury stock at cost, 36,223,782 shares in 2008 and 34,258,643 shares in 2007	**(1,551)**	(1,506)
Total Shareholders' Equity	**12,869**	11,104
Total Liabilities and Shareholders' Equity	$ **22,410**	$ 19,314

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, 2008, 2007 and 2006
(In millions)

	2008	2007	2006
Cash Flows from Operating Activities			
Net earnings	$ **2,157**	$ 2,041	$ 1,751
Adjustments to reconcile net earnings to net cash provided by operating activities –			
Depreciation and amortization	**840**	676	572
Deferred income taxes	**(61)**	23	(104)
Stock compensation expense	**68**	74	103
Income tax savings from employee stock plans	**3**	6	8
Other	**11**	3	(20)
Changes in operating assets and liabilities -			
Accounts receivable, net	**(365)**	(40)	(619)
Inventories	**(412)**	(676)	(376)
Other assets	**(24)**	(28)	(9)
Trade accounts payable	**550**	(128)	876
Accrued expenses and other liabilities	**84**	277	205
Income taxes	**80**	25	(68)
Other non-current liabilities	**108**	104	121
Net cash provided by operating activities	**3,039**	2,357	2,440
Cash Flows from Investing Activities			
Purchases of short-term investments - available for sale	**-**	(6,397)	(12,282)
Proceeds from sale of short-term investments - available for sale	**-**	6,826	12,388
Additions to property and equipment	**(2,225)**	(1,786)	(1,338)
Proceeds from sale of assets	**17**	41	23
Business and intangible asset acquisitions, net of cash received	**(620)**	(1,086)	(485)
Net proceeds from corporate-owned life insurance policies	**10**	6	10
Net cash used for investing activities	**(2,818)**	(2,396)	(1,684)
Cash Flows from Financing Activities			
Net (payment) proceeds from short-term borrowings	**(802)**	850	-
Net proceeds from issuance of long-term debt	**1,286**	-	-
Payments of long-term debt	**(28)**	(141)	-
Stock purchases	**(294)**	(1,064)	(669)
Proceeds related to employee stock plans	**210**	266	319
Cash dividends paid	**(376)**	(310)	(263)
Bank overdrafts	**-**	(214)	214
Other	**(29)**	(13)	(14)
Net cash used for financing activities	**(33)**	(626)	(413)
Changes in Cash and Cash Equivalents			
Net increase (decrease) in cash and cash equivalents	**188**	(665)	343
Cash and cash equivalents, September 1	**255**	920	577
Cash and cash equivalents, August 31	$ **443**	$ 255	$ 920

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, 2008, there were 6,934 drugstore and other locations in 49 states, the District of Columbia, Guam and Puerto Rico. Prescription sales were 64.9% of total sales for fiscal 2008 compared to 65.0% in 2007 and 64.3% in 2006.

Basis of Presentation
The consolidated 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.

We have changed the income statement caption selling, occupancy and administration, to selling, general and administrative expenses. The change was made to better align income statement captions to our industry.

The prior year balance sheet reflects the reclassification of debt, which was previously condensed within the accrued expenses and other liabilities line and other non-current liabilities line. In addition, in the prior year, software development costs were reclassified from other non-current assets to property and equipment.

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. Included in cash and cash equivalents are credit card and debit card receivables from banks, which generally settle within two business days, of $166 million at August 31, 2008, and $67 million at August 31, 2007. 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 $374 million as of August 31, 2008, and $303 million as of August 31, 2007, are included in trade accounts payable in the accompanying consolidated balance sheets.

Financial Instruments
The company had $110 million and $77 million of outstanding letters of credit at August 31, 2008, and 2007, respectively, which guarantee foreign trade purchases. Additional outstanding letters of credit of $271 million and $277 million at August 31, 2008, and 2007, respectively, 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. Letters of credit of $14 million and $12 million were outstanding at August 31, 2008, and August 31, 2007, 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 $952 million and $980 million at August 31, 2008, and 2007, respectively.

There were no investments in derivative financial instruments during fiscal 2008 and 2007 except for the embedded derivative contained with the conversion features of the $28 million of convertible debt acquired in the Option Care, Inc. and affiliated companies acquisition. The value of such derivative was not material and the debt was retired on September 6, 2007.

Inventories
Inventories are valued on a lower of last-in, first-out (LIFO) cost or market basis. At August 31, 2008, and 2007, inventories would have been greater by $1,067 million and $969 million, respectively, if they had been valued on a lower of first-in, first-out (FIFO) cost or market basis. Inventory includes product cost, inbound freight, warehousing costs and vendor allowances that are not included 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 cost, cost of sales includes warehousing costs, purchasing costs, freight costs, cash discounts and vendor allowances that are not included as a reduction of advertising expense.

Selling, General and Administrative Expenses
Selling, general and administrative expenses mainly consist of store salaries, occupancy costs, and direct store related expenses. 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 purchase levels, sales or promotion of vendors' products. Allowances are generally recorded as a reduction of inventory and are recognized as a reduction of cost of sales when the related merchandise is sold. Those allowances received for promoting vendors' products are offset against advertising expense and result in a reduction of selling, general and administrative expenses to the extent of advertising 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 physical life of the property or over the term of the lease, whichever is shorter. Estimated useful lives range from 12 1/2 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 in the property and equipment accounts. 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):

	2008	2007
Land and land improvements		
Owned locations	**$ 2,567**	$ 2,012
Distribution centers	**103**	103
Other locations	**222**	212
Buildings and building improvements		
Owned locations	**2,790**	2,245
Leased locations (leasehold improvements only)	**724**	582
Distribution centers	**583**	553
Other locations	**309**	270
Equipment		
Locations	**4,056**	3,604
Distribution centers	**978**	879
Other locations	**282**	266
Capitalized system development costs	**258**	212
Capital lease properties	**46**	43
	12,918	10,981
Less: accumulated depreciation and amortization	**3,143**	2,777
	$ 9,775	$ 8,204

The company capitalizes application stage development costs for significant internally developed software projects, including "Ad Planning," an advertising system, and "Capacity Management Logistics Enhancements," upgrades to merchandise ordering systems. These costs are amortized over a five-year period. Amortization was $36 million in 2008, $29 million in 2007 and $24 million in 2006. Unamortized costs as of August 31, 2008, and 2007 were $173 million and $148 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 Statement of Financial Accounting Standards ("SFAS") No. 142, *"Goodwill and Other Intangible Assets,"* 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 there may be an impairment.

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.

Gift Cards
The company sells Walgreens gift cards to our customers in our retail stores and through our website. We do not charge administrative fees on unused gift cards and our gift cards do not have an expiration date. We recognize income from gift cards 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 we determine that we do not have a legal obligation to remit the value of unredeemed gift cards to the relevant jurisdictions. We determine our gift card breakage rate based upon historical redemption patterns. Gift card breakage income, which is included in selling, general and administrative expenses, was not significant in fiscal 2008, 2007 or 2006.

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 $12 million in 2008, $10 million in 2007 and $22 million in 2006.

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.

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 $341 million in 2008, $356 million in 2007 and $307 million in 2006. Included in net advertising expenses were vendor advertising allowances of $180 million in 2008, $170 million in 2007 and $175 million in 2006.

Stock-Based Compensation Plans
In accordance with SFAS No. 123(R), *"Share-Based Payment*," 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.

In November 2005, the Financial Accounting Standards Board ("FASB") issued Financial Statement of Position ("FSP") No. 123(R)-3, *"Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*." This pronouncement provides an alternative transition method of calculating the excess tax benefits available to absorb any tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R). The company elected to adopt the alternative transition method in the fourth quarter of fiscal 2006.

Total stock-based compensation expense for fiscal 2008, 2007 and 2006 was $68 million, $74 million and $103 million, respectively. The recognized tax benefit was $23 million, $26 million and $37 million for fiscal 2008, 2007 and 2006, respectively.

As of August 31, 2008, there was $47 million of total unrecognized compensation cost related to nonvested awards. This cost is expected to be recognized over a weighted average of 1.7 years.

Income Taxes
We account for income taxes according to the asset and liability method of accounting for income taxes. 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 we expect to apply to taxable income in the years in which we expect those temporary differences 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 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.

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.

We adopted the provisions of FASB Interpretation ("FIN") No. 48, "*Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109,"* effective September 1, 2007. FIN No. 48 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 or not to file in a particular jurisdiction

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 market price of the common shares. Outstanding options to purchase common shares of 12,962,745 in 2008, 6,943,454 in 2007 and 3,505,834 in 2006 were excluded from the earnings per share calculations.

Interest Expense
The company capitalized $19 million, $6 million and $3 million of interest expense as part of significant construction projects during fiscal 2008, 2007 and 2006, respectively. Interest paid was $30 million in fiscal 2008 and $7 million in 2007.

Accumulated Other Comprehensive Income (Loss)
In August 2007, the company adopted SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*." In accordance with SFAS No. 158, the amount included in accumulated other comprehensive income (loss) related to the company's postretirement plan was a loss of $20 million pre-tax (income of $9 million after-tax) as of August 31, 2008. The minimum postretirement liability totaled $371 million as of August 31, 2008.

(2) Leases

The company owns 19.9% 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, 2008, under all leases having an initial or remaining non-cancelable term of more than one year are shown below (in millions):

2009	$ 1,843
2010	1,961
2011	1,960
2012	1,929
2013	1,890
Later	23,883
Total minimum lease payments	$ 33,466

The above minimum lease payments include minimum rental commitments related to capital leases of $69 million at August 31, 2008. This capital lease amount includes $28 million of executory costs and imputed interest. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $37 million on leases due in the future under non-cancelable subleases.

The company remains secondarily liable on 21 assigned leases. The maximum potential of undiscounted future payments is $12 million as of August 31, 2008. Lease option dates vary, with some extending to 2015.

Rental expense was as follows (in millions):

	2008	2007	2006
Minimum rentals	**$ 1,784**	$ 1,614	$ 1,428
Contingent rentals	**13**	16	16
Less: Sublease rental income	**(10)**	(11)	(12)
	$ 1,787	$ 1,619	$ 1,432

(3) Acquisitions

Business acquisitions in 2008 include the purchase of I-trax, Inc., a provider of worksite health services, including primary and acute care, wellness, pharmacy and disease management services and health and fitness programming; Whole Health Management, a privately held company that provides primary care, urgent care, wellness programs, health coaching and occupational health services through worksite health centers; 20 drugstores from Farmacias El Amal; CuraScript Infusion Pharmacy, Inc., a home infusion services provider; and selected other assets (primarily prescription files).

The aggregate purchase price of all business and intangible asset acquisitions in fiscal 2008 was $620 million. These acquisitions added $152 million to prescription files, $73 million to other amortizable intangibles, and $416 million to goodwill ($31 million is expected to be deductible for tax purposes). The remaining fair value relates to tangible assets less liabilities assumed. The allocation of the purchase price for each of these acquisitions, except I-trax, Inc. and Whole Health Management, has been finalized.

The preliminary allocation of the purchase price of I-trax, Inc. and Whole Health Management was accounted for under the purchase method of accounting with the company as the acquirer in accordance with SFAS No. 141, “Business Combinations.” Any adjustments to the preliminary purchase price allocation are not expected to be material. Goodwill and other intangible assets recorded in connection with the acquisition totaled $372 million and $50 million, respectively.

Operating results of the businesses acquired have been included in the consolidated statements of income for their respective acquisition dates forward. Pro forma results of the company, assuming all of the acquisitions had occurred at the beginning of each period presented, would not be materially different from the results reported.

(4) Goodwill and Other Intangible Assets

Goodwill is evaluated annually during the fourth quarter of the company's fiscal year or when indications of potential impairment exist. The impairment calculation compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. During fiscal 2008 we recorded an impairment of $9 million to our Institutional Pharmacy reporting unit. The impairment was the result of lower financial projections of the reporting unit. No impairment related to goodwill occurred in fiscal 2007.

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

	2008	2007
Purchased prescription files	$ 444	$ 302
Purchasing and payor contracts	263	175
Trade name	40	26
Other amortizable intangible assets	108	83
Goodwill	1,438	1,060
Gross carrying amount	2,293	1,646
Accumulated amortization - prescription files	(145)	(83)
Purchasing and payor contracts	(25)	(9)
Trade name	(17)	(6)
Accumulated amortization - other	(25)	(16)
Total accumulated amortization	(212)	(114)
Total intangible assets, net	$ 2,081	$ 1,532

Changes to goodwill for fiscal 2008 included additions related to acquisitions, an impairment to our Institutional Pharmacy reporting unit and the final purchase price allocation of our acquisition of Option Care, Inc. which decreased goodwill and increased intangible assets by $60 million. The change in goodwill for fiscal 2007 was all related to acquisitions.

Amortization expense for intangible assets was $107 million in 2008, $62 million in 2007 and $46 million in 2006. The weighted-average amortization period for purchased prescription files was six years for fiscal 2008 and fiscal 2007. The weighted-average amortization period for purchasing and payor contracts was thirteen years for fiscal 2008 and fiscal 2007. The weighted-average amortization period for trade names was three years for fiscal 2008 and fiscal 2007. The weighted-average amortization period for other intangible assets was eleven years for fiscal 2008 and fiscal 2007.

Expected amortization expense for intangible assets recorded at August 31, 2008, is as follows (in millions):

2009	2010	2011	2012	2013
$ 121	$ 106	$ 91	$ 71	$ 45

(5) Income Taxes

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

	2008	2007	2006
Current provision -			
Federal	$ 1,201	$ 1,028	$ 970
State	133	97	137
	1,334	1,125	1,107
Deferred provision -			
Federal	(59)	18	(89)
State	(2)	5	(15)
	(61)	23	(104)
	$ 1,273	$ 1,148	$ 1,003

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

	2008	2007	2006
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.4	2.5	2.9
Other	(0.3)	(1.5)	(1.5)
Effective income tax rate	37.1%	36.0%	36.4%

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

	2008	2007
Deferred tax assets -		
Compensation and benefits	$ 189	$ 204
Insurance	184	191
Postretirement benefits	196	179
Accrued rent	138	135
Stock compensation	80	22
Inventory	54	45
Other	146	140
	987	916
Deferred tax liabilities -		
Accelerated depreciation	796	703
Inventory	177	199
Intangible assets	37	43
Other	69	72
	1,079	1,017
Net deferred tax liabilities	$ 92	$ 101

Income taxes paid were $1,235 million, $1,204 million and $1,111 million during the fiscal years ended August 31, 2008, 2007 and 2006, respectively.

FIN No. 48 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 or not to file in a particular jurisdiction. The adoption of FIN No. 48 resulted in the reclassification of $55 million of certain tax liabilities from current to long-term and a $2 million decrease in our liability for unrecognized tax benefits, which was accounted for as an increase to the August 31, 2007 retained earnings balance. All unrecognized benefits at August 31, 2008, were classified as long-term liabilities on our consolidated balance sheet.

The following table provides a reconciliation of the total amounts of unrecognized tax benefits for fiscal 2008 (in millions):

Balance at September 1, 2007	$ 55
Gross increases related to tax positions in a prior period	7
Gross decreases related to tax positions in a prior period	(21)
Gross increases related to tax positions in the current period	28
Settlements with taxing authorities	(3)
Lapse of statute of limitations	(2)
Balance at August 31, 2008	$ 64

At September 1, 2007, and August 31, 2008, $23 million and $27 million, respectively, of unrecognized tax benefits would favorably impact the effective tax rate if recognized.

We recognize interest and penalties in income tax provision in our consolidated statements of earnings. At September 1, 2007, and August 31, 2008, we had accrued interest and penalties of $8 million and $12 million, respectively.

We file a consolidated U.S. federal income tax return, as well as income tax returns in various states. We are no longer subject to U.S. federal income tax examinations for years before fiscal 2006. With few exceptions, we are no longer subject to state and local income tax examinations by tax authorities for years before fiscal 2003. During the second quarter, we reached an agreement with the Internal Revenue Service (IRS) on fiscal years 2004 and 2005 resulting in a $7 million refund primarily arising from the carry back of foreign tax credits. During June, the IRS commenced its examination of our federal income tax returns for fiscal 2006 and 2007.

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, we do not expect the change to have a material effect on our results of operations or our financial position.

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

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

	2008	2007
Short-Term Borrowings -		
Commercial paper	$ 70	$ 850
Current maturities of loans assumed through the purchase of land and buildings; various interest rates from 3.50% to 8.75%; various maturities from 2009 to 2035	8	6
Other	5	28
Total short-term borrowings	$ 83	$ 884
Long-Term Debt -		
4.875% unsecured notes due 2013 net of unamortized discount	$ 1,295	$ -
Loans assumed through the purchase of land and buildings; various interest rates from 3.50% to 8.75%; various maturities from 2009 to 2035	50	28
	1,345	28
Less current maturities	(8)	(6)
Total-long term debt	$ 1,337	$ 22

In fiscal 2008 and 2007 the company issued commercial paper to support working capital needs. The short-term borrowings under the commercial paper program had the following characteristics (in millions):

	2008	2007
Balance outstanding at fiscal year-end	**$ 70**	$ 850
Maximum outstanding at any month-end	**1,170**	850
Average daily short-term borrowings	**680**	32
Weighted-average interest rate	**2.10%**	5.36%

The carrying value of the commercial paper approximates the fair value in both fiscal years.

In connection with our commercial paper program, we maintained two unsecured backup syndicated lines of credit that total $1,200 million. The first $600 million facility expires on August 10, 2009; the second expires on August 12, 2012. Our ability to access these facilities is subject to our compliance with the terms and conditions of the credit facilities, including financial covenants. The covenants require us to maintain certain financial ratios related to minimum net worth and priority debt, along with limitations on the sale of assets and purchases of investments. On October 12, 2007, we entered into an additional $100 million unsecured line of credit facility and on November 30, 2007, that credit facility was amended and increased to include an additional $200 million, for a total of $300 million unsecured credit. That facility expired on December 31, 2007. On May 15, 2008, we entered into an additional $500 million unsecured line of credit facility. That facility expired on July 31, 2008. These lines of credit were subject to similar covenants as the syndicated lines of credit. The company pays a facility fee to the financing bank to keep the line of credit facility active. As of August 31, 2008, there have been no borrowings against the credit facilities.

On July 17, 2008, we issued notes totaling $1,300 million bearing an interest rate of 4.875% paid semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2009. The notes will mature on August 1, 2013. We may redeem the notes, at any time in whole or from time to time in part, at our option at a redemption price equal to the greater of: (1) 100% of the principal amount of the notes to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, plus 30 basis points, plus accrued interest on the notes to be redeemed to, but excluding, the date of redemption. If a change of control triggering event occurs, unless we have exercised our option to redeem the notes, we will be required to offer to repurchase the notes at a purchase price equal to 101% of the principal amount of the notes plus accrued and unpaid interest to the date of purchase. The notes will be unsecured senior debt obligations and will rank equally with all other unsecured senior indebtedness. 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, 2008, was $1,307 million.

(7) Contingencies

The company is involved in various legal proceedings incidental to the normal course of business and is subject to various investigations, inspections, audits, inquiries and similar actions by governmental authorities responsible for enforcing the laws and regulations to which the company is subject. These include a lawsuit for which a $31 million judgment was entered against the company in October 2006. The company has appealed this judgment.

In addition, on April 16, 2008, the Plumbers and Steamfitters Local No. 7 Pension Fund filed a putative class action suit against the company and its Chief Executive Officer and Chief Operating Officer in the United States District Court for the Northern District of Illinois. The suit was filed on behalf of purchasers of company common stock during the period between June 25, 2007, and November 29, 2007. The complaint charges the company and its Chief Executive Officer and Chief Operating Officer with violations of Section 10(b) of the Securities Exchange Act of 1934, claiming that the company misled investors by failing to disclose declining rates of growth in generic drug sales and a contract dispute with a pharmacy benefits manager that allegedly had a negative impact on earnings. The company and the officers named in the suit believe the allegations are without merit, and intend to defend against them vigorously.

Management is of the opinion that although the outcome of these and other litigation and investigations cannot be forecast with certainty, the final dispositions should not have a material adverse effect on the company's consolidated financial position or results of operations.

The company guarantees a credit agreement on behalf of SureScripts-RxHub, LLC, which provides electronic prescription data services. This credit agreement, for which SureScripts-RxHub, LLC is primarily liable, has an expiration date of June 30, 2011. The liability was $8 million at August 31, 2008, and $3 million at August 31, 2007. The maximum amount of future payments that could be required to be paid under the guaranty is $25 million, of which $13 million may be recoverable from another guarantor. In addition, under certain circumstances the company may be required to provide an additional guarantee of up to $10 million, of which $8 million may be recoverable from other guarantors.

(8) Capital Stock

On January 10, 2007, the Board of Directors approved a new stock repurchase program ("2007 repurchase program"), pursuant to which up to $1,000 million of the company's common stock may be purchased prior to the expiration date of the program on January 10, 2011. This program was announced in the company's report on Form 8-K, which was filed on January 11, 2007. During fiscal 2008, the company purchased no shares related to the 2007 repurchase program, compared to $345 million of shares purchased in 2007.

On July 14, 2004, the Board of Directors announced a stock repurchase program ("2004 repurchase program") of up to $1,000 million, which has been completely executed. The company purchased $343 million of shares related to the 2004 repurchase program in fiscal 2007. An additional $294 million of shares were purchased to support the long-term needs of the employee stock plans, which compares to $375 million in fiscal 2007.

At August 31, 2008, 62,301,790 shares of common stock were reserved for future stock issuances under the company's various employee benefit plans.

(9) Stock Compensation Plans

The Walgreen Co. Stock Purchase/Option Plan (Share Walgreens) provides for the granting of options to purchase common stock over a ten-year period to eligible non-executive employees upon the purchase of company shares, subject to certain restrictions. Employees may purchase the company shares through cash purchases or loans. For options granted on or after October 1, 2005, 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, 2008, there were 30,997,441 shares available for future grants. The options granted during fiscal 2008, 2007 and 2006 have a two-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 ten-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 11, 2016, for an aggregate of 38,400,000 shares of common stock. As of August 31, 2008, 10,849,029 shares were available for future grants. The options granted during fiscal 2008, 2007 and 2006 have a three-year vesting period.

The Walgreen Co. Option 3000 Plan offered a stock option award to all non-executive employees who were employed on May 11, 2000. Each eligible employee, in conjunction with opening the company's 3,000th store, received a stock option award to purchase from 75 to 500 shares, based on years of service. The Plan authorized the grant of options, issued at fair market value on May 11, 2000, to purchase up to an aggregate of 15,500,000 shares of common stock and 14,892,200 shares were granted. The options vested and became exercisable on May 11, 2003, and any unexercised options will expire on May 10, 2010, subject to earlier termination if the optionee's employment ends.

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, in connection with the achievement of store opening milestones. 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. As of August 31, 2008,

7,407,510 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 purchase shares through cash purchases, loans or payroll deductions up to certain limits. The aggregate number of shares that may be purchased under this Plan is 74,000,000. At August 31, 2008, 3,242,237 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 fiscal 2007 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 (which constituted a significant reduction from the then remaining authorized shares under the Restricted Performance Share Plan). At August 31, 2008, 9,805,573 shares were available for future issuance under the Long-Term Performance Incentive Plan. Compensation expense is recognized in the year of grant. There was no compensation expense related to the Plan in fiscal 2008, compared to $12 million in fiscal 2007 and $9 million in fiscal 2006.

The Walgreen Co. Nonemployee Director Stock Plan provides that each nonemployee director receives an equity grant of shares each year on November 1. Through fiscal year 2008, the Plan determined the number of shares granted by dividing $120,000 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. During the term of the Plan, each nonemployee director will also receive 50% of his or her quarterly retainer in the form of shares, which may be deferred into an equal number of stock units. In addition, a nonemployee director may elect to defer all or a portion of the cash component of his or her quarterly retainer and committee chair retainer in the form of deferred stock units or to have such amounts placed in a deferred cash compensation account. Each nonemployee director received a grant of 3,075 shares in fiscal 2008, 2,375 shares in fiscal 2007 and 1,771 shares in fiscal 2006. New directors in any of the fiscal years were given a prorated amount.

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

Options	Share	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding at August 31, 2007	35,001,752	$ 35.04	5.57	$ 368
Granted	**4,313,877**	**44.32**		
Exercised	**(3,590,982)**	**26.28**		
Expired/Forfeited	**(742,084)**	**37.23**		
Outstanding at August 31, 2008	**34,982,563**	**$ 37.03**	**5.37**	**$ 92**
Vested or expected to vest at August 31, 2008	**34,806,841**	**$ 36.99**	**5.35**	**$ 92**
Exercisable at August 31, 2008	**24,473,164**	$ **33.07**	**4.16**	$ **92**

The intrinsic value for options exercised in fiscal 2008, 2007 and 2006 was $42 million, $105 million and $173 million, respectively. The total fair value of options vested in fiscal 2008, 2007 and 2006 was $46 million, $102 million and $116 million, respectively.

Cash received from the exercise of options in fiscal 2008 was $94 million compared to $142 million in the prior year. The related tax benefit realized was $16 million in fiscal 2008 compared to $40 million in the prior year. The company has a practice of repurchasing shares on the open market to satisfy share-based payment arrangements and expects to repurchase approximately five million shares during fiscal 2009.

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, 2007	279,674	$ 45.63
Granted	178,623	36.36
Forfeited	(2,719)	45.60
Vested	(138,168)	44.93
Nonvested at August 31, 2008	317,410	$ 40.72

The fair value of each option grant was determined using the Black-Scholes option pricing model with weighted-average assumptions used in fiscal 2008, 2007 and 2006:

	2008	2007	2006
Risk-free interest rate (1)	**4.41%**	4.71%	4.10%
Average life of option (years) (2)	**7.2**	7.2	7.2
Volatility (3)	**27.61%**	25.77%	32.12%
Dividend yield (4)	**.81%**	.50%	.45%
Weighted-average grant-date fair value			
Granted at market price	**$ 16.11**	$ 18.05	$ 18.82

(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) Beginning with fiscal 2007, volatility was based on historical and implied volatility of the company's common stock. Prior to fiscal 2007, it was based on historical volatility of the company's common stock.
(4) Represents the company's cash dividend for the expected term.

(10) Retirement Benefits

The principal retirement plan for employees is the Walgreen Profit-Sharing Retirement Plan to which both the company and the employees contribute. The company's contribution, which is determined annually at the discretion of the Board of Directors, has historically been based on pre-tax income; however, beginning January 1, 2008, a portion of that contribution will be in the form of a guaranteed match. The profit-sharing provision was $305 million in 2008, $284 million in 2007 and $245 million in 2006. The company's contributions were $261 million for 2008, $253 million for 2007 and $216 million for 2006.

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

Components of net periodic benefit costs (in millions):

	2008	2007	2006
Service cost	**$ 14**	$ 14	$ 18
Interest cost	**24**	22	21
Amortization of actuarial loss	**5**	5	9
Amortization of prior service cost	**(4)**	(4)	(4)
Total postretirement benefit cost	**$ 39**	$ 37	$ 44

Change in benefit obligation (in millions):

	2008	2007
Benefit obligation at September 1	**$ 370**	$ 356
Service cost	**14**	14
Interest cost	**24**	22
Amendments	**-**	-
Actuarial gain	**(29)**	(14)
Benefit payments	**(11)**	(11)
Participants contributions	**3**	3
Benefit obligation at August 31	**$ 371**	$ 370

Change in plan assets (in millions):

	2008	2007
Plan assets at fair value at September 1	**$ -**	$ -
Plan participants contributions	**3**	3
Employer contributions	**8**	8
Benefits paid	**(11)**	(11)
Plan assets at fair value at August 31	**$ -**	$ -

Funded status (in millions):

	2008	2007
Funded status	$ **(371)**	$ (370)
Unrecognized actuarial gain	**-**	-
Unrecognized prior service cost	**-**	-
Accrued benefit cost at August 31	$ **(371)**	$ (370)

Amounts recognized in the consolidated balance sheets (in millions):

	2008	2007
Current liabilities (present value of expected 2009 net benefit payments)	$ **(8)**	$ (8)
Non-current liabilities	**(363)**	(362)
Net liability recognized at August 31	$ **(371)**	$ (370)

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

	2008	2007
Prior service cost (credit)	$ **(57)**	$ (62)
Net actuarial loss	**77**	111

Amounts expected to be recognized as components of net periodic costs for fiscal year 2009 (in millions):

	2009
Prior service cost (credit)	$ (4)
Net actuarial loss	4

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 7.30% for 2008 and 6.5% for 2007. The discount rate assumption used to determine net periodic benefit cost was 6.50%, 6.25%, and 5.50% for fiscal years ending 2008, 2007, and 2006, respectively.

Future benefit costs were estimated assuming medical costs would increase at a 8.50% annual rate, gradually decreasing to 5.25% over the next six 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	$ -	$ -
Effect on postretirement obligation	14	(14)

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

	Estimated Future Benefit Payments	Estimated Federal Subsidy
2009	$ 9	$ 1
2010	11	1
2011	12	1
2012	14	1
2013	16	2
2014-2018	119	15

The expected contribution to be paid during fiscal year 2009 is $8 million.

(11) Supplementary Financial Information

Non-cash transactions in fiscal 2008 included the identification of $74 million in accrued liabilities related to the purchase of property and equipment; $24 million of deferred taxes associated with amortizable intangible assets related to acquisitions; and $17 million in dividends declared.

Non-cash transactions in fiscal 2007 included the identification of $86 million of deferred taxes associated with amortizable intangible assets related to acquisitions; $49 million in postretirement benefit liabilities related to the adoption of SFAS No. 158; $83 million in accrued liabilities related to the purchase of property and equipment; $5 million of incurred direct acquisition costs; $4 million related to a leasehold interest and $16 million in dividends declared.

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

	2008	2007
Accounts receivable -		
Accounts receivable	$ **2,623**	$ 2,306
Allowance for doubtful accounts	**(96)**	(69)
	$ **2,527**	$ 2,237
Accrued expenses and other liabilities -		
Accrued salaries	$ **664**	$ 652
Taxes other than income taxes	**406**	359
Profit sharing	**211**	185
Insurance	**128**	144
Other	**863**	759
	$ **2,272**	$ 2,099
Other non-current liabilities -		
Postretirement health care benefits	$ **363**	$ 362
Insurance	**337**	339
Other	**710**	584
	$ **1,410**	$ 1,285

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

	Quarter Ended				
	November	February	May	August	Fiscal Year
Fiscal 2008					
Net sales	$ 14,028	$ 15,394	$ 15,015	$ 14,597	$ 59,034
Gross profit	3,921	4,442	4,245	4,035	16,643
Net earnings	456	686	572	443	2,157
Per Common Share -					
Basic	$ .46	$ .69	$ .58	$ .45	$ 2.18
Diluted	.46	.69	.58	.45	2.17
Cash Dividends Declared Per Common Share	$ .0950	$ .0950	$ .0950	$ .1125	$ .3975
Fiscal 2007					
Net sales	$ 12,708	$ 13,934	$ 13,699	$ 13,421	$ 53,762
Gross profit	3,576	4,036	3,878	3,754	15,244
Net earnings	432	652	561	396	2,041
Per Common Share -					
Basic	$ .43	$ .65	$ .56	$ .40	$ 2.04
Diluted	.43	.65	.56	.40	2.03
Cash Dividends Declared Per Common Share	$ .0775	$ .0775	$ .0775	$ .0950	$.3275 2.04

Comments on Quarterly Results: Included in fourth quarter net earnings is an adjustment decreasing selling, general and administrative expenses by $79 million, which corrected for historically over-accruing the company's vacation liability. The first three quarters of fiscal 2008 gross profit have been adjusted to reflect the reclassification of certain expenses between cost of sales and selling, general and administrative expenses.

Common Stock Prices

Below is the Consolidated Transaction Reporting System high and low sales price for each quarter of fiscal 2008 and 2007.

		Quarter Ended				
		November	February	May	August	Fiscal Year
Fiscal 2008	**High**	**$ 47.93**	**$ 39.02**	**$ 38.93**	**$ 37.27**	**$ 47.93**
	Low	**36.59**	**33.01**	**34.85**	**31.39**	**31.39**
Fiscal 2007	High	$ 51.60	$ 47.28	$ 49.10	$ 47.72	$ 51.60
	Low	39.91	40.05	43.23	43.31	39.91

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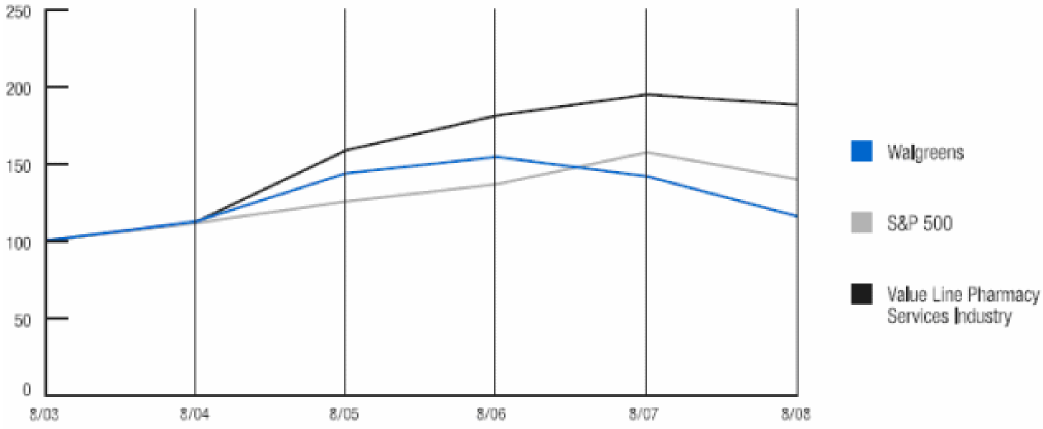
Comparison of Five-Year Cumulative Total Return

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, 2003, and the reinvestment of all dividends.



	Value of Investment at August 31,					
	2003	2004	2005	2006	2007	2008
Walgreen Co.	$ 100.00	$ 112.48	$ 143.70	$ 154.34	$ 141.68	$ 115.76
S&P 500 Index	100.00	111.46	125.45	136.59	157.27	139.75
Value Line Pharmacy Services Industry Index	100.00	112.10	158.61	181.05	194.71	188.11

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, 2008. 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/ Alan G. McNally	/s/ Wade D. Miquelon
Alan G. McNally	Wade D. Miquelon
Chairman and acting Chief Executive Officer	Senior 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, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the three years in the period ended August 31, 2008. We also have audited the Company's internal control over financial reporting as of August 31, 2008, 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2008, 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, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, effective September 1, 2007, the Company changed its method of accounting for uncertain tax benefits upon adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No.* 109, and effective August 31, 2007, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
October 28, 2008